



Dragonfly 4Q and Full Year 2022 Earnings Call Transcript

March 29, 2023

Corporate Speakers, Dragonfly Energy:

Dr. Denis Phares, CEO
John Marchetti, CFO

Participants:

George Gianarikas, Canaccord Genuity
Greg Pendy, Chardan
Pavel Molchanov, Raymond James

Operator

Good afternoon, and welcome to Dragonfly Energy Holdings' Fourth Quarter and full year 2022 Earnings Call. My name is Joelle 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 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 earnings call as a public company.

On the call 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 fourth quarter and full year of 2022, followed by a live 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 and 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 for Dragonfly Energy's first earnings call. For those of you who are new to our story, I will begin by taking a few minutes to provide some information about Dragonfly and what we do.

Dragonfly is a uniquely comprehensive lithium-ion battery technology company. Our operations span the development of cell manufacturing processes, the design and assembly of battery packs, the integration of these packs and other innovative ancillary components into full energy storage systems, and the marketing and sales of these systems into a variety of consumer and industrial markets. Founded in 2012, initially as a developer of intellectual property focused on Lithium-ion cell manufacturing, Dragonfly revolutionized an industry, making lithium ion batteries more accessible for RVers while facilitating a completely off grid experience for RV consumers. Our market share continues to increase within the RV, marine and off-grid solar sectors, with total sales of \$86 million dollars in 2022, our fifth consecutive year of revenue growth since we began shipping product in 2017.

Traditionally, the RV, marine and off grid markets have relied on lead acid batteries. However, lead is toxic, and remains a problem in our environment. As a result, the markets we have entered were ripe for a change as Dragonfly's technology supports the conversion to green, renewable energy. When compared to lead-acid alternatives, our Dragonfly and Battle Born batteries are environmentally safer, they 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 expansion.

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 sets the stage for systems targeted for larger stationary storage applications. As a result, today we are recognized as not only the experts in lithium-ion batteries, but on entire lithium battery storage systems.

We have a robust patent portfolio and we continued to innovate, including Dragonfly's dry powder coating cell manufacturing technology and non-flammable battery technology for which we have already begun production of the cell pilot line, and we are 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 financial and operational results, as well as our outlook for the first quarter and full year of 2023.

John Marchetti, Chief Financial Officer

Thank you, Denis. I will now review our fourth quarter and full year results for fiscal 2022, beginning with the fourth quarter. All figures are GAAP unless otherwise noted.

Dragonfly Energy generated \$20.2 million dollars of Net Sales in the fourth quarter, which was unchanged compared to the fourth quarter of 2021. While total battery unit sales increased by approximately 15% year over year in the fourth quarter, we saw a significant mix shift toward OEMs compared to the same quarter a year ago, with our OEM partners accounting for 45% of revenue in the period, compared to just 15% of revenue in the fourth quarter of 2021. 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 55% of sales in the quarter, compared to 85% of sales in the same quarter a year ago. The year over year decline in our DTC business was primarily driven by macro-economic factors, with overall after-market demand for batteries and accessories declining as interest rates and inflation rose. While we have seen recent signs of stability in this segment, we expect growth in this market to remain more muted, at least through the first half of 2023.

Total fourth quarter battery revenue was \$17.4 million, up approximately 7% year-over-year, while accessory revenue of \$2.8 million declined approximately 16.5% compared to 4Q21, largely due to the decrease in DTC sales, which tend to have more accessories attached to them.

Dragonfly's Gross Profit in the fourth quarter of 2022 was approximately \$4.4 million dollars, a decrease of \$1.7 million dollars from \$6.1 million dollars in to the fourth quarter of 2021. The decline in gross profit was driven primarily by our mix shift toward OEMs, which typically carry lower average sale prices, as well as some higher material, component and logistics costs compared to the prior year period.

Operating Expenses in the fourth quarter were \$12.5 million, up from \$6.2 million in 4Q21. Fourth quarter operating expenses included business combination and other deal related expenses of \$1.1 million associated with our going public in October of last year.

Net Loss in the fourth quarter was \$11.7 million or \$0.27 per share, compared to a loss of \$80 thousand dollars in the fourth quarter of 2021.

