

Fisker Inc. NYSE:FSR

FQ4 2023 Earnings Call Transcripts

Thursday, February 29, 2024 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	(0.13)	(1.33)	NM	(0.17)	(1.12)	(2.22)	NM	(0.43)
Revenue (mm)	310.79	200.07	▼ (35.63 %)	173.97	352.88	272.89	▼ (22.67 %)	1055.85

Currency: USD

Consensus as of Mar-01-2024 4:44 PM GMT

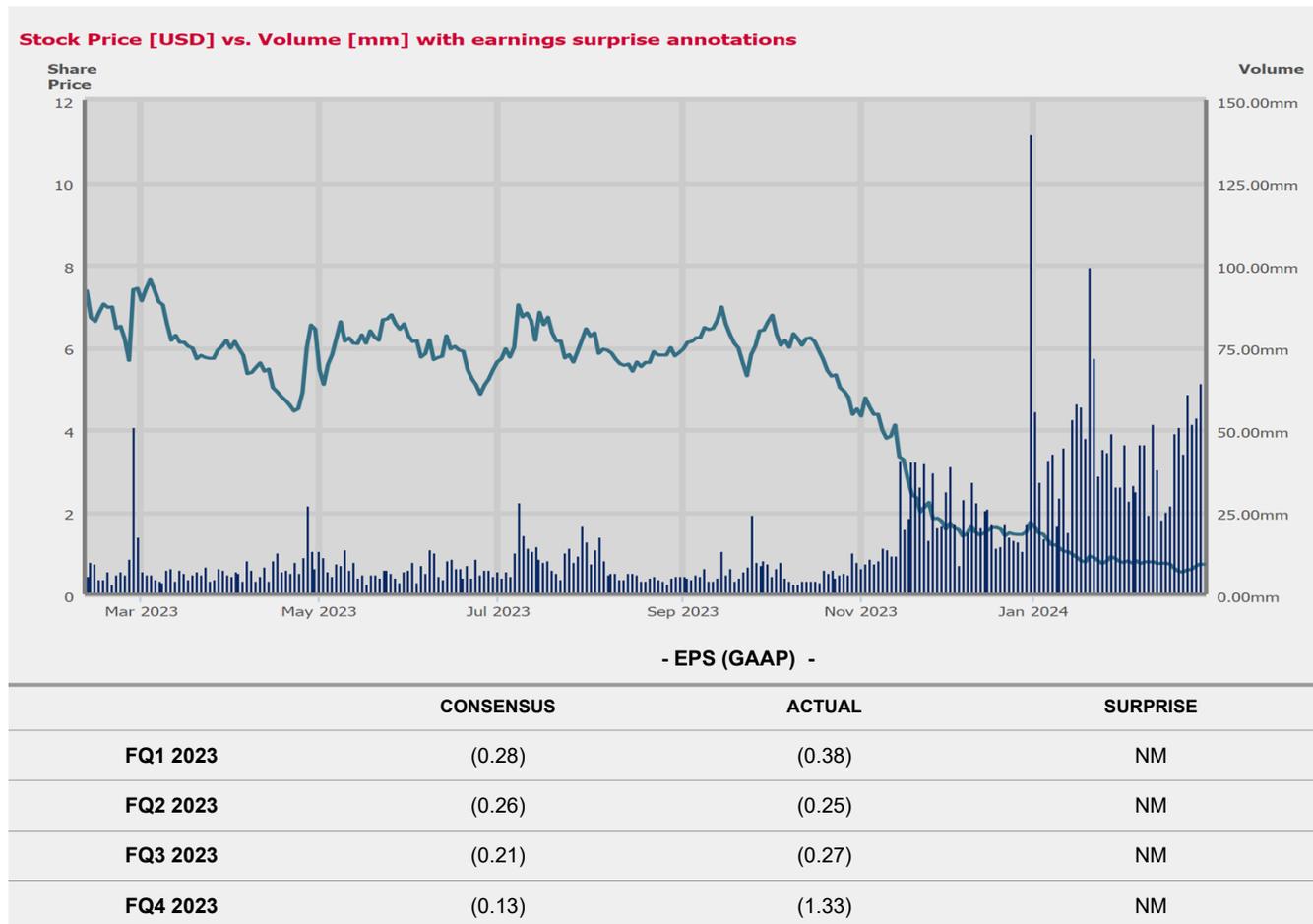


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Call Participants

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Presentation

Operator

Good afternoon, and welcome to Fisker Inc.'s Fourth Quarter and Full Year 2023 Earnings Call. [Operator Instructions] After the speakers' presentation, we will conduct a question-and-answer session. As a reminder, this conference call is being recorded. I would now like to turn the call over to Eric Goldstein, Head of Investor Relations. Thank you. Please go ahead, sir.

