FLUX POWER HOLDINGS, INC. (NASDAQ: FLUX)
EDITED TRANSCRIPT OF SECOND QUARTER FISCAL YEAR 2021 FINANCIAL RESULTS AND COMPANY UPDATE CALL

INTERCALL CONFERENCING SOLUTIONS

Moderator: Ron Dutt
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COMPANY PARTICIPANTS:

Ronald Dutt – Chairman and Chief Executive Officer
Chuck Scheiwe – Chief Financial Officer
Justin Forbes – Director of Marketing and Investor Relations

PREPARED REMARKS:

OPERATOR: This is Conference #2178397

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Flux Power Quarter Two of 2021 Financial Results and Company Update Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. And to ask a question during the session, you will need to press star 1 on your telephone. If you require any assistance, please press star 0.

Joining us today are Ron Dutt, Flux Power's Chief Executive Officer; and Chuck Scheiwe, Flux Power's Chief Financial Officer. Thank you.

Without further ado, I'd like to hand the conference over to your first speaker today, Mr. Justin Forbes. Sir, the floor is yours.

Justin Forbes: Thank you. Thank you. Good afternoon, and welcome to Flux Power's financial results call. This is Justin Forbes, Director of Marketing and Investor Relations for Flux Power. Ron Dutt, our CEO; and Chuck Scheiwe, our CFO, will present the results of operations for our second quarter of fiscal year 2021 ended December 31st.

Now I'll read our safe harbor statement. Our discussion may include predictions, estimates and other information that might be considered forward-looking. While these forward-looking statements represent our current judgment on what the future holds, they are subject to risks and uncertainties that could cause actual results to differ materially. You are cautioned not to place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this presentation.

Please keep in mind that we are not obligating ourselves to revise or publicly release the results of any revision to these forward-looking statements in light of new information or future events.

Throughout today's discussion, we will attempt to present some important factors relating to our business that may affect our predictions. You should also review our most recent Form 10-K and Form 10-Q for a more complete discussion of these factors and other risks particularly under the heading Risk Factors. A PDF copy of our press release and the financial tables can be viewed and downloaded on the Flux Power Investor Relations website at fluxpower.com/investors.

And with that, I will now turn it over to Ron Dutt.

Ron Dutt: Good afternoon, and thanks, Justin, for the introduction. As we enter the new year 2021, we look back at the quarter ending December 31st as one that saw COVID raging at a peak and filled with geopolitical turmoil, reaching a fury with chaos at the capital. But for Flux Power, we continued our business momentum despite all that and look forward to a much brighter year, armed with vaccines, reduced restrictions and the ability at some point to meet face-to-face with our customers, potential new customers, suppliers and investors.

So let me begin my remarks with a brief review of our business growth and revenue. Our fiscal year '21 Q2 revenue increased by 79 percent to a record $6.5 million compared to $3.6 million for the same quarter last year. This quarterly increase continues our trajectory of over 10 consecutive quarters of year-over-year revenue increases, reflecting our pacing of increased penetration of current customers and addition of new customers.

While we have recently completed a full product line rollout of lithium battery packs for forklifts, our sales mix of higher revenue, larger packs are increasing as they were launched after the rollout of smaller packs. For example, large packs as a percentage of sales for the year-ago quarter fiscal year '20 Q2 was 36 percent compared to 64 percent for this past quarter. And the larger packs typically have higher gross margins similar to the automotive sector.

Our revenue for the quarter also included revenue from battery packs sold to Beam Global, a manufacturer of mobile, solar-powered, electric vehicle charging stations. Our partnership with Beam reflects ongoing repeating orders that began last March as their sole lithium battery pack supplier. We're excited about the increasing demand for electric vehicle charging stations, including expanding the model for cities to provide these stations that do not require public grid infrastructure for installation.

And as a related synergy, as our forklift battery packs reach the end-of-life or warranty, we can repurchase – repurpose those packs with minor refurbishment to the less rigorous applications of stationary power and provide the appropriate power ratings for that.

