Complete Solaria 3Q 2023 Business Update Presentation

November 14, 2023

T.J. Rodgers, Executive Chairman of the Board:
Good afternoon. My name is T.J. Rodgers and we're here to present the Complete Solaria third quarter report.

Starting at my left, I have Taner Ozcelik, who I'm going to introduce to you. He is going to take over as CEO of the company. Brian Wuebbles, who's our CFO. Will Anderson is the founder and current CEO of the company. He will be remaining with the company. And me. I've been with the company since 2018, including the merger of the company I joined and Complete Solaria.

OK. I have the front page of the report. I'm going to show you a couple things, then some graphs. Relatively short report.

In summary, revenue this quarter, as a systems company - which we are completely now, is $24.6 million dollars and that's flattish, down 4% from the prior quarter. We did have module sales on top of that, but given that we're getting out of that, that was reported as discontinued operations not as revenue.

Our gross margin was up nicely from 18% in the prior quarter to 25%, and we will have more progress to talk about on gross margin as we go through the pitch.

We sold a module business and transferred its employees to Maxeon. For our WIP and our people and our patents in that area, we got $10.2 million bucks.

The main event right now is ‘leaning out’ the company, using Toyota Production System terms. We've had a second RIF of 68 people, with annualized savings of $7.5 million. All in all, when I get done describing the list of things we've done to reduce costs, we're knocking on the door of cash flow break even. We'll show you some projections. And our bookings remain strong. We had $56.4 million in new contracts signed and that was a record for the company.

I have this little…on the first page of the report, I have this little mini spreadsheet which kind of talks about the things I get asked about all the time. So the obvious Revenue, Gross Margin, Op Inc., and then I'm talking about Cash Flow, Cash Balance. I'll refer to the non-GAAP numbers, the reconciliation to GAAP. These are the GAAP that is included in the report. We have Q2, Q3 coming off of Q2...and then something we usually don't do, we have a forecast for Q4. We thought carefully about this forecast, given that we've had a bad record of making our forecasts.

OK, so our Revenue was $24,590 down from $32,[000], but there is a discontinued operation. I talked about gross margin up 7 points. We're forecasting that our... I'll come back to the forecast in a minute. We lost $9 million bucks down from $15. Our Cash Flow was negative $(884), about the same as last quarter. And our Cash Balance at the end of the quarter is $1,661.

Next is our forecast for the quarter. For reasons we'll explain inside, we've decided to ramp down the fab a little bit, primarily to get it under control, and install some quality systems. Our Gross Margin, due to cost reduction is going to go up. Our Op Inc. loss is going to get cut in half. We'll have modest Cash Flow and will end up with about the same amount of cash as this quarter.

Those of you out there might ask, how am I going to - after a quarter with a $9 million loss and $1 million starting the quarter, - maintain that balance, and the answer is given here.

The Cash Flow obviously includes operational losses and also any funding. So, there was funding in this number we've been funding the company like any startup. We got $10 million in a bridge to our SPAC in Q2. We got $19.5 million dollars in a SPAC itself, back itself in Q3. And the deal I just talked about, is banked and we got $10.15 million from Maxeon.

Now on these forecasts, we've been deliberately conservative, as I said, to make the quarter and do it right. But I do give ranges down here. So basically, the Revenue we know pretty well already, and we've got a range that brackets it pretty tightly.

Gross Margin is a little bit less well-controlled. We don't think it will be below 32[%] and it could be as high as 40[%]. Will, will actually explain that to you.

Our Op. Inc. is going to be a loss. Here we've got the exact number…there is the range.

And here I've written $1 million Cash Flow minimum and $1 million end cash minimum. And what I mean there is, our company is currently fundable, without extraordinary cost, and we've got an agreement with current shareholders that they're going to keep us afloat for the next two quarters. Actually, through to the middle of next year, and to do that because the price of the stock right now is dilutive and we're interested in keeping afloat. We're not interested in raising a bunch of money at very low prices. So, this is the picture going forward.

