



**Nikola Corporation**  
**Third Quarter 2022 Earnings**  
**November 3<sup>rd</sup>, 2022**

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**Presenters**

**Michael Lohscheller – President**  
**Mark Russell – CEO**  
**Kim Brady – CFO**  
**Henry Kwon – Director, IR**

**Q&A Participants**

**Douglas Dutton – Evercore ISI**  
**Bill Peterson – J.P. Morgan**  
**Chris McNally – Evercore ISI**  
**Jeff Osborne – Cowen**

**Operator**

Good morning, and welcome to the Nikola Corporation's Third Quarter 2022 Earnings Call. Currently, all participants are in a listen-only mode. We will begin today's call with a short video presentation, followed by management's prepared remarks. A brief question-and-answer session will follow the formal, prepared remarks. If anyone should require operator assistance during the conference, please press \*0 on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce Nikola's Director of Investor relations, Henry Kwon. Thank you, Henry, you may begin.

**Henry Kwon**

Thank you, operator, and good morning, everyone. Welcome to Nikola Corporation's third quarter 2022 earnings call. With me today are Mark Russell, Chief Executive Officer; Michael Lohscheller, President of Nikola; and Kim Brady, Chief Financial Officer.

The press release detailing our financial results was distributed shortly after 6 a.m. Pacific Time this morning. The release can be found on the Investor Relations section of the company's website along with presentation slides accompanying today's call. Today's discussions include references to non-GAAP measures. These

measures are reconciled to the most comparable U.S. GAAP measures and can be found at the end of the Q3 earnings press release we issued today.

Today's discussions also include forward-looking statements about our future expectations and plans. Actual results may differ materially from those stated and factors that could cause actual results to differ are also explained at the end of today's earnings press release and on page two of our earnings presentation. Forward-looking statements speak only as of the date on which they are made. You are cautioned not to put undue reliance on forward-looking statements. We will now begin a brief video presentation followed by prepared remarks from Mark Russell, Michael Lohscheller, and Kim Brady.

### ***(Video Presentation)***

#### **Mark Russell**

Good morning, and thanks for joining the call. What an incredible journey we're on. Most of you know that we announced my retirement earlier this year. Having been involved with Nikola either as an investor or as an executive from the beginning, I've been reflecting on the extraordinary challenges we've experienced and the truly amazing things we've accomplished over the years. I'm so grateful that I've been part of it all, and so thankful for the privilege of being part of this team. Nikola is an awesome team of truly incredible individuals, world-class people who are dedicated in their careers to pioneering sustainable, zero-emission commercial transportation.

These are the people that give me the confidence to be stepping back. In fact, since we announced this transition, things have gone so well that we are handing the reins over early, and Michael Lohscheller will become CEO, effective today. That said, I won't be going very far. I'm still one of Nikola's largest shareholders, and I'll remain on Nikola's Board. I'll continue to do my best to support this team and our strategy in every way I can. But it is with deep confidence that I now hand the balance of this call, and the CEO's baton, over to Michael Lohscheller, who has been prepared over the course of his extraordinary and diverse career to now lead Nikola to the next level. Michael.

#### **Michael Lohscheller**

Thank you, Mark, and good morning, everyone. Thanks for joining us on this call. I am honored to succeed Mark Russell as CEO at Nikola and to drive forward the company's mission. Under Mark's leadership, Nikola has achieved many significant milestones and we look forward to his continued guidance as a member of our board.

As I assume my new role as CEO at Nikola, I would like to share some thoughts on both immediate and long-term strategic goals and objectives. First, I will discuss my views on our immediate objectives and how we are tracking them. Then I will discuss how meeting our immediate objectives will set us up for our long term aspirations. Kim will also address in greater detail, additional current challenges in the commercial space.

In production and manufacturing, we have made tremendous progress in increasing our daily production. Supply chain management has seen lots of improvements in the past quarter. We shifted from air freight to ocean freight on imported components. We localized purchases of many critical components during the quarter. We also started to diversify our supplier base. The results are beginning to show on our P&L, which Kim will discuss later in detail.

In R&D, we are making good progress in our fuel cell truck development. This quarter, we started to produce the beta builds of our fuel cell trucks. The betas contain a number of improvements over the alphas, based on customer input. From winter testing of the alphas, we have improved water management in our fuel cell and exhaust systems. We also improved the range, efficiency, and torque of the betas. So I believe we are on a good path in R&D supply chain management and production systems.

Where we can improve, is on the commercial side of the business. It's clear that there are macro headwinds right now, that at some point, will turn into macro tailwinds. We must take proactive steps to make sure that we have a commercial program in place that will allow us to fully benefit when the market dynamics become more favorable. I believe we can achieve this by increasing our dedicated sales efforts to better understand our customers and their needs. We need to become less dependent on dealers and instead lead them in our commercial management.

