Complete Solaria 4Q 2023 and 1Q 2024 Business Update

Presentation

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Participants
Brian Wuebbels; COO; Complete Solaria Inc

T.J. Rodgers; CEO; Complete Solaria Inc

William Anderson; Director; Complete Solaria Inc

Siddharth Madhav; President and Chief Strategy Officer; Ayna.AI

Presentation
Brian Wuebbels, COO

Good afternoon, and welcome to Complete Solaria's earnings call. My name is Brian Wuebbels, and I am the Chief Operating Officer for Complete Solaria. Joining me here today is T.J. Rodgers, Chief Executive Officer of Complete Solaria.

We will be presenting the company's recent financial and operational results for the fourth quarter of 2023, first quarter of 2024, and a business update. The formal presentation will be followed by a question-and-answer session.

A few quick reminders before we start. First, today's call is being webcast. A link to the webcast can be found, along with our press release, on the Investors section of our company website at www.completesolaria.com.

Second, during this call, we will be making forward-looking statements based on current expectations, actual results may differ due to factors noted in the press release and in our periodic SEC filings. We will reference some non-GAAP financial measures. Reconciliations to the nearest corresponding GAAP measure can be found in today's release on our website.

Last, questions can be submitted any time during the call using the Question Submission box found on your screen.

And with that, I will turn it over to T.J. Rodgers.

T.J. Rodgers, CEO

Thanks, Brian. First of all, let me introduce people going, starting with you. This is, as you said, Brian Wuebbels, who's our COO. He is actually our CFO as well. We will hire to replace him. And since Brian is moving up in the company, I'd like him to introduce himself to you.

Brian Wuebbels, COO

Thanks, T.J. And just a little bit about myself, I joined the company about a year ago as the CFO, as T.J. mentioned. I started my life out as an engineer. I have a mechanical engineering degree from the University of Illinois. I've also got my MBA.

Before I joined Complete Solaria, I was with a multinational company and I was the President of the control and elevator division of that business, and that company was called NIDEC. Before I joined NIDEC, I'd actually spent some time in solar -- quite a bit of time, actually -- at GCL, running their US finance operations. And before that, I was with, almost 10 years, MEMC Electronic Materials and SunEdison, where I last -- with various operating and finance roles. And then prior to my experience in solar, which was about 10-plus years, I spent my life at two large industrials. I spent my time at Honeywell for about four years and, in the beginning of my career, where I worked in operations and finance with the General Electric Company under Jack Welch's leadership.

So I'm super excited to be here. Like I said, I've been on the long road in the last year, getting the company public. And I think what's really exciting about where we're at right now as the company is I can come in and provide some stability. I can also help the company move to the next level in quality delivery and cycle time, which T.J. is going to talk about today. So I'm super excited to be part of this transformation and work closely with T.J. as our new CEO.
So I'll turn it back to you, T.J.

T.J. Rodgers, CEO

Next is Will Anderson. I've introduced him before. Will is the founder of Complete Solaria 12 years -- 13. Will is still probably our best engineer. He's certainly in a softer aside, great. And he is the guy we go to to solve problems. I'll talk about stock grants today and how it helped us out a way until I get there.

Last one is Siddharth Madhav. Siddharth is from Ayna. Ayna is a company that spun out of McKinsey, the famous McKinsey that we all know. The most highly known McKinsey group was Palo Alto. That group came to my company and helped me when I went to Enphase for a turnaround effort. I rehired the same group because they've been very -- did a lot for me at Cyprus.

And Siddharth was the project leader for the Enphase turnaround. I think that one's pretty famous. That's one that went from $115 bucks today. And when I came in, they were $0.92, and they were big enough that the turnaround isn't me coming in pounding on the table. The turnaround is 15 guys working for a year to get a lot of stuff fixed. And that is the level of work we're doing right now at Complete Solaria.
Siddharth—

Siddharth Madhav, Ayna

Thank you, T.J. As T.J. said, my name is Siddharth Madhav. I have been with the team that is supporting Complete Solaria on the topics that Brian covered -- gross margin, cycle time, customer satisfaction. The company is on the verge of lots of initiatives which will take time to bear fruit, but we're already seeing early results. And it's a privilege for me and the team to work with T.J. and his team on this effort.

T.J. Rodgers, CEO

Okay. So let's get on with the quarter report. First of all, we did our first 10-K this year, and that thing didn't get ready until almost the end of the first quarter. So we decided to put the first-quarter report and the 2023 Q4 report together. By the time, of course, you get to the first quarter, that's all you care about and you want to know about the second quarter, so that's really what we're going to talk about today.

Okay, press release, I wrote this myself. So I picked the title that I thought would tell you the most important thing that happened, and that is we're to be self-funded in the quarter we're in right now. T.J. won't be writing anymore checks. That's even more important for me. That's a lot of work and I'll show you what that is.