Graph of revenue. So here I've got revenue. The green is systems revenue, and the yellow is the modules revenue, and there is no modules revenue. We had money come in, but it wasn't called Revenue last quarter. And here's our forecast with a slightly down Revenue, and higher Gross Margin…$22 million, plus or minus one; 35percent, plus or minus 5 [percent] really.

So, we are now a systems company who made that transition.

This graph talks about our problem. So, we call our manufacturing site our fab…I guess that's what I call it and it's taken on over there. The work in process is not in wafers but in jobs. How many jobs are we doing? And we look at that continuously, but we get reports every work week.

Complete Solaria has their own software to track the fab, and it's pretty complete. We're working on it to make it better, but it is more than adequate for doing the job, and when we tune it up some, we'll be in good shape.

The little anomaly here is when you pick it up, you get…Now is work week 45, September 30 is the 39th work week… So, the work weeks are simple: 13, 26, 30, 19, 52. So this is going backwards in time...I just want to let you know that.

Back here, the company had exceptional customer reporting on the quality of work, and they were running the fab at a WIP level of about 2,000 jobs. And what happened was we started getting this big bunch of orders that I've talked about, it continued through last quarter. We thought we had fixed up the fab at the beginning of March and we started just putting every order that we got into the fab, and that turned out to be a mistake.

So, you can see here my mistake really, because I get this report and I should have blown the whistle earlier. So here you see the WIP going up. Now what that means is, if you go from a WIP of, let's say 2000 to WIP almost double that. If you do the same amount of work, double the WIP, moves half as fast.

And that's our problem. When things move half as fast, then they come out later. Sometimes financing expires before you can get paid, and it causes a lot of downstream problems.

When we finally got up here, I brought out the Castor oil and I shut down 'starts'. So, starting here, at the peak in work week 39, at the end of September when I reviewed the WIP, I said we're not going to put anything in the fab for a while, until the inventory starts moving downward. And this is what's happened, and it moved downward nicely. Five hundred jobs came out of the fab.

I guess, just to let you know - this is our WIP, our orders, our jobs pre-construction. This is post construction. And these are in the various phases of cash collection. And on top we've got some WIP for new houses, and stuff like that, that I'm not going to talk about today.

The last milestone relevant here is the purple bar, which is cash collections. So, you can see where the WIP is.

We needed to cut costs. It was clear to me that our P&L was going to take too long, and too much integrated money, to get to where we needed it to be. So in Q2, at the end of Q2, we'd already done one RIF and we were down to 415

people. – And by the way, that equated to about $375,000 per employee, per year. So, it's not a bad number. They're not really overstaffed on the metric. A million dollars per employee, excuse me, a million dollars per employee *per year* is exceptional. And they were at that 385.

We did the first RIF, I was expecting a lot of trauma. Fact is, the they sucked it in and did it, and then they got almost no complaining. There was back drift, which is my fault. I wasn't watching this as much, and we always had good ideas for hiring people.

So here I introduced the system that I used before. It's called a req auction. And basically, it holds the head of a company constant and only allows for a new person to come in if somebody else left. And even then, it's conditional upon giving of the req. for the replacement to the most important position that needed whichever VP that comes from. That is, there's no automatic replacement. Very powerful system. Turned that on here.

Then we had another layoff. We had a lot of subcontractors. Too many. They're cheap. People tend to over hire on that. We finally got accurate org charts for that part of the deal, and we exited the module business. So, there is a huge drop to 321. And then this is I talked about the req auction method, - this drift downward, as opposed to a drift upward, is what happened after that.

So, we glided down 10 positions where we would rather have the savings of the person who left, then replace the person, and the person's boss said it was OK, they'll live with without that person. And we just had a second RIF. We're now on the head count of 285, so if you go from 415 to 285, we've lost 33% of our people. For those of you that have been involved in RIFs, 5% is traumatic, 10% is draconian. And this company has been through some tough times, induced by management, the Chairman. And I have to commend them for having gone through this period and never once making excuse we can't do this or that because of the layoff.

Okay.