Eric Goldstein *Head of Investor Relations*

Thank you, operator. Hello, everyone, and welcome to Fisker's fourth quarter and full year 2023 earnings call. As the operator mentioned, my name is Eric Goldstein, Head of Investor Relations at Fisker. Joining me today on the call are Henrik Fisker, Chief Executive Officer; David King, Chief Technology Officer; Dr. Geeta Gupta-Fisker, Chief Financial Officer and Chief Operating Officer; and Angel Salinas, Chief Accounting Officer.

Please note that today's discussion includes forward-looking statements about our expectations. Actual results in the future periods are subject to risks and uncertainties that could cause our results to differ materially from those projected. 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 may also include certain non-GAAP measures, including non-GAAP operating expenses. The financial results discussed today are presented on a preliminary basis. Final data will be included in Fisker's annual report on Form 10-K for the period ended December 31, 2023.

With that, I'm happy to turn the call over to Henrik.

Henrik Fisker *President, Chairman & CEO*

Thank you, Eric. Good afternoon, everyone. Thank you for joining us today for our fourth quarter and full year 2023 earnings call. I want to start by thanking all our stakeholders, teams and partners for all the hard work and continued progress we made in 2023. In addition, I'm very excited to introduce Angel Salinas, our Chief Accounting Officer, who joined us in early January. Angel has 28 years of public company accounting experience. She is here with us in the room, as Eric mentioned, and would be happy to answer accounting-related questions later on.

2023 was a challenging year for Fisker. We achieved some important milestones for the full year. Fisker produced 10,193 Oceans and delivered over 4,900 across 12 countries. We are proud of what we were able to achieve, but acknowledge that these totals were below the guidance we provided during the year. Despite what we believe was the swiftest and largest delivery expansion of any EV startup company ever, supplier delays and other issues unexpectedly hampered our ability to ramp up production and deliveries during the year. While we made good progress in solidifying our delivery network, we were not able to efficiently accommodate our backlog of the pace we and our customers desired and deserved. This led to the decision that we announced in January of a shift to a dealer partner model.

In early January, we announced our dealer partner model in North America and hybrid model in Europe, a big strategic shift for Fisker. We are making significant progress on this rollout, and I'm pleased to report we already have sent our first invoices this week to several dealer groups. We have received over 250 expressions of interest from dealers across North America, Canada and Europe. Just recently, we hosted several of these dealers at our Manhattan Beach headquarters for a presentation of the Fisker lineup vehicles. It was an exciting day looking into the strategic future of our company. We are carefully choosing our dealer partners. At the moment, we have signed up dealers who are family owned and some who want to open multiple stores for us as we grow. One example is a dealer who is interested in 9 locations in North America. Another example is a European dealer group who is working on taking the entire country in Europe. That gives me great confidence that we will be able to set up a comprehensive wide reaching dealer network in a very short time. I expect we will keep signing up multiple dealers every week during the next few months and have a comprehensive dealer work with approximately 50 dealer locations at both North America and Europe by the second half of this year.

As we recognize the EV market is growing at a slower pace, we want to be prepared. We have already initiated a strategy to make our company even more lean and competitive. Specifically today, we announced a headcount reduction of approximately 15% of our workforce, mainly as a result of the shift from direct to consumer model to a dealer model as well as streamlining the company in other areas. We recognize that success is not a straight line. We are bringing to the world the most sustainable electric vehicle. We knew this would be difficult, but we are in this for the long haul and are confident in our direction. We believe the Ocean platform

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is competitively priced and has several class-leading features, including a best-in-class range of 360 miles. While we also realized that the EV industry is going through a turbulent and unpredictable period, so we want to start this year with a more prudent plan. We currently anticipate delivering approximately 20,000 to 22,000 Oceans globally in 2024. We expect sales momentum to build throughout the year as our dealer footprint expands.

We continue to bolster the breadth and depth of our management team with key executive leadership hirings of seasoned and experienced executives across departments, including financing, accounting and marketing. I want to highlight one important development regarding our senior convertible notes. On January 21, Fisker entered into a second amendment and waiver agreement with the holder of the 2025 senior convertible notes. Preferring to this waiver, among other items, the company has obtained a release from the noteholder relating to certain intellectual property belonging to Fisker upon the company entering into a certain commercial agreement with an automotive original equipment manufacturer OEM. The waiver provide us with the increased flexibility to pursue strategic collaborations, Geeta will speak further on the convertible notes in her remarks.

On the strategic front, Fisker is in negotiations with a large automaker for a potential transaction, which could include an investment in Fisker joint development of one or more electric vehicle platforms and North American manufacturing. The close of any transaction would be subject to satisfaction of important conditions, including completion of due diligence and negotiations and execution of appropriate definitive agreements.