The bullets -- first, talking about revenue, our Q1 revenue was $10 million, half of the prior quarter. We got cut in half from one quarter or even though our backlog was $17.8 million. How the revenue drop is due to a shortage of working capital, we can’t buy panels throughput on people's roofs. Therefore, we can't charge and get our revenue. And that's where we are right now. And that's we're running just super lean on capital, the working capital crisis due to an unresolved loan situation with whatever private equity funding firms, Carlyle and our revenue in the second quarter, we already had a very lean. April will also be limited. And depending upon rather not get I few hundred thousand bucks I need. Maybe I'll do crowdfunding A few hundred thousand bucks. We can be on the high end of that.

Okay, our gross margin was 24%. That is not our target. Our target is over 40%, but with $10 million in revenue, that was pretty good. And we've got a forecast to break this 30% mark in Q2, again, was the low revenue hanging over it.

Headcount and employees, we now are down to 109 employees. We started last June, the 428. That's almost exactly three out of every four. Pretty tough layoff, tougher than I've ever been involved in before. And the team handled it well. I'll show you that the tranches that we did. Our remaining employees have now been awarded retention stock options. So that's the way Silicon Valley works. This company did not work that way, and we now have given out options. I'll talk about that.

Our OpEx is now $5.5 million. That's down from $12.9 million a year ago quarter. We're forecasting next quarter, we've got some cuts we've already made to get to $3.6 million. So that's almost a factor of 3% down in OpEx in terms of OpEx were about where we want to be.

Sales commissions, so the way our industry works for those who don't know it is that you typically buy your orders, if you don't have a sales force in order, cost you 33%, 34% of sales and you pay for that, a lot of it upfront. And the order fallout rate is something on the order of 30%. So a lot of times you pay and then the order doesn't happen, the guy changes his mind, whatever.

So the weakest part of our profit and loss statement is getting control of these orders. And by the way, last quarter, we dropped from 38%, which is higher than the industry to 31%, which is better than the industry specifically from having worked on this problem. But we've got further to go on the last. The last equity input in the company is $5 million. And we now we have very accurate cash flow capability that's going to last us up to through the second quarter.

So I put to July 24 here. We will need more money at that time, but we're not voracious for money. We're running real close to cash flow breakeven. Here are the finances from the report by the way that report if you go there on this where they go to get the report, okay, you go to this and this report is available. Okay. So here's the non-GAAP numbers. Look at revenue, gross margin, our bank funding, OpInc, cash flow and cash balance at the end of the quarter. We're looking at the last quarter before Q4 23. This is a report for Q4 of 23 in Q1 of 24. So you can see the cash crunch has taken our revenue down dramatically. We do have orders and I'll show you our orders. Okay.

Story, number one is normally if revenue gets cut in half in the quarters over. The fact is our losses, which were 12 million last quarter went to six. So we actually cut our losses in half, meaning our cost-cutting efforts offset a massive revenue decline. And we actually cut our losses the same time and of course, that projects forward. Okay. I'll come to that later. There's the last, we hope, 5 million bucks and you can see our funding what's required. Your cash balances is kind of an artificial thing with your operating income and what's got to fill in from funding.

And as you can see, our funding has been dropping dramatically in this quarter, which have not forecast is zero. Second thing I want to talk about as gross margin in last quarter, even with $10 million, we had 24% gross margin, and we have a whole team working on gross margin. And we're very actually very proud that we got hammered this badly. If you look in the year-ago quarter, we had 2.5 times more revenue in the same gross margins. All of that came out of cost, and we're proud of that. It's been painful, this not been an easy road.

Okay. We changed. I became a week or so ago the CEO. Our prior CEO, Chris Lundell is from Salt Lake. He was our man in the corner. He was a steward of the place. Right now, we need… I helped this cost-cutting side. I was kind of like a driving force now. We need to raise some money and we need to do some M&A. And they've done a lot of those in my career when I was CEO of Cypress, I acquired 26 companies in 34 years.

And so I have a SPEC for it, what a surprise. On Rogers objectives, CEO, and there are really two points on the press release. About a month ago, I said I am not willing to work for Carlyle for free anymore. In fact, I'm not willing to work for Carlyle at all, and that's still true that's got to get resolved if we're going to go forward. And then when becoming CEO, I'm 76. All this stuff happened literally when I take one vacation, you go sit in the beach in Mexico and read the book I didn't have time to read and I got the call down in Mexico more like 20 calls in one day and so I took over. And therefore I want to well-defined endpoint.
This is not this is not career two from me, and we're going to have two things, we're going to have success and I will define that. And it's vague right now, quantify it later when we're on solid economic footing. That means we've got a bank account and we're not rationing capital and telling stories like that and

growing rapidly, meaning we're taking off from that revenue trough and solar world is not that great right now, we're recovering back to our old revenue.

