## Fisker Inc. NYSE: FSR

### FQ3 2023 Earnings Call Transcripts

**Monday, November 13, 2023 10:00 PM GMT**

**S&P Global Market Intelligence Estimates**

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Currency: USD
Consensus as of Nov-06-2023 12:00 PM GMT

### Stock Price [USD] vs. Volume [mm] with earnings surprise annotations

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Frank Boroch  
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Presentation

Operator

Hello, and welcome to the Fisker Inc. Third Quarter 2023 Earnings Call. [Operator Instructions] I will now turn the conference over to Frank Boroch, Vice President of Treasury and Investor Relations. Please go ahead.

Frank Boroch
Vice President of Investor Relations & Treasury

Thank you, operator. Hello, everyone, and welcome to Fisker's third quarter earnings call. As the operator mentioned, I'm Frank Boroch, VP of Treasury and Investor Relations. Joining me on today's call are Henrik Fisker, Chief Executive Officer; David King, Chief Technology Officer; and Dr. Geeta Gupta-Fisker, Chief Financial Officer and Chief Operating Officer.

Please note that today's discussion includes forward-looking statements about our expectations. Actual results in future periods are subject to risks and uncertainties that could cause our results to differ materially from those mentioned. These risks include those set forth in the press release we issued earlier today as well as those more fully described in our filings with the Securities and Exchange Commission.

Today's discussion also includes certain non-GAAP measures, including non-GAAP operating expenses. Quantitative reconciliations of our non-GAAP financial information to the most directly comparable GAAP financial information appears in today's earnings release. With that, I'm happy to turn the call over to Henrik.

Henrik Fisker
President, Chairman & CEO

Thank you, Frank. Good afternoon, everyone. Thank you for joining us today for our third quarter 2023 earnings call. I want to thank all our stakeholders, teams and partners for all their hard work and continued progress we have made in 2023. The third quarter marks a strong progress for Fisker as we continue to ramp vehicle production and deliveries of the Fisker Ocean. Raised additional proceeds through an upsized financing transaction, continued to spread our brand with new Fisker facilities, test drives and pop-up events in several cities across the U.S. and Europe, and adjusting pricing for the 3 ocean trims. All of these actions continue to position us for long-term sustainable and profitable growth.

As our focus shifts towards ramping deliveries, it's incredible to see our product land in the driveways of more and more consumers every day. And I personally met a lot of customers who admirers early adopters and supporters of the Fisker brand. We have an amazing production ramp, which has proven its ability to already have manufactured almost 9,000 units, 9,000 units, a level other EV manufacturers taken 4 to 5 full quarters to achieve and solid demand. But we have not been able to follow through with deliveries fast enough. People have paid and are waiting for their cars, and some of them are really getting annoyed and that's something that we need to do something about.

So what are we going to do? As we shift focus, we have to focus on ramping deliveries. It's an incredible -- so we have to really think about how do we get more real estate, how do we get more people. And that's some of the most important things that we're doing right now. We are basically hiring about 20 to 30 people a week. We are opening new facilities this month. And as you can see, the curve is going really fast up when it comes to deliveries in the last 2 weeks.

We also have more logistic partners. We started out with just 1 logistic partner, and we have actually have multiple logistics partners at this point in time. And all this, I think you will see in November and December a really, really rapid growth in deliveries. How do we continue this strong growth? We have increased our marketing efforts and have just started TV and print advertising to increase our brand awareness as we want to keep our incredible momentum going.

We also have changed our price strategy, both in Europe, U.S., and Canada and it's working. We are seeing customer's interest moving from ultra to extreme. And even though we don't get the IRA tax discount for our customers, we have a very competitive pricing in the U.S., and we are seeing ongoing strong demand for our unique product. In Europe, we are even more competitively priced, even lower than pretty much all the Chinese segment competitors and, of course, our European competitors as our own factory is in Europe with lower logistic costs, combined with our direct-to-customer sales model. All Continental Europe and U.S. markets are up and running -- sorry, and U.K. market up and running. Germany is the strongest market in Europe with customers coming from German premium brands that adopted Fisker Ocean.
When I was in Germany a couple of days ago, I actually asked to call 3 random customers in Germany. And I wanted to find out why they bought the Fisker Ocean, what was the top reasons. And all 3 actually happened to come from a BMW car, and they all said it was about sustainability. They wanted to be with a brand that not only made only electric cars but also had top priority and focus on sustainability. Some of the features they liked in the vehicle apart from that was basically the California Mode, the solar roof and even the Taco tray's. So that's obviously unique features that nobody else have, and I think that again put us in a really unique competitive situation.

Let's go to the detailed Ocean update. As mentioned earlier, we are encouraged to have delivered 1,097 vehicles in Q3 and exceeded that pace in just the month of October, and November is tracking even higher. Now that we have filled our outbound logistic pipeline of finished vehicles moving through various stages, we can provide consumers with more accurate delivery estimates and strategically ramp our deliveries. With a demonstrated ramp in production well underway, this heightened focus on our delivery capability will reduce the gap between production and delivery times. We have continued to add sales and service team members to support this strategic focus. Our total number of marketing sales and service employees has increased more than 4x since the end of 2022. This remarkable team continues to work around the clock to bring world-class vehicles to consumers.

Not only are we expanding into new markets but also expanding within existing markets. In Europe, businesses are responsible for a large share of vehicle purchases, more than in the U.S. For example, in the U.K., over 50% of new vehicles were sold to businesses last year. Employer fleet programs are quite popular, especially those where companies offer their employees the ability to lease a vehicle with pretax money. Fisker is negotiating over 20 agreements with operators in Europe that will provide broader consumer access to the Fisker Ocean and represent a new growth channel for us. These agreements could add tens of thousands of potential Ocean customers.