We have a new CEO. His name is Taner Ozcelik. And founder, Will Anderson, will report to him and they will work as a team to run the company.

I took a 5-page resume and picked out the stuff I thought you would like to know about. He's Turkish.

When he went to university, as in many countries, India for example, you take a test, a standardized test, and you get ranked. And the top people get to go to college and the rest of them don't. So, he was #82 among 650,000 college entry students. One, it's extraordinary, that's the top .013%. And two, the only other guy I know that ranked that high, you may know his name, is Badri Kothandaraman and he's the president of Enphase, and he was #156. And of course, in India that there's another digit on the population.

Translation, real smart guy. Bronze medal at the World Mathematics Olympiad and another American Medal. Point is, high IQ, smart guy. Practical. Does patents. Has papers. He knows about money. MBA from Wharton.

I picked out the big jobs that are relevant to us. First big job was at Sony. They wanted to build a semiconductor unit. He built it. Started it at $0 and grew it up to $200 million.

Then he went to NVIDIA, and I've done reference checks at these companies. He was there for a decade. His last job was seven years. So, he tends to stay a long time where he goes. And he founded the automotive semiconductor unit for NVIDIA, and he grew it from $0 to $600 million.

The big NVIDIA chip is called Tegra. It's artificial intelligence supercomputer chip. The end of the line after they start with gaming chips and it's designed to do autonomous driving. Although once you have the chip and know how to use it, you can use it in a lot of applications, and some cars have four or five copies of it in various functions.

He designed…he ran the division, so he was also in marketing. And he designed it into 126 cars at 23 companies, and it got the car of the year award: Tesla Model S and Audi A3.

So, if you wonder what it takes to have a car drive itself and not screw up, and you read all the stuff in the newspaper, you realize that the technology and the intelligence of the group behind it, NVIDIA in particular, is pretty special. He left NVIDIA and went into On Semi. He got an offer to run a division that was called Smart Sensor. It had 800

employees, 13 companies, quarter million-dollar budget…quarter Billion-dollar budget, excuse me. So, he had a chance to run in something in bigger scope in an adjacent technology area. He inherited it at $590 and grew to $850 million. Actually, at a run rate, I didn't put it in here - but he put it in parenthesis, run rate got to a billion in his last quarter there.

And I also put in this one, maybe it was a little shot at me. He fixed the distress asset which was the Cypress imaging division. And I fess up here, I had an imaging division in Belgium. I really didn't like it a lot. I got rid of it. I was distressed to be associated with it, and he fixed it up… And so we got a new President. We're going to make things move.

And also during the search for the President, I met another guy, Chris Lundell, and I've asked him to join the board and he's accepted. These are both done deals. His first day is next Monday. He's already on board. - Brigham Young, MBA in finance and economics. He worked at Novell for 13 years and had promos up the ladder, leading the VP of Marketing. Then he went to Vivint Solar and he was there from 2013 to 2016. And he was the Chief Marketing Officer at Vivint in 2013 at their IPO.

So, he's got that connection to solar. He now runs his own company, called CMO Grow. It's a national consulting company that creates scalable growth plans. That's one reason on the sales and marketing side he was attractive. The other one is he lives in Salt Lake and two thirds or more of our employees are in Salt Lake. And Salt Lake, - I don't know if you know it or not, but many of the solar companies are there, six, seven, eight of them. And it's kind of a solar valley and he's well connected. He has his own health club, and he's got the 'Who's Who' of the solar valley in his health club. So, as we try to build the company, and our fab and our primary residence is in Salt Lake, Chris will help us a lot.

So, we built the team big time this quarter.

OK. Let me turn it over to Will. He'll do the CEO report for you.

Will Anderson, Chief Executive Officer:
Thank you, T.J.

So, to begin, I just want to provide just a little bit more context around the shift in our business strategy. At the end of Q3, we announced, and hopefully most on this call have been able to see those announcements, that we had decided to shed our modules business.

Now, it had only been about a year ago that we acquired Solaria to become Complete Solaria, and established 2 business units, modules and systems. The systems business is the business that I started and ran for 13 years, and that's the business that we are shifting back to.

