



Dragonfly 1Q 2023 Earnings Call Transcript

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Corporate Speakers, Dragonfly Energy:

Dr. Denis Phares, CEO

John Marchetti, CFO

Participants:

George Gianarikas, Canaccord Genuity

Vincent Anderson, Stifel

Brian Dobson, Chardan Capital Markets

Pavel Molchanov, Raymond James

Operator

Good afternoon, and welcome to Dragonfly Energy Holdings' First Quarter 2023 Earnings Call. My name is Bryan and I'll be your operator for today's call. As a reminder, this conference call is being recorded. At this time all participants are in a listen only mode.

I'll now turn the call over to Mr. John Marchetti, Chief Financial Officer of Dragonfly Energy. Please go ahead.

John Marchetti, Chief Financial Officer

Thank you, operator, and welcome everyone to Dragonfly Energy's first quarter 2023 earnings call.

On with me today is Dr. Denis Phares, Chief Executive Officer of Dragonfly. We will be presenting the company's financial and operational results for the first quarter of 2023, followed by a question and answer session.

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

Second, during this call, we'll be making forward-looking statements based on current expectations. Actual results may differ due to factors noted in today's release and in our periodic SEC filings.

And finally, 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.

With that, I will turn the call over to Denis.

Dr. Denis Phares, Chief Executive Officer

Thank you, John. And thank you to everyone joining us today. Before we review the first quarter results, I would like to take a few minutes to provide some information about the Company for those who still might be new to the Dragonfly story.

Dragonfly is a comprehensive lithium-ion battery technology company with operations that span the development of proprietary and patented cell manufacturing processes, the design and assembly of battery packs, as well as the integration of these packs and other ancillary components into full energy storage systems, and we market and sell these systems into a wide-range of consumer and industrial markets.

The company was founded in 2012 to initially develop intellectual property focused on Lithium-ion cell manufacturing. Since then, Dragonfly has worked to revolutionize the mobile energy storage industry, with an initial focus on making lithium ion batteries more accessible for RVers, facilitating a completely off grid experience for those consumers. Our market share continues to increase within the RV market, and has expanded to include the marine and off-grid solar sectors.

Traditionally the RV, marine and off grid markets have relied on lead acid batteries for energy storage. However, lead is toxic, and remains a widespread problem in our environment. Dragonfly's lithium-ion battery technology presents customers with a safer, cleaner, and better-performing storage solution. When compared to lead-acid alternatives, our batteries are environmentally safer, provide 2-3 times more power, last over ten times longer, are one fifth the weight, charge faster and require no maintenance. We are proud of our innovations and growth to date and we look forward to further growth within these core markets while expanding our reach into new market adjacencies that also rely on lead acid batteries.

We market our deep-cycle, lithium-ion batteries, under two brands. The first is our Dragonfly Energy brand, which serves our Original Equipment Manufacturing customers and partners, such as the THOR family of recreational vehicles. And the second is our direct-to-consumer, retail brand named 'Battle Born Batteries', which was named after the battle born state of Nevada, where we are headquartered.

In addition to our branded batteries, we are also designers and resellers of accessories, making us full system integrators for our customers. Our acquisition last year of Wakespeed Offshore allowed us to better integrate our storage systems with vehicle engines and alternators. And innovations in battery pack monitoring and communication led to the launch of our IntelLigence line of products in the first quarter, which sets the stage for larger stationary storage systems and applications. As a result, today we are recognized as not only the experts in lithium-ion batteries, but on entire lithium battery storage systems.

It is also important to note that Dragonfly has a robust patent portfolio. We are at the forefront of battery cell innovation, with a unique focus on dry powder coating cell manufacturing technology and non-flammable battery technology for which we have already begun production of the cell pilot line. We are currently targeting commencement of cell manufacturing here in the United States, in 2024.

Before discussing our non-flammable technology and some of our other operational highlights, I will turn the call over to John to provide a review our first quarter financial and operational results, as well as our outlook for the second quarter of 2023.

John Marchetti, Chief Financial Officer

Thank you, Denis. I will now review our first quarter 2023 results. All figures are GAAP unless otherwise noted.

