



CORPORATE PARTICIPANTS

Stephen Burns
Chief Executive Officer

Julio Rodriguez
Chief Financial Officer

Duane Hughes
President

MANAGEMENT DISCUSSION SECTION

Duane A. Hughes
President

Thank you {NAME} and good morning everyone. Thank you for joining our 4th quarter and year end 2016 update conference call. I'm Duane Hughes, President of Workhorse Group. Joining me this afternoon are Steve Burns, our Chief Executive Officer and our Chief Financial Officer, Julio Rodriguez.

As you may have seen, we have released our 10-K and we will update on our projects and process as we continue. For those of you who have not seen our 10-K annual report, it is available on our website at workhorse.com.

I want to call your attention to our Safe Harbor provision for forward-looking statements that is posted on our website and is part of our year end update. The Safe Harbor provision identifies risk factors that may cause actual results to differ materially from the content of our forward-looking statements. Our 2016, 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 year end and 4th quarter. Lastly, there will be a question-and-answer period.

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

Stephen S. Burns
Chief Executive Officer & Director

Thank you Duane and good morning everyone. We had an exciting and productive 4th quarter and year end closing and we are happy to share the details with you. Additionally, we have announced some significant milestones and exciting projects and we are eager to present these to you as well.

Workhorse is a technology company focused on providing sustainable and cost-effective solutions to the commercial transportation sector.

As an American original equipment manufacturer, we design and build high performance battery-electric vehicles including trucks and aircraft. We also develop cloud-based, real-time telematics performance monitoring systems that are fully integrated with our vehicles and enable fleet operators to optimize energy and route efficiency. All Workhorse vehicles are designed to make the movement of people and goods more efficient and less harmful to the environment.



Although we operate as a single unit through our subsidiaries, we approach our development through two divisions, Automotive and Aviation.

Our Automotive approach consists of high-performance electric and range extended fleet vehicles.

First in the Automotive Group, I'd like to discuss our medium-duty, electric delivery vans. Our delivery vans are currently in production and they are in use on U.S. roads by our customers that include companies such as, UPS, FedEx Express, Cintas and Alpha Baking. The real-time wireless data from our in-house developed telematics system demonstrates our vehicles improve fuel economy by approximately 500%. This is compared to conventional gasoline-based trucks of the same size and duty cycle.

In addition to improved fuel economy, we are anticipating that the performance of our vehicles on-route will reduce long-term vehicle maintenance expense by approximately 50% as compared to fossil-fueled trucks.

We estimate that our range-extended electric delivery vans will save our customers over \$150,000 in fuel and maintenance savings over the vehicles typical 20-year life. As you can imagine, with that level of economical return, coupled with dramatically reduced emissions, fleets are very interested in our vehicles. As time and on-road customer miles continue to validate our vehicles, we feel that we will revolutionize the medium-duty delivery vehicle market in the U.S and perhaps even beyond our borders.

We believe we are the only medium-duty battery-electric OEM in the U.S. As such, we have a competitive advantage in the battery-electric, delivery van space which will help us achieve our goal to increase sales and production. We expect sales growth to come from our existing customer base and from new segments such as retailers, security services, utilities, municipalities, and other specialty services. As we continue to increase sales and execute on our cost-down strategy, we will be well positioned to achieve gross margin profitability in the delivery van platform.

The success of our medium-duty total cost-of-ownership value equation to fleet buyers caused us to realize there may be a similar demand for such an economic offering among buyers of high volume light-duty trucks. Along with our development of the United States Postal Service NGDV prototypes, we have initiated our pre-sales process of a light-duty work truck and to date, we've received 2,150 letters of intent for our revolutionary W-15 electric pickup trucks from fleets. To our knowledge, the W-15 represents the only plug-in full size, range-extended electric pickup truck built from the ground up by an OEM in the U.S. We plan on unveiling a working, drivable, concept version of the W-15 at the Advanced Clean Transportation conference in Long Beach, CA. May 1-4 2017. We are also showing a 3-D scaled model of the W-15 along with more detailed specifications this week in our booth at The Work Truck Show in Indianapolis.

With millions of pickups sold per year, the U.S. pickup truck market is highly competitive while being void of alternative fueled options, specifically battery-electric. As well, this segment does not often see new entrants in this category. However, from our discussions with large fleet managers who buy pickup trucks, it has become clear to us that the timing is ideal for the introduction of a range-extended electric pickup truck. We are designing the W-15 to be the most economical, the greenest and safest pickup truck on the market today. We realize that for a small, relatively new manufacturer to make such claims in a market as mature as the U.S. pickup truck market may seem unusual. So, I'd like to spend a few minutes to detail how we plan to accomplish our goals.