And the reason why we made that decision is, we quite frankly simply did not raise enough money when we went public to be able to execute on a very ambitious business plan.

So, considering the existing environment, where the entire solar industry is under a lot of pressure, we made the decision to preserve cash, generate cash out of the sale of the Solaria assets, and ensure our viability and ongoing opportunity for success.

So, I'm very encouraged moving into the fourth quarter at the progress that we've made, and we have a chance to start a next chapter in the history of this business. So, starting from the divestiture of that modules business, we are now a systems-focused business.

As I said, this is the business that I founded 13 years ago on 2 core concepts. The first is we make selling easy. We use software, we use systems, we use sales support, and we aggregate financing and other systems in order to be able to make it easy for our sales partners out in the field to attract customers and sell solar systems to them.

Secondly, we deliver a fast, world-class customer experience.

Now as we've talked about, we've been able to be successful, including recently where many others have really struggled, in generating new contracts. And as T.J. explained, this actually created a problem in terms of our ability to deliver on that second promise, which is a fast, world-class customer experience.

And as a result, our revenue stayed flat. And our customers started experiencing longer cycle times as our WIP levels increased.

So, we made the hard decision to start limiting our orders, in order to bring our WIP levels down, in order to focus on our customers. Because that is ultimately the strength and heart of this business, delivering a superior customer experience. And we know if we get that part right, we will be able to increase our orders again and generate the demand that we've always been successful at achieving.

So, in order to bring that WIP down and improve our activities, we've taken a few actions. As we've mentioned, we've already started to limit the flow of new orders into the line, to reduce the number of projects that we're working on and speed up the line.

Secondly, we've hired a very experienced V.P. of quality and she is leading a task force to remove defects, catch them before they happen, and eliminate reworks.

We've also hired a new V.P. of IT and his responsibility is to help improve the scalability of our data systems, the software that runs at the heart of our business and allows us to deliver that world-class customer experience.

And finally, we've continued with existing engagements of world class manufacturing experts, that have long backgrounds at Cypress Semiconductor, at Enphase, and others.

T.J. has discussed in our quarterly report, our North Star plan, which is our plan to ensure that we can achieve profitability and cash flow break even, rapidly.

It has three components. First, lowering our OpEx. We've done that through headcount reductions. We've also done that through significant cost reductions. And in Q4, our target is to achieve $5.9 million of OpEx, which is more than a 50% reduction from Q2. We're also making great efforts to improve our gross margins and I'll go into a little bit more detail on that momentarily, but as we've shifted from the modules plus systems business, to really focus on systems, this is going to enable us to achieve much higher gross margins and have much greater control over our P&L.

And finally, we're in the process of lowering our commission rates through selective activities with our various sales partners, in order to ensure that the orders that we do get in are going to be more profitable and better for our cash flows.

So, let me take a minute to talk about our gross margins. So first off, we can see Q2 and Q3 actuals, and three major components of our COGS being broken out into equipment. This is all of the solar panels, inverters, the racking things that are actually installed on the site. Plus, our installation labor. Plus, internal allocation, which is really just our costs of delivering the product, the people that are involved in our production facility in Salt Lake, our operating leases for our warehouses, et cetera.

So, from Q2 to Q3 on the systems only business, we advance from 21% to 25%. And again this is systems only, so, I reported 18% was a combined modules plus systems. So systems only, 21% to 25%.

This was aided by an improvement in module cost in Q3, and that improvement is going to be seen much more dramatically in Q4 as we've secured pricing arrangements with our vendors, that are now in Q4 delivering a much lower cost of goods.

Additionally, we have an opportunity to significantly lower our installation costs. In Q3, you actually see that our install labor went up, and this is as we were hiring new installation crews to operate as internally employed crews who will install our projects. So, we will now operate on a hybrid model that includes internal installation crews, as well as third-party labor.

And the key to bringing down this cost is increasing the percentage of projects performed by installation crews that are internal to us, and maintaining them at full capacity utilization, while utilizing our third- party partners as overflow. That's a significant cost reduction.