Despite the challenging macro-economic backdrop, Dragonfly generated net sales of \$18.8 million dollars in the first quarter, an increase of 3% compared to the first quarter of 2022 and at the top of our \$17 to \$19 million-dollar Revenue guidance.

Total battery units increased by a similar 3% year-over-year, and growth was again driven by our OEM customers, which accounted for approximately 47% of sales in the quarter, compared to 17% of revenue in the first quarter of 2022. The growth in our OEM business is largely the result of increased demand from our partners to include our battery solutions on their products at the manufacturer, rather than having the consumer choose to add the solution in the after-market. We expect this trend to continue and believe OEM sales will continue to be a significant driver of our growth throughout 2023.

Our Direct to Consumer business, or DTC, represented approximately 53% of sales in the quarter, compared to 83% of sales in the same quarter a year ago. The year over year decline in our DTC business was in-line with expectations and driven primarily by macro-economic factors, with overall after-market demand for batteries and accessories declining as rising interest rates and inflation continue to negatively impact demand. While we have seen recent signs of stability, we expect this segment of the market to remain more challenging through the remainder of 2023.

Dragonfly's Gross Profit in the quarter was approximately \$4.7 million dollars, a decrease of \$0.8 million dollars from \$5.5 million dollars in the first quarter of 2022. The decrease in Gross Profit was primarily due to the change in revenue mix that included a larger percentage of lower margin OEM sales and a lower percentage of higher margin DTC sales.

Operating Expenses in the first quarter were \$14.6 million, up from \$7.1 million in the first quarter of 2022 and above the high end of our guidance range. First quarter Operating Expenses included higher stock-based compensation expenses of approximately \$3.6 million, due to the timing of year-end compensation payments. We do not expect these higher expenses to repeat in the remainder of 2023.

Net Income in the first quarter was \$4.9 million dollars or \$0.10 cents per diluted share, compared to a Net Loss of \$(2.3) million dollars, or a negative \$(0.06) cents per diluted share in the first quarter of 2022. Net income in the quarter benefited from an increase in other income, which was the result of an \$18.5 million change in the fair market value of our warrants.

First quarter EBITDA was \$9.0 million dollars in 2023, compared to a negative \$(1.4) million in the first quarter of 2022. Adjusted EBITDA, excluding stock-based compensation, the change in the fair market value of the Company's warrants and other one-time items was a negative \$(5.0) million in the quarter, compared to a negative \$(0.4) million in the same quarter a year ago. For a reconciliation of EBITDA to adjusted EBITDA, please refer to our earnings press release.

Dragonfly ended the quarter with \$15.8 million in cash and retains strong financial flexibility, including access to a \$150 million equity line of credit.

Turning now to our expectations for the second quarter of 2023. As discussed earlier, our DTC business, while stable, continues to face headwinds, with consumers focused on macro-economic challenges such as rising interest rates and inflation. Our OEM business, on the other hand, continues to provide significant year-over-year growth as we continue to win new programs such as the recently announced Airstream partnership, and as OEMs are increasingly offering our storage solutions as options or standard equipment at the time of manufacture. Given those dynamics, we expect second quarter Revenue to be in a range of \$18 to \$22 million dollars.

We expect Gross Margin to be relatively flat on a sequential basis as we expect a similar OEM to DTC revenue mix in the second quarter.

Operating Expenses in the June quarter are expected to be in the range of \$10.5 million to \$13.5 million, and we expect Total Other Income and Expense to be an expense in the range of \$3.6 million to \$4.0 million dollars.

We expect to report a Net Loss in the second quarter in the range of \$9.5 million to \$12.5 million, or a negative \$(0.21) cents per share to negative \$(0.27) cents per share, based on approximately 46 million shares outstanding.

Let me turn the call back over to Denis to provide some additional color on our growth initiatives.

Dr. Denis Phares, Chief Executive Officer

Thank you, John.

As I mentioned in my opening remarks, Dragonfly is a comprehensive lithium-ion battery technology company, with activities ranging from the development of cell manufacturing processes, to the design and assembly of battery packs, and integration of those packs and other ancillary components into fully integrated energy storage systems.