We've routinely had revenue in the low 20s to the low 30s of millions of dollars per quarter in the past. The failure point is when I believe that the so-called or private equity debt holders have on us, I'll talk more about that later on will prevent the company from ever being successful. I'm not willing to waste my time and I am willing to walk off my own investment. We already introduced you to Brian. So I won't do that. He's our COO during the quarter. We reorganized in the product lines, but when I ran a chip company in my industry, you ran it with product lines in this study in the semiconductor company were the seven product line managers, well-made silicon things, but there were different shifts made differently for different customers. And they really were different businesses. And we've designed and dividing the new product lines, one for California, one for rest of US and that means for us now Texas and the East Coast, Massachusetts, Connecticut, New York, and one for Starbucks and other new homes. People don't know much about Starbucks, but it's pretty interesting opportunity. We've already upgraded 33 of their outlets and we got another 42 contracts. So here's a Starbucks solar awning a lot of panels up there, 50,000 watts. So it looks good and it makes a statement about being committed to solar. It also will cut your electricity way down because it produces a lot of power.

Okay. Headcount. So I've shown this graph before on number of employees starting at 4/28 back in June of last year and then the ride. And we got to the last RIF took us down to 109. And like I said, I've never been through it before. The companies I've worked for or run. Typically, if you do have 5% layoff, you get screaming and crying. If you do a 10% layoff to get a temper tantrum. So this was the most severe I've seen. It also obviously says the Company was fat and I used exactly those words.

I actually use the term morbidly obese with them. Here's our RIF number one, it was difficult and then I'll show you as you notice this climb here, and I'll talk about that in a minute. When you get to 109 people than the math, even for a 10 million a quarter of 409 employees, the math works out to be $367,000 per employee per year. That's right there, even a little bit better than Sunrun Sonova SunPower with only $10 million a quarter for revenue. So the point is there's a huge amount of leverage in our company for dropping dropping through orders.

We have a lean and efficient company. We've had just a quarter ago or two quarters ago, $24 million quarter. That number starts to approach 1 million in any company that has $1 million per employee per year is a viable company in any industry. Here I told you we laid off and then we had the backsliding as classic on I have a system called the req auction that is requisition as an employment requisition to hire somebody all companies typically have hundreds of these. They are the giant waste time and a big game, and I managed to get rid of them Cypress. And the way they work is simple.

There are no reqs. You can interview anybody anytime you want. And the only way you get to hire somebody is if somebody else quits not nine, I'm talking about now the stasis in head count, you can go up and down by adding and subtracting reqs from the mix. But let's suppose you're trying to hold headcount, then you have to have you you get a weekly report exactly who left the courses denominated in dollars. So you're dealing with this. This is done in dollars. And when I'm going to for the sake of an explanation. You go to your staff meeting and the President it runs that and the VP of HR comes in and says Mary Jane in marketing quit last week. Then you got one req. And then the question is what do you do with? It is a

very valuable asset. This fills up. The mentality of people are valuable asset and you don't waste money. You don't have extra ones. So you go around the room and each VP argues why he or she wants such and such a person. What our I loved about it was used to be nine VPs against TJ.

And I would argue your efficiency isn't that good. You should get more per person per week out of that fab or you should be able to design a chip with so many people that I was always on the end to one argument on the wrong side of it. In the new the new method the req gets thrown out a piece of the table in our meat flies under the boardroom table. And then the VPs start talking about why the person they want is most important. And they also learn don't try to get 18 reqs, don't hire recruiting firm. Find the one person you need to take your time to find the really right personnel, change a company and bring them in and make a compelling argument that overwhelms the other guys compelling argument that's called a req auction
That's how it works from an it really does work. So here I didn't have it. And I saw the classic backward drift here. I turned it on. And in this case, we had turned on with less than one-to-one replacement. And as you can see, we even though we were really lean, we were drifting downward at a new record low level. That's the rec auction. So I actually film a staff meeting and the VP of VP of HR came in and did say Mary Jane and marketing left.

And then when we decided who would get that by the way, the way the system works, think about it, your attrition, the people that don't want to be there may be not that productive. You can rehire if that is an important position, but it's very unlikely that somebody who quits is going to be more important than the most important person to hire in the corporation, and that's what you get. So if you have this turnover and your less important people go away and the key people get hired. And after you do that for the year, it changes your company. And by the way, this is very scalable, think about 1,000 person company. They got a 5% turnover that's 50 people year. Okay.

And 5% turnover is moderate or even a little bit low, 50 people, one person a week. So the rec auction means every week, VP. walks in with HR and says we can hire one person maybe two maybe zero. And then you have the argument that any hire that person than a year later, you have 50 people that the consensus of the executives are key people and you don't have 50 other people whose names you may be even can't remember anymore. That's how it works now I want to show to you and action. And this was truly Mary Jane in marketing quitting. And then we're trying to decide who gets it. I was going to bring in my hat I had today but I forgot it. So there there's a req auction in action by the way that system I just described, comes out of a book I wrote in 1992. That book was the story of building a semiconductor company from 1982.

