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Q2 2023 Greenland Technologies Holding Corp Earnings Call

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CORPORATE PARTICIPANTS

Raymond Wang *Greenland Technologies Holdings - Chief Executive Officer*
Jing Jin *Greenland Technologies Holdings - Chief Financial Officer*
Josh Centanni *Greenland Technologies Holdings - Director of Investor Relations*

CONFERENCE CALL PARTICIPANTS

Theodore O'Neill *Litchfield Hill Research - Analyst*
Rommel Dionisio *Aegis Capital Stock - Managing Director*
Graham Mattison *Water Tower Research - Senior Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by, and we warmly welcome you all to the Greenland Technologies second quarter earnings conference call. (Operator Instructions) As a reminder, we are recording today's call. If you have any objections, you may disconnect at this time.

Now I'll turn the call over to Josh Centanni, Investor Relations Director of Greenland. Mr. Centanni, please proceed.

Josh Centanni *Greenland Technologies Holdings - Director of Investor Relations*

Thank you, Operator, and hello, everyone. Welcome to Greenland Technologies second quarter 2023 earnings conference call. Joining us today is Mr. Raymond Wang, Chief Executive Officer, and Mr. Jing Jin, Chief Financial Officer.

We released results earlier today. The press release is available on the Company's IR website at <https://ir.gtech-tech.com>, as well as from newswire services. A replay of this call will also be available in a few hours on our IR website.

Before we continue, please note that today's discussion will contain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the Company's actual results may be materially different from the expectations expressed today. Further information regarding these and other risks and uncertainties is included in the Company's public filings with the SEC. The Company does not assume any obligation to update any forward-looking statements, except as required under applicable law.

Also, please note that unless otherwise stated, all figures mentioned during the conference call are in U.S. dollars.

With that, let me now turn the call over to our CEO, Mr. Raymond Wang. Please go ahead, Mr. Wang.

Raymond Wang *Greenland Technologies Holdings - Chief Executive Officer*

Thanks, Josh. Good afternoon, everyone. Thank you for joining us today. I'd like to start by thanking our global team for their dedication, persistence and passion to stay focused in a volatile global market and continue to drive the business forward to success.

Our results emphasize my position that our industry has recovered and normalized from the global pandemic with OEMs ramping up production to meet pent up demand. We posted \$24 million in revenue with over 38,000 drivetrain units delivered, which represents a year-over-year increase of 14% and 32%, respectively. Further, our efforts towards a more efficient operation continues to bear fruit as our gross margins improved by 590 basis points year-over-year, resulting in a 29.4% gross margin generating \$2.9 million in net income. We anticipate this trend will continue with strong results in our component business through the second half and remainder of 2023.

If not for the weakening Chinese yuan, our results would have been even stronger. The Chinese market has been very volatile and we have been actively monitoring and engaging. It is worth noting that our component sales in China represent over 98% as we report sales in the region that we deliver. However, an increasing number of our clients are exporting our components overseas as they begin to shift operation to regions such as Europe, South America and North America, particularly in Mexico. As a result, the growth of our component business is not reliant solely on the performance of the Chinese economy, but global demand as a whole.

HEVI continues to make progress as we pioneer the electric heavy machinery market in the United States. The sales process has proved longer than anticipated, but I am confident that we are on the right path based on the demand and feedback we continue to see. We have been executing on our strategy to educate the heavy machinery industry on the opportunities and advantages that electric machinery offer through product demos, trade shows and conferences. Our sales team has been progressing well through existing leads while actively pursuing new opportunities. This is strengthened by our efforts to lobby consumer incentives for off-highway electric heavy equipment. We passed the nation's first off-highway electric heavy machinery incentives last year in Maryland, and other states have quickly begun embracing similar policies. Currently, over a dozen different states provide consumer incentives for off-highway heavy machinery that will heavily support our sales efforts with incentives that range from 20% all the way up to 75%. Interest remains strong with new brand names exploring our product line and I'm confident that HEVI will post meaningful revenue this year.

One hurdle we solved in 2022 was the development of our mobile DC chargers for our electric heavy machinery that opened the door to allow our products to be usable on any job site in the United States. Reception for these chargers have far exceeded our expectations, not just for our heavy machinery, but for other applications as well that we did not originally anticipate. Most new electric products and EVs are relying more on DC power, but traditional DC charging stations are very expensive and can take months to deploy. Our clients are turning to our mobile chargers as a solution to meet their needs. And to appropriately meet this demand, Greenland Technologies will be creating a new business unit called HEVI Energy. The mission of HEVI Energy is to address the needs of the growing DC powered electrified products industry with HEVI Energy's unique offering of power solutions. Now you can expect more details about HEVI Energy through our press releases that will be released in the very near future.