Where we have not focused our efforts, is on the electric vehicle market. Many of our lithium-ion battery peers are focused on propulsion, EVs, high energy density, and very rapid charging, but Dragonfly's long-term ambition is directed toward enabling safe and affordable grid storage, and as a result we are focused on providing storage solutions that are non-flammable, long-lasting and lower cost – all characteristics that are vital for storage solutions if we want to be able to put more renewable energy sources on the grid.

At Dragonfly, we are striving to create non-flammable storage solutions to facilitate the adoption of a smart, reliable grid, through the deployment of batteries to every home and business. We have been focused for more than ten years on developing dry deposition manufacturing processes and non-flammable cell chemistries. And I am happy to report we are currently in the process of establishing our pilot line for non-flammable cells. We continue to be extremely encouraged by the progress we have achieved with our solid-state products. The composite solid-state electrolytes we have produced have already exhibited the capability of 1-hour charge and discharge rates at room temperature, more than sufficient for a storage application. And our cell formation protocols resulted in cells that have exceeded a commercially viable 1,000 cycles with no added liquids and no external pressure applied. Moreover, we have accelerated the application of the powder coating manufacturing process to a wide variety of conventional cell chemistries, primarily due to an increased industry-wide interest in solvent-free deposition, which has garnered Dragonfly significant attention from potential customers in industries adjacent to the storage space. Commercialization of our cell manufacturing technology is expected to occur in 2024 and we look forward to sharing more about our unique, patented manufacturing process with you as we move forward in the coming quarters.

Demand for lithium continues to grow as society seeks to find more environmentally friendly sources of energy, for a wide variety of industries and applications. As part of our longer-term planning for domestic cell manufacturing, we just last week announced a commercial offtake agreement with Ioneer, a lithium-boron producer. This agreement will enable us to strengthen and integrate our U.S. battery supply chain, while investing in the production and manufacturing of Nevada-sourced lithium.

While our longer-term goal of enabling safe, affordable micro-grid storage drives the research and development work on our non-flammable, dry-deposited cells, we still continue to innovate within our existing portfolio of battery storage products, in order to further penetrate our existing markets and open up new market adjacencies.

In existing markets, we had the pleasure of recently announcing our partnership with Airstream, which will provide Battle Born Batteries as standard equipment across multiple models. Battery anxiety has long been a pain point amongst consumers in the RV Industry, however with this power upgrade from Dragonfly, Airstream customers now have access to a solution that allows them to enhance their camping experience.

And on the product development front, during the first quarter, we announced the launch of our IntelliGence platform, which provides our batteries with reliable communication capabilities via unique mesh network connectivity, enabling accurate remote monitoring for entire lithium battery banks via the Dragonfly Energy Mobile App. Among the many benefits of this connectivity, it has made our lithium power systems the first to directly address the new American Boat and Yacht Council recommended standards for Lithium-ion storage systems.

These are just a few examples of our customer expansion and product development efforts. Between where we stand today and the ultimate goal of revolutionizing grid storage, there are a lot of markets which are still largely dominated by lead-acid batteries, including telecom, data centers, emergency vehicles, work trucks, forklifts, solar integration projects, and more, that would benefit from existing lithium-ion battery technology. For example, currently our fastest growing market is the off-grid solar market. People want the security of being able to live off of solar or off of wind, and so they need a battery bank to store electricity during the day, and then be able to utilize it via battery storage at night. This is just one example of how we are using existing products to penetrate new markets.

Given our full-system design and manufacturing expertise, we are in a unique position relative to many of our competitors as we can help potential OEM partners in these new markets custom design systems and products to meet their growing power needs, while eliminating the environmental and operational costs of lead-acid batteries, and improving the overall reliability and performance of their products. As I said, there are a lot of markets that are still dominated still by lead-acid batteries. And as a result, there is a lot of room for us to grow before we start talking about revolutionizing the grid.

So, in summary, we remain very excited about the progress we have made to date as well as the opportunities that remain in front of us. I would also like to take this opportunity to thank all of the Dragonfly employees, customers, suppliers and investors that are such a vital part of Dragonfly's success.

With that I will turn the call over to the operator, who can open the line for questions. Operator.

Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session.