Our strategy has been to entertain what we call natural product extensions that our assembly lines can produce to meet our objective of building scale. These natural product extensions typically require only minor design effort to work in different applications.

Our goal is to be the provider of choice for large fleets, which translates to us building both capability and scale. Accordingly, we are also evaluating the sale of battery packs for robotic equipment, which is increasingly used in the industrial material handling environment.

Turning to our customer base for fiscal '21 second quarter, our customer concentration was reduced from a year ago of 78 percent across two customers to 74 percent across four customers this quarter. We also sold to more than double the number of unique customers during the quarter compared to a year ago.

This concentration should continue to decrease as we add new customers having large fleets with ongoing orders. Orders for our lithium-ion battery packs have primarily been for new orders of forklifts. But our packs are also designed to replace existing lead acid batteries with no retrofitting required. We expect to see more of that demand as more customers adopt lithium.

As for new products, we are now launching a completely redesigned lithium pack for the popular end rider forklift, which reflects over 20 percent of electric fork unit volumes. Our new product reflects the second-generation of modular design, incorporating improvements for assembling, product quality, serviceability and customer satisfaction. And of course, it comes with a UL Listing certification, which is very important for large customers.

Our relationships with forklift OEMs, original equipment manufacturers, continue to grow, including potential business in the U.S., Canada and Mexico. We continue to expand our relationships with the OEMs, which include our private label program and approval by OEMs of our products for use in them selling their new forklifts.

Looking at the airline segment of our customer base, we are all aware that a casualty of COVID has made dramatically reduced air travel. And demand for our airport GSE packs has been largely put on hold, although we understand that some of our customers in this sector are already planning for recovery later this calendar year.

Turning to gross margins, we have given a high priority to our gross margin, increasing from 9.0 percent in Q2 of fiscal '20 to 23.0 percent in this second quarter of fiscal '21. Much of the increase is attributable to improved vendor pricing due to volume increases and design improvements based on our depth of experience, of product quality and customer needs. In fact, we have over 8,000 battery packs in the field, purchased by customers, and that's provided a broad range of both technical and customer-driven experience.

Our strategy has always been to maintain the core competency of our technology, quality and service. In fact, not only core competency, but we aim to be the leader in technology, quality and service.

And to that point, we announced in a press release in December, three patents pending for our proprietary battery management system, which is the brain of our battery pack. These patents are designed to do several things. One is to increase the battery life by optimizing the charging cycle. The second one is giving users a better understanding of the health of their battery and use. And finally, to apply artificial intelligence, or A.I., to predictively balance the cells for optimal performance.

As I note on sourcing, we are monitoring very closely the sourcing of parts for our packs, such as battery cells, steel parts, electronic components, including circuit boards. We have all read headlines about container ships backed up at the Port of Long Beach. We've heard about higher steel prices and also shortages surrounding semiconductor chips. So far, we've not experienced any significant sourcing problems, but we continue to monitor the situation very closely, and dual sourcing of our components is key to our strategy.

Now I'll comment about the ever-present COVID-19 pandemic. As reported previously, Flux was designated as an essential business as a manufacturer of power sources for material handling equipment. And we have operated without interruption throughout the entire pandemic period. In fact, our internal contact tracing reflects no known transmission of COVID occurring within our facilities. We have had a modest number of employees contracting COVID outside of Flux Power facilities, and we have implemented our policies, following CDC and state guidelines, on quarantine for the potentially exposed to the virus.

I will now hand it over to Chuck Scheiwe, our CFO, to provide an update on our financials and our capital structure. And he'll also mention the improvements to our balance sheet achieved during the quarter. Chuck?

Chuck Scheiwe: Thank you, Ron. Regarding our balance sheet and financial positioning, we have accomplished several more positive steps. We discussed on our last earnings call in November the NASDAQ uplisting and $12 million capital raise that closed in August. Additionally, during Q2, we raised $3.5 million utilizing an at-the-market, or ATM offering. We had filed a prospectus to raise up to $10 million, so we have the ability to additionally raise up to $6.5 million on an opportunistic basis.