Turning to the Ocean. As mentioned earlier, we are proud to have delivered over 4,900 Fisker Oceans in 2023. And in the fourth quarter, we produced 4,789 vehicles and delivered 3,818 vehicles, an increase of approximately 250% from Q3 to Q4. In 2023, the Fisker Ocean won 6 different European awards in Germany, France, Denmark and United Kingdom for best electric vehicle, best SUV and best product design. These accomplishments marks an important validation of a world-class product that our incredible talented team has developed. The Ocean OS 2.0 over-the-air update has already begun, which includes performance and powertrain improvements, enhancements for SolarSky, improved energy management and other user experience improvement. Additional OTA updates are planned throughout 2024. This shows how advanced and fully connected our Ocean vehicle is compared to most of our competitors. The Ocean is simply getting better and better. But I will have David King, our Chief Technology Officer, address our OTA strategy in more detail later.

Let's talk about our future products. In 2023, we rolled out our Vision for the Future of Fisker Products with PEAR, a radical new segment Boston compact SUV designed to capture a large addressable market, and Alaska, a vehicle in a segment of its own. Now that several OEMs have postponed their EV programs, Alaska will sit in a unique market segment without any direct EV competitors due to its price and features. The Alaska is about the size of a Ford Ranger, but with luxuries, unique features and bed sizes from 4.5 feet to 7.5 feet, expected pricing at \$45,900 and up. This is the next model we are concentrating on right now. We will only continue to invest in these programs if we complete a strategic collaboration or investment with an OEM.

Sustainability. Turning to the topic of ESG and sustainability, a foundational pillar for our company. We have made a strategic move to confidently drive toward our goal of creating the most sustainable vehicles across all our programs. Our Head of ESG now reports directly to our CTO. This enhances ESG alignment with engineering, design and procurement, providing more immediate access to support innovation and low-impact materials and technology. Our sustainability team has the full support of these departments and continues to work with our materials engineers and design leaders that work directly and diligently to use the best quality and lowest impact materials and technology. Our carbon footprint life cycle assessment published in 2023 clearly showed our ability to lead the industry in sustainability. We are currently working on a system to incorporate ongoing carbon footprint analytics and target setting for sustainability. That will promote verifiable radical advancements.

As I look back on 2023 and ahead to the remainder of 2024, while I'm well aware that sentiment on EVs has seen brighter days and our own company has experienced growing pains, my confidence in the future of Fisker remains very strong. Through the hard work of our dedicated team, I know we will continue to grow the Fisker brand and expand in our current North American and European markets and beyond. I appreciate everyone for sticking with us on this journey towards a clean, sustainable mobility future for us all.

I would now like to turn the call over to our Chief Technology Officer, David King.

David Jeremy King
Chief Technology Officer

Thank you, Henrik. A key focus for the Fisker engineering team in the last quarter has been to consolidate the hard work that went into launching the Ocean by optimizing quality and the customer experience with a particular emphasis on software updates and feature introductions. Our strategy for the Ocean was to launch a global car with class-leading design and features, future-proofed

hardware and a fully connected cyber secure software platform that would allow us to continually improve the user experience, optimize driving performance and introduce new features throughout the life of the car.

The acclaim that the Ocean has received in the U.S. and in Europe for its design, build quality, comfort, roominess, its range and dynamic performance is a testament to our successful delivery of the hardware, and our investment in our over-the-air capability to update software in so many of the vehicles ECUs means we can respond quickly to early customer feedback and our own data analysis to roll out performance improvements, bulk fixes and some key features that were always planned to follow on shortly after the initial start of production.

Delivering any new software manually or over the air is a big responsibility and our testing and approval of component system level and vehicle level is accordingly rigorous. In order to add additional quality gates, a key process improvement introduced in quarter 4 is our 3-step OTA rollout that requires confirmation of successful updates in subsets of our internal and customer fleets before going full scale. We have also published a software road map to give better visibility of future upgrades and our intention is to achieve a consistent monthly cadence of OTAs with at least 3 months rolling visibility of content.

Looking back now on recently deployed updates. During November and December, we rolled out OS 1.10 and 1.11. The former included refinements to the low-speed Regen braking performance over bumpy or slippery surfaces, along with 12-volt battery life improvements and bug fixes. The latter was focused on center screen response improvements, bug fixes and the introduction of trip meters. Meanwhile, we've also been working hard to complete the testing on the much-anticipated OS 2.0 that has commenced customer rollout this week. OS 2.0 is our largest scale OTA package to date with updates to 12 ECUs to deliver new features such as auto hold, trailer tray mitigation, revised 45-55 front rear talk split, further refinements to Regen brake blending, SolarSky charging meter and OTA wells plugged in, along with performance improvements, such as improved cabin heating and defogging, revised audio tune for improved base response, improved center screen response and Bluetooth stability, part 1 of driver profiles as well as a range of bug fixes and some enabling changes for future updates. It also includes the eagerly awaited key performance improvements and improved 12-volt battery management with a customer selectable energy saving mode that reduces overnight state of charge loss to below 1%. Our ability to make the scale of OTA update is currently very rare within the industry, and it places us in a very strong position to not only keep pace but to set the pace in a rapidly changing industry where software increasingly defines the user experience.