Should you have a question, please press star followed by the number one on your touch tone phone. You will hear a ring-tone prompt acknowledging your request. If you would like to withdraw your request, please press star, followed by the number two. If you are using a speaker phone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from George Gianarikas, with Canaccord Genuity. Please go ahead.

George Gianarikas, Canaccord Genuity

Hi. Good afternoon guys. Thank you for taking my questions.

John Marchetti, Chief Financial Officer

Sure thing, George.

George Gianarikas, Canaccord Genuity

Maybe we could start with the pilot line that you mentioned on the call.

I was wondering if you could give us any more detail around launch timeline and any incremental operational updates you need to make before launch. Any sort of those details you can illuminate us on.

Thank you.

Dr. Denis Phares, Chief Executive Officer

How's it going, George.

Yeah, I think what we can say right now is the pilot line is virtually done in terms of the equipment that's required to lay down the electrodes and produce the cells.

One of the big issues we have is that we can't do the solid-state chemistry without a dry room, which is something that we are in the process of basically planning, - the building out the dry room.

But what we can do is conventional electrodes. So, we are able to start producing prototype conventional cells off of our line this summertime. So, it's something that is coming pretty rapidly here, but we are excited to deploy the chemistries that we've developed for solid-state non-flammable solutions, but we need the dry room for that.

George Gianarikas, Canaccord Genuity

Right.

But this pilot line should be able to show us that the aerosol polymerization and dry deposition process work with regards to manufacturing traditional cells. Is that correct?

Dr. Denis Phares, Chief Executive Officer

That's correct. The aerosol deposition of electrodes, yes.

George Gianarikas, Canaccord Genuity

Got it.

Maybe to focus a little bit on the marine opportunity as well. You've always talked about the second half of this year being a potential inflection point for increased adoption there. Is that still something that you're working towards? And do you feel...have there been any incremental conversations and wins with dock operators, et cetera that maybe give you some confidence about being a growth driver in the second half of the year?

Dr. Denis Phares, Chief Executive Officer

The marine market is a lot more fragmented than the RV market is in terms of manufacturers of boats. But we are certainly in conversations with some manufacturers and we do expect to be able to announce something in the near term.

But one of the reasons that we were bullish on the second half of the year is because the deployment of our IntelLigence line of batteries allows us to comply with the new standards that just were announced at the end of last year. And that's really going to be a real boon to the business because of the difficulties boaters have now in getting their boats insured when they have lithium ion batteries on them. So, it's something that the industry has been struggling with over the last year. It's something that they addressed pretty quickly with standards, and our new products are going to be the first on the market that directly address those recommended standards.

George Gianarikas, Canaccord Genuity

Thank you.

And if I could just sneak maybe another one in, this is with regards to your financials and the way you've characterized the overall marketplace, the RV marketplace. It sounds like things have stabilized after a period of weakness and you've given guidance for the second quarter. Can you just reflect on some of the guidance you gave for the full year of 2023 the last time you reported, that's a gross margin improvement and some revenue improvement that you expected for the second half of the year?

John Marchetti, Chief Financial Officer

Sure, George, it's John here.

There is no change to that outlook. If we feel the need to adjust that 23 outlook we would certainly make that public. But the guidance that we gave on the last call for the full year of calendar year 2023 is unchanged.

George Gianarikas, Canaccord Genuity

Great. And you expect your gross margin still to be up modestly year-over-year for the full year. Is that correct?

John Marchetti, Chief Financial Officer

Correct. We continue to expect that margin improvement as we go through the year. Correct.

George Gianarikas, Canaccord Genuity

Well, thank you guys. I'll hop back in queue, appreciate it.

John Marchetti, Chief Financial Officer

Great. Thanks, George.

Dr. Denis Phares, Chief Executive Officer

Thank you, George.

Operator

Thank you. Next question comes from Vincent Anderson, with Stifel. Please go ahead.

Vincent Anderson, Stifel

Yeah, thanks. Good afternoon.

So, real quick, do you have any specific qualifications or ancillary hardware controlled components, those types of things, still left to develop in order to enter some of the industry markets? And if so, just what we should be keeping an eye out for to kind of signify progress there?

John Marchetti, Chief Financial Officer

Sure, thanks.