Fourth quarter EBITDA was a negative \$7.8 million in 2022, compared to positive \$0.1 million in the December quarter of 2021. Adjusted EBITDA, excluding stock-based compensation, deal-related expenses and other one-time items, was a negative \$4.8 million in the fourth quarter, compared to a positive \$0.8 million in the same quarter a year ago. For a reconciliation of EBITDA to adjusted EBITDA, please refer to our earnings press release.

Turning now to our full year 2022 results, Dragonfly generated approximately \$86.3 million in Net Sales in 2022, an increase of 11% year over year compared to \$78 million in 2021.

From a channel perspective, our OEM segment grew by more than 300% year over year and represented approximately 39% of total sales, compared to roughly 11% of sales in 2021. OEM growth was primarily the result of increased adoption of our products by new and existing customers, several of whom have begun to "design in" our batteries in various RV models as original equipment, or to have increased purchases in response to end-customer demand for safer, more efficient batteries and as a replacement for traditional lead-acid batteries.

DTC revenue represented approximately 61% of 2022 net sales, down from 89% in 2021. Our DTC sales declined by approximately 25% year over year mainly as a result of decreased customer demand for our products due to macroeconomic conditions.

From a product perspective, battery sales of \$71.9 million grew 9% year over year compared to \$66.0 million in 2021. Growth in battery revenue was driven by increases from our OEM partners, partially offset by a year-over-year decline in our DTC segment.

Accessory revenue of \$14.3 million increased by 19% year-over-year compared to \$12.0 million in 2021, as we continue to see an increasing attach rate of accessories as part of more complete storage system sales.

Our 2022 Gross Profit decreased by 19.0% to \$24.0 million, compared to \$29.6 million in 2021. The decrease in gross profit was primarily due to a change in revenue mix that included a larger percentage of lower margin OEM sales, together with a relative increase in some key components within our cost of goods.

Operating Expenses in 2022 were \$37.5 million, compared to \$23.2 million in 2021. Operating expenses in 2022 included business combination and other deal related expenses of \$1.1 million associated with our going public in October of last year. The increase was driven by significant increases in G&A expenses, primarily due to costs associated with our business combination and other public company expenses, and growth in our Sales and Marketing spending primarily as a result of increased investment in personnel and materials to drive growth in our existing and adjacent markets.

Our net loss for 2022 was \$19.1 million or \$0.50 per share, compared to net income of \$4.3 million, or \$0.11 per share for 2021.

Fiscal 2022 EBITDA was a negative \$12.6 million compared to \$7.1 million in 2021. Adjusted EBITDA, excluding stock-based compensation, deal-related expenses and other one-time items, was a negative \$7.9 million in 2022, compared to \$8.5 million in 2021.

The company ended the year with \$17.8 million in cash and \$76.2 million in debt. Dragonfly retains strong financial flexibility with access to a \$150 million equity line of credit.

Before turning the call back over to Denis, I would like to take a moment to discuss our expectations for the first quarter of fiscal 2023.

Many of the revenue trends that challenged us in 4Q have lingered into the start of 2023. 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 such, we expect March quarter revenue to be in a range of \$17.0 - \$19.0 million dollars.

We expect gross margin to increase modestly on a sequential basis due to lower overhead, depreciation and labor costs.

Operating expenses in 1Q23 are expected to be in the range of \$11.5 - \$12.5 million, in-line with recent quarters when excluding the impacts from our business combination.

We expect total other income and expense to be an expense in the range of \$3.5 - \$3.7 million, and expect a net loss in the range of \$10.5 to \$11.5 million, or a loss (\$0.27) to a loss of (\$0.30) per share based on 38.7 million shares outstanding.

Looking at the full year, we expect revenue growth to accelerate as we go through the year, with particular strength in our OEM business in the second half of 2023. We are forecasting net sales in the range of \$112 to \$122 million, or 36% year-over-year growth at the mid-point of our guidance range.

Looking beyond revenue, we expect gross margins to increase modestly on a year-over-year basis and expect operating expenses to grow, but at a slower rate than revenue. And lastly, we expect to return to being net income positive in the second half of the year.

With that, I will 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 earlier, we are a uniquely comprehensive lithium-ion battery technology company which spans activities from the development of cell manufacturing processes, to the design and assembly of battery packs, and the integration of these packs and other ancillary components into full energy storage systems; and we also are involved in marketing and the sales of these systems into a variety of markets.