And then finally, the cost reduction from the various headcount reductions that we already highlighted resulted in a significant decrease to our internal allocation from Q2 to Q3. And for Q4 we're only assuming keeping that flat, although there are further opportunities for improvement there.

So, all told this creates a 40% target for our COGS…sorry, for our gross margin, we're forecasting 35%. That's what we're committing to you. And that is our expectation, but there's room to exceed that, and this is our plan to do so.

13 years as CEO of this business, and it's been a wonderfully enriching and exciting part of my career, and I'm excited to take the next steps welcoming Taner as our new CEO. We've been able to accomplish a lot of things over that 13-year period. I've seen hundreds of solar companies come and go in the time that we've been building our business. At the end of the day, we've built a really strong business that is positioned to do very well moving into the future, even as there is a certain amount of uncertainty for the broader industry.

We've taken the necessary steps to ensure that we're going to be successful. These include refocusing back solely on our systems business. Managing our new orders to make sure that we're improving our operations, and ensuring that the customer experience is world class. Reducing the WIP and speeding up our systems. And finally, bringing on a new CEO who's managed very large organizations and who's going to help us scale. I'm very much looking forward to working with Taner and continuing to build this business into what it's capable of becoming.

And so with that, I would like to give him an opportunity to introduce himself and say a few words, Taner.

Taner Ozcelik, In-coming Chief Executive Officer:
Alright. Thank you, Will.

That was done, I agree with everything you said. You guys have built an amazing business, in my opinion. And thank you T.J., as well for your earlier introduction.

I'm incredibly excited to be part of Complete Solaria. This nascent industry…I call it nascent because the penetration rate in the US and residential is only I think 4%, less than 5% today.

And I'm thrilled to be working with you, T.J. T.J., as you guys know, is one of the founders of the semiconductor industry…and this industry, semiconductor industry, is one that has progressed I think further and faster than any other industry on the planet in the last 50 years. Anything and everything in tech today runs on semiconductors. Trillion-dollar companies are either running on semiconductors or building them, like NVIDIA has been doing in the last few years.

Now solar is based on semiconductors. And that's important, but more importantly, semiconductor industry I think is also one of those industries that has had the most rigor and the discipline, and that's also one of the main reasons that the industry has propelled so fast and so far in addition to the Moore's Law, as you as you know.

Now I've been in the industry for three decades, nearly 30 years as TJ you know over viewed. I'm here to bring that rigor and discipline and help Solaria become a scalable company, as Will mentioned.

It was also, I mean reflecting back on the career, awesome for me to work with the companies that TJ mentioned, particularly with Jensen Huang at NVIDIA, where I, you know, built two businesses. Both of them multi, you know $100 million businesses, one of them reached over a billion, the automotive business, - and has become the de facto, one of the top processor companies in the world today.

I've also, in addition to that, done a couple transformations. And the most notable one was at ON Semi, where we basically took down a business that had about $600 million dollars in Revenue, shrunk it down to $200 million dollars almost overnight because we got rid of one of the troubled businesses and then grew it back to a billion-dollar run rate. Now it's running at about a billion for 50% gross margins, 50% approximately growth rate, all based on a lot of the design-ins that we had done, you know, before I left the company.

Now I want to say, and I think that will be important in Complete Solaria as well, because that rigor and discipline that I mentioned is mainly in quality and execution. And I think I'll be able to bring that and help the company both through the experience of zero to one business growth I mentioned, and as well as the cultural transformation, and the business transformation experiences that I've had.

Now I want to say one final word about the renewable energy. I'm new to this obviously, but I think we can all agree that renewable energy is here to stay. Solar is here to stay. And it will grow much further worldwide, and I believe that we're essentially at the beginning of that journey.

Now to complete the way I think about it is like this, Complete Solaria is a systems company, as Will mentioned. As you know, the personal computing systems introduced in the 1980s basically revolutionized how we work for the next 50 years and it still is doing the same. It still is going.