To improve our distribution, we hired eight additional staff in Q3. We will continue to intensify our dedicated sales coverage in the coming quarters and believe this will strengthen us for the fuel cell truck market, where we anticipate greater growth opportunities will be in the future. This short- and medium-term execution will lead us to our long-term aspirations. Our long-term strategic focus will be on growing our global presence in the hydrogen supply and infrastructure business. Our fuel cell trucks will enable us to accelerate the transition to clean energy, and we have made some important decisions on this front.

As one of my first actions since becoming Nikola's president, I appointed Carey Mendes as President of Nikola's Energy business. Carey has more than 20 years of operational experience in the energy industry. He spent 12 years at BP, where he played a key role in growing BP's renewable energy business. Since his appointment, Carey has begun to oversee all aspects of our energy business at Nikola.

I'm also very excited to share with you that, in the beginning of October, we announced the appointment of Andrew Vesey to our Board of Directors. This signals another step towards executing our long-term goals. Andrew joins us with over 40 years of experience in the energy industry. He has been focused on the acceleration of a decarbonized energy future and we are confident that his knowledge and insight will help us to execute on our strategy as we move forward.

We closed on the Arizona production hub land purchase on September 30th. And now we are making progress on the permitting and zoning requirements. We have also made good progress on ordering electrolyzers and liquefaction equipment. Our hydrogen infrastructure will support our truck customers after we launch our fuel cell trucks in the second half of 2023. And this infrastructure will also help support third-party demand.

The Arizona hydrogen production hubs planned initial capacity will be 30 tons per day and expand to 150 tons per day once completed. By 2026, we are targeting to achieve at least 300 tons of hydrogen supply, with 50 to 60 fueling stations nationwide. We are making progress on hydrogen refueling stations and building on our announcement last quarter of three locations.

We also announced our collaboration with E.ON to form a joint venture. The joint venture will provide hydrogen supply and refueling infrastructure for our fuel-cell trucks in Europe. As you may know, E.ON is one of Europe's largest operators of energy networks and energy infrastructure, and we look forward to bringing an integrated

mobility solution to our customers. We signed a term sheet with E.ON to solidify the collaboration and we are currently working to finalize the terms.

Our European strategy will build on the asset-light partnership approach that we began in the U.S. with our U.S. strategic partners. As you saw in the video, our fuel cell trucks generated strong interest from potential customers at the IAA in Hannover, Germany in September. IAA is the largest and the most important transportation and logistics show in the world. And together with our European partner, IVECO, we presented the European Tre BEV and FCEV beta on the Nikola and IVECO stand.

The incredible level of interest for our fuel cell trucks, once again validated our conviction on the critical role that Nikola plays in the global transition to a hydrogen economy. In this transition, we believe that our fuel cell trucks will stimulate demand for hydrogen and help accelerate the rate of hydrogen adoption in the greater economy.

I'll now share a few opportunities that we are well positioned to capitalize on. The recently passed Inflation Reduction Act in the U.S. provides a number of benefits to Nikola and these will be additive as our business plans were created without assuming them. In Europe, the European Parliament's Transport and Tourism Committee has recently agreed to target one hydrogen refueling station per 100 kilometers along the Trans-European Transport Network core and comprehensive network by 2028.

This new target is more ambitious than the original proposal, which had called for one refueling station every 150 kilometers. The European Union's regulatory development will play an important role in speeding up hydrogen deployment there and provide Nikola with significant opportunities to replicate our U.S. strategy in Europe.

Onto some details of what we have done on the vehicle front in Q3 now. On fuel cell vehicles, our TTSI pilot testing, which began in June, has logged over 9,700 miles, to date. We began pilot testing with Walmart in August, and it has logged over 5,500 miles, to date. In Q3, we produce six beta trucks and expect to produce 17 beta trucks for the full year by the end of Q4.

On our Tre BEVs, we produced a total of 75 trucks in Coolidge during Q3 and delivered 63 to our dealers. We began pilot testing the Tre BEVs with Saia in August, and to date, the trucks have logged over 1,600 miles. We also began pilot testing the Tre BEVs with Walmart in September, and the trucks have also logged over 2,700 miles, to date.

We are also very excited to share that we received a purchase order of 100 Tre BEVs from Zeem Solutions, a leading provider of zero-emission EV fleet-as-a-service provider yesterday. The trucks will be delivered in 2023. We are still on track to complete Phase 2 of our Coolidge, Arizona manufacturing facility by the end of Q1 2023.

The nameplate capacity of our Coolidge plant, when Phase 2 is completed, will be approximately 20,000 units a year. The facility will be capable of assembling both BEVs and fuel cells on the same line. We also plan to establish a line for the assembly of our Bosch fuel cell power modules.

Regarding Phase 3 of our Coolidge expansion front, after assessing the macro uncertainties in the market, we have taken another look at our previous assumption on scaling in Q4 2022 and fiscal year 2023. As we discussed

during our second quarter earnings call, we can now confirm that we are deferring our Phase 3 Coolidge expansion plan to 2024. Kim will provide details on the numbers. And with that, I will hand it over to Kim.