However, it is worth taking a moment to emphasize that Dragonfly's future goals are not related to electric vehicles. While many lithium-ion battery technology companies are focused on propulsion, electric vehicles, very high energy density, and very rapid charging, our long-term ambition at Dragonfly is directed toward enabling safe and affordable grid storage, and therefore we are focused on achieving storage solutions that are non-flammable, long-lasting and provide lower costs.

At Dragonfly we want to create non-flammable storage solutions that will facilitate the adoption of a smart, reliable grid, through the deployment of batteries to every home or business, on or off the grid. Our development work on non-flammable, dry deposition cell chemistry and manufacturing processes goes back more than ten years, and we are in the process now of establishing our pilot line. We are extremely encouraged by our solid-state progress to date, and we look forward to sharing more about our unique, patented manufacturing process with you as we move forward, with commercialization of our cell manufacturing technology expected to occur in 2024.

While our long-term goal of enabling safe, affordable micro-grid storage drives our development work on non-flammable, dry-deposited cells, we continue to innovate within our existing portfolio of battery storage products to further penetrate our existing markets, while opening up new market adjacencies. Recent announced product launches include 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. Customers across various industries have power when they need it, with full visibility into the status of their power system based on the ability to monitor voltage, temperature, current load, battery health, system balance and more.

However, 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 that 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's 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.

We are very excited about where we are headed and the progress we have made to date. With that I will turn the call over to the operator, who can open the line for questions.

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 one on your touch tone phone. You will hear a three-tone prompt acknowledging your request and any questions will be pulled in the order they are received. Should you wish to decline from the poll process, 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 Brian Dobson with Chardan. Please go ahead.

Greg Pendy, Chardan

Hi, it's Greg Pendy in for Brian Dobson. Thanks for taking my question.

Just a couple. First, can you talk about the inventory levels.? I know there was a sharp slowdown in the market, but how should we be thinking about those levels right now, and is that something you're going to work through throughout the year?

John Marchetti, Chief Financial Officer

Sure. How are you Greg, it's good to talk to you here today.

I think from our perspective, we did go into the second half of last year with a concerted effort to build up a little bit of inventory because of the increase in the OEM business specifically where we wanted to make sure that we had the supply that we needed to meet the delivery timelines of the OEM partners. Historically, when we've had the majority of the business focused on the direct-to-consumer side, that was a little bit easier if we had a small delay before we could ship products out. That was something that we were able to absorb without too much trouble.

But as we had an increasing amount of OEM business coming onto the books, we did make a concerted effort to bring up some of that OEM inventory level, so that we knew that we could make sure that we were meeting all the delivery timetables. That said, I do think as we're looking out, particularly over the next couple of quarters, we're going to start whittling some of that inventory down given just the overall little bit of softness that we're seeing in the market. That, and then I think that logistics timelines in general have started to improve as well. So, we're not as concerned about getting resupply in a timely fashion as we may have been, say six, nine months ago.

Greg Pendy, Chardan

Great, that's helpful. And then can you just talk a little bit about maybe the cadence of margins? I assume the mix is going to happen throughout the year, so can you just give us maybe a bigger picture on how we should be thinking about margins relative to the mix, maybe shifting a little bit in the background?

John Marchetti, Chief Financial Officer

Sure. I mean, I think as we continue to go through the year, we do expect margins to improve modestly as we go through the year. On an annual basis, we are looking for a couple hundred basis points, year over year improvement, if you will, somewhere in that range. So, I think that what you're likely to see is those margins will continue to be in that in our high 20 - low 30% range, give or take in any given quarter depending on mix. I don't think there's going to be wild variations either way given from where we are now in terms of the percentage of OEM versus DTC.

Greg Pendy, Chardan

Okay, great. That's helpful.

And then just in addition, I appreciate the color on the impact that interest rates has had on the consumer, but would you characterize the slowdown in just the RV sales market as, - was there a pull forward or do you think it's just an outright demand decline right now due to the interest rates?

John Marchetti, Chief Financial Officer

No, I mean...maybe I'll take a stab at it and Dennis, maybe you're a little bit closer to the overall industry dynamics and can chime in as well.

I don't think it's necessarily a pull forward. I think what you're seeing, quite frankly, is an adjustment, right, to financing trailers with interest rates again, where historically over the last decade, that your interest rates were essentially zero and you were getting that money for free.