And I wrote the business plan in my living room, Cypress Semiconductor to getting it to 100 million in revenue. It was all the things you had to do to build a company and its systems for hiring systems through giving raises giving out stock, measuring efficiency, SPECing and bringing to market on time, new products, et cetera. And each time back in those days, we had no tools, right? And we didn't have IT departments, which really isn't that bad day. And we ended up having to use the tools. We had Word in that time is was Word perfect, Excel, and that time that was Lotus one, two three and the other and PowerPoint.
Thats what you had to run a company with and it's not an easy company to run. So at age 10, I worked on writing all the systems down and what's interesting the booked didn’t sell very well. The reason I have a

picture of one to show you here with a brand-new clean cover on it is that I have several cases of them in my study, but it turns out this book is exactly right for where these guys are. They don't have a lot of money. They don't have an effect active IT department and they need to build a Company and investors don't care about any of that,

Okay, fab. So we call the area where we make new system, solar systems a fab. Because of my background this is a virtual fab in that there are no physical objects working through it. But if you look at a fab in semiconductors, you got to you've got a box that has wafers in it. Bunny suites in the boxes move through the fab from step-by-step. Typically you have something like 35 or 40 masking steps in each masking step has two or three operations. So you have something like a hundred operations.

Our fab has 42 steps and we've documented it semiconductor style. So we step has got a spec and it's not perfect yet. But as every time we messed up something, we make that back a little bit better and we are getting better and the numbers and I'll show you in a minute.

And so the our fab, we still have things back in the non-computer day's called lot travelers. So they move with the silicon and the operator come in. They mark the step they mark the machine number, they marked a lot number. They go into the operation and the machine pulling up the recipe, there was supposed to be an output management thickness of a layer whatever, and they mark that down and then that lot traveler would move through along. And at the end of the line, you'd have a record. And that also was computerized on a silicon lot. So you can start doing yield analysis and cycle time measurement and stuff you got to do to make a fab run right. So we exactly of fab only. We have a lot traveler and the things that move around the world are out in Texas or Southern California. So we treat it like a fab and we think about it like a fab.

Okay. I'm now looking at the number of jobs in the fab, and that's 2, 000 4,000, and this is back in January 23. And everybody in the company tells me those are the good old days. So we started out saying 2,000 is what we can handle two thousands where we can handle without screwing it up. Yes, of course, each job has some special problems like the city won't give you a permit because the person has and unpermitted structure and they'll shut you down for that. That's illegal in California but legal everywhere else. Or the financing gotten done. And then the dating on the financing expired. The financing expired and you got to go get refinanced, etc. I can name 100 of them. And these are the defects that pile up. And when you have a lot of jobs in the fab, those defects end up being pretty important and the slow you down and that's what happened here. So here you see this when I came in on June 23 and their their inventory was big. I did it for fab guys call back-of-the-envelope analysis on the inventory. And I say you guys have bloated inventory. So then I said you got to cut down on the inventory and then they said, no, we're not going to do that.

In the standard way, ignore me and then go off and do what they want. So we went a little bit longer. And when we got to that point, I send out the memo. No new jobs are going to go in our fab, none, but that is we're going to turn away orders up. Yup. But different point orders we may not have revenue up. And if we don't have revenue, we might die. Bingo. So you better get the problem fixed, don't you think that kind of shut down authority is often used in the real world and manufacturing where when you screw something up, it's not a recoverable error. So getting another permit is in a irrecoverable error that will never return revenue. So there we shut it down.

I should have put that in here. November. So I didn't really hang in there too long. I said I turned it back. We had this drop and members of this drop here, and I turned it back on, but that broke the problem. And then the inventory came back in the news today is we now have 2000 lots in line and so I have to shut down. Now. What's interesting is when we started our cycle time is 112 days. We managed a hold that cycle time best way to slow just FYI in this cycle time from order to install complete, we managed to hold it, but it's not good enough and you can't react quickly enough to problems.

You can't slice your line, you can take advantage of new orders, if you're that slow. So we started working on cycle time and cycle time primarily is getting rid of quality defects and that's in semiconductors, it's called first pass yield. You want something to go to a step, go through the step, get it done, right, the first time and move on and do all that in a fraction of the day today.

And by the way, we have a couple semiconductor experts that are helping us on this problem in line and their work, which is primarily quality, has brought our cycle time down to the 34 to 40 days, meaning when you are here, you can do 2.5 cycles per year. So you can make 2000 times 2.5 loss per year here had, let's say, use 34. It's a month and you can do 12 cycles a year. So you can do 24,000 lots a year. So you're getting more out of the same fab is a very powerful effect.

And that's where we are today. And if I had the name one thing that changed the Company is that. Now, the other point is this is our target. And let's take that as the given I'm going to suggest is not good enough in a minute that had 56 million of revenue. And so when you run a fab like this, you're taking money and you think about think about roofing and guys house with $100 bills and they stay there for months and then you do another one and another one and another one, then you run out of money borrowed some money and that and that was a problem.

And of course, what we've done now is we've taken that money back out or the fraction of that was still left. You lose some and we're down here. I did a calculation today. It's again back of the envelope, but it's not far from wrong. And within a week it will be a paper on exactly what we have to hire consultants. I think we should have 1,000 jobs instead of 2000. And I think we could maintain our revenue of 0.5 to WIP half the money in WIP work in process.