In my opinion, solar industry is doing exactly the same for energy. It's effectively distributing the energy to the consumers, to the homes and to the businesses directly, just like personal computers did it, from the mainframes to the consumers and the homes. Now I believe, like Will said in closing, Complete Solaria has done incredibly well. 13 years, $100 million in revenue, is about to break even, - it's very hard to reach those milestones. Irrespective of the industry that you're in. In fact, the first $100 million is the hardest $100 million you will ever do and I've done it four times, so I know.

So, I am nothing but incredibly, and I would say super thrilled, to be part of the Complete Solaria team. I'm honored to be working with T.J. who's one of the great leaders of our time, and the board, and the employees, and the customers, and I can't wait to see what we will all accomplish together.

So, thank you.

T.J. Rodgers, Executive Chairman of the Board:
OK. We're going to open it up to questions. This is done by texting. So, we've got somebody who will take your questions and relay them to us.

Question:
Please speak to the company's liquidity and cash burn rate. Can you walk us through it?

T.J. Rodgers, Executive Chairman of the Board:
Let me go back to the slide that's got data on that.

Will Anderson, Chief Executive Officer:
TJ, while you pull that up, I'm going to repeat the question for the audience.

So, the question was can you walk us through cash flow and liquidity, and is there a bridge to break even?

T.J. Rodgers, Executive Chairman of the Board:
OK, let's see. I can't get rid of that bar. How do I get rid of that bar?

Come help me, I need to get to my first slide and it's hidden and I can't get to it.

Hang on, I just got the key here it is the Rosetta Stone.

OK.

So, another way you can read this, is, you guys always end the quarter with a little bit of cash. And the way you do it is you fund, and your funding has been $10 million bucks a quarter, $10 to $20. So that implies, that if you look at our last quarter, you got $1.6 million, you're burning $9.2 Op. Inc., so take that as a proxy for cash burn. You've got 16% of a quarter, before you run out of money.

Now the fact is, our burn rate is going down next quarter. What I haven't shown on here is that burn rate will be cut approximately in half, quarter on quarter for the next two quarters. For example, I showed you at the very end of the

graph a big layoff and that's just started to be effective. So, the burn rate number if you look to the middle of next year…I'm going to give you an indicative number so you can understand my thinking. I don't know that burn rate well enough. I'm in a chaotic world and we have immature systems in the company. But that burn rate up through the middle of next year is something on the order of $5 million bucks, more.

And the answer is I don't have to worry about going out and raising money, raising money right now with this P&L, that number, that number combined to that number, says it's going to be hard to raise money. And if you don't believe me, just ask Will who gave 100 pitches to raise money, and then that's really what's kept us afloat. These raises here, were all pitches that Will gave to investors.

Now we have it under control. If you look at the investors in the company, they can easily afford to take our current estimate of cash flow to the middle of next year. For example, this quarter we already have all the cash we need. It's done. The Maxeon deal has funded this quarter. And going forward, it's an affordable number.

We also, - I'm not going to talk about details today, but we also had a forward purchase agreement that will kick in, somewhere around January 10th, at our option. And that will raise money for us more than what I just said we need till the middle of next year. The reason it's not written down here is that anybody who says he tells you in the solar business how much money he needs to the middle of next year is fooling himself.

But the company, the cash burn is down. We can handle it ourselves. We're not going to go out and raise a bunch of money because the last thing I want to do is sell 10 million shares, at a buck each to raise some money. So, we have the capability of raising the money.

And the numbers will continue to look like this. Whatever numbers required there in terms of Cash Flow to keep enough safe balance there, so you can have $1 million-dollar whoopsie at the end of the quarter and not have to worry about liquidity.

So, we now feel like we're captains of our fate in this business and we haven't felt that way ever. We've been fighting during this recession with solar headwinds to try to get that way and we are that way now. And we did it the hard way. We changed the company, we lowered the number of people employed and we paid our dues to get it done. It's not done by sugar daddy.

Question:
What are your specific strategies?

T.J. Rodgers, Executive Chairman of the Board:
Let me have Will answer the question about WIP production.