It has been exciting to see the positive feedback and reviews from early customers and third-party sources. We also recognize we are continuing to pursue to optimize the user experience, and we are pleased to have recently rolled out our first over-the-air software update to address bugs and enhance the driving experience. Very few companies actually have OTA capabilities for in-depth engineering functionality of the vehicle beyond entertainment functions. I'm happy to say that Fisker does. Our new Chief Technology Officer, David King, will address these updates and over-the-air software strategy further in his comments. Additionally, we launched a series of how-to tutorial videos designed to help Ocean owners navigate their way around the Fisker Ocean.

Fisker Ocean Max Range Challenge, a competition to see who can lock the longest range of Fisker Ocean, recently concluded. We are excited to see who emerged among the contestants in each country as a winner of our $1,000 prizes and who will be the grand winner of them all and win an all-expense trip out to our manufacturing facility in Graz, Austria. With deliveries already underway in 10 countries, we are poised to rapidly expand in coming quarters. Our deliveries in the third quarter of exactly 1,097 cars is the fastest first full year quarter delivery ramp of any U.S.-based EV OEM.

And I want to thank our team for making this all possible. To date, we have delivered over 3,000 Oceans, with many more en route to customers and people are still anxiously waiting to get theirs. I know some customers in the U.S. wondered why we started -- already started delivering Ocean Extreme models in Germany a few weeks ago. Well, we have actually sold out of the Ocean Extremes (sic) [Ocean Ones] in Germany, meaning we have delivered all of the Ocean Ones in Germany, so we have to start now delivering the Ocean Extremes. And that's actually quite exciting that we're able to do that fast and we already are seeing strong demand for Ocean Extreme. And of course, Germany is the biggest market in Europe, as I mentioned earlier.

And now future product updates. In August, we held a product vision day in Southern California, showcasing Fisker's exciting future product lineup, including PEAR, a radical new segment-busting compact SUV designed to capture a large addressable market; Ronin, a luxury sports car; and Alaska in a segment of its own. Now that several OEMs have postponed their EV programs, this sweet spot is about the size of a Ford Ranger, so the Alaska fits right in a new segment where there's currently no EVs. And it's got unique features. Of course, it's got more luxury than the counterparts that have gasoline engines. And it will have a flexible bed between 4.5 foot to 7.5 foot. And the price is confirmed to start at $45,900. That really puts it in a complete unique segment.

And after this event, we brought these vehicles to Munich and put them on display ahead of the automobile show in Munich. Lots of consumers and commercial buzz, including from other OEMs interested in potential collaboration with Fisker, which could quickly increase our scale and manufacturing for these vehicles, including platform sharing and manufacturing.

Our communication with Foxconn is progressing. In fact, I just talked to them this weekend and we expect to finalize these plans very soon. And of course, it is to manufacture the PEAR in the Foxconn facility in Ohio. And this vehicle has 35% less parts than a similar-sized EV so it's quite unique. And we will also have a surprise around the L.A. Auto Show, which is about in a week's time, where we will actually show the production and [indiscernible] version of the PEAR to journalists, and it will be available to see at our [grow lounge] for about a week during the L.A. Auto Show.
Another excitement -- exciting development in the quarter was our announcement that Fisker will adopt the North American charging standard on its vehicles starting in 2025. We signed an agreement with Tesla that will provide our customers with access to over 12,000 additional Superchargers around the U.S. and Canada.

Sustainability. As I mentioned, it's one of our strongest pillars in the company, and ESG remains at the core of everything we stand for at Fisker. In the third quarter, we published our annual ESG report that reflects the value-driven culture we have created across our people, processes, products and how deeply rooted sustainability is in our business. And it's paying off. It is differentiating us from any of our competitors, as I just mentioned earlier. This report is an important tool that we use for ongoing CO2 reductions and to apply for future vehicle programs. This ongoing analysis helps us work toward our goal to create a climate-neutral vehicle.

We also expanded our ESG reporting frameworks to now include reporting through the Carbon Disclosure Project, CDP. I'm also proud to announce that we just kicked off our carbon-neutral car that will be based on the PEAR, and it will arrive in 2027, way earlier than what anybody else have announced. And next week, Fisker is hosting a sustainability roundtable for journalists on November 18 to elaborate on our ESG initiatives, discuss how we accomplish the lowest possible carbon footprint of any electric SUV and to encourage deeper engagement on these important topics as we are showing the production version of the PEAR and the Alaska Electric pickup in about a week's time.

My optimism about the future of our products is extremely strong. We have a unique place in the automotive market. We have strong demand, and I expect us to keep growing with a potential strategic partner in the works where we can grow even faster. But first, we need to increase the speed of deliveries and we are in the middle of doing just that. I appreciate all of you that are joining us on the journey toward a clean future for all.

Before I turn the call over to our new Chief Technology Officer, David King, I'd like to say a few words of introduction about him. I have known David for many years, going back to our time together at Aston Martin. He's a world-class leader, a tremendous engineer who as Fisker's SVP and leader of Fisker Magic Works, our special vehicle division, have played a vital role in the company's growth. He excels at uniting teams and empowering creativity. I'm confident that he will provide the expertise and enthusiasm for innovation that we need to take Fisker to the next level as we accelerate Ocean production and deliveries and prepare to launch PEAR, our EV pickup truck and Ronin. And with that, I'm now pleased to turn the call over to David.

David Jeremy King
Chief Technology Officer

Thank you, Henrik, for those kind words. I'm very proud of what we've achieved together so far and honored to take on the role of Chief Technology Officer. The entire Fisker team has a wonderful opportunity in front of us to build on the launch of the Ocean and create more world-class vehicles with cutting-edge technology.

We are entering a new phase for the company now, now that our engineering release process is complete for all our Ocean trim levels. And whilst we continue to work hard on supporting and improving the Ocean with our initial over the year updates based on customer feedback, the engineering team is fully engaged and working diligently on our upcoming product pipeline, the PEAR compact SUV and the Alaska pickup, and striving to deliver the innovation and the engineering excellence that is expected in a Fisker. More on those products shortly.