So that's the next step here. Now that we've had a nice move to where we are in. By the way, I think there's a number of days can drop some more as well. Okay. Well, given that tech talk, I know for many of you, I'm speaking boring stuff. Let me talk about cash flow breakeven and profitability. Last quarter, 10 million cash limited talked about it to get back to a 25 million quarterly revenue that that's 100 million run rate.

And I'd be happy as heck right now to have 100 million profitable solar company and it's very doable. We're going to need about 11.5 million of working capital, which even with fast cycle time you do have to have stuff you bind put on their roof and you're holding, you're paying for it until you turn it on and then they they get the money from the finance company and start paying payback. On the other thing being cash, I would be piled up 13 million of accounts payable. Some of it's not okay like the lawyer who checked this pitch today for accuracy.

So I didn't mislead anybody. We owe him money and he did it because he likes us and he's trying to help us. But we've got there. So there between those two things, there's 25 million bucks. In my career, I've raised billions of dollars. I had a single offerings that were new always write this back, but even then I would have $600 million offering. So this this offering is not a big deal promise. If you have somebody is saying you are in default of your covenants and we can call it and then you call or bluff and say great, come on and run the company.

Here's the keys forthe front door, then of course, they go well, you know, we'll let you work on it for awhile, hence my statement I made before we've got to get past that because nobody is going to let us, but nobody is going to give us money in and offering with the hammer hanging overhead. And that's where we are right now. So we need Carlyle inclined to agree to a debt to equity swap and they made profit on us on the debt as significant because the debt side, high coupon debt, they can roll the whole thing over into equity. And I'll make money for the shareholders.

If I'm still around and this company still live, I am quite convinced we can make money for shareholders. Now this I wrote this data last night. I wrote this thing last night and eight minutes after I got it done the lawyers called me and said Kline Hill. We got to deal with Kline Hill. That's one of the two equity firms, the investment complete Solaria with the debt debt for equity swap. So the deal was 9.8 million shares at 19.9%. The largest amount, the Board can authorize without a shareholder vote in return for all of their debt. And they also are going to buy 3.7 million shares of Complete Solaria.

So obviously, as overjoyed on that, I have Mike Bego here. This is going to be ugly. He's on a cell phone. This is the President of Kline Hill in New York. And Mike, I apologize in advance role of bad things I said and we'll say in this talk about New York, but why did you do it and thank you very much.

Michael Bego, Kline Hill

First of all thank you, T.J. for including me in the call. Very excited about everything you are doing and the company is doing. For those who don’t know Kline Hill partners, we are a 4 billion dollar diversified secondary fund. W typically provide liquidity to investors and provide private assets and we only get directly involved with companies when there's a huge upside and we're super excited about everything going on with Complete Solaria. And it's like three things. The Complete Solairia platform and technology, everything going on in the company, the management team led by T.J. and are excited about onlock cap table, we’ll talk a little bit about that in a second.

So with regards to the Company, the solar space is huge and expected to grow substantially over the years. And we see their technology and what they can offer to the residential market throughout the US as being very compelling offering with a substantial upside and a huge opportunity. And right now Complete Solaria isvery small, huge amount of upside there. Second is the management team and T.J., and the thing there is he’s a guy and their management team thinks big and execute big. To get a smaller company, huge opportunity for people that are there that they can execute on a huge amount of growth.

Obviously everybody knows T.J., he’s been very successful and fantastic work with. Very, very high level of quality across the whole management team. And then the last part where Kline Hill is coming in right now we’re very excited about is unlocking the capital structure and a little bit of a noose around the

company’s neck. Thats the number one thing holding the company back over the recent past. And we're very excited to convert our debt into equity as we see a lot more upside equity from that standpoint as we with Carlyle looking to do this jointly together. So we will be doing this as Carlyle’s agreeing to come along with us on this. They’re a reasonable smart investor. You know we are really expecting that to be coming out shortly as well. And I should state that it's a tremendous opportunity for investors. And you just stand back again, like Complete Solaria is industry-leading company platform, tons of room to grow into the industry, T.J , and management the company, thinking big and executing, big and the capital structural laid out in messages earlier, will free up the company to be more nimble. And you can tell you that we're off to hedge putting cash on the company's. Thank you to everyone and Complete Solaria, we are excited about the prospects.

T.J. Rodgers, CEO

So 11 o'clock last night having gotten the news. I had to figure out what to say that was true about about Kline Hill. And I said, thank you, Kline Hill, for your confidence in us. I would like to sincerely thank Mike Bego and his team for working with us literally for years in supporting our company. So thanks.

Okay. Conclusion we’re alive and we're starting to improve. I won't claim victory yet, but we have a different company than nine months to go. Our fab is doing a lot better. Right now. We've had a vigorous but painful reorganization. We don't need any funding until July. And I had this in last night that we have come to terms with two private equity groups. And I put this when we got one left and if we get that then than than the, we can go raise money based on merit.

And my last point was last night if we survive our newly lean and fit company can become profitable and grow so that yes, that's for a question. In case we ask that said, we like to take questions there. Electronic texting kind of things.