We have found, as many others have, that the ATM offering provides a very efficient and cost-effective way to raise smaller amounts of capital. This is especially true in the current receptive market environment. Additionally, we now have research coverage by three investment banks who are focused on the electrification sector.

During the quarter, we were also able to achieve converting debt-to-equity of approximately $2.2 million, decreasing outstanding debt to $2.4 million on December 31, 2020. Further conversions in January reduced outstanding debt to $884,000. The only additional debt is the PPP loan of $1.4 million that we anticipate will be forgiven. We are still waiting for the loan forgiveness process to work its way through the Small Business Administration.

As announced previously, we now have a $4 million line of credit with Silicon Valley Bank to provide potential working capital supporting our rapid growth plans. The borrowing availability on the credit line is tied to Flux Power's outstanding accounts receivable and on-hand inventory.

And I would remind investors that we filed an S-3 registration of a $50 million shelf note in October, of which $10 million was allocated to the ATM, and the rest can be very useful in our growth strategy.

To add to Ron's mentioned progress with our gross margin initiative, including the current quarter reported at 23 percent, we believe continued implementation of our cost improvements, supporting higher gross margins, along with our revenue trajectory, will drive us to our goal of becoming cash flow breakeven.

Regarding operating expense, we have stated before that much of our initial foundation building has been put in place as necessary to meet our sales and operational strategy of serving large customers. We continue to work on integrating best in quality with best in efficiency and continue in our quest to have industry-leading durability, technology and ease of use.

Now I'll turn it back to Ron.

Ron Dutt: Thanks, Chuck. To conclude our remarks, I'd like to comment on our progress with growing our business. It's heartening to see the increased demand for lithium power as highlighted with a very vigorous stock market demand surrounding EV and electrification this past year, particularly more recently. And we all know that's receiving very strong support from the new administration as well.

We see Flux Power as bringing a clean energy value proposition for industrial and commercial solutions. Developing products that reduce tons of carbon dioxide solutions for our customers compared to current lead acid and propane alternatives for our customers, and for all of us really, is very motivating.

And that concludes our prepared remarks. And now I'll turn it over to questions.

Operator: Thank you. Ladies and gentlemen, at this time, if you have a question, please press star then number 1 on your telephone keypad. Again, that's star 1 on your telephone keypad. We'll pause for just a moment to check if there are questions.

Our first question is from Allen Klee. Your line is open.

Allen Klee: Yes, congrats on the good numbers. Can you talk a little about your traction with large fleets in general and your private label? Kind of how that's progressing – progressed during the quarter? And how you feel that this could continue over time?

Ron Dutt: Yes. Sure. Thanks, Allen. That is a key part of our growth strategy. The large fleets are – it's not subscription income. It's like my experience in prior companies. You're as good as what your track record is. But what we're finding is for some of our very large key customers that are in our investment – investor deck.

If you get in – achieve customer satisfaction with them on product, quality and service, it's very – they do not want to change. So we are really targeting these large fleets (that) have hundreds, thousands of forklifts. And even though some of them may be dual-sourced, as I would do if I were them, we're after that 80 percent, and we're achieving it with several of our very large customers.

We are getting our reputation out there with those large customers. They've got facilities all over the country. And that really is helpful in our effort for new customer acquisitions of large fleets. So it feeds on itself. And as the market certainly is rapidly becoming more understanding of the benefits of lithium over a lead acid or propane, it certainly adds fuel to the fire in terms of increasing the adoption.

So our sales force is working on several more, actually, more than several, very large customers, some of which are household names, some are these very large logistics company you've never heard of, but they've got thousands of forklifts. So we love them and bringing them on to represent repeatable sales for their fleets over time as they buy new forklifts, either replacing old ones or expanding new ones or replacing dead lead acid batteries or any batteries with our batteries.

So we see good progress on that. We see continued momentum. The customers that we deal with largely are – I don't want to stay unaffected by COVID, but certainly, being part of logistics is something that has had to continue.

Regarding our private label program, that's gone well, contributes a fair amount of volume to us, where we view that as a potential for expansion. And to the extent that it gives us access to more points out there through their dealerships or through their national account salespeople with these large fleets, it certainly enables our increase in sales.