And so, I think the entire industry is kind of finding its footing again in a rising rate environment with inflation and things like that as consumers, quite frankly, have a little bit less disposable income to play with. So, I don't think it's a question of pull forward or anything like that as much as it's just a situation of the industry, which has been cyclical in the past and will be cyclical in the future, kind of going through its trough year, and I expect it to emerge on an upswing here late this year, or certainly no later than that.

Dennis, I don't know if you've got other data points that you think are relevant to share.

Dr. Denis Phares, Chief Executive Officer

Yeah, I agree. It's definitely a slowdown. The RV industry tends to be a bellwether for the economy, and we saw the drop occurring last year continuing into this year. And there's signs that we bottomed and we're looking forward to really come back to life as the year progresses.

Greg Pendy, Chardan

Great. And then if I could just sneak in one final more.

I know you guys have a lot of opportunities and markets, but... And I apologize if I missed it... But can you provide us any updates on the boat market? I think there was some changes in insurance that might spur growth. Has that taken place? Where are we at on that front?

Dr. Denis Phares, Chief Executive Officer

I think what's happening with the boat market is that you're right that there was some concern in terms of insuring boats with lithium batteries on them. A lot of that had to do with the lack of standards that existed in the industry and that what happened recently is the ABYC put out some recommendations that really identified the metrics that need to be hit in terms of the lithium-ion battery systems that are put on boats.

I think that does put insurance companies at ease. I think it was an important first step. If you look at what happened with RVs, these standards were introduced several years ago. So, the marine industry is a little bit behind by a couple years. What happened after that in the RV industry is the turnover happened very rapidly. So, we do expect this to really accelerate in the marine market, something we're very excited about, and that's why a lot of our new products and features were aimed towards addressing these standards. So yeah, we're looking at some pretty positive penetration for us in the marine segment coming forward here.

Greg Pendy, Chardan

Great, that's helpful. That's all I have. Thanks a lot.

John Marchetti, Chief Financial Officer

Thanks Greg.

Dr. Denis Phares, Chief Executive Officer

Thank you.

Operator

Your next question comes from George Gianarikas with Canaccord Genuity, please go ahead.

George Gianarikas, Canaccord Genuity

Hey everyone, thanks for taking my questions.

So maybe we can start just on your market share dynamics in the DTC market. I'm curious as to the extent you can gauge this stuff real time. How much would you assume your market share has changed over the last, call it, 3 to 12 months, particularly given the dynamics in the overall RV market?

John Marchetti, Chief Financial Officer

Sure, maybe I'll take a stab at that first-

Dr. Denis Phares, Chief Executive Officer

Yeah...

John Marchetti, Chief Financial Officer

Oh, I'm sorry, Dennis, go ahead. Go ahead.

Dr. Denis Phares, Chief Executive Officer

Oh, what I was going to say is that obviously our penetration is improving in the RV market. I think the fact that we were able to grow in the slowdown, especially DTC, is the case that we are really garnering some success among OEMs in RVs. And obviously it's something that we've been working for quite some time. In terms of DTC, we've gained penetration continually. I think the slowdown in our DTC sales represents not a slowdown in our overall penetration, but rather just a slowdown in overall consumer spending. And that's what we've seen over the last year, but I think our penetration is definitely a positive story moving forward.

George Gianarikas, Canaccord Genuity

Okay, thanks. And then maybe just to focus on the guidance for the quarter and then for the year. It implies a steady ramp throughout 2023, and I'm curious as to whether there are certain OEM programs that give you the confidence in achieving that full year of guidance, or are you assuming an improvement in the overall RV market? Just any kind of thoughts on how you came up with that number for the year. Thanks.

John Marchetti, Chief Financial Officer

Sure, George. I think the biggest driver of that growth, particularly in the second half of the calendar year for us, is the fact that we do know that we're winning new programs with RV OEM customers, both existing customers and new RV OEM partners. The model year for the RV market starts on July one. So, like a lot of things, as you get designed in, it's that sort of start of the new model year that then triggers those shipments and those deliveries into those RV models.

So, a lot of our focus, particularly on the full year outlook, really is around programs that we know we've either already won or have an extremely high confidence that we will be winning between now and into the middle of the year, when the new programs begin to roll off the lines.

George Gianarikas, Canaccord Genuity

So, there's not a significant change in the overall macroeconomic outlook assumed in the quarterly ramp throughout the year?