But first, staying with Ocean. Now we are almost through with delivering our top limited edition Fisker Ocean Ones, we are excited to get the Extreme, Ultra, and Sport trims into the hands of our customers as well in the coming months. And I wanted to highlight something in particular about the Sport. This is Fisker's most affordable trim and is a front-wheel drive vehicle. What it trades versus the Extreme and Ultra in the ultimate range of performance, it gives back with impressive driving dynamics, in particular, its nimble and sporty handling on account of its lighter weight. It's a lot of fun.

Now that we have thousands of cars in the hands of our customers, we are rapidly gathering real-world data that we are using to continually improve our vehicles. And I'd like to thank all our first adopter customers for their feedback, both good and bad. With all this feedback, along with the anonymous fleet cloud data that we are gathering real-time from our customer fleet, we are continually working to iron out bugs, improve performance of features and functions and roll these out in frequent OTA updates.

It is a huge benefit to have a connected car and connected customers, and this monitoring will continue to grow as we deliver more vehicles and will allow us to further optimize and refine performance. This depth of OTA capability is something that very few car companies have, but I'm proud to say that we do, and this capability will continue to improve from here.

With regards to the Ocean updates that we've rolled out, we recently completed the new OTA update 1.10. This was in direct response to early customer feedback and included optimization to the electronic stability program, including improved traction control on
surface changing roads, refinements to [Regen] braking, improved energy management and connectivity for remote functions, along with some other tweaks. Amongst much positive feedback we've had from many customers, the center screen UI/UX system has been highlighted as very intuitive, simple and enjoyable to use. And we have further improvements and feature enhancements ready for OTA release imminently.

This ability to continually refine and enhance vehicle software and release it through our cybersecurity system and OTA platform means that the customer experience will continue to be enhanced throughout the life of the vehicle, building on the foundation that we've released to introduce new features and make broad updates across various aspects of the vehicle. So far, we have 4 waves of updates deployed on vehicles in the U.S. and Europe, 2 of which have successfully been updated on over 2,000 cars to date.

And it should be noted that this is all in-house capability. And I'd like to give a shout-out to our engineering team. Their competence and dedication has allowed us to develop an incredible first product at a very rapid rate. Having such an impressive team completely owned in-house is a key component of our Fisker strategy. Our ongoing investment in great people and processes means our OTA updates will further improve in speed and efficiency, allowing us to deliver our road map of new features and functions on a regular basis. Over the next few months, we will be rolling out updates that include energy data on the solar sky roof, adaptive drive control with radar cruise control, auto-hill hold and several others.

Now let me update you on PEAR and Alaska. We have been investing to build great competence in computer-aided engineering, or CAE, which allows us to test almost all aspects of the vehicle virtually, reducing development time spent on crash safety, NVH, dynamics, powertrain, digital performance and other testing. Everything we've learned from the Ocean program is being embedded and enhanced, and we are now using this for the next programs, allowing us to dramatically reduce development time, so much so that we are already entering the prototype phase for Alaska where we will build a fleet of fully representative vehicles to generate physical test data to validate our CAE results before moving to production release.

And the PEAR, as was announced at the August 3 product vision day, will feature our own new Blade Central Computer, which will deliver 6.2 teraflops of compute performance with seamless 5G and WiFi connectivity. We are excited to preview a short demo of this functionality during the L.A. Auto Show later this week.

Not only are we hard at work on the future high-volume programs, but my small team in the U.K. is busy developing several exciting niche projects, including the Force E off-road package for Ocean. As an off-road enthusiast and rally driver myself, I'm particularly looking forward to testing the Force E very soon. I think it's going to be quite a beast.

Just in wrapping up, I know from personal experience of driving an Ocean daily for the past 3 months that we have created an outstanding vehicle. I'm very proud to have played a part and all of our talented team has accomplished in-house and with our world-class partners to deliver the Ocean to market. And I'm now even more proud to step up to lead the technical team into our next exciting phase of product development. Thank you. I will now turn the call over to Geeta.

**Geeta Gupta-Fisker**
*CFO, COO & Director*

Thank you, David. I would like to begin by expressing my gratitude to the entire Fisker team, all our suppliers and our customers who are with us on a very exciting journey. The creation of a worldwide electric vehicle brand and the launch of a new vehicle involves intense dedication and concentration and a team working tirelessly across all hours. And it truly is exhilarating to witness the initial results of our efforts as more and more Oceans find their way to driveways across U.S. and in 9 European countries. It seems like it was only yesterday that we started developing this program.

For 9 calendar months in 2023, it is remarkable the achievements we have made as a company. Beginning with approval to sell the Ocean in both North America and Europe, we have now produced thousands of vehicles and are well on our way to delivering them across our broad array of markets at a scale and pace at which no other EV company has expanded. As we have seen an increase in our production ramp and with a stabilized supply chain, our focus for the remainder of the year is on our software rollout, our service and delivery network. Our goal is to shrink the time between production of the vehicles and delivery so our customers can enjoy the world-class Fisker Ocean as quickly as possible.

Let me provide you with an update on vehicle production and deliveries. We continue to make great progress in ramping up vehicle production, including ensuring there is a steady supply of parts from our suppliers, including the impact from summer shutdown in August. 4,725 vehicles were produced in Q3, and that's up from 1,022 in Q2, a production ramp up to the tune of 430%. With the production process hitting its stride, our tough priority has moved to supporting the growth and scale of our outbound logistics, delivery network, launching multiple sites across EU and North America preparing vehicles with latest software for delivery to our customers.
In the third quarter, we delivered 1,097 vehicles, up from 11 in the prior period, an almost 10,000% increase. Let me provide some additional color on the delivery cadence during Q3, which grew from 86 vehicles to 279 vehicles in August to 732 vehicles in the last month. During 3Q, delivery efficiency was impacted by a variety of items that we are already improving. What we faced are logistical challenges as we ramped our truck and last-mile transportation partnerships, and we streamlined our processes which were compounded by a limited charging infrastructure at various processing centers. And in order to alleviate them, we are now adding mobile charging and static skids.