I am extremely proud of the work that the GTEC team has accomplished. We still have much to do and milestones to achieve, but I believe we are on the right track to hit these goals and succeed for the Company and for our shareholders.

Now let's dive into the details of our financial performance. I will hand the call over to my CFO, JJ. JJ, go ahead. We might have some mic issues. JJ, still there?

Jing Jin Greenland Technologies Holdings - Chief Financial Officer

Can you hear me?

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

Yes. We can hear you now.

Jing Jin Greenland Technologies Holdings - Chief Financial Officer

Okay. Sorry.

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

Actually, I apologize everyone. It seems we may be having some technical difficulties. Just for the sake of everyone's time, Josh, would you read through the financial performance for HEVI? Then when JJ gets back, we can bring him back on mic.

Josh Centanni Greenland Technologies Holdings - Director of Investor Relations

Sure. For the full details of our financial results, including the first half 2023 results, please refer to our earnings release that was issued today.

For the second quarter, our revenue was \$23.6 million, up 14% from \$20.6 million a year ago. The increase was driven by a 32% increase in our sales volume. In Q2, we shipped 38,256 units of transmission products compared to 28,939 a year earlier. On a constant currency basis, excluding the negative foreign exchange impact from a stronger dollar, revenue increased by about 19% from the previous year.

Further, as Ray mentioned, our strategic focus on higher value transmission products such as Hydraulics continues to pay off. In Q2, our gross margin improved by 590 basis points, marking a record high in the last three years. The stellar performance demonstrates our leadership in the industry and the effectiveness of our business strategies.

Total operating expenses rose 34% to \$3.5 million. The increase was primarily due to the Company's focus on R&D investment as well as advertising, marketing, general and administrative activities related to the expansion of our HEVI division.

The combination of these results drove strong profitability throughout the quarter. Our Q2 income from operations was \$3.4 million, up 54% from the same quarter last year. Net income was \$2.9 million, up 24% year-over-year from \$2.4 million a year ago.

Moving onto our balance sheet, we ended the quarter with cash and cash equivalents of \$15.2 million, which is up over four-fold from \$3.2 million last year. This strong cash position gives us significant flexibility in our operations and enables us to continue to invest in our HEVI business.

Looking into the remainder of 2023, we anticipate demand for our transmission products to remain strong. Our goal remains on leveraging on our industry leadership in our transmission products business while continuing to advance first mover advantage of our HEVI division in commercial all-electric industrial heavy equipment vehicles.

That concludes our prepared remarks. I'd now like to open the call for any questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Theodore O'Neill of (added by company after the call) Litchfield Hill Research. Your line is open.

Theodore O'Neill *Litchfield Hill Research - Analyst*

Thank you very much and congratulations on the good quarter.

Raymond Wang *Greenland Technologies Holdings - Chief Executive Officer*

Thank you, Theo.

Theodore O'Neill *Litchfield Hill Research - Analyst*

In your prepared remarks, you talked about how gross profit margin was improved, was better on improved product mix, and you cite here higher value products. Can you give us a sort of range of what these higher value products are that helped margins in the quarter?

Raymond Wang *Greenland Technologies Holdings - Chief Executive Officer*

Absolutely. So, the increase in margin is actually part of a multiyear strategy for our onetime] machinery or component business, to simplify our product offering and focus more on higher-margin newer product lines in our series.

So in 2019, just to put that into context, we had over 70 series of different drivetrain units each with -- at that time, each with almost a dozen-plus models amongst them. To meet the demands of our clientele who are mostly Tier 1 operators, we're making many custom solutions. But this, as we scale further complicated our manufacturing process and aid into our margins. So for the past near five years now, we've actually been simplifying our product offering. Now we only offer about 40 different series of transmissions and drivetrains, each probably only about six to nine different models and we're focusing on and pushing more higher-margin products such as our integrated drivetrain and some newer components as well.

Theodore O'Neill *Litchfield Hill Research - Analyst*

Okay. Can you give us an update on the HEVI division in terms of product demos, number of demos, length of demos and training customers on your equipment?

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

Absolutely. So we've dedicated our entire HEVI inventory right now to support the demand for demos. Since last quarter, we've actually added on another five units, three of our larger front loaders, two of our smaller loaders to try to meet the demand that we've been getting, plus we've also shortened our demo time. Before, we were deploying our product to job sites for a week to two weeks to give a client a good feel for our products.

But just based on the demand, we've actually brought that down to one to three days max. Our products are continuing to go from job site to job site, driving up a lot of interest. This is part of our strategy to really address and demystify a lot of the assumptions about electrification and get first-hand experience to operators that will eventually become clients.