Vince, I don't think there's anything specific that we're sort of keyed on. As Dennis mentioned, we did have some specific products that we've announced and that will get into mass production as we get into a little bit further in the year around marine and some of the things for the boating standards.

As we come into some of these newer markets, or I should say some of these adjacent markets, there are certainly components or things that may be required for us to compete more effectively to bring a full system to bear, but there's really nothing on the battery side itself that we expect as we're going into these adjacent markets. There may be a unique form factor for a specific OEM that is worth us developing, but in general, we can either partner for some of the pieces that we may not need from an accessory or component standpoint, and then over time develop them if we felt that the opportunity was great enough. But there's nothing I think over the shorter intermediate term where we feel like, for some of those nearer term market adjacencies that we're targeting, that we don't have the capability to compete with what we've got today.

Vincent Anderson, Stifel

Okay, that's helpful.

And just from a capacity perspective, up until now everything's been based around the traditional lead acid form factor. But as I think about some of those more ancillary markets, would there be any modest changes to the assembly line from a form factor perspective - to reach any of those markets that we have to think about? Or is this all still going to work pretty well within your existing footprint?

John Marchetti, Chief Financial Officer

The short answer is it should fit very well within the existing footprint. And even within the existing markets, the RV market is a good example where there's certainly with the early go-to market efforts we designed battery packs that were really expected to be drop-in replacements for lead acid. But we have created unique form factors even for the RV market off the existing technology. You take our GC3 batteries, those were designed to fit specific enclosures that had been, where you couldn't put lead acid batteries in the past because the encasement needed to be accessible so that you could do the maintenance on the lead acid batteries.

As we work with OEM partners there's spaces within the trailers or spaces within equipment, where we can now put batteries for them in different form factors because the batteries that we make don't need the maintenance. And so doing unique form factors is not something that is foreign to us, it's something we've done in the past and it's something that we expect to do looking out over the next several years as we get into some of these new markets. But it still relies on the same cells. It's still using a lot of the same development

work. So, from a true manufacturing perspective or assembly perspective, there's really not a big change required of the lines.

Vincent Anderson, Stifel

Gotcha. That's good to know.

And then Dennis, if you don't mind, I'd love to just expand on your prepared remarks around where you stand on your self-performance that kind of informs your commitment to moving forward with the pilot line investment. I'm thinking one, it would be helpful to know where you're seeing the best results from an electrolyte separator perspective, but also just kind of the volume of cells that you've tested at this point.

And then any kind of key metrics beyond the ones in your prepared remarks like optimization left around, maybe some targeted internal resistance measures, or polymer loading, things of that nature.

Dr. Denis Phares, Chief Executive Officer

Sure. Well, what I reported was a cycling performance where we exceeded over a 1,000 cycles, that was over 80% capacity remaining. We did it at a C over 5 rate. - I can't talk to the chemistry of the electrolyte obviously, but we have been making significant improvements as we move forward in the impedance of the electrolyte. But one thing that we have always been very good at, and I've spoken at length about, is the impedance of the interface between the electrode and the electrolyte that really allows us to make these cells possible.

In terms of volume, obviously we're still doing this at lab scale. We deposit on electrodes that are roughly the size of eighteen-six-fifties, and we make coin cells and we cycle coin cells. And we cycled a large number of coin cells, and they tend to be very repeatable, but ultimately, we need to expand into the pouch cell prototype line and that's where we're headed.

Vincent Anderson, Stifel

Okay, that's helpful.

And then as I think about the current state of cell manufacturing here in the US, and then what you're working on, I understand completely that one of the main advantages of the process is only really fully realized with a solid-state chemistry. But just kind of given particularly the recent domestic content requirements for certain IRA credits, and just the general demand for kind of mature US cell production, is there an opportunity in between here and full solid-state realization to deploy your electrode manufacturing process in a more traditional liquid electrolyte cell, or even maybe explore non-lithium but still probably [not audible] type matter chemistries altogether?

John Marchetti, Chief Financial Officer

Absolutely.

I mean, we alluded it to it in the prepared remarks where we are getting attention because of the fact that it's a solvent-free process, which has been of great interest in the industry in general. So, since it's kind of funny in the absence of the dry room, it actually makes sense to produce conventional cells now, and that's exactly what we're doing. And we do have opportunities in that realm as well.