I've been driving an early release of OS 2.0 in my own Ocean for over a month now, covering more than 1,500 miles in that time, and I am delighted that the sum of all the improvements in this ambitious package is so clearly apparent in the noticeably more sophisticated driving experience and cleaner functionality as well as fixing some irritations that I know will be much appreciated by our customers. Looking ahead, we are preparing now to release OS 2.1 in March and as 2.2 in April, both of which will be smaller in scale than 2.0, while we finalize the next major feature upgrade, OS 3.0 in May. 2.1 will introduce Alexa, scheduled OTA and further center screen enhancements, while OS 2.2 will add memory seats, some general calibration refinements and the U.K. time zone fix.

OS 3.0 is our next major OTA package, and we are in the late stages of testing and sign off now. Feature content includes talk vectoring, 1 pedal drive, further ESP refinements, hill descent control, new exterior sounds and a suite of ADAS performance improvements and features, including active cruise control. Our vehicle engineering team is just back from a comprehensive winter test and sign-off trip in Sweden earlier this month with excellent results on the Ice Lake, where even the front-wheel-drive entry-level sport version gave an excellent account of itself. Away from Ocean optimization, the Fisker team continues to work hard on the Alaska project. This exciting mid-sized EV pickup will be packed with innovative features and will be uniquely placed in a segment of its own.

All our learning and experience from the Ocean program is being embedded in the specifications and the engineering data to ensure rapid and robust development phase. I'm very proud of what our team has accomplished thus far and excited for our customers to experience the features and upgrades we have in store for them.

With that, I'll 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, our suppliers, customers and our shareholders who have supported us during a tough year. As Henrik has already said, 2023 was a much more challenging year than we anticipated. However, I can assure you that everyone at Fisker is working extremely hard around the clock. We have a highly differentiated product that truly deserves a higher level of customer awareness. As we roll out our dealer partnership strategy, we expect our sales to grow as consumers become more aware of our brand and have the ability to test drive and kick the tires.

I will now review our preliminary fourth quarter full year results. Our fourth quarter revenue was \$200.1 million, which was an increase of approximately \$128 million from the third quarter. Higher revenues were driven by a significant increase in deliveries in the quarter to 3,818 units compared to 1,097 units in third quarter 2023. Our top line in the fourth quarter was reduced by \$44.6 million that was allocated to deferred revenue accounts on our balance sheet. This relates to revenue we expect to realize in the future when additional services tied to certain option packages are performed, specifically related to ADAS as well as certain vehicle features and functions that are updated over the air. A significant amount of this deferred revenue was also tied to a special package to Fisker Ocean One owners that was announced in October. That package included 3 vehicle infotainment upgrades, lifetime wireless connectivity, a warranty extension, pre-tire replacement and a 1,000 charge point gift card amongst other items. If we were to include the deferred revenue, our reported revenue would have been approximately \$244.7 million, and our average selling price would have been more in line with analyst expectations.

Our gross margin was negative 35% in the quarter. However, there were some nonrecurring items in the cost of goods sold that negatively impacted margins, which includes an inventory valuation charge and a supplier capacity expense. On an adjusted basis, adding back deferred revenue and removing the inventory charge and supplier capacity expense, our gross margin would have been positive. We reported a loss from operations in the quarter of \$103 million. SG&A of \$79.4 million increased sequentially largely due to a rise in headcount during the quarter and higher professional fees. We quickly recognized we needed to pivot from direct sales to the dealer partnership model for the reasons that Henrik has already described. At the end of the fourth quarter, with this pivot, we also needed to streamline company-wide operations. As a result, we expect to have a significant reduction in costs with respect to our real estate expenses and payroll through workforce reductions and related SG&A expenses. Furthermore, we expect to have additional reductions in R&D as the Ocean development is largely complete and any new vehicle program spending will be tied to a strategic automaker collaboration.

I will now address a couple of other items in the income statement. Other expense in the quarter was minus \$10.5 million, largely due to a write-off for a loan we had previously made to a trouble supplier. We had negative \$328.5 million adjustment to the fair value of our 2025 convertible notes in the fourth quarter. The primary driver of this was the result of a conversion feature, which became available to the holder of the notes due to late filing of our Form 10-Q for the period ended September 30, 2023. Fisker amended the agreement with the noteholder to remove this conversion feature when we file our 10-K with the SEC. As of February 29, approximately \$237 million of the 2025 notes have been converted to equity, which has reduced the principal amount of 225 notes outstanding to \$273 million from the initial aggregate principal amount of \$510 million. After our annual 10-K is filed with the SEC, this conversion feature will cease to be available to the noteholder and the fair value of the notes will be reduced.