## **Kim Brady**

Thanks, Michael, and good morning, everyone. Let me begin with the financial overview for the third quarter. Our Q3 revenues were in line with our expectations, and our gross loss was less than expected. In Q3, we reported revenues of \$24.2 million on deliveries of 63 Tre BEVs and one MCT compared to deliveries of 48 Tre BEVs and 4 MCTs in Q2.

Cost of revenues came in at \$54.4 million, resulting in a gross loss of \$30.2 million with a negative 124% gross margin in Q3 from negative 161% in Q2. Gross margin came in significantly better than our guidance of negative 240% to negative 250%. The gross loss improvement of 37% from Q2 is driven by lower material overhead expenses and improved overhead cost absorption on higher revenues during the quarter.

Our material overhead expenses, which consists mainly of inbound inventory freight and duty, came in favorable as our dependence on air freight as a percentage of total freight came down to 33% in Q3, from 84% in Q2. We should also mention one item regarding our cost of sales in Q3. As we shared in our Q2 earnings call, our acquisition of Romeo Power involved providing up to \$20 million in a temporary price increase for each battery pack delivered through transaction close.

This amount came to \$11.9 million in Q3. This pack price increase was not recognized as a part of our cost of revenues for the quarter but was capitalized in prepaid expenses and other turn assets on the balance sheet, as a part of future purchase price consideration. Had this amount been recognized on the P&L, our Q3 gross margin would have been about negative 174%. We will share more on Romeo's impact on our cost structure later in the call when we discuss Q4 guidance.

At the SG&A level, the most significant cost driver during Q3 was the change in our management compensation structure. On August 15th, our Board of Directors approved an amendment to the executive employment agreements with our C-suite executives. Under the new scheme, each of the affected executives had existing market-based stock awards with stock price milestones of \$40 and \$55 canceled, and the performance period applicable to the shares with a \$25 stock price milestone was extended by 12 months, from June 3rd, '23 to June 3rd, '24.

Under U.S. GAAP, if a market-based stock award is canceled without the concurrent grant or offer of a replacement award, the cancellation is treated as a stock repurchase for no consideration. We recognized \$55.8 million in market based RSO awards for the cancellation of the \$40 and \$55 tranches for all executives, representing the remaining unamortized expense of this awards as of the cancellation date.

Q3 EBITDA came to negative \$221.7 million and adjusted EBITDA came to negative \$105.9 million. Equity in net loss of affiliates came to \$2.0 million in Q3 from \$1.3 million in Q2. The loss was driven by net losses at the Nikola IVECO Europe JV, due to the expanded scope of JV's product development and vehicle engineering activities that we referred to in our Q2 earnings call.

Our net loss for Q3 was \$236.2 million, and the loss per share came to negative \$0.54 on a GAAP basis, and negative \$0.28 on a non-GAAP basis on the balance sheet. We ended the third quarter with \$403.8 million in cash and restricted cash from \$529.2 million at the end of Q2.

Regarding available liquidity, our existing ELOC facilities with Tumim remain at \$312.5 million.

We also have entered into an equity distribution agreement, or at the market facility, where Nikola may offer and sell up to \$400 million of common stock. We received approximately \$100.5 million of gross proceeds under the ATM during the quarter. If we consider cash, ELOC and ATM, our total access to liquidity stood at \$1.01 billion as of the end of Q3, representing an improvement from \$841.8 million at the end of Q2. We believe this liquidity excess is more than sufficient to cover our spending and positions, as well, for the following 12 months.

Next, we want to turn your attention to our working capital, as we have now completed two quarters of Tre BEVs deliveries. Our accounts receivable in Q3 came to \$37.7 million, from \$16.7 million at the end of Q2. Our inventory increased from \$52.1 million in Q2 to \$81.1 million at the end of Q3, driven by purchases of components and raw materials to support Tre BEV production in Q4 2022 and 2023.

Our typical vendor payment terms to our vendors range from 30 to 45 days. Together, with our dealers, we are working to reduce the number of days in our payment terms on future deliveries to minimize the working capital impact. As we aim to achieve a target of keeping 12 months of liquidity on hand at the end of each quarter, we will continue to seek the right opportunities to replenish liquidity on an ongoing basis, while trying to minimize dilution to our shareholders. We are also considering how we can potentially reduce spending without compromising our critical programs for 2023.

Regarding the Romeo merger update, we completed our exchange offer to purchase all outstanding common shares of Romeo and subsequent acquisition. The transaction closed on October 14th, and Romeo is now a sub-assembly plant for Coolidge. We are currently focused on post-acquisition integration, including manufacturing line optimization and productivity improvements, addressing customer contracts and aggressively reducing BOM enclosure costs and non-personnel costs.