And in addition to that, we also had some real estate constraints. On real estate, we experienced COVID delays, which impacted the timing of our permitting and construction schedules. We have multiple initiatives underway that will continue to improve our delivery efficiency. For example, we now have multiple sites ready that are ready to do go pickups and home delivery and will be ready by the end of the year. We're already thinking ahead for 2024 and accelerating the acquisition of Fisker real estate, as we conducted a survey where more of our customers want to pick up their vehicle from a Fisker facility as opposed to home delivery, which is also faster.

We are in the process of opening up a dozen new locations in North America, which will increase our throughput and provide more options for consumers. I recently visited our contactless pickup location in Long Island in New York. And it is a very central location, very exciting location, and we have more and more locations that are coming up. In parallel, we have added now 3 more delivery partners. We've introduced customer pickups and also something called Fisker Direct, where dedicated Fisker employees, they drive vehicles to customers if the distances are under 60 miles and give a personal tour of the vehicle. We have had employees from all different various parts of the organization participate in this initiative, and this has been a delight for several of our customers who enjoy listening to how the UI was developed or how the car was designed or how the propulsion works.

This strategy increases our geographic reach and delivery volume capacity. Streamlining data integration to provide more accurate real-time information flow will also help us more efficiently plan and schedule deliveries. We are in the process of integrating the ETAs and delivery schedules so we will be able to provide customers with more accurate home deliveries as we move forward, which I know has been an annoyance to several customers in the recent times.

Fast forward to October, we delivered over 1,200 vehicles in October alone, more than the entire third quarter and November month-to-date deliveries point to further growth versus October, illustrating the ongoing efficiency improvements in our delivery ramp. As Henrik mentioned earlier, till date, we have delivered over 3,000 vehicles, and we have 100 more on the way to customers. The ramp in production and deliveries is coming at an opportune time where we are benefiting from several cost tailwinds. For example, our predominantly euro-denominated supply of contracts are benefiting from ForEx exchange rates that are close to their lowest levels in nearly 2 decades. Raw material and battery prices have also continued to ease, favorably impacting our input costs.

Before moving on, I want to comment a bit on a few larger macroeconomic issues that are at play. Interest rates are near 20-year highs, and they are, of course, impacting consumer spending. And we have seen a direct response from several OEMs who are pushing out their EV production time lines. This reduced industry supply is to a certain extent possible for Fisker as it gives us more runway to develop our amazing portfolio of vehicles and allow us to continue to stand out as a high-quality option for consumers who are making EV purchasing decisions to stay and for us to gain a larger market share. In addition, our commitment to sustainability and the EV transition is unwavering.

Turning to supply chain. We continue to make progress with most of our suppliers, successfully ramping and maintaining high quality. However, during this ramp phase, we still do expect to experience the occasional bottleneck from few suppliers that may have challenges meeting a high volume target in a very short period of time. Supply chain task force is engaged and deployed in the field working to support our suppliers to achieve our mutual objectives.

To give you an example, winter tires. Most countries where we sell in Europe have laws making driving on winter tires obligatory from the month of November to the month of March. We experienced a shortage of winter tires that is now getting resolved. Absent successful resolution, this could slow us down in the winter months in Europe. By adjusting our near-term production plan, we provide our suppliers additional opportunity to focus on ramping while maintaining quality, while at the same time, we redouble our efforts on our delivery ramp.

In the U.S., as I mentioned earlier, we are adding Fisker real estate to meet the surprising high demand for in-person facility vehicle pickup as opposed to home delivery. There are just a few examples of how we continue to stay nimble and adjust incoming feedback and changing business needs or market conditions.

Now turning to our Q3 results, balance sheet and outlook for the remainder of 2023. Our third quarter revenue totaled $71.8 million, driven primarily by initial Ocean vehicle sales. During the quarter, we delivered 1,097 vehicles. Our third quarter cost of goods sold totaled $83.9 million, which included $18.2 million of noncash inventory adjustment impact associated with initial production.
ramp. As our production ramp continues, we expect inventory adjustments to diminish. In the quarter, GAAP gross margin was negative 17% and non-GAAP gross margin was 9%, which excludes the inventory adjustment. We have additional impacts from FX, geographic mix and higher input costs with a first-in first-out inventory treatment that collectively shaved another few points of the margin, which would have ended up in the mid-teens if they were added back.

The positive adjusted gross margin demonstrates the benefit of our unique vehicle capabilities within the company and points towards a faster path towards positive EBITDA. Our Q3 operating expenses totaled $87.4 million, which was down 38% year-over-year and down 1% over quarter as launch-related R&D expenses continue to taper off while marketing sales and service investments increased. Loss from operations was $99.6 million, a 29% year-over-year improvement and a 13% quarter-over-quarter increase. Net loss totaled $91 million or $0.27 loss per share compared to $0.49 loss per share last year. Capital expenditures came in at $30.5 million for the quarter as launch-related milestone payments diminished.

We maintained a very disciplined approach to accessing capital markets to bolster our business strategy. During the quarter, we raised an additional $150 million of gross proceeds from an existing investor to the same innovative financing structure as previously announced agreement in July. This served to further bolster the balance sheet while also increasing the amount of additional gross proceeds that can be offered to $550 million of a 0% coupon senior unsecured convertible notes due in 2025. We finished Q3 with $625 million in cash and restricted cash. This cash balance excludes approximately $50 million in VAT receivables that we expect to receive as refunds or we monetize against upcoming sales taxes as we continue to sell cars in various European countries.

Turning to our outlook. Neither our production nor demand are limiting our deliveries, but rather it's the delivery and the service infrastructure. We have a great product and our customers want the product. We are in the process of dramatically overhauling our service and delivery infrastructure to keep up with the demand until the delivery process has reached our goal, which we expect later this year. We have now come to a stable production volume within an extremely fast and a very compressed time frame that has never been done before by an EV company.

As we work to scale our outbound logistic operations and we optimize our delivery and service network, we are updating our production guidance for 2023 to a range of 13,000 units to 17,000 units. This is a very prudent change that we need to do to enable our global delivery and logistics platform to scale so we can serve our customers even better, and we are not sitting on inventory. This is also essential for our continued capital expenditure and parts and vehicle inventory discipline to better manage our working capital. This may be short-term pain and it may not be something that Wall Street wants to hear but it is extremely responsible for us, and it is essential for us that we do this for the long term to provide great service for our customers and set the organization for seamless growth.