Question and Answer Session
Brian Wuebbels, COO

Thank you, T.J, and thanks, everyone, for joining the call. We're going to now move into the Q&A section. So if you have any questions, you can go on the link. That's on the on the webcast and you can type your question in directly. First question. I've got here, TJ's from Derek Soderberg from Cantor Fitzgerald. As in the event that Carlyle is refusing to convert their debt, what is the most logical way for the company to solve that working capital and returns and $100 million annual run rate?

T.J. Rodgers, CEO

I had asked over and have to ask other questions if that happens in a way that I think let me say something our contracts with with Carlyle. We have two of them and these are debt contracts, right, giving money, give me interest then of course, there's covenants one was 84 pages long and one 55 pages long. I can't go to the bathroom without calling New York that is not going to happen. So answer number one is you have that structure use the word knee in my neck and in prior communications stays in place. I'm gone and I don't think the Company is going to make it maybe it well, Carlyle is a big company.

They've got a lot of solar companies. Maybe they got a hotdog that want to come in and get a lot of stock at less than a buck. And that would be fine with me. And I do everything in my power to help the guy out because after all, I got a bunch of money in the company is not my interest to do anything negative. The best way is the debt for equity swap assume you can agree. And that's a big assumption, but we'll talk what I've got to be able to do is run the company right now. I can't raise money with equity. I can't raise money with debt. I can't sell an asset unless I get written permission and written permission and always has a now therefore clause, and then it can't work that way. That's got to end and we will talk. And we've I leave it there. We'll talk.

Brian Wuebbels, COO

Thanks, TJ. We had another question here. It says tdear Complete Solaria management. Under the assumption that the debt to equity swap with Carlyle completes soon, what would be the approximate breakeven revenue? And their second questions, we'll go first, right.

T.J. Rodgers, CEO

So I read that question five minutes before showtime here in terms of obviously ask their question ourselves all the time. That's the question. So I'll give you this is a this is a large document and I picked up one page and what it is three parameters that matter commission percent, gross margin percent in this gross margin on the solar commissions is treated separately and then OpEx and our OpEx is headed to $3 million next quarter. On 3.6 and more or less than three after that. So that's kind of a given then this table defines for a matrix of percentages, what is our breakeven revenue?

So this as at 30% commission, we're currently 31% and 47% gross margin. Our breakeven revenue, 16.6 million. And that breakeven revenue could be a lower gross margin and lower commission, lower gross margin, lower commissions. And yet it's quite possible if we work on getting an indigenous order creation effort in the Company and we're paying for costs orders as opposed to the higher profit that we can get down to these levels right now. I just showed you 24, 25% that that is based on 10 million of revenue.

We can see how to get into the 40s pretty well. So the answer to your question is somewhere between 90 and 9 million a quarter and the real numbers are here and $16 million is achievable number within a couple of quarters. I don't know how long it's going to take to go back from 10 million. I don't know how much damage has been done, but right now, I know there's a robust market for solar.

Let me I forgot to show you let me show you this. Okay, this is this is the graph I showed you. This is inventory and jobs and then divide that up by where it is. So this is preconstruction. Think of orders is post construct in orange and then up here is pending TTO this power turn on. So this is the systems in and it's a we've already been paid for it and we're waiting to turn it on. And this is a place where when you get in trouble, if it bulks up. So you see the good old days trend in the not so good old days when that that one bulked up.

Okay. So here's the order backlog. The peaked up when we were getting orders and we couldn't and they wanted to fab to move or we couldn't put them in the fab because the fabs jammed. Notice whats happening here, they're piling up again in this because we can't service them. So I infer that this means

there's business out there. Utilities are charging more and more of their extremely inefficient businesses. People don't like them. And all you got to do is go put solar on their house and they appreciate it.

And the faster you put it on, we keep track of Net Promoter Score, the faster you put it on the more they like you saw the recipes pretty simple. This little fab right here is complex and it is kind of obviously and I say, well, it's silicon fab has science. And all at this one's got 5,000 jurisdictions with 5,000 different sets of rules than it was a lot of people who really don't like you or solar.

And you got to somehow make it happen. And you've got to get funding in a 7% world. So this particular problem, although there's no big technology in it from a company point of view is a significant problem that by the way, any companies you see having survived this little go downturn, I think we're getting near the end. I think we'll have better summer. Those are good companies that are well run.

Brian Wuebbels, COO

Thank you, TJ. And you answered my second question. So the next question comes from Thomas America. Using the fab chart on page 13, where you discuss the improvements in gross margin in uveal realized over the past 12 months.

T.J. Rodgers, CEO

Okay, we got to do. We have to bring this out of our head. We obviously track that was a record for gross margin, 49%. So the company and one-time in it's life made 49%. That's how we chose a 47% gross margin. Right now. We're looking at operational issues in financing issues that don't get us into the 40s. We can see easily how to get in the 40s is also a tailwind in gross margin. China Inc. has got this little problem. They use slave labor to make silicon and the world doesn't like it and they shut them down, then they move plants to to Malaysia and Vietnam to circumvent the shut down.