Theodore O'Neill Litchfield Hill Research - Analyst

And my last question is on the mobile DC chargers. I'm on the website now. I see that you've got two different products. One is a portable and once for single phase, once for three phase. I'm wondering as you think about expanding that business, will there be more products? Will you sell them, rent them, lease them? What's the thought here?

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

Great question. So at a very high level, we will be selling our new mobile DC chargers. We will be creating new chargers specifically catered towards the market demand that we've been identifying. The ones that we have were originally designed just for our product use, but for our demos when we're setting them out, folks couldn't help themselves but plug that into everything electric that they had.

They've been loving it, enjoying it, and trying not to give them back to us. So we've actually been very aggressively doing some product R&D on a mobile DC charger, specifically catered to the needs for this market demand. I can't get into too many details just yet, don't want to spill the secrets too soon. But I can say that the mission for these chargers is they will be -- they are being fully R&D designed here in the United States. They will have U.S. IP. They will satisfy all U.S. certifications from UL to the appropriate ISO certifications, and they will be made in the USA, starting off in our Maryland facility.

Theodore O'Neill Litchfield Hill Research - Analyst

That sounds pretty good. Thanks very much.

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

Of course.

Operator

(Operator Instructions) Our next question comes from the line of Rommel Dionisio of Aegis Capital. Your line is open.

Rommel Dionisio Aegis Capital Stock - Managing Director

Thank you. Good afternoon. During the economic downturn, during the Covid period, as a result of the lockdowns, obviously there was a downturn in that segment of the industry, but I know you guys were capturing market share very successfully. And I wondered if you could just characterize this year, as the sector overall comes back, are you still able to -- were you able to maintain and unlock in those market share gains. I wonder if you could comment on that. Thank you.

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

Yes. Absolutely. It has been a very volatile field. We have been able to expand our market share with new clientele, a few Tier 1 brands actually that wish to remain unannounced, but we actually have been expanding our client portfolio, which we're extremely proud of.

However, the volatile environment that I alluded to earlier is right now on a global scale, there is a massive challenge, massive redefinition for supply chains and logistics that we're keeping a very close eye on. Primarily countries are looking to try to nationalize their supplies chains as much as possible. But depending on markets, depending on countries and depending on presence, it's easier said than done for others. So this is actually one of the things that I mentioned in my remarks, where we actually are seeing a larger -- a significantly larger amount of components being shipped overseas to manufacturing facilities that they're looking -- that they have been

actively opening up overseas.

And it's something that we're keeping a close eye on because we saw something similar during the pandemic. This is when our sales went from about 95%-plus China-based to about 90%. So even in just a year or two, we saw a decrease. But we saw a reversal of that because though the aspirations were optimistic, it was -- countries found it very challenging to ramp up manufacturing so quickly and the quality impact were very devastating to some companies, and they reverted back to us or adopted us new.

So yes, we have been expanding our clientele. We have been expanding our market share, but it's still something that we are keeping a close eye on, exactly how that shapes out.

Rommel Dionisio Aegis Capital Stock - Managing Director

Okay. That's very helpful. Just as a follow-up question, I wonder if you could just share with us an update on the Maryland facility. Any lessons you may have learned, any unforeseen challenges and how the -- it's been up and running a little while, what -- how it's all going? Thank you.

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

Absolutely. The Maryland site itself is coming along extremely well, and it's ready to go for production right now, both for our heavy equipment and we're expanding on manufacturing for mobile DC chargers as well to support HEVI energy.

We have the full capability right now to be able to assemble the heavy equipment at the Maryland site. And from a capability standpoint, we are still on target and on track to deliver that first unit assembled in beginning of Q3.

However, our production goals and plans were predicated on a sales model that may have been a little too aggressive from a time standpoint. As I mentioned, we did underestimate the overall sales cycle for brand-new electric heavy equipment. When we compared to our air-quoted peers in the industry, trying to pioneer electric school buses, electric garbage trucks and tractor trailers, non-incentive-based purchases was over a 14-month sales cycle for them. Our original estimates were nine. So this does present a challenge for us. This is why we moved our first assembled products from Q2 to Q3 because we didn't want to ramp up that site just to turn it down if the sales weren't there.

So, we have the capabilities, the site is ready to go. We just need the sales to drive it.

Rommel Dionisio Aegis Capital Stock - Managing Director

Great. Okay. Congratulations on the quarter. Thanks.

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

Thank you very much.

Operator

(Operator Instructions) Our next question comes from the line of Graham Mattison of Water Tower Research. Your line is open.