So, we are absolutely going to be producing conventional cells of a variety different cathode and anode chemistries centered around intercalation, we're not trying to do anything with lithium metal. And you're right

that we can apply it to other intercalation chemistries that are not lithium, and that is something that's on our radar as well.

Vincent Anderson, Stifel

Excellent. That's great. I'll turn it over.

Dr. Denis Phares, Chief Executive Officer

Thank you, Vince.

Operator

Thank you. Our next question comes from Brian Dobson with Chardan Capital Markets. Please go ahead.

John Marchetti, Chief Financial Officer

Brian, are you there? You might still be on mute.

Brian Dobson, Chardan Capital Markets

Yes, I'm sorry about that. Can you hear me all right now?

John Marchetti, Chief Financial Officer

Absolutely.

Brian Dobson, Chardan Capital Markets

Okay, excellent.

So, just going back to Ioneer for a moment and your partnership with that company. Do you think you could just maybe review some of the competitive advantages that you believe that partnership offers?

John Marchetti, Chief Financial Officer

Sure.

Dennis is often quoted as saying that he didn't choose Nevada by accident. There is an awful lot of lithium in the ground there. As we think about the long-term opportunity that's in front of the company, securing a strategic supply of that lithium - we certainly think is very, very important.

That has been a relationship that goes back a few years. It's now gotten to this point where both sides, particularly with them starting to break ground and do things that way, it made sense for us to turn that into a more formalized agreement to make sure that we have that local supply of lithium available to us, particularly a number of years out when we expect to be at a much different scale in terms of producing our own cells.

I would say too it's something that is a very big focus for the state government as well. The governor's office was a big supporter and a big help in getting both our two companies together as well as supporting the Rhyolite

Ridge project for Ioneer itself. So, it's something that I think the state certainly has an interest in, and it's something that we're certainly interested in when we think long term about the supply chain that we'll need in order to be a vertically integrated cell manufacturer.

Brian Dobson, Chardan Capital Markets

Yeah, very good, thanks.

And I guess switching gears and talking about your connection with Airstream, that's a marquee name, it stands for quality. Since inking that deal, have you guys found an increase in interest from other parties looking to partner with you?

John Marchetti, Chief Financial Officer

I think it's important to remember Airstream is a relationship that we have had, and I think this also goes back to the strategic interest that THOR showed in us in the summer of last year when they made a strategic investment in the company.

Airstream is a THOR brand and is one that I think gives as rightly point out, is extremely well recognized. And I think this is just another indication if you will, of the strength of that relationship that we have with THOR.

Dennis, I don't know if there's something else that you'd like to add there in terms of the.. I guess the growing trend within the industry to go to adoption at the manufacturing level.

Dr. Denis Phares, Chief Executive Officer

What's funny is that I think that our relationships within the RV industry have garnered us relationships outside of the RV industry, and I think that's something that this Airstream partnership has done.

We're pretty well known already within the RV industry, not just having a relationship with Airstream, but we also achieved what they call Five Rivet status, which means we're a preferred supplier for a very high-quality brand within the RV industry. And that has garnered us some attention from outside of the RV industry as well.

Brian Dobson, Chardan Capital Markets

Great.

And then I guess switching gears, talking about marine applications, it's great that you've met the new standards put out by the American Boat and Yacht Association. How do you plan on positioning your batteries in that market? You did a really good job carving out niches for your existing products, and should we expect a similar marketing strategy in the marine sector?

John Marchetti, Chief Financial Officer

I think it will be similar, primarily because of the fact that the marine business is so fragmented, and so we can't just come out and pull out a THOR type relationship in terms of manufacturers. But the aftermarket is enormous in the marine space, so it's something that we look at as the next big aftermarket opportunity for us.

And in the marine aftermarket folks care about the safety and the compliance of their batteries, because of obviously the increased necessity when you're out on the water rather than being on the road. So, we do see

this as an opportunity for us to position ourselves as the A.B.Y.C. compliant brand selling directly to the aftermarket, and we'll likely use many of the same tools that we used to break into the RV aftermarket.

Brian Dobson, Chardan Capital Markets

Great. Thank you very much.