As our delivery capability expands, our delivery efficiency should improve, and with it, working capital will become almost organic. Logistics from Europe to ultimately last-mile delivery to a customer in the U.S. is very complex, and several customers may not understand it as several customers, when they see on their web or app that a vehicle is produced, they are wondering why do they not get it within a few days. So let me explain a little bit of the complexity.

As vehicle units get produced by Magna and they get handed over by Magna to Fisker, they arrive in a compound 20 kilometers away. They await a rail to get to the port of the Brugge in Belgium. At that point in time, they wait getting on a vessel and they make their way to 5 chosen ports here in the U.S. As they arrive at the ports, they get required software updates as we are consistently releasing software during the course of previous several weeks, and we will continue to release software.

These vehicles then make their way to vehicle processing centers all over the U.S. for final predelivery inspection and preparation for delivery to our customers. This entire journey can take anything from 5 to 8 weeks, more than what happens when a vehicle is going to a European customer. Our overall non-GAAP SG&A, R&D, plus CapEx guidance for 2023 remains in the range of $565 million to $640 million with SG&A moving higher and CapEx decreasing. Collectively, this guidance balances our asset-light model, disciplined cost management and prudent investment plans. I want to again express my gratitude to the entire team for their dedicated efforts and steadfast commitment to the launch of an exceptional vehicle.

We have made tremendous progress in an extremely short period of time. Launched an amazing high-volume product. Deliveries have started in 10 countries. Fisker team members are present in 15 countries, positioning us to introduce the Fisker brand and Fisker Ocean to more and more customers. We are now happy to take your questions. Operator, could you go to our first question, please?
Question and Answer

Operator

[Operator Instructions] I'd like to now turn the call back over to Frank for a couple of pre-submitted questions. Please go ahead.

Frank Boroch
Vice President of Investor Relations & Treasury

Thank you. We'll start with some of the questions from the retail community. Question one, are there any updates in regards to U.S. manufacturing plans with Foxconn? And while it's anticipated that the PEAR and Alaska maybe built in the U.S., are there plans for the Ocean to be built in the U.S. if at all? Fisker vehicles could be eligible for the U.S. federal tax incentive.

Henrik Fisker
President, Chairman & CEO

Yes. Thanks, Frank. So let me touch on Foxconn. We have mentioned during the earnings call, I am in contact with Foxconn, and I will say we have to finalize an agreement for manufacturing this year. So I am quite optimistic that we are very close to finalizing agreement. Obviously, we will announce it when it's done. It is a complex agreement but it's definitely in its end phase.

When it comes to -- and by the way, it goes for the same with Alaska. We are talking to Foxconn about Alaska as well but we're also talking to some OEMs about sharing the Alaska platform and potentially building in their factory in the U.S. So that's still on the table. I expect we will have to make these decisions very soon. On the Ocean, it will depend where we end up with Alaska, for example, because there can be synergies there. But we are already looking at potential ways we can manufacture the Ocean here in the U.S. And yes, we need to manufacture eventually here because we will -- it's more sustainable. We will cut down on the transport times. We'll make more money on it. So absolutely, it's something that we eventually will do.

Frank Boroch
Vice President of Investor Relations & Treasury

Thank you, Henrik. Next question is, we've heard talk of a slowdown in EV sales with companies like some of the Detroit brands reducing their production forecast. Is Fisker prepared for a market that's slowing down and what measures is it taking to protect its interest?

Henrik Fisker
President, Chairman & CEO

So I think, first, if you look at the big picture, what really happened, there was a lot of excitement about EVs 2, 3 years ago and maybe even longer, 4 years ago. And some companies brought up EVs because there was probably the impression that as long as you had an EV, it would sell. I think reality is that there was not many EVs that came out that had segment-leading features. So why would you buy some of these new EVs when there was other EVs on the market that still were better? I think that's what we have seen.

However, with Ocean, we have a segment leader. We have the longest range of any SUV sold in either Europe or U.S. in our class. And that is a segment leader and now there’s a reason to buy an Ocean. Secondly, as I mentioned earlier, we have features that nobody else have that a lot of the customers love, California mode, solar, et cetera. And if you want these features, there's only 1 car you can buy and that's a Fisker Ocean, and I think that's why we see continued demand.

Of course, what are we doing if for whatever reason, the demand would slow? Well, as Geeta mentioned, our vehicle is homologated globally actually. So we are going into Canadian market this year. We are expanding in Europe. We just expanded into 3 new markets in Europe about a month ago, starting delivering there. And in first quarter next year, we're expanding into several other European markets we are not in yet, for example, Spain and Italy, and we still have many markets in Eastern Europe as well.

We do have basically importers for regions we normally wouldn't go in asking us to become importers of those regions. So that's another area we could take. Finally, we have announced we're going into China next year. So all these new markets actually helps us keeping the momentum and the growth. So I don't see really for us, at this point in time, a lack of demand and a lack of possibilities to expand our geography.

And I want to mention something else, very important. We have a vehicle that is, in the U.S., considered a compact SUV. In Europe and China, it’s probably more of a medium size. It is a universal product that sells globally. If you're sitting -- if I were sitting on a
full-size pickup truck, it would be great for the U.S. but probably couldn't sell it anywhere else in the world. If I were sitting on a full-size SUV, same issue. But very few people buy full-size SUVs outside U.S. But we have a global product. And I think we have shown it. So our main issue now is we've got to figure out how do we get it as fast as possible to our customers, meaning in big, big bundles and not just 100 a day. We got to get to our 300 a day as fast as we can, and we have already put that in motion, and I expect that we'll get there very soon.

**Frank Boroch**  
*Vice President of Investor Relations & Treasury*

Great. And the last question from the retail community. With deliveries delayed, how is Fisker addressing customer support? And how fast can Fisker reps reach customers when a driver has questions?