And now there's circumvention. So their panels and go to Europe up can't come to the United States and there's been a dump panels and the business is going down. There's been a dump of panels on the market. So our costs are going to go down at least for equipment costs were also one of the things we're learning from Ayna, how to buy stuff. We're not very good at that. We kind of pay retail and we kind of do ad hoc purchasing. Sometimes we do purchasing on the weight of the job and obviously, that's bad. So now we have a in Indianapolis, we've got the renta purchasing group.

There are pros, and we're going to start driving our costs down. So we've got quite a bit of room there. To do better. I believe gross margin will get into the 40% range in a couple of quarters. We will go into that. If you notice I fudged, you can always tell, let me go back here. You can always Okay, see gross margin was 24 despite higher revenue. Q4 forecast is greater than 30%. But that's because I don't know if my revenue is going to be. So that's a guard band, a number on what we think we can do.

So we think we can get into the mid 30s, but we don't know. And then the next step after that is we got to have to get back a little volume. You have amortization of overhead. We amortize OpEx to make operating income, you amortize manufacturing overhead and you've got to be pure manufacturing got a plant. You've got all at the amortized manufacturing overhead with revenue that comes comes through it.

So we are we'll have a natural improvement in gross margin just from running more stuff with the same group of people.

Brian Wuebbels, COO

Thank you, TJ. The next question comes from Derek Soderberg at Cantor Fitzgerald. We made some final half the workforce here down the one oh nine. Can you talk about the cadence of OpEx from here? Should we continue to expect OpEx from $3.6 million per quarter.

So I think you actually answered this question a little bit earlier. Right now, we're projecting 3.6 million for this coming quarter Q2. Breakeven chart kind of where we're headed. We get this business under $3 million efficiency level that we think makes sense. A little bit of how much we've been focused on this. If you did notice on that breakeven chart that TJ said that's version four. And I believe the first version that TJ shared was during our October call and we talked about the North Star version one, we'll give some updates on it in December, and we were still on version one. So we have really started to hone in and I wanted to just thank Siddharth and the team at Ayna for their help because they're helping us think differently every day about what's possible. Thanks, Derek.

The next question is this went out there. Do you see a reverse split coming up to stay compliant?

T.J. Rodgers, CEO

Well, I got a letter from NASDAQ the other day, and you said your stocks under buck, been under a buck for 30 days. If you don't cure the problem than than you guys will trade on the pink sheets. So the answerto that would have been yes. I think the company will be worth well north of a dollar, shortly.

The question is how do you want to play the game to me? I give somebody the dollar and he gives me two $0.5 pieces. It doesn't matter are given to $0.5 pieces and get $1.

A lot of people care about that. A lot of people like stock or they can buy 100,000 shares. So the fact is if we safely on the right side of NASDAQ and employees like options like that, where they can see upsides will probably not do a reverse split. It is easily doable if we want to do it, it's at right now, there's not a plan right now. We're going to earn our way back above $1.

Brian Wuebbels, COO

The question comes from Thomas Merrick at Janney. What do you expect you talked about though 1,000 job WIP Target. What do you expect the cash generating or the free cash flow to be looking at that point.

T.J. Rodgers, CEO

Answering that question makes me feel like a dinosaur, brontosaurus in Eastern and Southern California, in the La Brea carpets and somebody says why don’t you put your foot in the tar and the dinosaur says that’s kind of sticky and uses his other foot to try and pull it out and 50,000 years later you find it’s bones.

And I don't know that it's hard for me to answer that question. Look at look at the issues today, look at this statement, if we survive. I haven't done those calculations. That is the step after next. And we will do those calculations, we are capable of doing it.

Brian Wuebbels, COO

Thank you, T.J. Can you discuss the retain economics for solar customers, i.e., the value proposition for our customers as well as the availability for financing for customer.

T.J. Rodgers, CEO

Will you want to do that?

William Anderson, Founder

Yes. So the current economics for the retail customer is the question. So we're seeing utility rates increase all over the country, but in CA they are going up rapidly and that's our biggest market. Texas where retail energy is non-regulated, it's going up. The cost of burning things in order to generate power continues to increase. And so that's really the competition for the solar industry is the retail cost of power coming from traditional sources and in all of our markets, we beat the utility. And that gap is growing as we continue to work on our cost basis and improve our margins. That gives us even more opportunity to hold our prices and allow consumers to increase the benefit to them. So it is typical that we'll see our our customers saving on a finance project 40 to 20%. And then if they're buying it outright than their return on investment happens within 5-7 years.

T.J. Rodgers, CEO

Let me take a shot at that one as well, which is about the structure of the industry which isn't very good, frankly. When I was the Stanford I took two courses from William Shockley, the Nobel Prize winner on transistor electronics. In 1962 he and one of his students wrote a paper, based on quantum mechanics on the theoretical efficiency of a solar cell made from silicon and turns out. It's still true today. The answer is 29.3%. Thats it. If you want to do more than that, you got to start using more exotic materials using layers of material that trap different colors of light.