Our net loss for the fourth quarter was \$463.6 million or \$1.23 per share. For the full year 2023, we reported revenue of \$272.9 million, which excludes the aforementioned \$44.6 million of deferred revenue. Our reported gross profit was minus \$102.9 million or minus 38%. Our net loss for the year was \$762 million or minus \$2.22 per share. We ended 2023 with \$325.5 million in cash and cash equivalents and \$70.5 million in restricted cash. Our cash position fluctuates based on a variety of factors. Since December 31, 2023, there has been a further reduction in our cash due to ongoing operations.

Before we move on to our outlook for 2024, I'd like to address our liquidity situation and 10-K status. We expect our capital expenditures and working capital requirements to decrease in 2024 and beyond as we enter the second year of Ocean production. However, our business plan is highly dependent on the successful transition and execution from selling direct to customers to a new dealer partner model. Furthermore, to the extent our current resources are insufficient to satisfy our financial requirements over the next 12 months, we may need to seek additional equity or debt financing, and there can be no assurance that we will be successful in these efforts. If the financing is not available or if the terms of financing are less desirable than we are expecting, we may be forced to decrease our planned level of investment. In product development, we may have to scale back our operations, including headcount and production of the Ocean, which could have an adverse impact on our business and financial prospects. As a result, we expect to conclude there is substantial doubt about our ability to continue the going concern when we file our 10-K with the SEC.

To address potential liquidity issues, Frisker is already taking action. We are currently in discussion with an existing noteholder about potentially making an additional investment in the company. The use of proceeds, if a transaction is consummated, is expected to be the general corporate purposes vehicle production and the ongoing transition to a dealer focused sales model. In addition, as previously noted, Frisker intends to reduce its workforce by approximately 15%. Headcount reductions are predominantly related to change in sales strategy from direct to consumer and to a dealer partner model. In addition, we are streamlining operations, including reducing our physical footprint and overall expenses.

Regarding our 10-K, Frisker is currently unable to file its annual report on Form 10-K for the year ended December 31, 2023, the 2023 Form 10-K within the time period prescribed. Frisker needs additional time to finalize its consolidated financial statements and

evaluation of disclosure controls and procedures. We currently expect to file the 2023 Form 10-K within the 15-day extension period provided under Rule 12b-25.

Turning to our 2024 outlook. As Henrik stated, we expect to sell between 20,000 and 22,000 units in 2024. With the rollout of our dealer network underway, enhanced by the improvements and optimizations made to our outbound logistics operations, we believe we have a strategy to make this happen in the most efficient and financially prudent way. Importantly, the carrying value of completed vehicles in our inventory and prepaid raw materials at year-end was approximately \$530 million. During the first half of 2024, we expect to generate cash from the sale of existing 2023 production vehicles that are largely paid for supporting monetization of our balance sheet. In addition, we expect a higher than usual cash contribution from the Oceans produced and subsequently sold in the first half of 2024 as the company consumes raw materials that are already on its balance sheet, meaning they are already paid for.

On a non-GAAP basis, spending for SG&A, R&D and CapEx for 2024 is expected to be in the range of \$320 million to \$390 million. Of this, SG&A is estimated to be \$200 million to \$230 million, which is lower than our annualized fourth quarter run rate. R&D is estimated to be in the \$60 million to \$80 million range and CapEx is also estimated to be in the \$60 million to \$80 million range. Together, this guidance strikes a balance between our asset-light model, our prudent investment plans and streamlining the company's operations further to achieve our goals for 2024.

Our estimated average selling price per vehicle will be in the range of \$56,000 to \$62,000 after taking into account import duties and dealer commissions. Reflecting the recent conversions of a portion of 2025 senior convertible notes to equity and stock-based compensation, 456,780,116 shares of the company's Class A common stock are outstanding as of February 26, 2024. In addition, there are 132,354,128 shares of Class B common stock outstanding for a combined total shares outstanding of 589,134,244 shares.

We are now happy to answer your questions.

Eric Goldstein
Head of Investor Relations

Okay. Thanks, Geeta. We're going to take three questions that we received from retail, and then we'll jump into Q&A from the analysts that are on the line. So the first retail question is, given the recent decline in the stock price, what does Fisker's next move to improve shareholder value? And how many new dealers does Fisker think it's going to gain with dealer partner model?

Henrik Fisker
President, Chairman & CEO

Well, first, Fisker is intently focused on the transition from a direct-to-consumer sales model to a dealer partner model that I already talked about. Also, we have over 250 interested dealers between North America and Europe. And obviously, we are going to convert a lot of those as fast as we can into signed up dealers. We right now have 17 dealer locations already signed up between U.S. and Europe, and we have already started taking invoices from dealers and actually start to ship the first cars to dealers today. And I expect by the end of this quarter, we will have 50 dealer locations in U.S. and in Europe. And I expect by the end of the year, we will have at least 100 dealer locations here in the U.S. And in Europe, probably about 60 dealer locations, 50 to 60.