At the same time, our current strategy at this point is not being beholden or a company only selling to the OEM with the private label. We're selling to all the top five, top 10 forklift OEMs. But it is, again, the private label program being a release part in one of the top five largest OEMs is a mark of validation, and that's really important to these large fleets.

I spent most of my career with those large companies, and credibility is important because they're deciding to entrust the viability of their assets with a supplier over a multiyear period and certainly are very concerned about the capability of a supplier. And since this is a new product in the marketplace and all our competitors are broadly similar in size, they take a hard look at it. So getting those validation points is incredibly helpful.

So that's the outlook, Allen.

Allen Klee: Thank you. I have just – I have two other questions, and then I'll get in the queue. I'll ask them together. The first is, for the new forklift that you're going to be rolling out, I think I heard you say it's like 20 percent of the market. Maybe just talk about kind of how you think about your traction of that ramping up of when that will happen.

And then secondly, it's on operating expenses. Could you talk about if anything in the quarter would be viewed as sort of onetime, possibly related to your financings? Or maybe your D&O insurance, is there something about that, that the first year, it's more expensive, it can go down so that we could think about that? And then just thoughts about operating expense growth going forward relative to how you think about that compared to revenue. Thank you.

Ron Dutt: Yes. Thanks, Allen. Good questions. They're our new product for the end riders. We are extremely excited about that. We've leveraged some external expertise in this, along with our core engineering expertise. And along with our – we've really got seven good years of experience of figuring out how to make these things durable and safe and focus on what the customer wants. So we think this one is going to be well, well received.

You know that the sales ramp is always difficult to tell. We have examples of people buying without even a demo, others, the demo, some taking months, some taking weeks. But I do think we are just very enthusiastic about that. We've had that out into some selected hands so far, getting a great response on it. I think it hits all the key points that we've seen over seven years and what the customers are really, really anxious for.

So I don't know that – if that's going to have a major impact within as soon as the next couple of months, but we do see sales beginning and that ramping. It's that end rider market, end rider forklifts, that this pack is for, is a big segment of forklifts. If you look at all these forklifts in our warehouses, no matter what they're doing, they have typically – you often find these end riders. So we're very optimistic on that.

Turning to OpEx. Good question on OpEx. We certainly look at that, trying to balance our cost and our margins. We've got margin objectives here. We know every time we have a call, you guys are asking about margins. We ask ourselves about it all the time as well and also the capabilities that we have here to engineer, produce and service these large customers.

So with that, Chuck, can you give a little more color ...

Chuck Scheiwe: Yes. Yes.

Ron Dutt: ... on this past quarter in particular?

Chuck Scheiwe: Yes. Some of the onetime stuff going on in the quarter, we had legal and accounting tied to the shelf note filings for the prospectus to get out there. There were some expense for that. We also – prior to the uplisting, we're kind of holding back on some of the UL work, and we really accelerated that in the quarter. So there's quite a bit of R&D expense in there. And development of the pack we're talking about right now, there's expense involved with that getting through UL.

So there's some onetime stuff in there. We did – like every public company, we got nailed with D&O insurance, big time. So there's additional expense there going forward, though, that's going to be there. It is what it is. And we'll start to see a little more expense going forward just from being up on NASDAQ, for public company type expense, we expect.

Other than that, we're not looking at – like, as we said, we're pretty well structured and got most of the pieces in place. The bodies that we're adding now would be production-related and hit the COGS going forward. So we don't see large increases in the operating side.

Ron Dutt: And just a footnote on that, on the production workers, are relatively smaller percent, 5 percent or 10 percent, right, Chuck?

Chuck Scheiwe: Yes.

Ron Dutt: Because we're doing final assembly as well. So I hope that helps, Allen.

Allen Klee: That's great. Thank you so much. I'll get back in queue.

Ron Dutt: OK.

Operator: Our next question comes from the line of Jeffrey Campbell. Your line is open.

Jeffrey Campbell: Good afternoon, and congratulations on the quarter. Ron, just picking up on something that you were just talking about a minute ago and wedding it to something else that I thought was interesting.