I'll bring up the WIP reduction graph for you.

Will Anderson, Chief Executive Officer:
So, what are our specific strategies for WIP production, particularly post construction?

So the strategy for pre-construction, and you can see the drop in pre-construction was to start limiting the orders. Now the next step to get the rest of those bars down, is we have to operate at a much faster pace. And the way that we're doing that is by transferring resources from those that would otherwise be doing pre-construction - to doing more post-construction activities.

We have a very effective group in Salt Lake who operate the various steps of our production queue. And we've reassigned resources there to focus specifically on completing final inspections, collecting all of the financing documents, getting projects through the utility review process faster, so that everything that is in our control, we've been able to address. In doing so, we will be able to collect money faster as well, and that'll improve our cash flow.

Ultimately turning customers over very quickly generates happy customers, which also then promotes stronger sales, but it also improves the cash cycle much faster. And so that's another one of the ways that we can be in control of our own destiny.

So, this backlog graph that you see here, many customers report backlog as being a good thing, but there can be too much of a good thing, and we intend to turn that backlog into cash and shrink these bars.

T.J. Rodgers, Executive Chairman of the Board:
Let me comment on that.

When I came into the company, I came into a company that was as mature as my company Cyprus was, when I came in. We didn't have quality systems. And when the Japanese literally in 1986 almost put Cypress Semiconductor out of business by making static ramps and selling them for 2 bucks, I got the religion about quality and I didn't know a thing about it. I went to great schools, I had good grades and I had a PhD, and I didn't know jack about quality because nobody ever taught me about it.

So, I latched on to some of the best consultants I could find in the industry and companies that were noted for quality… And semiconductors, by the way, automobiles and semiconductors, - and I'll point out Taner has two automobile jobs... Those are jobs where your customers, if you have more than two defects per million will throw you out. You learn about quality in semiconductors selling to car guys. That that's it.

So, I came to a company with immature to nonexistent quality business processes. Obviously, everybody wants to do a good job, but let me give you an example of something that really does happen. You go out and sign a contract. Then you start launching it and you start buying the panels. Meanwhile you go to a finance person because you have to give these guys finance, and you get a finance deal done. So, they give you a finance deal and then the clock starts for 120 days.

In 120 days after that finance deal, the finance disappears and you have to start over again. Meanwhile, back in the marketplace you find out there's a run where Joe Biden has raised the, actually make it Donald Trump has raised tariffs, back and forth…and all of a sudden you can't get the panels you need in your backlog. You have you have a 90-day wait, or something like that. So, then you're waiting for the panels when you're financing expires.

I can tell dozens of stories like that. There are over 1,000 things you have to do. And what needs to happen is we need the quality program that prevents stories like I just said, and there are multiple of them from ever happening.

So, we brought in one of the best quality people I've ever worked with. She is tough and one of the reasons you saw it go backward is, I spend a third of my time in at Cypress on quality. I thought it was extremely important. And the first thing I did was shut it down and start reducing the WIP.

She is now putting in quality improvement points in the line that are very detailed, and she now controls entry into the line. You can't, while we'll make the quarter, get that in there and get it out. You can't do that anymore. You have to go in. You have to go through a quality control point, and a quality person has to allow that thing into the line.

So right now, we're suffering because there's several hundred runs that are waiting for quality approval to move ahead. That will happen shortly. But the troops are now getting the fact that you don't move a lot, unless you have the quality perfect. And that's not part of their culture.

So, when those systems take off, then the fab will start to run more efficiently, and then that will really be the end of it. Then we'll work on things like step illumination. We'll work on computers to get to get more data. We'll look at forward data to try to predict what's going to happen and preempt problems from happening. The standard stuff you do.

Quality is #1, and quality is a learnable task. I learned it. Saved my company and I'm good to teach it. I've already given my first quality lecture in Salt Lake, and we've got world-class quality person, so that to me is the main event.

Question:
What's the relationship with Maxeon post-sale?

T.J. Rodgers, Executive Chairman of the Board:
What's the relationship with Maxeon, post-sale?