**Geeta Gupta-Fisker**  
*CFO, COO & Director*

Well, so we, of course, recognize, as I mentioned in my script earlier, that we have a gap in our service and delivery infrastructure. The first thing we've done is in terms of our marketing sales and service employees, it's actually increased more than 4 times since the end of 2022. So we are hiring in every area. We are hiring in home delivery, Fisker Direct, a team that delivers vehicles to you. We are also ramping up our real estate initiatives. We increased the number of our delivery partners.

In addition to that, we have also set up a call center where customers can call in and ask questions about their delivery and ask questions about their service. We actually have currently an initiative ongoing in the company called Excellence in Service, where we have put a group of experts together to look at how they can reach out to all the customers because we still are obviously in the thousands -- still in the single-digit thousands, and to make sure that if there are pending accessories or if there's any area that we need to support customers with, including any software upgrades or any questions about the vehicle or any dents or scratches the customer needs help with or any usability issues, we are constantly informing and engaging the customers.

So all customers may not have received a phone call, but every customer will as this task force embarks on making sure that all our customers are heard. We're also in the journey of hiring mobile techs all over the country. We already have a very substantial pool of technicians, almost bordering to 75 technicians, and this will keep growing so we can serve our customers no matter which part of -- which state you're in or which part you're in, as long as our mobile techs have their toolkits and a computer and they have the ability to repair your vehicle.

We have partnered with various body shops across the country, so if there are any cosmetic issues, those can easily be dealt with. We are currently utilizing a global network with a third-party called ADESA. But as I mentioned earlier, we have our own locations coming live, which will also have capabilities of service. Now we typically do not expect customers to come to our facilities, and we will come to you, pick up your vehicle. But certain facilities will also allow customers to visit if that is more convenient. Now our remarkable team continues to work around the clock to bring our world-class vehicles. And again, I want to remind everybody that we have a 1-844 number where customers can call to receive immediate assistance or they can also e-mail their queries typically.

**Frank Boroch**  
*Vice President of Investor Relations & Treasury*

Thank you. Operator, can we please go to the line for the next question?

**Operator**

Your next question comes from the line of John Babcock of Bank of America.

**John Plimpton Babcock**  
*BofA Securities, Research Division*

I guess just starting out, if you could just provide a little bit more clarity on the production. I mean, it sounds like basically what you're doing is point back production in part to make sure that you can deliver the vehicles in a reasonably expedient fashion but also at the same time, not building inventory. If you could just provide some clarity on that, and also whether you're having any challenges in getting the vehicles built. I just want to make sure I fully understand that setup.

**Geeta Gupta-Fisker**  
*CFO, COO & Director*
Yes. So I think on production, I want to reiterate, as I mentioned earlier, we have absolutely 0 challenges in ramping up production. In fact, we even have days where we have hit 200 units a day. Absolutely no challenges in building vehicles and absolutely no challenges in getting parts into the factory and building up vehicles. As Henrik mentioned, we've already built up a very healthy inventory of 9,000 units.

Where we are today is the lag between getting the vehicles from Europe into U.S. as I explained in detail. And along the way, we are also, of course, performing software updates as we are releasing software on a continued manner, and this creates a certain lag or delay as the vehicle arrives in U.S. and processing. As we built up a very healthy inventory, we think it's very prudent and it would almost be irresponsible to not control that inventory in a more responsible manner and also to make sure that we don't have too many vehicles sitting around. Since these are all presold, we want to get the vehicles as fast as we can to the customer.

So it's a conscious, very prudent approach to make sure we manage our inventory, customer expectations, provide a world-class experience and also do proper cash management. It also goes to show that as we ramp up our service and delivery infrastructure, along with that, we can completely ramp to our ultimate target, which as Henrik mentioned, was 300 units a day.

John Plimpton Babcock
BofA Securities, Research Division

Got you. That's perfect. And then just 1 follow-up here. As it pertains to Foxconn, as you're working to finalize the contract there. Assuming that is ultimately completed, how far along is the Foxconn facility? So in other words, is it at the point where you'd be able to produce vehicles there in 2025? Or might it be pushed back a little bit because there's still a decent bit of setup that needs to be done within the facility to get vehicle production to that state?

Henrik Fisker
President, Chairman & CEO

No, you're correct. We are still on target to start producing vehicles in 2025, as fast as we can make them.

Operator

Your next question comes from the line of Chris McNally of Evercore.

Christopher Patrick McNally
Evercore ISI Institutional Equities, Research Division

And again, I appreciate the detail on the growing pace. So just a follow-up on John's conversation. Maybe to start, there will be a focus on, Geeta, you mentioned the cash cycle. And with the big working capital outflow in Q3, as you sort of closed the gap on production versus deliveries in Q4, could you just talk about how we should see that working capital change into Q4 and maybe the beginning of next year as that's probably the biggest swing on your free cash flow?

Geeta Gupta-Fisker
CFO, COO & Director

Yes. I mean, Chris, I think our goal, like I mentioned earlier, was to bridge the gap between what you produce and what you deliver. And there was always -- there will always be a lag, of course. But I think that the goal is to get that gap shorter and shorter and shorter. And I don't think we're ready to give guidance for 2024 yet but I think it's very obvious what we can produce.

And it's -- as we mentioned, we have a goal as to where we want to go to when it comes to actual deliveries. So I think our goal is to have pretty much, at the most, the inventory that's in transit and to come very close to have a very high level of efficiency of the inventory that's at hand. So typically, the 5 to 8 weeks is something that you can shorten. Time on a boat is time on a boat, but the goal is to make sure that we ensure that everything at hand is very quickly delivered to the customer.