You mentioned getting a better feel for the features that customers want. And maybe rather than focusing on a specific model, kind of larger view, what are the features that customers increasingly desire? And I'm also thinking about the recent patents that you highlighted when asking this question.

Ron Dutt: Yes, yes. You know, part of it is understanding the emphasis and what it takes to really satisfy them. One is these forklifts typically operate in a very rugged, harsh environment, particularly the walkies but as much as any of them, but also like the end riders, the sit-on forklifts, not quite as much, but it's still rugged. It's still – it's not like a Tesla. If you own a Tesla, you baby it and take care for it – take care of it. In a warehouse, a worker just – it just isn’t an incentive to take care of something that is not their own.

So like the cars, the forklifts need to be charged. They need to be charged on time or they – it's just like a car. It runs out of gas. That can be disruptive to an operation to our customers, who are running oftentimes a 7 by 24, two to three shift operations. They have an anathema for downtime.

So if you're selling somebody a pack and there's any downtime, you better figure out how not to have that downtime or how to support them with either a replacement or service in a timely manner. So that's impacted some of our software, firmware to provide protection to the customer, protections on low temp, high temp as well.

Also, serviceability, there's no water maintenance on these things. But I still haven't met the thing that doesn't require some kind of service sometimes. So our design is very, very well done in terms of making it serviceable by an uninformed and very inexpensively. So that's another big one to the customers.

And I'd say, in terms of things that are coming to mind, I mean, there's – if we get into the week, there's a long list of technical things, but one is the telemetry that we offer. A lot of these large fleets want to know what's the state of health, wants the remaining life and also to have their service people or our service people address those needs, again, all to avoid downtime disruption in the facility. Does that help?

Jeffrey Campbell: That helps a lot. And in fact, it kind of leads into the – one of the cost questions that I wanted to ask about. The press release mentioned that you expanded your customer support capability and kind of linked this to having greater than 8,000 battery packs in service. The first question is, do you expect this expense to continue to rise as more units are sold? Or is there some possibility, as you kind of implied in your remarks a minute ago, to maybe pass some of that service requirement off to your large customers that may have people in-house that are capable of doing it?

Ron Dutt: Yes. No, you asked your question there. They're both good. We're very close to that. With our first packs that went out, I created a database that tracks every pack, every serial number, where it went, what were the key specs on it. And so we've been able to track failure rates and track other attributes of that. And we just continue to track that relentlessly and try to correlate our – any issues we have with the pack with the failure rate.

And with our private label partner, of course, they're very interested in that, too. So the fifth, the – one of the fifth – the five largest OEMs and ourselves are right on this question you're asking.

I think as we pioneered and gotten more experience with our pack, we are making and producing packs that don't have much lower failure rates. And our goal is to continue to drive that down. And so as we put more packs in the field, they certainly are going to have a level higher than packs we shipped out seven years ago that were early, early packs.

So in terms of servicing that and the expense, you can look at our financials and see our warranty expense. It's not completely out of line at all. And that's how much it's – we're spending on the warranty.

Chuck Scheiwe: Yes.

Ron Dutt: In terms of service, our private label partner handles some of that, which is good. We are – we have now several partners who are trained and certified to work on our packs. We want to expand that national coverage. In the past, we've used battery dealers and forklift equipment dealers to service our packs as – so that we don't have to create an infrastructure of Flux employees all over the country.

So we've been leveraging that, and that has been productive. And we're continuing to expand our national service program again with the idea driven by the metrics to absolutely minimize any downtime and make it easy for the customers to do work.

They're in the service world. There's Level One service, which is well, the guy doesn't have to be a mechanical engineer to identify or work on something. And so we follow that principle and that escalating it to a Level Two or Three, if need be, have a flow chart off of that and have our people here handle the more difficult issues.

Jeffrey Campbell: No, that was great color. And if I can ask one last one, hopefully not too long. You mentioned in your remarks about robotic applications is perhaps a new area to move some battery packs without having to do a lot of modifications in manufacturing.

