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Q3 2022 Greenland Technologies Holding Corp Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, thank you for standing by, and we warmly welcome you all to the Greenland Technologies Third Quarter 2022 Earnings Conference Call. (Operator Instructions). As a reminder, we are recording today's call. (Operator Instructions).

Now I'd like to turn the call Over to Mr. Yujia Zhai, Managing Director of the Blueshirt Group. Mr. Zhai, please proceed.

Yujia Zhai *Blueshirt Group - Managing Director*

Thank you, operator, and hello, everyone. Welcome to Greenland Technologies third quarter 2022 earnings conference call. Joining us today are Mr. Raymond Wang, Chief Executive Officer, and Mr. Jing Jin, Chief Financial Officer. We released results earlier today, and the press release is available on the Company's Investor Relations website, 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. 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 CEO, Mr. Raymond Wang. Please go ahead, Mr. Wang.

Raymond Wang *Greenland Technologies Holding Corp. - CEO & President*

Thank you very much, and good morning, everyone, and thank you for joining us today. Before I recap the third quarter, I want to thank my team for delivering solid results despite a continually challenging global environment.

To summarize the third quarter, our component business is operating better than it has before and is only held back by lingering pandemic regulations, while our electric heavy equipment division is continuing to strengthen its infrastructure, brand and value proposition, and we are at the tipping point for adoption that will result in significant growth for the company and our shareholders.

Now diving first into our core components business, we produced and delivered 31,303 drivetrain units resulting in revenue of \$21.8 million. This is a new record for third quarter drivetrain deliveries by edging above our results last year. Revenue is slightly lower due to the foreign exchange rate shift in the third quarter between the Chinese RMB and the U.S. dollar.

We focused on fulfilling our backlog for clients impacted by pandemic shutdowns in the second quarter but are now open and actively producing vehicles. Unfortunately, as these territories opened, new territories have been shut down due to China's Zero COVID Policy, including districts surrounding the Port of Ningbo that have delayed product demand and impacted deliveries to the global market. As a result, we were not able to deliver drivetrains to our full ability, especially outside of China and has continued to add to our backlog of product sales.

I continue to stand by my statement last quarter that these restrictions are a short-term challenge and will not last forever, but caution

that they will impact our component business while they exist, and though we are not able to control what regions get locked down, I want to emphasize that we have been operating strongly in the areas that we can control. Production has never been stronger at Greenland, and we are staying ahead of supply chain challenges such as raw material procurement, which has led to increased operation efficiency and higher margins for the business. If it was not for the lockdowns, then we would have delivered an even stronger quarter.

Shifting to our heavy electric industrial heavy equipment division, we have officially opened our first U.S.-based assembly site outside of Baltimore, Maryland. We have some great pictures in our presentation from our celebratory ribbon-cutting event attended by shareholders, local leaders and government officials that I encourage you to look at, and you can access the presentation on our website at gtech-tech.com.

We expect to roll out the first unit off the line at this facility in the first quarter of next year and will produce 500 units per year while creating 4 to 5 dozen green jobs in the local community once the site fully ramps up. This site not only strengthens our production capability, but also serves as the first step for HEVI to obtain the assembled in the USA label for our product line.

Our sales strategy is to secure a fleet deal with a brand name organization, and we are making significant process along a number of leads in industries ranging from rental, construction and government. As the first company to introduce electric industrial heavy equipment, it is our responsibility to educate our audience on the technology and address any concerns to secure market share and ultimately establish the market as a whole.

We continue to receive strong interest in our product line, and when we secure our first adopter by a recognizable brand, I am confident that will lead to a rapid conversion of interest to sales. That is why our current efforts are laser-focused on securing the first fleet deal.

HEVI continues to improve the value proposition of our electric product line for our prospective customers. We recently partnered with Cyngn to incorporate their state-of-the-art GPS asset tracking system, the Infinitracker into our entire product line. Every piece of HEVI equipment sold will come with the Infinitracker and 3 years of service for free. This offers security, safety and easier incorporation of HEVI products into a client's fleet management system.

In addition, HEVI is undergoing a campaign to ensure that our products are compatible with every major EV provider in the United States. We have successfully completed testing at Siemens e-mobility division. This testing ensures that HEVI products are compatible with Siemens' over 100,000 EV charging station network across the United States. We will continue this campaign to ensure that our clients have options and peace of mind for their charging solutions when incorporating HEVI products into their fleet.