With an expected 80-mile all-electric range, the predicted W-15 efficiency is 75 MPGe (the e is for equivalent). The 80-mile electric range should cover the majority of our fleet customers average duty-cycles. On days where additional range is required, the on-board BMW gasoline range-extender will automatically turn on and charge the battery pack. During all-electric operation, there are no tailpipe emissions from the W-15.



For safety, we have three distinct advantages; a large frontal crumple zone, a battery-pack below the floor creating a very low center of gravity, yet still maintaining the ground clearance associated with pickup trucks, automatic braking in the event the W-15 detects the need or situation requiring brake assist functionality, as well as, active lane centering.

A specific point I'd like to address is the capital expenditures required to enter into production of a light-duty vehicle such as the W-15.

We will assemble the vehicle in our existing 250,000 square foot factory in Union City, Indiana which Workhorse owns free and clear. This factory has the capability of producing up to 60,000 vehicles per year.

We are leveraging our five years of medium-duty drivetrain development, our vehicle controls software experience, our power electronics systems which enables us to improve our speed-to-market as compared to typical ground up builds.

The battery packs which we are our proprietary design are developed and built in our battery pack factory in Cincinnati, Ohio, which is also our corporate headquarters.

The body of the W-15 will be primarily composite carbon fiber. These panels are lightweight and rust resistant and also enable us to get to market with a full size pickup truck in record time and with minimal capital investment in tooling and paint booths. We are in discussions with several outside companies to build the composite body panels, paint them and ship them to our Union City plant where we will assemble them to form the W-15. This architecture eliminates the extremely high cost of metal stamping machines and much of the welding associated with the manufacturer of conventional pickup truck bodies.

Together, by leveraging our medium-duty electric powertrain expertise, our chassis knowledge and our factory, combined with our new composite carbon fiber body, we believe we will begin production of the W-15 in late 2018. There are a lot of moving parts and logistics to make that time frame happen, but we feel the timing is a reasonable goal.

Even though we feel we can get to market in a very quick and cost effective timeframe, the capital needs to get to production exceed our current resources. The good news is the U.S. pickup truck market represents the potential for significantly larger vehicle production volumes than the current delivery van vehicles. The higher potential production volume combined with existing letters-of-intent for the W-15, have given us many more options to secure the financial resources required to meet our business goals. We are exploring a number of financing options including strategic and non-dilutive capital.

Finally, before we leave the light-duty truck discussion, I want to speak briefly about our prototype award from the USPS NGDV project. Due to confidentiality and trade secrets, we don't want to do more than reiterate what have already been publicly stated by the USPS.

Workhorse, with our partner VT Hackney, is one of five awardees (there were originally 6 companies awarded prototype contracts, but one company has withdrawn) the United States Postal Service selected to build prototype vehicles for USPS Next Generation Delivery Vehicle project. This is a complete fleet replacement project and represents more than 160,000 vehicles. We are on track to deliver the Workhorse-Hackney prototypes to the USPS by the September 2017 deadline. The Post Office has stated that they intend to test the prototypes for six months and select a winning bid(s) following the testing process. It is important to note, we have designed our Post Office truck such that it can be built on the same line as the W-15 in Union City, Indiana.



Our Aviation sector has gained much attention as of late with our HorseFly delivery aircraft. The HorseFly is a custom designed, purpose-built unmanned aerial vehicle that is fully integrated with our electric trucks. We have a patent pending on this truck-launched unmanned aerial delivery architecture and we believe we are the only company in the world with a working truck-based aerial delivery system. The truck-launched HorseFly delivery system is designed to work within the FAA Rule 107 that permits the commercial use of unmanned aerial systems in U.S. airspace under certain conditions.

As recently as February, UPS conducted a successful real world test using our truck-based HorseFly delivery system and it received worldwide news coverage. The knowledge we have gained in building electric delivery trucks for last-mile delivery has led us to believe that a truck-launched UAV delivery system can have significant cost savings in the parcel delivery ecosphere.

As stated in UPS's press release issued on February 21, 2017, a reduction of just one mile per driver per day over one year can save UPS up to \$50 million. The release went on to add, rural delivery routes are the most expensive to serve due to the time and vehicle expenses required to complete each delivery. In this test, the autonomous delivery vehicle made one delivery while the driver continued down the road to make another. This is a possible role UPS envisions for UAV's in the future.