I was just wondering, could you give us kind of an example of what you're talking about? I mean, normally, when I think of a robot at an auto assembly line or something, they're gigantic, and they probably need a lot of power. But I've also heard about robots in the warehousing environment that may just go grab something off the shelf and bring it to somebody at – that's a human at a stationary point. So just kind of wondering what you're thinking about here.

Ron Dutt: Yes. No, no, it's certainly more of the latter. I mean I spent a good part of my early career in Ford Motor Company, looking at those very, very complex and expensive robotic pieces of equipment. Now you see in a lot of the high-efficiency warehouses beginning the use and really increasing pretty significantly the use of robots just to move a package from one point to the other in the warehouse. And they have tracks – they can have tracks on the floor and can automate that.

And when you go to the annual material handling trade show, there's a lot of that there, and so we're interested in the kind of envelope that's required. And the packs we have, I think, could be a good fit as part of our expanding of packs coming off our line to fit in those robotic solutions.

So I think there's that – there's other – some other robotic solutions we're looking at pretty closely as well. But it's certainly driven by a disciplined look at the business case, what's the size of the market, what's the path, the sales, distribution, path to market, how is it going to affect our assembly line and what kind of margin can we get out of it. So it's the usual things we look at. So we – we're keeping our eye on our base business, but we're also looking at some of these applications like that.

Jeffrey Campbell: OK, great. Well, thank thanks so much for the color and, again, congratulations on the quarter.

Ron Dutt: Thank you.

Chuck Scheiwe: Thank you.

Ron Dutt: Thank you.

Operator: Once again, ladies and gentlemen, if you have a question, please press star 1 on your telephone keypad.

Our next question is from Joseph Osha. Your line is open.

Joseph Osha: Hello, can you hear me?

Ron Dutt: Yes, we can. Sure.

Joseph Osha: OK. Hey, how are you guys?

Ron Dutt: Good.

Joseph Osha: So hey, I wanted to ask two questions. First is regards sourcing. Obviously, everybody is kind of wrestling with the same considerations, but one thing you do see is bigger customers give you some leverage there. So I'm wondering if you have a sense – if you both – one of these bigger customers, does that help you in terms of your conversation with your cell suppliers? How are you thinking about that?

Ron Dutt: Yes. Sure. There's something like 40 lithium suppliers in China. Some big – we source the two of them over there in the top 10. And when we initially reach out to them, they want to – so they have a government-supported, as you probably know, mandate to become manufacturers and exporters of lithium batteries.

So when they see that – if you look on our investor deck on the web and see names like Pepsi, Caterpillar and others, they have a gleam in their eye and see big fleets, ongoing large potential sales for the future of these lithium batteries.

And they're all oriented, seven years ago, there were several that said, we'd like to do something with you, but you're too small. And we were just cracking the shell of the egg as we were starting up. And so they're all very, very attuned to what the potential could be. So for us, with the focus on these big names is very, very helpful.

Joseph Osha: Indeed. And just on that note, have you said – and I'm sorry if I've missed, can I assume you’re LFP? I would think ...

Ron Dutt: Yes.

Joseph Osha: Yes, it doesn't make sense you to be MCA or – yes.

Ron Dutt: Yes. We're LFP because we don't need that added energy density like Tesla does, like your HP laptops or Apple laptops need or cellphones. And the cost is lower, and you don't have the thermal management. So it's – and it's used by most of our competitors. I think we have one competitor that offers some NMC, which has cobalt in it, which provides ...

Joseph Osha: Yes.

Ron Dutt: ... that added. And I think it's viable. But we looked at that a number of times, and we didn't think it makes sense for us.

Joseph Osha: Yes. No, I agree with you. Second and unrelated question. One of the areas we're starting to see some interesting movement in is the UPS market, I mean, uninterruptible power supply, not the company. Given your skill set, that would seem to be something that's a good fit. Have you looked at UPS at all?

Ron Dutt: You know, to be honest, we have not focused on that at all. We kind of looked at it. But I think we will turn probably more to that as we get a bit bigger. I think the pricing on that is going to require – very significant scale.