We anticipate recording a non-cash impairment charge on Romeo's assets as of September 30, 2022, currently estimated in the range of zero to \$75 million. Such a potential charge would decrease the amount of Nikola's bargain purchase price gain on the acquisition, which was previously estimated as \$83 million, based on Q2 pro forma financials. The actual amount of the impairment charge and its effect on any bargain purchase price gain, is an estimate only at this point and not fully known at this time and will be based on financial purchase price counting reflected in Q4 financial statements.

Moving on to Q4 and fiscal year 2022 full-year guidance. As an early disruptor in zero-emission BEV trucks, we have learned many lessons this year. In the second and third quarters, we delivered 111 trucks to dealers and while we are pleased with our progress on truck production and interest from our end customers, we will be unable to deliver 300 trucks to dealers by the end of 2022. We would like to share some of our observations and the reasons why we are revising our fiscal year 2022 delivery guidance.

First, as discussed on the Q2 earnings call, while our mobile charging trailers and E-Skids can help customers get started on electrification, continue to scale up to fleet level, charging infrastructure remains a hurdle and often involves a lengthy process, which usually requires regulatory approval and support from the local power

provider and municipality. This is further impacted by uncertainties over macroeconomic conditions, resulting in end customers reluctance to make significant capital investments in the necessary charging infrastructure.

We anticipate these headwinds will continue to be a significant limiting factor in the customer uptake rate for the Tre BEVs, especially for the remainder of this year and likely through 2023. This dynamic appears to be more about customer investments in charging infrastructure, timing, and less about their willingness to transition to zero-emission trucks.

Second, the Q4 gross margin will deteriorate from Q3 once we start consolidating Romeo Power into our financials. When we announced the acquisition on August 1, we summarized the potential, long-term benefits from the merger to be approximately 30% cost reduction in non-cell related battery pack cost by the end of 2023. However, our BOM cost for the battery pack enclosures will increase temporarily for the next five quarters, as Romeo Power was subsidizing Nikola's battery packs by approximately \$110,000 per truck.

We are converting from machine battery pack enclosures to casted enclosures, which we expect to lower the BOM cost significantly. This requires validation and testing once the first article is produced. This effectively means we will not see the benefits of significant battery pack cost savings until the end of 2023. But, we have a clear line of sight and when our cost savings initiatives are complete, we expect battery pack cost to drop by at least \$110,000 per truck.

Third, at this point, the Tre BEV truck cost per unit is meaningfully higher than the average selling price per unit. This is expected for a new technology product and in the early stage of adoption. As we continue to scale our business, we anticipate production costs to decrease. However, in light of current macroeconomic conditions, we are evaluating the rate of scaling production in Q4 2022 and 2023 to minimize a situation where the more Tre BEV trucks we sell, the greater the gross loss in the short-term.

Ultimately, we need to scale at the right level to further decrease Tre BEV truck costs per unit and achieve greater operating leverage in direct and indirect labor and manufacturing overhead. With that backdrop, our Q4 consolidated financials will include Romeo's cost structure. Throughout Q4 and 2023, we plan to include supplemental information in our earnings deck to provide visibility to the ongoing cost structure of Romeo's operation.

We plan to produce approximately 120 to 170 trucks in Q4, as we currently hold enough inventory in Coolidge to meet that production target. Due to a high level of uncertainty surrounding the timing of our Q4 delivery, we've decided not to provide volume or revenue guidance. However, whatever we produce in Q4, we believe we will be able to recognize as revenue in Q4 and 2023. We anticipate our gross margin being between negative 240% and negative 280%.

R&D expenses should be in the range of \$82.5 to \$87.5 million, including approximately \$5 million for Romeo. And SG&A expenses will likely be in the range of \$85 to \$90 million, including approximately \$25.5 million per Romeo. The stock-based compensation will be roughly \$58 million, including approximately \$16 million for Romeo, due to the acceleration of RSUs and PSUs, as part of the merger agreement for former executive officers.

CapEx for Q4 should be in the range of \$30 to \$40 million. Michael mentioned that the name plate building capacity for Coolidge is about 20,000 units per year, including BEV and fuel cell electric vehicles. Upon completion of Phase 2 in first quarter 2023. This capacity should be sufficient to achieve our internal production

targets for 2023, 2024, and 2025, which we have yet to disclose. Accordingly, we can confirm that Phase 3 build out will be deferred, reducing our anticipated cash burn by \$345 million in 2023.

Furthermore, as we adjust to the current macroenvironment of inflation, rising interest rates, and increased commodity prices, we made the difficult decision to reduce headcount by 7% this month or approximately 100 employees. I, along with the full management team, express our gratitude to these impacted individuals, and are working hard to support them through this transition. Though it was not easy, this decision allows us to better align our headcount with strategic priorities that will improve productivity and reduce BOM with greater focus and discipline.

Regarding 2023 expectations, as previously alluded to, we are operating in a highly unusual and challenging environment, especially for early EV OEMs and H2 infrastructure providers. After carefully considering and weighing the above factors, we have determined that we are better off delivering fewer BEV trucks and preserving cash until the visibility becomes more apparent and the planned BOM cost savings are achieved in 2023.