Eric Goldstein
Head of Investor Relations

Thanks, Henrik. All right. Second question, we're going to be pretty limited in terms of what we're allowed to say. But the question was, have there been any serious merger discussions with large automakers?

Henrik Fisker
President, Chairman & CEO

Yes, we've already had many discussions with large OEM partners or potential partners, but one have progressed quite far. And we are now in the middle of negotiations with one large automaker for a potential transaction, which could include an investment in Fisker, joint development of one or more electric vehicle platforms and North American manufacturing. The close of any transaction would be subject to satisfaction of important conditions, including completion of due diligence and negotiation and execution of appropriate definitive agreements.

Eric Goldstein
Head of Investor Relations

Okay. And last question from retail. Fisker has missed its guidance and targets and the recent 10-Q missing from the third quarter set off a cascading event with the 2025 notes. And now we have an out of compliance letter with the New York Stock Exchange. What concrete steps are being taken to rebuild trust and to hit targets?

Henrik Fisker

President, Chairman & CEO

We recognize that our 2023 was a challenging year for the company. Our guidance and targets reflected our best estimate at the time, but as discussed, a number of unexpected challenges arose, we continue to bolster the breadth and depth of our management team with key executive leadership hirings, such as Angel that are here today, and we'll continue to hire people that we need, and that will help the team here. We anticipate that our strategic partnership would help with the growth strategy and also local manufacturing. Our dealer partner model is progressing well, and I expect that this is going to help accelerate our deliveries this year, in fact, starting already next month. And also, we are reducing our workforce by approximately 15%, which is, of course, part of pivoting to the new dealer model that we don't need to have internal salespeople, et cetera. but it also means that we will reduce our physical spaces that we have engaged with, both in U.S. and Europe. In fact, in Europe, we have some large dealer groups that are taking over some of our physical spaces, including the personnel, so that will help reduce costs. And then finally, we continue to be transparent and have already increased our updates and press releases.

Eric Goldstein

Head of Investor Relations

Okay. Thanks, Henrik. Operator, we can open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from James Picariello with BNP Paribas.

Thomas Jacob Scholl

BNP Paribas Exane, Research Division

This is Jake on for James. First, just as you guys build out this dealer partnership model, how should investors think about the cadence for production deliveries through the year as you scale this up and try to convert some of the 5,000 some vehicles in inventory into cash.

Henrik Fisker

President, Chairman & CEO

Yes, I can take that, this is Henrik. First of all, we don't have 5,000 vehicles in inventory because we have already sold vehicles, obviously this year. Secondly, we have a very unique setup with because we are having contract manufacturing. So versus maybe other startups, we don't have an issue of producing cars. We can go and get even more cars produced if we want it. So we wanted to start out with a, I would say, rather conservative prediction of actual deliveries and sales this year of 20,000 to 22,000. Should it turn out that we are doing much better, we can easily increase our production. That's not the issue. So I expect that with the dealer sort of what we are starting now with this rollout with the dealers, that will accelerate fairly quickly up in sales, but we do need to sign on dealers, and we do have to go through diligence with each dealer. In best case scenarios, it takes about a week to sign up a dealer from we get out their application to they are fully signed on and ordered the first car. We have done a few a little quicker like in 3 days. So it can actually go fairly quick.

We do have to get licenses in certain areas. But for example, we already have got our license in California. We also have the license in Florida, just to give 2 examples. Those are 2 of our biggest markets, and we already have signed up dealers across different other states. California, I expect will be signed up with dealers pretty much all around California starting next week. And that's obviously the biggest market and also starting next week, Florida as well. So I see a fairly quick sign up here in the U.S. Canada as well we're in discussions already and have or reidentified dealers there or dealer groups. And in Europe, as I mentioned earlier, we actually have dealer groups who want to take entire countries, which means they're going to move very fast. And also, as I mentioned earlier, we do have our own facilities in each of the European countries. And some of these facilities, for example, where dealer takes the entire country, they will actually take over the facility. So that again reduces cost, but it also means they immediately have facilities.

One point I want to make as well, which is very important, is a lot of dealers have access to existing real estate, some because they built nice real estate during COVID for used cars and the used car sales are not as hot as it used to be. So we're able to move into them immediately. Others, it's because they have left certain brands, and they therefore have fantastic looking dealerships ready that we can move in immediately. So the dealers we are signing up right now, we are moving vehicles straight into their showrooms, putting up a new sign and open for business.

Operator

Our next question comes from the line of Pavel Molchanov with Raymond James.

Pavel S. Molchanov

Raymond James & Associates, Inc., Research Division

Given the new distribution model as well as the new volume expectations, what kind of gross margin profile are you thinking for the sales mix right now?