Henrik Fisker
President, Chairman & CEO

Maybe 1 thing I could just add, Chris, to this is if you look at how fast we were able to deliver the Oceans, the Ocean Ones in Europe, they're pretty much delivered. I mean, Germany is the biggest market. We already delivered all the Ocean Ones there, and we are now already delivering the Extreme and we'll start Ultra and Sport in a few weeks as well. So that's obviously something where once we catch up, you can see how fast it will go. We just have to model it correctly and get the big -- much bigger throughput here in the U.S. But we have shown we can do it. In Europe, we've already shown we can do it in the last few weeks, so I think you'll see a very fast ramp also in the U.S.
Geeta Gupta-Fisker  
*CFO, COO & Director*

I think also, Chris, just to highlight that as we get our real estate going, what we found is that contrary to what we believe during COVID that customers don't want to pick up the vehicles, customers actually do want to pick up their vehicles. So as we get our real estate organized, we will be able to provide more pickup locations throughout the country, and that should also help speed up some of these deliveries.

We were and we have been using what they call enclosed trucks. There's a shortage of enclosed trucks in the U.S., especially given our matt paint vehicles, and we have encountered just a shortage of enclosed trucks to get the cars to our customers. Those are the logistical challenges that we want to overcome.

Christopher Patrick McNally  
*Evercore ISI Institutional Equities, Research Division*

And then 2 follow-up questions just on timing, I guess on rectifying some of the issues. The first is, how long do you think the delivery infrastructure, as you, Henrik, you talked about some of the some of the hiring patterns? Do you think this is sort of a 1- to 2-quarter issue or could it be longer? And then Geeta on, just wanted to give you the ability to talk about the delay in the 10-Q. Obviously, there's some statements on material weakness. Again, just given the personnel changes, how long before that's rectified as well?

Henrik Fisker  
*President, Chairman & CEO*

Yes. So look, we are a growth company so it's not like we're expecting that in 1 month, we are up at a certain level and then we stop hiring and now we just keep delivering. We're going to be hiring and growing for many, many years. However, when we talk about the immediate need is to get to the 300. And I think we will be able to do that by the end of this year. We are opening, I think it's about 3 or 4 facilities in the next -- with the next month.

So like Geeta mentioned, the difference is if you think about sending out 100 trucks to 100 people versus inviting, just on 4 places, 25 people, [indiscernible] to come and pick up the car, you can probably even invite 100 people on each of these locations. So now you can much quicker get to these 300 a day. And that's something we have -- we have not been able and I'm sure people may not understand that. Unfortunately, we could not invite people to ADESA, It's an enclosed compound where no people is allowed to enter. They're in the middle of nowhere where people barely can drive and it's just not a facility you can do deliveries. So that impacted us much more negatively than we originally had thought. And we immediately changed that in the last couple of months, and we are now ready to start these mass deliveries at our own facilities.

Geeta Gupta-Fisker  
*CFO, COO & Director*

Chris, to answer the second part of your question, Q3 was a highly complex quarter. Went from $800,000 of revenue to $71 million of revenue. In multiple countries, ForEx, very complex accounting along with convertible notes and accounting for derivatives. So we experienced quite a lot of complexity in the business, and as you rightly pointed out, personnel changes as well.

We, of course, continue to understand all these different areas. We are continuing to hire. We do have already 3 controllers in place, 2 in the U.S., 1 in Europe, and we continue to strengthen the team. We continue to add more experts within the team. Some other areas that were extremely complex were because of contract manufacturing, things like raw material inventory accounting and finished goods inventory accounting, things that we had not done before and extremely complex as you look at IT integrations with Magna, in-house integrations.

So these are unfortunately growing pains and we are addressing all these different areas so we can also mature our systems, hire more people, hire more talent to address all these different areas, and it's a work in progress. We are working tirelessly, very hard to get the queue done, so more to come on that.

Operator

Your next question comes from the line of Nick Amicucci of Cowen.
Just a couple for me. Just thinking about just in regards to all of this hiring 20 to 30 people a week, yet only a $20 million increase in SG&A and kind of operating expenses staying flat, just wanted to know how to kind of think about that, given the SG&A level in 3Q and how we should think about it going into 4Q. And then along the same lines, increasing your real estate footprint across different geographies, yet CapEx is decreasing. So just wanted to kind of round out those operating expenses and understand what we could kind of think of as run rate.

Geeta Gupta-Fisker  
CFO, COO & Director

Yes. So I think on SG&A, it will absolutely continue to increase because we're going to continue to hire people, hire technicians, tools. We're going to continue to lease facilities. We are not buying real estate so we don't own real estate on the books. The main CapEx is obviously any refurb or any list or any tools we put in. That's, to be honest, not that major compared to the overall facility and payroll and hiring people within that facility. So we will continue to expand our footprint.

And obviously, at some point, there is a ratio of how many sales agents and how many delivery agents and how many service agents you have. But the one lesson that we definitely learned is that we are going to overcapacitize so we can provide a stellar service to our customers. So when we look at our next production ramp or we add additional models, we are prepared and ready. So I think that we could have potentially invested in real estate and started hiring maybe a couple of quarters earlier, but we did not foresee that the delivery infrastructure or service infrastructure or permitting would be so difficult. So I would expect SG&A to continue growing.

Nicholas Francis Amicucci  
TD Cowen, Research Division

Got it. That makes sense. And then just with regards to kind of the deliveries again, so 3,000 kind of to date so that would imply roughly like an exit rate of around 45 vehicles a day. It just seems like -- it seems like a steep ramp to the end of the year to get to 300. I understand that opening multiple different areas where you're able to pick them up. But wanted to kind of confirm to you guys had mentioned additional logistics partners.

Are those in the process? Because I know kind of going back a couple of quarters, there was some kind of more growing pains with the logistics partners just being able to get enough vehicles on the ships and stuff like that. It seems like that's probably not going to be an issue. But just wanted to see how long of a ramp period there is associated with that to try and get -- I mean, is that able to be done in a month to get to that 300 vehicle number?

Geeta Gupta-Fisker  
CFO, COO & Director

Yes, I can answer part of the question. So I think the 45 numbers are a little bit skewed because obviously, every day, we are increasing the number of deliveries. So if I have to look at the last couple of days, we were almost close to 100 deliveries. So I think the ramp is very, very steep as we move forward.

