



## CORPORATE PARTICIPANTS

Stephen Burns  
Chief Executive Officer

Julio Rodriguez  
Chief Financial Officer

Duane Hughes  
President

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon. My name is David Wright, and I will be your conference facilitator. I would like to welcome everyone to Workhorse Group's Second Quarter 2016 Update Conference Call. This conference call is being recorded at the request of Workhorse. Should you have any objections, you may disconnect at this time. All participants have been placed on-mute to prevent any background noise. There will be a question-and-answer period after the speakers' remarks.

Thank you. I will now turn the call over to your host, Duane Hughes, President of Workhorse Group Inc. You may begin your conference

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**Duane A. Hughes**

*President*

Thank you David and good afternoon everyone. Welcome to Workhorse's second quarter 2016 update conference call. I'm Duane Hughes, President of Workhorse Group. Joining me this afternoon are Steve Burns, our Chief Executive Officer and Julio Rodriguez, our Chief Financial Officer.

Many of you have already seen a copy of our press release from today. For those of you who have not, it is available on our website at [workhorse.com](http://workhorse.com).

I want to call your attention to our Safe Harbor provision for forward-looking statements that can be found at the end of our press release. The Safe Harbor provision identifies risk factors that may cause actual results to differ materially from the content of our forward-looking statements. Our 2015, Form 10-K and other periodic filings on file with the SEC provide further detail about the risk factors related to our business.

The format for today's call will be as follows: First, Steve Burns will lead us off with a brief discussion and update of our key strategic priorities. Next, Julio Rodriguez will take us through the financial performance for the second quarter. Lastly, there will be a question-and-answer period.

With that, I would now like to turn the call over to Steve Burns.

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## Stephen S. Burns

*Chief Executive Officer & Director*

Thank you Duane and good afternoon, everyone. This is our first quarterly update call and before we dig into the 2<sup>nd</sup> quarter highlights, we thought we would take a brief moment here to introduce Workhorse to those on the call that may not be familiar with our business.

We have been in business since 2007 and have about 80 employees and contractors. We operate under two major divisions...our truck division and our aerospace division:

The truck division of Workhorse is dedicated to designing and manufacturing electric and hybrid trucks for fleet customers. Our goal is to be the leading manufacturer of electric and hybrid work trucks for fleets. We believe that we are currently the only Original Equipment Manufacturer of medium duty electric trucks in the country. Our main manufacturing plant is in Union City, Indiana and our R&D headquarters and battery plant are in Cincinnati, Ohio. Our premier truck product is our EGen electric medium duty step van with a BMW gasoline range extender. Our EGen 19,500 lb trucks are demonstrating north of 30mpg in the field with customers. This is compared to the 5.5 mpg that a comparable gasoline truck would achieve in similar routes. We have a direct supplier agreement with Panasonic and use Panasonic 18650 cells in our battery packs. Our largest customer is UPS and we are currently delivering vehicles to them. In addition to UPS, we are the chassis supplier to FedEx Express for a Department of Energy medium duty fuel cell project, and are the provider EGen step vans to the Alpha Baking Company in Chicago. We believe that our world class chassis capabilities combined with our proven, range-extended electric drive trains are suitable for additional fleet-based trucking platforms, such as pickup trucks and cargo vans in the future.

Our aerospace division leverages the battery and motor technologies that we have developed for ground vehicles and reshapes them for use in battery electric vertical takeoff and landing aircraft. Many of our fleet truck customers are in the business of delivering goods and services, and we feel that sophisticated manned and unmanned electric aircraft will have a place in the delivery ecosphere. Commercial use of drones will be permitted in the U.S. starting on Aug 29<sup>th</sup> and we plan on leading the way for drone delivery with our truck launched HorseFly drone that is designed to operate within the line-of-sight of the truck operator and therefore complies with the current FAA restrictions for commercial drone use.

OK, now about the 2<sup>nd</sup> quarter. We've had a very busy second quarter and we are proud of what we've accomplished. We completed the delivery of UPS's order for the Workhorse E-100 All-Electric trucks approximately 3 weeks ahead of schedule. We also continued delivery of UPS's order for the Workhorse EGen trucks. These extended range vehicles are being delivered to 26 UPS depots across 8 states. In addition to the work with UPS, we have completed the first of twenty FedEx Express chassis in Phase II of a FedEx Express/DOE Hydrogen Fuel Cell Vehicle project.

We also delivered the first of five Workhorse Egen step vans to Alpha Baking in Chicago, IL. We believe this to be the first range-extended medium-duty step van ever to be delivered to a baking company in the US. In the second quarter, Workhorse vehicles were delivered to locations in FL, GA, IL, OH and TX.

We believe it is important to recognize that we are at a critical point of transformation where we are transitioning to an OEM ramping up in production mode. We continue to manage the reduction in costs in several different areas. Our efforts are focused not only on engineering out costs of the medium-duty vehicles, but we are also working on our supply chain to reduce costs for parts and services and we are identifying and enacting manufacturing efficiencies. At the same time, we continue to see our labor rates per vehicle improve.