Geeta Gupta-Fisker

CFO, COO & Director

Yes. Pavel, it's Geeta, I'll take the question. So we're not providing any gross margin guidance specifically for 2024, but we do expect to achieve on a non-GAAP basis, single-digit margins, and we expect to go from mid- to high single digits over time once our dealer model is fully rolled out. And we expect that a large part of the dealer margins will be offset by DTC costs that we incur today.

Operator

Our next question comes from the line of Dan Levy with Barclays.

Dan Meir Levy

Barclays Bank PLC, Research Division

Maybe you can just talk to future product development. I think that you said right now, you're working on some strategic developments or some strategic agreements with OEMs. But maybe you could just comment, I know you mentioned Alaska, where does PEAR stand then maybe if I could also squeeze one in as well. I know the distribution model has changed, but maybe you can comment on if there is backlog or just any indications of underlying demand?

Henrik Fisker

President, Chairman & CEO

So as we say clearly in there, Dan, thanks for the question, we are not planning to start external expenditure on our next projects until or we have a strategic OEM partnership in place. However, as we see in the market, we see that the biggest opportunity for growth and I think profitability and getting speed to market is with the Alaska. So the internal team are now focused on Alaska. And so that would be, at this moment, I see our next vehicle. But PEAR obviously would also be important as well because of a very affordable vehicle, but we do have to prioritize. So that's how I would answer that.

The second part of the question, can you just mention that again?

Dan Meir Levy

Barclays Bank PLC, Research Division

Just any indications on order book or demand.

Henrik Fisker

President, Chairman & CEO

Yes. So I think that we have to go with a very cautious prediction because we do see an EV sort of negative sentiment, whether it's in media or generally talked about and maybe for some companies. I would say that what we have seen with our dealers is the opposite. We have actually seen them being super excited. I think part of it is that the dealers have been sitting, looking over the fence for the last 15 years of startups selling direct. They have never really been able to participate in that sort of growth that's happened in the EV segment. They've only read about it. And now for the first time, dealers in the U.S. specifically, are able to get an American independent automaker's car into the dealership. And that gives them a whole new competitive edge they have never had before, but they actually can go out and start competing against the best-selling EV at the moment. And that obviously comes from an independent EV maker. So they're extremely excited to have our vehicle. Like I said, we already have dealers ordering the vehicles and dealer don't order one vehicle at the time. It can be 50, 100 or more, depending on how many locations they have. The advantage, I think, for us is that they are ordering multiple vehicles now, and they're going to sell them in areas where we have not been present. So I actually forecast a pretty good demand, specifically here in the U.S. because of this whole new thing that's happened, but for the first time these dealer groups was, by the way, have multiple brands, but they have never had a product like ours before, and they're super excited about it.

Operator

Our next question comes from the line of Jeff Osborne with TD Cowen.

Jeffrey David Osborne

TD Cowen, Research Division

Henrik, a 2-part question. I was wondering if you could just give us a sense of how long you expect the due diligence process to last with the OEM. And then in the event that, that doesn't come together, if Geeta could quantify what the OpEx and CapEx commitment is in 2024 to prioritize the Alaska, I assume if an OEM partner doesn't pan out that you would look to curtail that. So if you could give us a sense of what might be the next steps in the unfortunate event as the partner doesn't manifest itself.

Henrik Fisker

President, Chairman & CEO

So first of all, we have been in diligence for many months. That's all I can say to that. And we are looking to obviously wanting to close the deal as soon as we can. But I can only give the information we have already said about that at this point in time. I did say

many, many months ago, I think 5 or 6 months ago that we were in talk with multiple OEMs. And I think today, we're really saying that we are now in the middle of negotiating with just one OEM. But obviously, it's not like that started yesterday.

Geeta Gupta-Fisker
CFO, COO & Director

I think your second question is if that doesn't happen, then what do we do with Alaska? So at this point in time, the guidance we have given is Ocean only. And as I mentioned in my script that any programs, which are beyond the Ocean would only incur expenses if there's a strategic collaboration. So we would not be incurring any expenses on any vehicle programs in the absence of an OEM collaboration.

Operator

Our next question comes from the line of Chris Pierce with Needham.

Christopher Alan Pierce
Needham & Company, LLC, Research Division

On the dealer side of the world, are there any minimum volumes that dealers have to kind of commit to join the program? And does that inform the 20,000 to 22,000 unit delivery guidance? Or is that guidance informed by signing up more dealers? And then is there a marketing that you guys have to do in those regions where those dealerships are? Or is it on the dealer to market and sell the cars kind of on their own?

Geeta Gupta-Fisker
CFO, COO & Director

I'll take that. On our public investor deck, we have shared what our dealer partner model looks like. And of course, in Europe, we have a hybrid model. We don't have a franchise model like we have in the U.S. or in Canada. We are following very typical guidelines that sort of the NADA framework suggests. We are obviously looking at a certain minimum inventory. And typically, those are 30 days to 45 days because you want to make sure that you're supplying our dealer partners with enough inventory. Given the fact that we've had limited exposure of our product, we expect that we will be able to get multiple points, and we will be able to supply inventory, again, for 30 days to sort of 45 days. That's typically, again, something standard in the industry, nothing unique in our model.

