



XOS
Xos, Inc.

First Quarter Earnings Call Transcript
May 5, 2022

Operator

Good afternoon and welcome to Xos' First Quarter 2022 Earnings Conference Call. Today's call is being recorded, and we have allocated one hour for prepared remarks and Q & A. At this time, I would like to turn the conference over to Xos' General Counsel, Christen Romero. Thank you. You may begin.

Christen Romero, General Counsel

Thank you, operator, and thank you, everyone, for joining us today. Hosting the call with me today are Xos' Chief Executive Officer, Dakota Semler; Chief Operating Officer, Giordano Sordoni; and Chief Financial Officer, Kingsley Afemikhe.

Ahead of this call, Xos issued its first quarter 2022 earnings press release, which we will reference today. This can be found on the Investor Relations section of our website at investors.xostrucks.com.

On this call, management will be making forward-looking statements based on current expectations and assumptions, which are subject to risks and uncertainties. Actual results could differ materially from our forward-looking statements if any of our key assumptions are incorrect because of factors discussed in today's earnings news release, during this conference call, or in our latest reports and filings with the Securities and Exchange Commission. These documents can be found on our website at investors.xostrucks.com. We do not undertake any duty to update any forward-looking statements.

Today's presentation also includes references to non-GAAP financial measures and performance metrics. Please refer to the information contained in the company's first quarter 2022 earnings press release for definitional information and reconciliations of historical non-GAAP measures to the comparable GAAP financial measures.

Participants should be cautioned not to put undue reliance on forward-looking statements.

With that, let me turn it over to Dakota.



XOS
Xos, Inc.

First Quarter Earnings Call Transcript

May 5, 2022

Dakota Semler, Xos Co-founder and CEO

Thanks Christen, and thank you everyone for joining us. Today, we are proud to announce our financial results and excellent quarter. Despite continued disruption to supply chain and logistics, we grew unit deliveries and revenues and also improved unit margins. I am proud of our team's ability to navigate the ever-changing landscape and meet or exceed the targets we set out for the first quarter.

Our mission remains focused on transitioning fleets in targeted high-growth markets from internal combustion engines to electric commercial vehicles with industry-leading technology, and in the process, decarbonizing commercial transportation.

I'll cover some of the exciting updates and highlights we had over the quarter. Gio will update you on our sourcing and manufacturing progress, and Kingsley will conclude with a detailed review of our first quarter results and outlook.

During the first quarter we continued to make steady progress scaling the business. First, we ramped production and delivered 56 units to customers across the U.S. We also broadened our distribution and service footprint with key customers and partners. Our commercial traction in the first quarter is underpinned by our expansion into growth-focused last mile markets.

In the current environment of elevated diesel prices, Xos' industry leading total cost of ownership and value proposition to our customers is stronger than ever. With trucks on the road since 2018, we are able to showcase our trucks' real world experience in our customers' hands. We are seeing an acceleration in our sales cycle quarter on quarter, with more purchase orders and more units per purchase order. Over the first quarter we received purchase orders for over 350 trucks from a range of customers and use cases.



XOS
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First Quarter Earnings Call Transcript
May 5, 2022

In particular, we continue to secure orders from keystone customers such as FedEx Ground Operators, with outstanding purchase orders currently standing at over 550 trucks across a range of states. Subsequent to quarter end, we announced delivery of fifteen fully-electric stepvans to five different FedEx Ground Operators in Southern California. These vehicles were the first deliveries in 2022 under purchase orders signed last year, and we are excited to continue rolling out our products to this leading nationwide fleet.

We also continue to have great traction in the beverage, linen and refrigerated trucks, such as the partnership we have announced with ThermoKing. We secured a purchase order from uniform and workwear leader, UniFirst, and announced three deliveries to UniFirst's Southern California location during the first quarter. This delivery was part of an initial rollout of vehicles, and we expect additional deliveries to a UniFirst location in Boston, Massachusetts in the second half of the year. We are excited to help our long-term partner UniFirst reduce their environmental impact and transition their fleet from diesel to electric vehicles.

Finally we are proud of the distribution and service network we have built. In the first quarter, we announced our partnership with Murphy-Hoffman Company, one of the largest commercial vehicle dealerships in the country.

We continue to take strategic steps to tackle the current supply chain crisis, which Gio will talk about in detail. It is early days, but we believe some of the strategic steps we have taken are beginning to bear fruit.

In summary, we continue to make significant progress scaling the business, and I am proud of the team's accomplishments this quarter. The opportunity for clean fleet and logistics solutions in both the public and private sector remains immense, and we expect to continue to benefit from the secular shift to a net-zero carbon economy. I will now turn it over to Gio.

Gio Sordoni, Xos COO

Thanks, Dakota.



XOS
Xos, Inc.

First Quarter Earnings Call Transcript
May 5, 2022

The Xos production system can be bucketed into four core activities which, I'll cover separately:

1. First, we flow quality parts to the assembly line,
2. Next, we assemble chassies at Flex 1 in Tennessee and Flex 2 in Mexico,
3. Third, we assemble the Lyra battery system, and
4. Lastly, we work with our partners to install bodies on our X-Platform chassis

While the overall supply chain environment remains challenging and uncertain, we have seen modest improvement in our ability to procure and land some key components like wire harnesses, we have also secured near-term allocations of other commodities like battery cells. The team has done a great job in helping to strengthen our supply chain by multi-sourcing components to mitigate risks and securing more of our supply from North America to mitigate shipping cost increases and delays from overseas vendors. While modest, these improvements give us confidence in being able to continue growing deliveries each quarter.