Accordingly, we are proactively reducing volume expectations for Tre BEV trucks in Q4 2022, and 2023. We will provide you with more details on our 2023 projected BEV truck deliveries when we announce our fourth-quarter results. During this time, we will be prudent stewards of capital, while improving efficiency and negative gross margins. Furthermore, we are also looking to significantly reduce our OpEx and CapEx spending in 2023 by 20% to 30% from the 2022 level. To be clear, we are running at full speed to ensure the Tre FCEV truck schedule is not compromised, and we can achieve the start of production in the second half of 2023.

This concludes our prepared remarks. We will use the remainder of the time to address your questions. But before we open the line to analyst questions, we would like to take this opportunity to answer some questions from our retail shareholders. Henry.

**Henry Kwon**

Thank you, Kim. The first question was combined from two separate questions asked by two investors that address what we feel are identical issues. When will Nikola's products be in production and when will Nikola start delivering the vehicles?

**Michael Lohscheller**

We began commercial deliveries of our Tre BEV to dealers in Q2. End-customer deliveries of these electric trucks are currently being made by our dealers and have mainly gone to end customers in Southern California. To be clear, these are not demo deliveries, but trucks used by our customers in their day-to-day business in their fleets. These deliveries have been made for two quarters now.

On our fuel cell trucks, we are currently producing the beta version of our demo trucks and are on schedule to make commercial deliveries to customers in the second half of 2023 in the U.S. and the first half of 2024 in Europe.

**Henry Kwon**

The next question is, is there any chance of salvaging the GM deal or striking a new deal with an existing auto manufacturer to start production of the Badger?

**Michael Lohscheller**

Understandably, there is much confusion around the Badger, since we never formally announced that we would be dropping it. To make it clear here, we are no longer developing the Badger because our commercial truck and energy infrastructure business is our strategic focus. As an early-stage growth company, we cannot divert capital to the Badger, a light truck that aligns more with passenger vehicles.

**Henry Kwon**

The next question is, what is the plan for the Company to get out of the red and instill confidence back in investors?

**Kim Brady**

As discussed, current macroeconomic headwinds create some uncertainty, which affects both our top-line growth and costs. We are working hard to increase sales to our end customers by strengthening our sales capabilities. We are also taking steps to reduce our BOM cost and cost burden at the cost of goods sold level by improving operating leverage as we scale. However, this will be challenging in an environment of high inflation and higher commodity prices, since the end customers are reluctant to increase their costs. Accordingly, we cannot provide guidance on when we expect to reach profitability, but we will share our thoughts with you as things stabilize in the coming quarters.

**Henry Kwon**

The next question is, investors need complete transparency after recent events involving the Company. What is your plan to bring investors back on your side?

**Kim Brady**

We are committed to open and transparent communications with all of our investors, this platform to ask questions being an example of that commitment. We aim to always communicate clearly about our progress and milestones and are receiving some positive feedback from investors. We have seen a significant increase in institutional investment owners in our stock versus six quarters ago. So we see that as a positive trend. Market conditions lie outside of our control, but we will continue to take steps to ensure that you are well informed about our progress on a timely basis.

**Operator**

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press \*1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press \*2 if you would like to remove your question from the queue. For participants using speaker

equipment, it may be necessary to pick up your handset before pressing the star keys. In the interest of time, we ask that participants limit themselves to one question and one follow-up. One moment, please, while we poll for questions.

Thank you. Our first question is from Douglas Dutton with Evercore ISI. Please proceed with your question.

**Douglas Dutton**

Hi team. Just curious if you have any more insight, now that Romeo's acquired? What is the exit rate or one-half run rate in '23 we could look at for deliveries?

**Kim Brady**

Doug, thank you for the question. As you know, we're making a very good progress with Romeo. We are very much focused on post-acquisition integration. And we have been able to actually meet targets, and what Romeo committed prior to acquisition, they have delivered. And so right now, we have the ability to manufacture approximately three trucks and have a capacity to increase that to five trucks.

So, we feel pleased in terms of targets and we expect additional manufacturing improvements, including greater yield, greater efficiency. And so, we anticipate that we can improve on what Romeo has achieved to date. And we'll be able to share that with you more in the Q4 earnings call.

**Douglas Dutton**

Okay, great. And then do you think the 2K truck run rate is still -- or the 2K truck total deliveries in '23 is still feasible? You mentioned you had previously -- that you had the cell and pack capacity for that. It sounds like it's not a production issue and it might be more of a cost issue now on the pack side. So, what needs to happen on the cost side for us to reach that 2000 total delivery number for the Tre BEV in '23?

**Kim Brady**

And, Doug, we talked a fair amount about our cost challenges, especially with temporary price increase for battery pack enclosures. As you know, that increased our cost for cost of goods sold per unit by \$110,000. And so, we have a significant gap between average ASP and cost per unit. So, we are losing money, as you know. And so, as we think about 2023, a very challenging environment; and we are more concerned about, especially with respect to our BEV trucks, reducing that loss. We think that's prudent. We think that's what wise stewards of capital would do.