In addition to that, you asked what are some challenges. So some of the challenges that I alluded in my script was, one of the challenges we have is the charging infrastructure when we are at the facilities. So the slower charging, we obviously want to deliver vehicles that are charged to 80% or above, and slow charging or L2 charging is obviously something that slows down. So one of the things we've done is have in certain parts like in California, we can get mobile fast charging or we can drive vehicles to a nearby fast charger now. That obviously is not scalable so what we're doing is we're getting these static skids with fast charging at some of these facilities.

In addition to that, getting our own real estate would also help significantly because we have our own people, we can work around the clock. In some of these locations we have, there could be unionized labor, where there are restrictions of how many hours a day one can work, we can work. So access to some of those facilities with limited time frames. And then finally, as I mentioned earlier, home deliveries where you need an enclosed truck is a little bit of a challenge just because of the reduced number of enclosed trucks availability.

But increasing the number of logistic partners have helped us. We're also looking at some IT integrations with some bigger logistic partners to help moving forward. I personally think that as we have a mix of pickups with home deliveries, this ratio will vastly improve. And I expect that more than 50% of our delivery should be a pickup or something under 60 miles that we deliver direct to the customer.

Henrik Fisker  
President, Chairman & CEO
Maybe just 1 last thing I can add. I think if you look at any car company in the world during the first 6 months of ramp, those vehicles always demand more care than once you’re up and running because you might be doing actual flashing software, you might be adjusting certain things, and that’s normal in any car ramp. So I would say at this point, we are now up at a point where the cars we get delivered, there’s no more adjusting. There’s no more flashing. It’s really over the year updates that we are doing, and that’s way easier.

And then as Geeta mentioned, people coming in and picking up cars at our facility is totally different because we cannot have people coming on these other external facilities. It’s not allowed. So that’s going to make a huge change.

Operator

Your last question comes from the line of Chris Pierce of Needham.

Christopher Alan Pierce  
Needham & Company, LLC, Research Division

I just got -- I wanted to get -- I know you don't want to talk about ’24, but is it safe to assume that backing into production in the fourth quarter of this year will be around 9,000 units. That's the low end of the spectrum for ’24 because of what you're pulling back on production? Is that the right way to think about it broadly?

Geeta Gupta-Fisker  
CFO, COO & Director

Sorry...

Henrik Fisker  
President, Chairman & CEO

I didn't really -- I think this was not clear. Would you...

Geeta Gupta-Fisker  
CFO, COO & Director

Sorry. Would you mind repeating the question again?

Christopher Alan Pierce  
Needham & Company, LLC, Research Division

Yes. So your 13,000 to 17,000 production guidance for the year, you can back into around 9,000 units in the fourth quarter. Is that a low quarterly run rate for ’24, like a baseline assumption because you're pulling back production right now? I just want to get a sense how to think about ’24 without a specific number.

Geeta Gupta-Fisker  
CFO, COO & Director

No. I don't think that it's an indication of what can be achieved in ’24. I think pulling back production simply means that we are being more pragmatic about inventory. And I think from a production run rate, we have made investments both with suppliers and with Magna to achieve what we can achieve. So I don't think this is an indication of guidance for 2024 in any way.

Christopher Alan Pierce  
Needham & Company, LLC, Research Division

Okay. And the 300 -- you kind of mentioned the number 300 a couple of times. Just to confirm, 300 was ideal production per day at Magna, but 300 is also ideal deliveries per day in the fourth quarter. I just want to make sure I fully understand [indiscernible].

Geeta Gupta-Fisker  
CFO, COO & Director

Yes. So 300 a day is a daily production rate that we have currently the capability, if we wanted to, if we have the capability and we could deliver those vehicles, we could make that at Magna. Of course, it's a fully capacitized production. It would, of course, mean that we would also have to ramp suppliers since Magna would require suppliers to be capacitized at that rate as well. But of course, the main thing there is that you have to be able to catch up to production with deliveries for that rate.
Needham & Company, LLC, Research Division

Okay. And then just lastly, so now if we had to narrow it down, the 1 big surprise factor because you guys are producing these vehicles in Austria and you knew they were going to come to the U.S. So that part wasn't new, but what's new is the difficulties at ADESA. That's what you kind of came to realize and that's what you're looking to solve right now. That was a surprise fact there?

Henrik Fisker
President, Chairman & CEO

I think that's correct. We had, during COVID, anticipated more home deliveries, easier home deliveries, and we are now seeing that it just is not going fast enough for the home deliveries. We also saw people are happy to come and pick up the car if they can get it a week earlier at one of our facilities, which is why we accelerated getting our own facilities, like I mentioned. I think, Geeta, how many facilities have we now signed?

Geeta Gupta-Fisker
CFO, COO & Director

I think we're actually in almost around 15 facilities where we have either the facilities have opened, like we have in Huntington Beach, and I mentioned the one in Long Island. We have in Tempe, Arizona. We have Owings mills. So we have almost 15 facilities where they're either opened or LOI signed.

Henrik Fisker
President, Chairman & CEO

So I think this is where we have pivoted over to now so we can do much more deliveries. And that's why we are confident to get to 300 because we actually will have the infrastructure. We just realized that the infrastructure with this outsourced facilities just wasn't going to work.

Operator

We're now out of time for any further questions. I would now like to turn the call over to Henrik Fisker for some closing remarks.

Henrik Fisker
President, Chairman & CEO

Well, first of all, thank you, everyone, for listening. I would like to say that we did see some surprises here in our deliveries, as we have talked about most of the time, but we saw them actually a couple of months ago. So we have obviously made adjustments going out, getting more real estate quicker, hired more people than we anticipated. We have also seen, as our original idea was to be a fully digital car company where everything was done digitally, we have seen people actually like to meet people or get on the phone and talk to a real person. So this is things that we have accelerated up and adjusted to.

And I think it's one of the strengths of our company, that we've been able to adjust to the situation. We have a great manufacturing facility. We have great demand. The last part of the puzzle is getting these deliveries right, and I'm convinced that with our team, we can do it. And I'm really excited about the next coming week and next couple of months. So thank you very much, everyone, and thank you to the Fisker team as well.

Operator

This concludes today's conference call. You may now disconnect.