I'll start out with my relationship with them. Maxeon is the ex-manufacturing of Sun Power. I was the chairman of Sun Power when in public in 2004-05. And I know the Maxeon people well, because they used to work for me.

Sun Power was a division of Cypress. Then when we took it public, it was a subsidiary and then we spun it out to shareholders. That was a big day for them. It was like a $1.6 billion stock dividend.

So, I know Bill Mulligan, who runs it. He was the VP of R&D. He's the guy whose team went from wonderful Silicon Valley and lived in a walled compound in Manila, to take the factory and turn on an automated line there. So, we have very deep relationships with the company.

And they of course wanted to crack sales force for modules, because they got a lot of modules that are really high quality and they want to break into the American market. And they had a readymade thing there.

Going forward. I'll turn that one over to Will.

Will Anderson, Chief Executive Officer:
Thank you. So, going forward, we have a supply agreement with Maxeon.

They're perfectly situated to be able to really maximize the value of our Solaria modules and the IP there. And so, they're going to manufacture, they're going to do a great job, and we'll continue to be able to purchase our equipment that we've always, you know, relied upon and loved from them.

T.J. Rodgers, Executive Chairman of the Board:
Although our foray into Solaria combining with Complete Solar is now dissolved, fact is there's some residual DNA that makes a lot of difference.

For example, Solaria worked on world-class panels. That's what they did. They had the SunPower pitch. Our panels are all black. You get more watts from a panel, from our panel, than anybody else's. Then we have got great reliability and we're now getting access to those Sun Power panels, the 7th generation of them, with a relationship. Normally we couldn't get those panels. Typically, they go into utility, in very large volume.

So that's one we get high-quality panels. That means we'll have two offerings. The standard offering, where we will take the standard power panel at the lowest possible cost and put it on your house. And then there will be the “asterisk offering”, which will have some percent upgrade, - and they will be able to get at the, it's called integrated back contact, “IBC” cells, coming in panels, coming from Maxeon. The best in the world.

So, we and Maxeon have a friendly relationship and we'll continue to have it.

Question:
[inaudible.]

Will Anderson, Chief Executive Officer:
Yeah, speak to the financing. This is the customer financing for going solar, and what's our mix of product.

So, there's been a lot of discussion about this with a lot of companies. And the two most popular ways to go solar are with a loan, and there are various solar lending companies, - we have strong relationships with many of them. And then there are leases or PPA. Third- party owned is the category that that's called. - And these are finance products that allow a homeowner to go solar and only pay for the power that the system produces, while the PPA owner, which is one of our finance partners, owns the system.

And so as interest rates have gone up, we've seen a shift for those who have access to good PPA and lease products, shifting the products that they're selling to the customers - to use more of the leases and PPA. And that certainly has happened for us in the third quarter, we increased our proportion of third-party owned systems up to 56% of total systems installed. And for our bookings it was even higher than that. And so, we've seen that increase steadily over the last four quarters.

Question:
[Inaudible.]

Will Anderson, Chief Executive Officer:
Which utilities have the most upward pressure on utility rates, on electricity rates?

We are seeing utility rates go up kind of across the board. That's something that you can always rely on. The cost of electricity is going to go up.

In California, we've seen a lot of rate changes that have resulted in a tiered time of use system, where the high-end time periods are actually increasing very fast. So, I would say in California, we've seen that a lot.

And I should mention that even with changes to the regulatory environment as it relates to solar, which for a lot of companies has been a challenge, we've continued to grow in California and a big part of that is electricity rates are going up. So, we're confident in the customer value proposition for solar, and solar plus storage, and we see that the market across the US continue to grow.

Question:
[Inaudible.]

Will Anderson, Chief Executive Officer:
We've seen very fast declining equipment costs over the last several months in particular.

I think that will slow down eventually, probably in the first part of 2024, but there's still a little bit of room for cost to continue to come down.

T.J. Rodgers, Executive Chairman of the Board:
OK. Does it look like we have any more questions? Thank you very much for tuning in.