And so, we have debated this internally, and we think it's important that at least for the next five quarters, that we're very thoughtful about this. And so, we're not prepared to provide any guidance at this point. We will provide greater visibility in our Q4 earnings call, but we want to make sure that we have -- that we are well prepared as we think through 2023. It's still a bit unclear. We know that market could get worse, and so we are trying to be prudent.

**Douglas Dutton**

Okay. Thanks, team.

## **Operator**

As a reminder, if you would like to ask a question, please press \*1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue.

Our next question is from Bill Peterson with JPMorgan. Please proceed with your question.

## **Bill Peterson**

Yeah, hi. Good morning, guys. Mark, good luck in your transition to retirement. And Michael, welcome onboard and good luck navigating these challenging times. My question is for you, Michael, on strategy. In the video, you discussed the importance of both having BEVs and fuel cells as part of the portfolio. However, given the cash position, I mean, taking into consideration of the margins that Kim outlined, these could be challenging beyond '23, so -- and then not only that, the learnings from the BEVs have likely already been designed in the fuel cells. And then you talked about all the challenges around infrastructure and lead times. I mean, there's impacts in the grid with BEVs. And then there's competition, right, competition from other newcomers and as well as even established players.

Ultimately, I'm not really sure if Nikola is going to have a differentiated product. I guess the question is kind of twofold. I guess why at this stage are BEVs even important in the portfolio? And if things don't improve, like what would the Company consider in terms of just, I guess, -- pardon the metaphor -- but like pulling the plug as it were on the BEV program? I mean, you already said you're going to be losing more money every time you ship a product. I mean, why should this be considered to be one of the two important legs of the Company?

And I guess even in the press release, you're kind of highlighting more and more about hydrogen. I think a lot of people that own the stock for the long-term believe that's kind of the right thing to think about. So why have the BEV program at this stage looking forward?

## **Michael Lohscheller**

Great, thank you. Thanks for the question. Well, I mean, very straightforward. First of all, I mean, zero-emission mobility is our strategy. And we feel good that we have two legs to stand on, as I said in the video. Because at the end of the day, customer will decide, right? And what we see is in terms of customer feedback, some customers really like the BEV, in particular once they have the infrastructure set up, they like the range. They look at the total cost of ownership. At the same time, there are customers, they prefer a longer range with the fuel cell.

In terms of learnings from the BEV, I think it's obvious. I mean, you need to have really an integrated mobility solution for customers. So, meaning you need to provide the truck and the infrastructure for the BEV and for the fuel cell, obviously, including the hydrogen. That's why I also want to put a lot of emphasis on the hydrogen piece of our business, because I feel it's very much an entry into our business. So, for example, when I was in Europe at IAA, a lot of energy customers came to us and talked to us and also asked for the truck.

So, in summary, I think we feel very good about these two offers. Customers will decide. I mean, if you look at our data in terms of BEV and fuel cell, also in terms of LOIs, MOUs, fuel cell is higher, right? So, I think there is a lot of opportunity for the fuel cell. But I feel very good that we have these both alternatives, because at the end let the customer decide.

### **Bill Peterson**

Okay, certainly following the progress on that. Thanks for the color there. I mean, shifting to hydrogen, again, you kind of really -- it looks like you highlighted a lot of this in the press release, and it's understandable. For the initial tranche of the 30 tons per day, when would you expect to achieve that? And I guess how should we as a -- or the investor community, how should we think about the ramp to 300 tons per day?

And maybe more importantly, as it relates to Nikola, what is Nikola's contribution in terms of the capital expenditures? And maybe you can give some color on what kind of CapEx is required for a given sort of output. And I guess what kind of cost structure should we assume by around the '26 timeframe?

### **Kim Brady**

Bill, great question. So let's think about this. We have been very clear to the market that our focus and our strategy when it comes to hydrogen infrastructure is capital efficient and asset-light. That means we are going to seek partners, both strategic and financial partners, for a hydrogen production hub, as well as dispensing locations. That means we may have small piece of ownership. What we are focused on is making sure that we control hydrogen molecules. That's really important for us.

So coming back to our Arizona Hub, 30 tons per day for Phase I, likely this will be available sometime towards the end of 2024, possibly early 2025. We understand in late 2023, as we actually have our fuel cell truck being delivered to customers, as you know, California will be our first market. And we have worked with potential hydrogen providers, as well as we will have mobile trailers to meet the needs of our customers in early -- in late 2023.

### **Operator**

As a reminder, if you would like to ask a question, please press \*1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue.

Our next question is from Chris McNally with Evercore. Please proceed with your question.