Despite the challenges in sourcing and landing parts, we have increased production and deliveries from our chassis assembly plants Flex1, and Flex2.

While outpaced by chassis production, we are making steady progress in ramping up battery production. We remain on track to further improve our production yield with the addition of a more automated battery assembly line at Flex 1 in Tennessee later this year. We are excited to share we have begun build out of this line and on track to begin producing batteries later in the year.

As we look to the current year and our key objectives, we can expect to see the continued ramp up of our X-Platform production, as well as the introduction of new vehicle products and software offerings. We've been hard at work and are excited to showcase some of these developments at our product reveal event at Xos Fleet Week on May 10.

I will now pass it over to our CFO, Kingsley Afemikhe.



XOS
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First Quarter Earnings Call Transcript
May 5, 2022

Kingsley Afemikhe, Xos CFO

Thanks Gio, and good afternoon to you all. Xos had a great quarter in the midst of a very challenging business environment. We are making selective decisions to invest in our business and are excited by the opportunity for growth this year.

Our revenue in the first quarter increased to \$7.0 million, versus \$0.8 million in the same period in the prior year. This was above our guidance and is a sequential increase of 113% from the fourth quarter of 2021, this is driven by an increase in units delivered to 56 compared to 4 units in the same period in the prior year and 32 units last quarter.

As expected, our average selling price will vary quarter on quarter, however we saw higher average selling prices this quarter and continue to expect ASPs to be higher this year overall compared to 2021. We continue to see strong demand for our zero emission products, as the total cost of ownership strength is proven out and diesel prices remain elevated.

Our cost of goods sold for the quarter was \$10.2 million compared to \$0.7 million in the same period in the prior year. We made good progress on gross margin this quarter: with a gross margin of -45% this quarter, versus -74% in Q4 last year. This is testament to the hard work of the whole team and the benefits we are beginning to reap as we scale production.

Nevertheless, we remain cautious on the current supply chain picture with the likelihood of increased material and logistics costs, particularly from our suppliers in Asia. We are taking price action to cover more of our costs where we can, including applying raw material surcharges.

We expect gross margin to improve as we ramp volumes and benefit from the addition of the new expanded automated battery line at our Tennessee facility.



XOS
Xos, Inc.

First Quarter Earnings Call Transcript
May 5, 2022

With these and other strategic steps, we believe we have a clear line of sight to being gross margin positive.

Turning over to expenses, our first quarter operating expenses were \$20.3 million, compared to \$5.7 million in the same period last year and \$23.0 million in the fourth quarter. Operating expenses decreased 12% from last quarter, primarily due to a reduction in R&D expenses. We are focused on the user experience and are making exciting progress in a range of new products – which we look forward to telling you more about next week at Fleet Week. We expect to continue to increase investment in new product development, but as detailed before we expect that R&D expense relative to revenue will be lower this year overall compared to 2021.

Overall, non-GAAP operating losses were \$20.8 million, within our previous guidance and this compared to \$5.5 million in the same period last year, and \$23.8 million in the fourth quarter of 2021.

We continue to see strong customer interest, and are investing in our sales and marketing efforts. Sales and Marketing expenses were \$2.0 million in the first quarter, compared to \$0.3 million in the same period last year and \$1.3 million in the fourth quarter of 2021. Finally, General and administrative expenses for the quarter were \$11.3 million compared to \$2.4 million in the same period in the prior year, primarily driven by an increase headcount.

Turning now to the balance sheet, at the end of the first quarter our cash and equivalents and investments amounted to \$132.7 million, this includes \$3.0 million of restricted cash. In addition, we have added flexibility from our \$125 Million Standby Equity Purchase Agreement.



XOS
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First Quarter Earnings Call Transcript
May 5, 2022

Inventories were at \$40.3 million at the end of the quarter, about \$18.6 million of which was in Work In Progress. Our inventory position continues to reflect some of the steps we are taking to ensure sufficient supply of key components. Overall, net cash used in operating activities and cash paid for capital expenditures totaled \$34.3 million.

Finally, wrapping up with our business outlook, we continue to be focused on delivering sequential growth in revenue and deliveries over the year. Due to the continued uncertainty in the supply chain at this point in time, we are providing guidance for the second quarter of 2022. As we gain more clarity on the supply chain, we will expand that window. For Q2 we expect:

- Deliveries to be in the range of 70 to 90 units,
- Delivering revenues to be in the range of \$8 to \$11 million, and
- Non-GAAP operating loss in the range of \$23 to \$28 million.

Thank you. I'll now pass it back to Dakota.

Dakota Semler, CEO

Thanks, Kingsley. Before we open it up for questions, I want to thank our team for their contributions to our success as well as our partners, customers and shareholders for their continuous support. We remain optimistic on our future based on market growth, our technology platform, and the exceptional people we have here at Xos.

Now we'll open up the line for questions.

Dakota Semler, CEO - Closer, post Q&A

Thanks Operator and thanks to you all for such insightful questions. We believe that the investment case for Xos is clear: as you consider the current environment we are in, with diesel prices highly volatile and trending upwards, our total cost of



XOS
Xos, Inc.

First Quarter Earnings Call Transcript
May 5, 2022

ownership advantage is even more compelling and clear as can be seen by our commercial traction.

We are building a business tailored to the needs of our customers and focused on delivering for them