And I actually worked with a couple of companies that work on that stuff. That's big time science. I always love that. Guess what, it doesn't make a damn bit of difference today because in China, you've got the government that's decided they're going to own that market and they will drop to whatever prices required to own it. And they currently own a lot of it. I'm a free market capitalist, but suppose they attack me and really kill me and I mean they drop the price of panels to zero.

And then I get all I want then I have to do is install them and make money, it's not bad.

So then if you look at the value chain. And you ask is there a free market, true free market with competition in the value chain? The answer is not really and the hardest point is to sell. The kitchen table sell to sell solar is the hardest point. And therefore, there are sales companies that know this and that's

what they do for living in some of the stuff they do to on their customers isn't good. In fact we just signed a document it's a credo for the corporation. It's the golden rule, the customer golden rule and 10 commandments, and it talks about ethical treatment of customers. And theres' a lot of it with the sales industry isn't there.

The point I'm making is that after all is science and all the work and all the incredible things that have happened, the guy who's knocked on your door and knows how to talk his way in, even if not everything he says not true, is the limiting point in the solar chain. Therefore that guy is king.

So the industry is organized around that. So solar companies, EPC engineering, procurement and construction companies, which is what we are. We have a price called the red line that and the fact is our price and that price is 2 bucks $2.10 and then anything above that is profit for the sales guy and they can charge six bucks and that's fine. So that's how the industry and segregated.

So in America the solar prices aren't what they could be, so opposite in semiconductor industry, totally opposite. To date, honest to God, today, you can buy a 1 billion transistors per dollar. I'm used to cost cutting and competing head on in order to serve customers for us in our case or the electronic companies world. So retail pricing in the United States is looking like energy stage. You can get their their document looking like $3 a watt. So typical system might be 10 kW and $30,000 and the same system in Europe because, frankly, our government and the way it runs the same system in Europe, you can buy for a dollar a watt and it's cheaper and better. And you actually believe it or not in France run freer markets for solar than we run here.

So you've got structural and government problems and asking what the price is, is if you work harder, advertise better, you get a better technology, get your efficiency up all the things to think about doing that doesn't matter. It's some politician that wanted to get elected that sets price and the guys that are willing to go to the edge of ethics to sell and that's how the industry runs.

So we specialize in the things we can do. We get excellent at them and where we can do it better than anybody else that's value added. And that's where we are. Point 2 words, value added. It used to be the calculation was you buy a solar system you pay how many dollars per watt and then you get so many kilowatt hours from the solar system per kilowatt in California, for example.

And then you say, therefore pick a number $0.2 a kilowatt hour at times the number of kilowatt hours your system produces and that's your savings and your energy bill goes down by that much. Then you add up the savings over the years with the appropriate interest rate and you have a payback time in that payback time used to be four or five years. What happened is utilities have a lot of clout, they have changed the rules and the rules are called NEM, net energy metering. And it used to be utility served as a storage element for your solar system. So your solar system, the electricity meter would run backwards in the solar system. The utility would do it, well now they're not willing to buy your power anymore.

In the United States the power they buy back rather than their price. Let's say $0.2 a watt, what our kilowatt hour is now $0.05 a kilowatt hour. So you can't do that calculation anymore. Fortunately, utilities are creating another opportunity and that opportunity is for time shifting. So they kindof charge you, pick a number $0.20 kWh during the day, and then at 4 o clock at night is when they really screw you, we're

talking $0.6 a kilowatt hour. So the new the new pitch for systems is buy a battery. And this is a big lithium-ion battery by battery during the day, let your solar system charge the battery and at night let the battery run your house and then you design a system there, the right-sized battery to move the right number of kilowatt hours back and forth. There every day from the sun in the day, your house at night and you wipe out the site charges, the net ROI works today, and it's actually pretty good for us because batteries are lucrative to install.

And I happen to be a Board member of Enphase and I happen to be an expert on batteries. And and so we we have a collaboration with them, when we actually having a meeting with them in Salt Lake later this week. So that's the opportunity to make money right now. And so the value proposition you have to be nimble, you have to be able to figure out what customers need and provide it at a competitive price. And right now is battery-based systems that do timeshifting. 20% of customers also care about backup. Germany, you can't sell backup system. You go to a guy and say, how'd you like a battery and if the power goes off, it'll keep your house running. And the guy goes, the power hasn't gone off in Germany in like the last two years. Why would I buy that?

So in the US, if you're on PG&E, if you can pick up your phone, meaning the powers on you, you do have a problem. We are looking at new products and new partners all the time to try to keep a real time value proposition in front of customers because they are they are homeowners. They don't want to have a lot of money and they are not that dumb. They really want to see the return on investment, provide them an honest one, thats one of our 10 commandments–that completely honest, return on invest. And there are times when you do and ROI and the number is negative. That is if you buy the system eight years from now, you'll have less money than you have now. And we tell them that straight up.

Brian Wuebbels, COO

All right. Well, thank you everyone. We've come to the top of the hour, and I want to thank everyone for joining us today for the Q4 '23 and Q1 '24 earnings update call for Complete Solaria. And I hope everyone has a great day. Thank you.