### **Chris McNally**

Thanks so much, team. And just jumping on midway through the call, so I just wanted to do a follow-up on the comments around Romeo and some of the subsidies that you're now learning on -- learning about post-acquisition. Can you just remind us for your original 2023, how much of the pack capacity was coming from Romeo as opposed to the more recent deal with Proterra or internal pack?

### **Kim Brady**

In terms of the way we are thinking about this is that especially for U.S. BEV truck, we anticipate all of our battery modules and packs will be coming from Romeo. What we have discussed with Proterra is that they will focus on providing modules and packs for BEV trucks as well as fuel cell trucks in Europe. And so we have a very clear delineation and we're very much focused on improving manufacturing operations, increasing yield, and making sure that we improve execution. So that ultimately, we are able to significantly improve output and delivery of modules and packs from Romeo.

**Chris McNally**

And then, Kim, is there now an ability to sort of increase the scope of the Proterra relationship? Because it just -- quick math on 110,000 would essentially -- it sounds like Romeo was, on a cost basis, sort of well out of the bounds of industry numbers on dollar per kilowatt basis for pack. Is it just not something that's feasible in the short-term to increase for North American deliveries as a use of Proterra?

**Kim Brady**

You know, as you know, it takes time for validation and testing. And so when it comes to Proterra, it's their design of packs and modules. And so it's really the timing that we're concerned about. And as you know Romeo, really this was a small company. It did not have that scale to be able to reduce their cost, in terms of manufacturing efficiency. And the -- when we -- as we suspected, we knew that most of the Romeo contracts that were existing contracts were essentially lost leaders. We have been able to address a lot of those contracts so that we are very much focused on simply supplying battery modules and packs to Nikola.

**Chris McNally**

And then I guess the final thought, I mean, now that's internal, can you talk about the steps? Because I mean, some of the cost figures, it could be almost \$300 per kilowatt to reduce that number to something that's more market standard to get you back, to your point, maybe it's -- at some point in '23 or '24, into a gross margin positive position. What specifically would Nikola be doing to the to the Romeo process?

**Kim Brady**

Great question. When you think about modules and packs, the biggest cost component here is what we call pack enclosures. Currently, that's being machined. We are converting that to casting. We believe we can drop approximately 90% of our cost. And there are about 15 other components that we know that we'll be able to drop. So we have a very detailed plan component by component. But the biggest contributor in terms of rapid costs will be pack enclosures. So I've alluded that right now, pack enclosure costs increase in the short-term for the next five quarters will likely be around \$106,000. We believe we can drop about 85% of that, just in terms of addressing junction box, as well as the enclosure.

**Chris McNally**

And timeframe for that, for the 80%, is that sort of a target by the end of the year '23?

**Kim Brady**

End of 2023. Obviously, we're going to push hard, we're going to be aggressive. But once again, it requires validation and testing. So it's really the validation and testing that takes so long. Now, we're going to try to optimize that as much as possible, and we'll keep you posted. But right now, our anticipation is that by Q4 2023, we will be able to achieve those costs and we will provide the transparency.

**Michael Lohscheller**

And just to add what Kim just said, I mean, the Romeo acquisition is such a big benefit because you think about this. We do supply chain now together, we do engineering together, we do manufacturing together. So we have line of sight of several cost reductions, and the most prominent one was the one Kim was highlighting. But I mean, strategically, it is such a big benefit having such an important component as a battery in-house. And we integrate every function, right, and therefore, we see good line of sight for cost reduction. Of course, we'll try to do as fast as we can, yeah.

**Chris McNally**

Okay, thank you.

**Operator**

Our next question comes from Jeff Osborne with Cowen & Company. Please proceed with your question.

**Jeff Osborne**

Yeah, good morning. Most of my questions have been asked already. I wanted to dig a bit into the European factory, as well as what's your battery strategy there? Will you be making those same battery packs that you just described earlier, or buying those from a third-party?

**Michael Lohscheller**

Yeah. I mean, thanks for the question, Jeff. And Europe is obviously an important business for us. I mean, everything going on in Europe indicates like probably the pressure on CO2 is even higher than here. So for us, it's a very important business. And the setup together with IVECO is really strong, because we have a joint venture with them in Ulm where we have a factory together. We have all the learnings from the BEV and also the FCEV, which we transfer now from here to Europe.

We have a dealer network with the IVECO dealers. So I think this is good. And in Europe, we will use the Proterra battery going forward, right, and also try to localize as many elements as possible so that we have a real competitive setup in Europe. But I feel very good about Europe and also opportunities going forward.

**Jeff Osborne**

That's great. And I got the OpEx and CapEx commentary for '23. I wanted to better appreciate, is there an ability to potentially also defer the fuel cell facility from Bosch, and just import those from Germany themselves as opposed to making them? Like what would be the cost ramifications if you were to do something like that?

**Kim Brady**

Hey, Jeff, we don't actually make our fuel cell power module. As you know, we assemble them, so we buy components from Bosch. So the investment that we make at Coolidge is really the assembly line with respect to fuel cell power module.

**Jeff Osborne**

Got it, all right. Appreciate it, thank you.