Graham Mattison Water Tower Research - Senior Research Analyst

Hi. Good afternoon, everyone. a question -- It's great because that there's more progress going with the demonstration and you've got more out there. Would you say that (technical difficulty) the second quarter versus the first quarter and maybe even where that is today?

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

I'm sorry. Graham, you might have cut out there. I heard would you say and then it cut out from there. I apologize.

Graham Mattison Water Tower Research - Senior Research Analyst

No. I'm sorry. I apologize. I don't know. I was actually just asking -- is this better?

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

Much better. Yes.

Graham Mattison Water Tower Research - Senior Research Analyst

Okay. Great. Sorry about that. In terms of the demos that you're doing, how is the pace of that compared to the prior quarters? Are you seeing an acceleration of that? Or is it leveling off? Or is there room to even push it further?

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

The demand is actually growing, especially as we conduct more proactive sales campaigns, and more incentives are introduced into the field. So, the demand has been growing. Our pace has been ramping significantly.

We're doing three demos where in the past few quarters, it would have been one, just because of the duration of our demos. The room to grow is significant. We would anticipate -- we would need probably another 6 to 10 more units to be able to meet the needs of the demand as we receive them. So, that's been extremely strong.

The chargers and the incentives are expanding our sales process for the next steps from those demos, which we were extremely happy to see. A lot of times with the demos, the interest was there. However, getting them to pursue a sales agreement was met with some hesitation as they wanted to conduct further research to look at other options for sustainability in the sector and really just validating our statements, efforts in terms of is there any other players in the field, things of that nature. We still keep good contacts, it just extended this timeframe.

Now with our mobile DC chargers solving that infrastructure problem, with incentives addressing the financial concerns with deadlines as well, that's actually been changing the game for us, and we are having very meaningful post-demo conversations as well.

Graham Mattison Water Tower Research - Senior Research Analyst

Great. Then do you still plan on using the authorized service centers? Are you still looking to develop those? And has that helped anything on the sales front?

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

Yes. We have. We actually have already signed. Right now, it's about four -- it's about -- I'm sorry, it's about three companies right now that are officially signed on board with the authorized service provider network, primarily in New Jersey, but it's something that we continue to expand on as well.

And once we actually have a solid footprint, we were going to do an announcement along that. But it is no secret, we actually already have signed on board some companies that range from truck repair and rental sites all the way towards heavy equipment rental companies.

Graham Mattison Water Tower Research - Senior Research Analyst

Great. Then last question, is there any update -- last quarter, you spoke about the United Rentals program you had, and then I think you were talking with some other sort of fleet management or large rental companies. Any updates you can give us there?

Raymond Wang Greenland Technologies Holdings - Chief Executive Officer

Yes. The United Rental pilot demo is still ongoing. We completed a demo for our larger unit, the GEL-5000 and now we're about to initiate a new demo with the smaller loader, the GEL-1800 and they want to go through our product line just to get a better comfortability with the product line and to better understand the marketability as well through their sales team.

So, that's still active and progressing very nicely. In addition to that, both on a large fleet standpoint, we are making significant process and demos with other national rental organizations and brands, port operations, agriculture, waste management and public work yards as well. However, at this stage, they actually prefer to remain unnamed, but I can assure you that we are making some significant progress there, and we're very optimistic that, that will bear fruit.

Graham Mattison *Water Tower Research - Senior Research Analyst*

All right. And just in terms of how those programs typically work, you start with sort of a demo and then they shift to a pilot before making an order. Is that the right way to think about it?

Raymond Wang *Greenland Technologies Holdings - Chief Executive Officer*

Yes. That's correct. It typically goes with the product demo over to a purchased pilot phase. Then if the product performs to their expectations from both a performance maintenance and financial standpoint, then they'll pick up larger adoption.

Graham Mattison *Water Tower Research - Senior Research Analyst*

Got it. All right. Great. I'll jump back in queue. Thank you very much.

Raymond Wang *Greenland Technologies Holdings - Chief Executive Officer*

Thank you, Graham.

Operator

Thank you. I'm showing no further questions at this time. I'd like to turn the call back over to Mr. Wang for any closing remarks.

Raymond Wang *Greenland Technologies Holdings - Chief Executive Officer*

Well everyone, thank you so much for attending our second quarter earnings call. It is a very exciting time for us here at Greenland. I am having trouble keeping my mouth quiet for everything that we have working on here, but I do appreciate everyone's support in the Company, your patience as a shareholder. And I truly honestly believe that our hard work will pay off. We will be able to provide some very, very exciting news in the very near future. But I hope everyone has a fantastic evening and a wonderful rest of your week.

Operator

Thank you. Ladies and gentlemen. this does conclude today's conference. Thank you, all for participating. You may now disconnect. Have a great day.

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