We continue the work of transforming our business to become a last-mile delivery technology company with the production and delivery of American-made, battery-electric, medium-duty truck



chassis that help delivery fleets achieve greater efficiencies while strengthening their sustainability initiatives.

As our mission of improving fleet's operational efficiencies and addressing their sustainability initiatives for the last mile continues, we are also developing and integrating unmanned aerial vehicle (UAV) platforms to further reduce delivery costs and provide even cleaner deliveries. Our drone delivery platform, HorseFly™ is FAA compliant and fully integrated with our medium-duty truck chassis.

We have also developed an integrated cloud-based, real-time proof-of-performance telematics monitoring software. This real-time system provides fleet operators with the ultimate in vehicle diagnostics, energy, and route efficiency. The combined technology of the Workhorse battery-electric powertrain, HorseFly delivery drone, and performance telematics is a unique and powerful solution providing fleets the tools they need to continue to improve their last mile delivery operations.

Beyond the second quarter delivery of Workhorse vehicles to customers such as UPS, Alpha Baking and FedEx Express, we also announced the integration of the BMW i3 range-extender solution into our Workhorse E-GEN vehicles. This new EGen is powered by a two-cylinder gasoline engine that is configured to engage only when the depth-of-discharge of the battery packs reach a pre-determined state-of-charge. Acting purely as a generator to produce electricity, Workhorse's technology seamlessly extends the range of vehicles enabling drivers to complete their routes using the optimal amount of energy required and eliminates range anxiety commonly associated with electric vehicles. The BMW i3 generator system will add tremendous benefits to our E-GEN vehicle, our customers and the communities they serve.

Now, I would like to touch on our future business opportunities and initiatives. In April 2015, the postal service announced our selection as one of the 15 pre-qualified supplier for the postal service's Next Generation Delivery Vehicle (NGDVs). The postal service operates a fleet of over 200,000 vehicles in all areas of the United States and its territories. Approximately 163,000 of these vehicles are right hand drive, light-duty carrier route vehicles purchased between 1987 and 2001. The postal service intends to retire this fleet in coming years, and to replace them with NGDVs.

The Post Office ground rules restrict us from discussing the NGDV Prototype program in detail. For purposes of this call, I can tell you as a pre-qualified supplier, we identified and then completed a partner agreement with a leading body manufacturer, to complement our range-extended chassis enabling our combined team to deliver a complete RFP response to the postal service's RFP solicitation. The response was officially received and accepted by the postal service's contracting officer. We are waiting for the Post Office to announce the next step in the process.

Let me now turn it over to Julio, our CFO, to take you through the financials results.

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**Julio Rodriguez**

*Chief Financial Officer*

Thank you Steve, and good afternoon everyone.

The second quarter marked the start of commercial manufacturing for Workhorse, as we registered \$1.2 million in quarterly sales from the delivery of battery-electric Workhorse vehicles. The vehicles delivered were a combination of both the range-extended Workhorse E-GEN and the Workhorse E-100 all-electric platform.

As Steve mentioned, the generation of revenue from the delivery of battery-electric Workhorse vehicles signals the transition to an Original Equipment Manufacturer ramping up production mode. We intend to continue to ramp up production and execute delivery of customer orders.

Cost of Sales for the second quarter were \$2.3 million, and for the six months ended June 30, 2016 were \$2.8 million. Gross margin for the quarter was negative \$1 million, and for the six months ended June 30 was negative \$1.3 million. As manufacturing volume increases, we expect to benefit from volume pricing from suppliers. We are also seeking to reduce costs and achieve manufacturing efficiencies through advanced engineering.

Selling General & Administrative expenses during the three months ended June 30, 2016 were \$1.6 million, an increase from \$969 thousand for the three months ended June 30, 2015. The increase in our SG&A expenses consisted primarily in employee salaries and benefits, consulting and investor relations, due the increased activity in the period.

SG&A expenses during the six months ended June 30, 2016 were \$2.7 million, an increase from \$2 million for the six months ended June 30, 2015. The increase in our SG&A expenses consisted primarily in employee salaries and benefits, investor relations, and travel due the increased activity in the period.

Research and Development costs for the quarter were \$1.4 million lower than last year due to a shift in the available resources towards manufacturing activities.

Cash used from operations year to date was \$9.6 million, which was predominantly due to the ramp up of production, with working capital uses primarily on inventory of \$1.8M and accounts receivable of \$0.5 million. On financing activities, Workhorse became debt-free as we successfully paid off the Navistar loan related to the Union City plant acquisition (\$2.7M), and received funds from the exercising of current investor warrants (\$8.0M).

I now will turn the call back to Steve for final remarks and the question and answer portion of the call.

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**Stephen S. Burns**

*Chief Executive Officer & Director*

Thanks Julio. I'll now open it up Questions.  
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