Dr. Denis Phares, Chief Executive Officer

Thank you.

Operator

Thank you. Next question comes from Pavel Molchanov with Raymond. I mean...sorry about that. We have Vincent Anderson with Stifel. Please go ahead.

Vincent Anderson, Stifel

Hopefully I didn't cut anybody online there, but thanks for humoring me.

Sorry, I was inspired by that last question on marine, and you mentioned that RVs kind of provide a good model for go-to market. But it kind of occurred to me importantly - the size maybe and the notoriety of some of the higher-end sailing areas of the marine market, particularly at an OEM and competitive level, where they're kind of standards setters and also very weight conscious is... You said aftermarket, but are there select verticals within marine where an OEM relationship, even if small, can provide an Airstream type sort of validation?

Dr. Denis Phares, Chief Executive Officer

Absolutely, and we are actively working to land those. So yes, it's not going to be, we don't expect those to be as large volume as a Keystone, but we certainly do expect them to provide validation and a template for how to apply the system. But that's a good point, those are very important.

John Marchetti, Chief Financial Officer

And Dennis' point, and to yours, Vince, the sailing committee in particular seems to really set some of the examples for the rest of the group. And I think that is as you rightly point out, that is an area where we are very well focused.

Vincent Anderson, Stifel

Gotcha. Thank you. That's all from me, for real this time.

Operator

Thank you. Next we have Pavel Molchanov, with Raymond James.

Pavel Molchanov, Raymond James

Thanks for taking the question.

You mentioned off-grid solar as a pretty robust growth driver that's offsetting some of the weakness in the RV space. Are there any particular geographies or demand drivers, so power prices or climate events, disasters that are driving this demand more recently?

Dr. Denis Phares, Chief Executive Officer

The demand seems to be very much industrial in nature, in terms of more widespread deployment for things like security applications, parking lots, lighting, that sort of thing. So, it is off-grid solar.

In terms of demand among off-grid residences, that is growing as well, and it typically aids us in the fact that those are larger systems. The stationary systems do tend to be larger than the mobile systems, and so we've had a larger number of very large systems that we've deployed in the aftermarket. - But we do see a lot of the growth in the industrial solar area.

John Marchetti, Chief Financial Officer

And Pavel, I would also say as it relates to some of that consumer, it is a wide variety of reasons. Whether it is somebody looking for true energy independence, whether it is frustration with the rising energy prices. In some instances, we're starting to see cases where in order just to put solar up you're now being required to have some sort of a storage solution with it, so that it isn't just wasted energy that one is trying to sell back to the grid. So, there's a lot of different reasons for it. Some of it is regulatory, some of it I think is frustration with rising energy prices and things of that nature. But it's been a nice little growing business for us and we're really encouraged by what we're seeing on the horizon.

Pavel Molchanov, Raymond James

Okay.

Follow up on the solid-state efforts that you talked about earlier. Fire safety is always kind of a hot topic of conversation, no pun intended. And I'm curious if you can give an update on how you guys are approaching kind of the fire safety aspects of solid-state.

Dr. Denis Phares, Chief Executive Officer

That's a driving motivation behind the development of solid-state, and I think that's what sets us apart - is that a lot of technology has been focused on developing solid-state in order to accommodate a lithium metal anode or for very fast charging or for very high energy density. That's not what we're doing, we're actually keeping with the intercalation chemistries, primarily lithium and phosphate and graphite, and we have a ceramic heavy composite electrolyte because that is not flammable. The notion of removing, completely removing the organic electrolyte to put in a ceramic heavy composite, which is something that you can uniquely do with the powder coating process is really what sets us apart. The safety and non-flammability of it is the driving force because we envision these deployed in every structure on the grid.

Pavel Molchanov, Raymond James

That's very, very useful. Thank you, guys.

Dr. Denis Phares, Chief Executive Officer

Thank you, Pavel.

Operator

Thank you. There are no further questions at this time. Again, ladies and gentlemen, if you wish to ask a question please press star one.

I don't see any more questions in the queue. Please proceed.

Dr. Denis Phares, Chief Executive Officer

Thank you for everyone joining us today. We look forward to sharing additional details with all of you in the coming quarters. - Have a great day.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that to please disconnect your line.