Henrik Fisker
President, Chairman & CEO

And then to the marketing point, obviously, the dealers they do a lot of their own local marketing. We do have a core program where we will support them, but they have to spend money on marketing. And obviously, some of these dealers are in very prominent locations and they, for example, will go to the local malls and display the vehicles or do events. We have a dealer right now in Atlanta that's actually doing an event this weekend already, and we are helping out there with him, but he's willing obviously selling the vehicles there. So I would say, I think getting out dealers almost in every state in America, I mean, sometimes we forget how big America is, but it's huge. And just for now, we have been able to sell thousands of cars out of literally 2 locations where people could see the vehicle, New York and Los Angeles. So the fact we already have another 17 locations between U.S. and Europe is already, we've like gotten 3x as much in the U.S. alone, what we used to have. So I see that just being able to go down to your local dealership, see the vehicle and try it out. And I also want to say the dealer groups that we pick, we are not picking people who's never sold a car. We are concentrating around fairly large family-owned dealerships. I mean, there's not everyone that's like that, but that's sort of what we're seeing at the moment. So for example, Mills Auto that we signed up, I believe there's around 30 dealerships. And I think it has around 10 brands, and a lot of these dealers have multiple brands in the same locations. So when you go down and buy or look at a certain brand, you would go down, you will see the Fisker there as well. And that's the same in Europe. When you go down, there's maybe 5 or 6 brands, right, they're owned by the same dealer, so we get automatic exposure that we have never had before. I mean there is still a large amount of the population, probably the majority, both in U.S. and Europe that has never even heard about Fisker. So building the brand is something the dealer is going to be part of, and that's something which I think is going to accelerate appointing these dealers.

Operator

Our next question comes from the line of Mark Delaney with Goldman Sachs.

Mark Trevor Delaney
Goldman Sachs Group, Inc., Research Division

Could you provide more color on your expectation for free cash flow this year based on the financial scenario outlined of 20,000 to 22,000 deliveries and how cash flow might vary in the first half relative to the second half of the year given the focus you mentioned about working capital?

Geeta Gupta-Fisker
CFO, COO & Director

Yes. So I think just in terms of working capital, I mean, as we outlined, have a very rich balance sheet with respect to finished goods and also prepaid materials, our expectation is that we expect to free up significant cash flow from selling the finished goods. And as I mentioned earlier in my script that we are also using this prepaid inventory. So for every vehicle, we build and we sell, we have a higher than usual cash contribution from vehicles that are sold in the first half of 2024. So in terms of the guidance that I mentioned earlier, which is sort of \$320 million to \$390 million, what we expect is the first half to contribute towards working capital needs to support the goals of the business.

Operator

Our next question comes from the line of Shreyas Patil with Wolfe Research.

Shreyas Patil
Wolfe Research, LLC

So I just wanted to better understand where your relationship is now with Foxconn is if the case is now that you're essentially deferring development on the PEAR program, does that have any impact as far as your agreement with them? And then also why aren't they investing in Fisker or helping to contribute since you already have an existing relationship with them? Why do you feel the need to have to go to another OEM?

Henrik Fisker
President, Chairman & CEO

I would not really consider Foxconn an OEM, first of all. Secondly, as we are in the middle of negotiation with a large OEM, I think that we, as a company, can really only concentrate and only want to concentrate on one strategic partner and we obviously have to look at who offers the best deal, who is the best for us, and that's the group right now, we're negotiating with.

Geeta Gupta-Fisker
CFO, COO & Director

I just want to add to that, Shreyas, that in August, when we had a Product Vision Day, the goal of Product Vision Day was to showcase the capabilities in terms of our platforms and in terms of the fact that Ocean has the ability to create a very exciting product portfolio, the Alaska and PEAR being a very exciting high-volume product. And as a result of that, as we publicly said that we were talking to various automakers for sharing platforms. And the reason for that is that there is a large number of automakers who are probably behind or they don't have that focus in terms of the focus we've had for EV development. It saves time, saves cost. And where we've been focusing on in talking to automakers is really to share the technology, the investments we've made to reduce time to market, to have a joint product portfolio based on the Ocean platform. And that's the differentiator where Henrik said Foxconn is obviously not an automaker, they're a contract manufacturer.

Operator

There are no further questions at this time. I would now like to turn the call over to Henrik Fisker for closing remarks.

Henrik Fisker
President, Chairman & CEO

Thank you very much. I would like to thank everyone for joining the call. And I would also like to thank all our supporters. Believe me, we are working hard to actually make great progress at Fisker. And I think with this pivot we have done to the dealer model, we'll see results fairly quickly. I'm really confident in the future of Fisker and we'll be back. Thank you.

Operator

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

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