Next is our manned multi-copter. It leverages our knowledge of high-voltage battery packs, electric motor controls, range-extending generators and control systems software to design a multi-copter vehicle that can carry a pilot, passenger or a heavier payload. Several companies are now developing similar aircraft; however, we believe that our range-extended truck experience combined with our technical aviation development experience will give us competitive advantages and speed-to-market with such an aircraft.

As you can likely tell, we recognize there are several key factors to success. To mention a few they include, innovative and adaptable technology, experience and expertise. Our battery pack is key to the design, development, and manufacture of advanced electric-vehicle powertrains, whether these are truck-based or aerial vehicles. Where some other EV companies purchase their batteries in a plug-and-play pack, we design and build our own battery packs. This keeps the intellectual property related to the design and production of the pack in-house, provides us with cost-down capabilities and avoids the issues that occur when a battery supplier fails.

Another key factor for success is the vehicle controls software development. Our powertrain encompasses the complete motor assemblies, computers, and software required for both truck-based and aerial vehicle electrification. We use off-the-shelf, proven components and combine them with our proprietary software.

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

Good morning everyone and thank you Steve:

2016 marked the start of the commercial manufacturing for Workhorse, as we registered \$6.4 million in sales from the delivery of battery-electric Workhorse vehicles. The step-van vehicles delivered in the year ended December 31, 2016 were a combination of both the range-extended Workhorse E-GEN and the



Workhorse E-100 all-electric platforms. Pretty much all revenue we showed in 2015 was from the sale of prototype units.

The production and delivery of these units marks the start of the revenue phase for our company, signaling the beginning of the wide adoption of this innovative technology that we believe will transform the industry. We will continue to ramp up production and execute delivery of customer orders on a fast pace.

Cost of Sales for the year was \$13.6 with a negative gross margin of \$7.2 million. As manufacturing volume increases, we expect to benefit from volume pricing from suppliers. We are also in the process of reducing costs and achieving manufacturing efficiencies through advanced engineering to reach profitability faster than anticipated.

Selling, general and administrative ("SG&A") expenses consist primarily of personnel and facilities costs related to our development including, marketing, sales, executive, finance, human resources, information technology and professional, legal and contract services.

Selling General & Administrative expenses during the year ended December 31, 2016 were \$6.2 million, an increase from \$3.8 million for the year ended December 31, 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.

Research and development expenses consist primarily of personnel costs for our teams in engineering and research, prototyping expense, and contract and professional services. Union City plant expenses prior to the start of production are also included in research and development expenses.

R&D expenses during the year ended December 31, 2016 were \$6.1 million, an increase from \$4.7 million for the year ended December 31, 2015. The R&D expenses consisted primarily in employee salaries and benefits, consulting and materials related to the start of the Next Generation Delivery Vehicles (NGDVs) and Pick-up truck projects.

Our interest expense is incurred primarily from our long-term loan with Navistar in connection to the purchase of the Union City plant as well as the long-term loan for the recently acquired R&D building facility in Loveland OH.

Interest expenses during the year ended December 31, 2016 were \$44.0 thousand, a decrease from \$966 thousand for year ended December 31, 2015. The lower expense was mainly due to the payment of the Navistar note early in 2016.

Regarding cash flows from operating activities, During the year ended December 31, 2016 and 2015, cash used in operating activities was \$19.0 million and \$8.2 million. The decrease in operating cash flows in 2016 as compared to 2015 was mainly due to an increase in operating losses, inventory purchases and accounts receivable net of an increase in accounts payable.

Regarding cash flows from investing activities, During the years ended December 31, 2016 and 2015, cash used in investing activities was \$528 thousand and \$65 thousand respectively. The increase in investing activities during the year is mainly due to the purchase of the headquarters building in Loveland, OH.

On the financing activities front, During the year ended December 31, 2016 and 2015, net cash provided by financing activities was \$12.4 million and \$15.5 million respectively. Cash flows from financing activities



during the year ended December 31, 2016 consisted mainly of a decrease of \$2.7 for the payment of the Navistar note mentioned above and \$15.0 million of funds received mainly from the conversion of warrants.

On February 2, 2017 the company announced the completion of its underwritten public offering of 6,500,000 shares of its common stock at a public offering price of \$3.00 per share. In addition, the underwriters exercised an option to purchase an additional 975,000 shares of common stock at the public offering price, less the underwriting discounts and commissions.

All of the shares in the offering were sold by Workhorse Group, with gross proceeds to Workhorse Group of approximately \$22.4 million and net proceeds of approximately \$20.5 million, after deducting underwriting discounts and commissions and estimated offering expenses.