John Marchetti, Chief Financial Officer

Not particularly, no. I mean, again, this is based on our work with our partners in terms of what they expect to be delivering throughout the year. As Dennis did mention, we have seen some signs of things starting to get a little bit better for us. But we have taken a pretty conservative view, I would say, on trying to forecast some big bounce back, particularly on the direct to consumer side in the business based on just a couple of, sort of, near-term data points.

So, for us on that growth in the second half of the year in particular, we're really basing a good bit of that on programs that we feel very, very comfortable with.

George Gianarikas, Canaccord Genuity

Got it.

So just in terms of your financial guidance from a net income to an EBITDA perspective... I'm sorry I then backed into this, but you're getting four q...net income positive in the second half of the year. Now translating it back to EBITDA, is that kind of a second quarter turn positive or a third quarter turn positive? Of you can just help us conceptualize what that P&L looks like as you ramp throughout the year?

John Marchetti, Chief Financial Officer

Yeah, I mean from our perspective, right, I think if you think about the full-year guidance, George, what we're thinking is we're probably somewhere in the, let's call it 60/40 in terms of the back half being 60% of the revenue for the year and the first half of the year being roughly 40%.

George Gianarikas, Canaccord Genuity

Okay. And then any guidance for CapEx for the year? How are you thinking about that number for 2023?

John Marchetti, Chief Financial Officer

We didn't specifically provide any guidance, but I would say is we're looking at 2023, excluding some of the expenses that we may or may not pursue on the solid-state side...those are always somewhat success-based in making sure that we're being somewhat careful for them. I think that CapEx excluding some of those solid-state investments is likely to be relatively flat on a year-over-year basis with what we're looking at from a '22 perspective.

If we have the ability to increase that in a more meaningful way to drive some additional investments around the solid-state side of things, then I think we certainly would take that opportunity. But absent that, I think you're looking at a relatively flat year from the spending perspective.

George Gianarikas, Canaccord Genuity

Got it. And then maybe just focus a little bit on the wing product that was announced fairly recently? Anything you could share there in terms of success, market share dynamics or partnerships?

Dr. Denis Phares, Chief Executive Officer

What we are talking to...

John Marchetti, Chief Financial Officer

We've just... Oh, go ahead, Dennis. Sorry.

Dr. Denis Phares, Chief Executive Officer

Yeah, we are talking to several potential partners there. Obviously, this product was meant as a residential storage unit. That's certainly a new market for us. It can be applied to our existing markets as well, the RV and marine markets and the off-grid markets.

But what I will say about it is it is made possible by some of the new technology that we developed surrounding the communication, the new balancing mechanisms for the cells. We leveraged all of that to create a product that we think is really going to make a big splash in some of these markets, get us some more penetration in some of the other adjacent markets we've been working towards. And we're basically looking at this starting to make an impact probably around the summertime.

George Gianarikas, Canaccord Genuity

Got it.

And sorry to bounce around here, but I'm curious as to whether you can share any thoughts on the recent reduction in lithium prices in the market, and the apparent loosening in supply of cells. I mean, what does that do for you? I know you've got guidance your gross margins, but to the extent this continues, is that a potential upside driver to your margins? ...Maybe if not this year, in 2024?

John Marchetti, Chief Financial Officer

I think the short answer there, George, is yes. I think the timing of it does remain a little bit uncertain in terms of when we'll be able to really take advantage of maybe some of those prices coming down. As you mentioned, it may have more of an impact on '24 than it does here in '23 for us. But I do think it's also loosened up the supply chain a little bit as well.

As I mentioned earlier, in responding to Greg's question, I think it gives us a little bit more confidence to be able to whittle down some of the inventory that we've been carrying more as a safety stock, things of that nature, because we just feel like the supply chain seems to be functioning a little bit more efficiently now, where we're getting supply in on a more regular basis. We're not seeing things get held up at sea. We're not having backups at the ports. We're not having our own suppliers have to reach as far out in the future just to secure their materials. So, I think the entire supply chain is working a little bit more effectively, but there's clearly an opportunity for that pricing to continue to work down, let's call it over the next 12-24 months. And I would expect that particularly next year, but hopefully this year as well, but for particularly next year, we should be able to get some advantageous pricing off of that.

George Gianarikas, Canaccord Genuity

Great. Well, thank you so much for your time.