**Operator**

Our next question is from Bill Peterson with JPMorgan. Please proceed with your question.

**Bill Peterson**

Yeah, thanks for taking the follow-up. I actually wanted to come back to -- you have some commentary earlier about trying to -- it seems like you're pivoting more towards direct sale versus dealers. I guess I'm wondering of all the products you've delivered so far, are they still all at dealers at the moment waiting for delivery to end customers? What percentage has kind of gone to end customers? And I guess can you tie it back to the focus on, I guess, the end customers as opposed to the dealer network? Can you just expand on the strategy, please?

**Michael Lohscheller**

Yeah. Thanks, Bill, for the question. So a few remarks on the dealer network. I mean, first of all, I think it's a very big benefit that we have a good dealer network, in particular in terms of the service element, right? Because in the truck business, it's all about uptime. If you have an issue with a truck, you want to have service immediately. So I think it's a very important element that Nikola was able to set up this dealer network, right?

Now, of course now, we want to speed up and make sure like this is going as fast as possible. But I'm also pushing hard on like direct context to customers, in particular big fleet customers, right? And we were very pleased that we announced yesterday the order with Zeem. I mean, 100 BEV trucks I think is a very important proof point for us that we are on the right path here, and to deliver them in 2023. But I think that the dealer network is important. We will continue like this, but I want to push harder on direct sales, direct contact to the customer, and then manage that in the best possible way.

**Bill Peterson**

And then maybe Kim can address the end customers?

**Michael Lohscheller**

In terms of -- sure. In terms of dealer inventory and also deliveries to customer. So we made good progress as indicated in terms of production, supply chain, all that is fine. And now, obviously, most of our trucks are with dealers. But we also have -- or dealers have delivered also trucks to end customers. Overall, we have around 97 trucks in dealer inventory, and 14 have gone to end customers, and that's actually a process, right? So I think

we ramp up very well on production side, inventory now with dealers. And now the next step is to end customers, and we delivered already 14 to end customers in the third quarter.

**Kim Brady**

So, Bill, just to add some additional insights. As you know, this is progression. First, we're going to build trucks. Second, we're going to deliver to our dealers, and they've got to make sure that they have inventory. And then ultimately, dealer delivers to customers, end customers. But some of the challenges that we talked about is that end customers, especially for certain customers, they lack charging infrastructure.

So we are working with them. Clearly, that takes time. And so that's one of the biggest challenges that we are coordinating and working directly with our customers and dealers, to make sure that we're providing solutions. In addition to that, there's also HVIP reimbursement process, which is somewhat complex and it also is fairly lengthy. And so we just want you to recognize the timing aspect, which is really important. And that's the reason why when we think about our Q4 and when we have not provided guidance, because there is significant timing here that's really not certain.

And then, obviously, with cost we are thinking about how many BEVs should we really sell? That's a big question. So we're working both sides and addressing that. But clearly, as Michael talked about, we have added additional sales staff so that we can provide force amplification to our dealers, as well as interacting with our customers, especially for what we call strategic corporate accounts. In addition to that, dealers are now getting up -- they are adding sales staff on their side. So this all has taken time in terms of process.

**Bill Peterson**

No, I think that's well understood. I think, ultimately, I guess related to the cost, lack of infrastructure, lack of readiness, I mean is it prudent for us to assume just pretty low shipments to dealers, given they probably have the channels filled, right? I mean, I don't know what kind of orders you need to fulfill or what the backlog is at this stage, but should we just assume a low run rate for the reasons all of -- all of what you said -- cost, readiness, and so forth?

**Kim Brady**

I would say, you know, it is still premature. As you know, typically in automotive industry, the wholesale inventory at dealers, you know, typically around 30% of wholesale revenue or even 35%. Right now, we have a few units that's still out there, and we're building out our dealership. And so 90 units is not pretty low inventory, 97 units end of Q3. And so we just want you to recognize that. It's just right now, that's very low units. And as we talked about, we'll move those units in Q4 and in '2023.

**Bill Peterson**

Okay. Thanks, you guys, for the additional color.

**Operator**

Thank you. There are no further questions at this time. I would like to turn the floor back over to Michael Lohscheller for any closing comments.

### **Michael Lohscheller**

Thank you, everyone, for joining us today. I'm excited to begin the next phase of Nikola's journey. While there are macro uncertainties and headwinds facing us in the short-term, we remain disciplined and are committed to focusing on the following: Continuously improving our production systems and supply chain management. As I indicated before, we are making good progress here. R&D on our trucks, we are also making good advancements in developing our fuel cell trucks and improving our electric trucks. Commercial engagement on vehicle sales, we plan to intensify our focus here to take more control over our distribution strategy. Our hirings will begin this intensification process.

These short and medium-term executions will lead us to achieve our long-term objectives in the energy business, which is also making good progress.

Thanks again for joining us today. We look forward to seeing you next quarter.

### **Operator**

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.