Honestly, we have our hands full with what we have now. We have a product that we can differentiate ourselves on, and it's just not a box with cells in it. It's the interface with motive power that really requires a lot of technology in terms of firmware or software to communicate, to regulate. And so that's our focus right now.

Joseph Osha: Yes. That makes sense. And then my final question, again, I apologize. I'm still coming up to speed a little bit. Are you guys all 18650? Are you seeing any other ...

Ron Dutt: No. No, no. In fact, we're prismatic and always have been prismatic. When we – seven, eight years ago, we looked at 18650s. And we could do it. We could switch to it at any time. We had some passing thoughts about it. I think if there arise production facilities in this country that make those cylindrical cells, whether they're 18650s or the bigger ones, more economical, they're just grouped in modules, just like our prismatic cells, we would migrate to them.

We're agnostic, as we've said many times. We're looking for the many institutions and companies around the world, pouring money into finding the next best cell and application. And we have a CTO that's continually surveying the landscape on that, and we will move to anyone that makes sense.

But for now, the prismatic cells, they're pretty common in this material handling sector. Most of our competition does use the prismatic cell. There's a certain material handling aspect to it that's slightly better. But again, that's what we use, and have found it to be good.

The pricing of cells is going down very significantly out there with the volume increases as the world demand for lithium is increasing. So the factories are building more at scale. There's more competition. All that bodes well for companies like us with the price of those.

Joseph Osha: Yes. OK. Thank you. That's enough being interrogated by me. So my compliments in a great quarter.

Ron Dutt: Thanks. Thanks, Joe.

Operator: Our last question is from Allen Klee. Your line is open.

Allen Klee: Hi. I just wanted to follow up on – you talked about your relationship with Beam, and I know that that's a company that's growing pretty fast. Could you comment on anything about how you think about the potential growth opportunity? And if it's considered material for your company overall? Thank you.

Ron Dutt: Yes, yes. Thanks, Allen. It just so happens they are located about a half hour from us here in North County, San Diego, and reached out to us. They weren't too happy with their original lithium supplier. And we struck up a great relationship. And we're both listed on NASDAQ. We're both after this just emerging sector here with all kinds of opportunities. And they, with their product, mobile charging stations that don't require some already installed – grid infrastructure, they're finding a receptive audience.

Now how fast this really gets traction and takes off and sales, none of us have that kind of crystal ball. But certainly, we see the value proposition there. We see the interest. They've already signed several contracts with cities to deploy these things all over the cities. And so we're working with them to provide them the best possible form factor of our packs and performance specs for them. I think it's – for us, it's what we call one of these natural product extensions to help for us to build scale with the infrastructure and process we have.

The nice thing about – I like about Beam, we just sell it to them. They worry about going through all the end customers, which are often municipalities and the government and some private customers as well. So, we're optimistic. But for us, it's frosting on the cake here. I think we're not planning on it for success. We want to get away from concentration of depending on any one large customer or any one model because our technology and product is just tailor-made for a number of uses to lend itself towards successfully diversifying.

Allen Klee: But it's – could I sneak in one last question? You talked about that subsequent to the end of the quarter in January, two holders of your convertible debt switched some of it to shares. I just had a question of that. Does that increase your diluted share count? Or was that already captured in the roughly 400,000? And is the way to look at it that we also get the – that the cash goes up by that amount?

Chuck Scheiwe: This was a noncash transaction. It's just converting debt to equity, and it would increase the shares outstanding.

Allen Klee: OK. But no impact on cash then. OK. Thank you. Thank you so much.

Ron Dutt: OK.

Chuck Scheiwe: Thanks, Allen.

Ron Dutt: Yes. Thanks for the questions, Allen.

Operator: Now, I don't see additional questions at this time. Speakers, do you have any closing remarks?

Ron Dutt: No. We thank everybody for listening in. Thanks for your time. We're all here at Flux Power, very excited about what's going on and glad to share the pulse with you. Thanks again.

Chuck Scheiwe: Yes. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect. Have a great day, and stay safe.

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