Dr. Denis Phares, Chief Executive Officer

Thank you.

John Marchetti, Chief Financial Officer

Thanks George

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star followed by the one. Your next question comes from Pavel Molchanov with Raymond James. Please go ahead.

Pavel Molchanov, Raymond James

Thanks for taking a few questions. You mentioned in your remarks that off grid solar has emerged as kind of a resilient market, maybe not as economically sensitive compared to RVs and marine. Is any of that related to

the Inflation Reduction Act and the solar tax credit? Or is it just a matter of energy prices going up and stimulating demand?

Dr. Denis Phares, Chief Executive Officer

You know, Pavel, I think that increased occurred before the IRA really came out and before we understood the ramifications of that. The off-grid market was more a response to, I think, frustration in certain places of losing power from the grid. And there was a lot of success in what we demonstrated in RV, that folks were able to boondock and really get off of the grid, and still be able to run all their appliances.

And so, the nice thing about the off-grid market for us, obviously it's smaller than the RV market, but as we noted, it's the fastest growing. The nice thing about it is they're typically larger systems. Stationary systems tend to be larger than mobile systems. It's something we really did want to take advantage of as we designed the new products and design the new features. And so, it's a market we're definitely interested in continuing to drive.

I'm not sure how the IRA is going to play into it specifically. It certainly will have a large effect in terms of the grid side market, and of course, anything that's being produced domestically, it's going to benefit, it's going to benefit the producers of those cells and packs. But the off-grid market really is something that I think is a continuation of what's been happening over the last couple of years.

Pavel Molchanov, Raymond James

That that's helpful.

If we go back to the SPAC process more than a year ago now, all of your kind of financial targets and expectations were predicated entirely on US domestic sales. Are you looking at international expansion and if so, any particular geographies that might appear to be enticing?

John Marchetti, Chief Financial Officer

Pavel, I think that it's something that we continue to evaluate. We do have international sales today. They are relatively modest, and we do ship to a number of different geographies, but I wouldn't say that it was a concerted effort, if you will.

We are evaluating particularly some European markets where we think we may have some distribution agreement opportunities, things along those lines, to try to penetrate some of the existing markets that we're in. But I think more importantly, as we continue to expand beyond the consumer markets like RVs and marine and what have you, I think as we start to get a little bit deeper into the industrial markets, that's where we're likely, I think, to see an opportunity to expand a little bit more aggressively internationally.

So, while we certainly are open to those opportunities, I wouldn't say it's something that we're necessarily extremely focused on right now as a growth avenue. I think for us it's about the sort of expanding the addressable market that we have here right in front of us from a lead-acid replacement perspective. And I think that just sort of naturally lends itself in certain instances to a bit of an international component.

Pavel Molchanov, Raymond James

Got it.

And then lastly, you touched on this just now in fact, sort of diversification of your verticals. One of the interesting ones is telecom backup, and can you give an update on what that currently looks like, particularly with a 5G rollout?

John Marchetti, Chief Financial Officer

Sure. I mean, I think we're still very early stages, at least for us, in that telecom market. Again, the fortunate thing for us is they are dominated by lead-acid batteries today, and that's a market, or a problem that we know how to solve pretty easily. So, we have had some early discussions about different form factors, performance characteristics that would need to be in place for those solutions. And we're very comfortable with our ability to provide those, but we don't necessarily have a go-to-market partner yet in that telecom space.

I think that, again, where we feel very good about a lot of these market adjacencies is, as Denis mentioned early on in his prepared remarks, being a full battery technology company, we're able to design the packs that are needed for these different markets. We can do different form factors. We can do, really, design whatever solution and help our partners implement that solution in ways that a lot of our competitors just are unable to.

And so, I don't have anything specific to share with you right now, Pavel, on the telephone side, but I do still feel very, very comfortable that that's something that'll be continuing for us in the future.

Pavel Molchanov, Raymond James

Got it. Thank you very much.

John Marchetti, Chief Financial Officer

Thank you.

Dr. Denis Phares, Chief Executive Officer

Thank you, Pavel.

Operator

There are no further questions at this time, please proceed.

Dr. Denis Phares, Chief Executive Officer

Well, thank you everyone for joining us today on Dragon Energy's very first earnings call. Thank you for your questions, and we look forward to sharing additional details with all of you in the coming quarters.

Have a good day.