Greenland is well funded to support the development and growth of the HEVI business division through our strong balance sheet and the \$10 million fund raise that we completed in July with Aegis Capital. The updates shared thus far are evidence of these funds in use to grow the business, and we will continue to invest into inventory, supply chain, marketing and talent to drive this business line and capture the significant opportunities present.

The third quarter has demonstrated that Greenland continues to deliver strong performance with our record drivetrain deliveries and with only short-term pandemic restrictions holding us back. With the forklift market growing at an 8% to 9% compound annual growth rate and our proven production capabilities, Greenland is well situated to continue growing its core business and retain our position as market leader in our industry.

Furthermore, our electric HEVI equipment division is developing as planned and will generate substantial growth for the Greenland business when we establish the market and pioneer electrification in the heavy equipment industry.

I stand by our unique offering that Greenland Technologies presents to our investors and shareholders with our strong balance sheet and vast growth opportunities, and thank our loyal supporters who share my vision and mission for the Company and an incredibly exciting future.

And with that, let me turn the call over to our CFO, Jing Jin, to provide greater details into our financial performance. Go ahead, JJ.

Jing Jin Greenland Technologies Holding Corp. - CFO & Corporate Secretary

Thank you, Raymond, and thank you, everyone, for joining our call today. I will now go over our financial highlights for the third quarter 2022. For the full details of our financial results, please refer to our earnings press release.

The headline for us this quarter is the 67% increase in net income we delivered. We achieved this despite the long list of headwinds impacting the border industry, including shutdowns in China, global inflation, supply chain challenges and higher material costs. We are making progress toward our long-term targets, but we are not immune to the challenges impacting the economy. We are starting to see signs of improvement and are focused on accelerating both our growth and the profitability as we move into 2023.

In terms of Q3 2022, revenue was \$21.8 million. The slight decrease from \$23.1 million in the prior year was primarily due to the impact of yuan depreciation. Excluding foreign exchange impact, revenue in Chinese RMB actually increased by about 2% from the third quarter of 2021. The number of transmission products rose 1% to 31,303 units during the period.

We generated gross profit of \$4.8 million, compared with 1 point -- sorry, compared with \$5.1 million in the third quarter of 2021, while maintaining gross margin at 22.1% with our shift in product mix towards higher value and more sophisticated products.

Total operating expense decreased 10% to \$2.7 million, reflecting our improved operating efficiency by streamlining and simplifying our product lines. Operating expenses as a percentage of total revenues was also down 60 basis points year-over-year to 12.6% in the third quarter.

We generated \$2.1 million in income from operations, up 1% from the prior year. Net income surged 67% to \$2.1 million, driven by the combination of improved operating efficiency, increase in grant income and a lower effective tax rate.

In summary, we are making progress toward our long-term goals. We expect to take another big step forward as we move into 2023 with our U.S. production facility now online. We expect that will serve as a catalyst for our revenue growth along with execution on our product roadmap. Meanwhile, we will continue to manage operating expenses closely as we shift our focus towards ramping up HEVI production capacity and deployment capabilities.

We remain excited about the high-level addressable market in front of Greenland and look forward to capturing market share, delivering improved financial results and building value for shareholders.

That concludes our prepared remarks. We now can now open for the call for the questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Theodore O'Neill from Litchfield Hills Research.

Theodore O'Neill Litchfield Hills Research - Analyst

Congratulations on having a quarter this good despite the issues. I have 2 questions. One is about the deliveries and delays, and the other one is about the HEVI equipment. You said in your prepared remarks that you were unable to make some deliveries because of closures in China. Have those deliveries been made, or will they be made in Q4? Is it possible you will have similar delays in Q4? That's one. The other question about HEVI is what steps are you taking to educate the market about HEVI equipment? I'm thinking here of like trade shows, your experience center, whether you have got a staff of people doing outreach about the product. If you could just give us some details on that would be helpful.

Raymond Wang Greenland Technologies Holding Corp. - CEO & President

Starting from a delivery standpoint, with the backlog that we generated in Q3. I am very confident that we will be able to complete those deliveries for Q4. The orders that we received are not orders to be cancelled in any way, shape or form. They are just held off and delayed

because we provided our clients with flexible terms to account for the volatility of the Zero COVID Policy right now.

Just like what we saw from Q2 to Q3, some of our larger clients that were shut down in Q2, we added to our backlog for Q3. They opened up and then we are able to deliver. With that said, it is very difficult right now to predict the anticipation for what regions are going to be opened and what regions are going to be closed and their timelines. There is a possibility that will have an impact onto Q4. But as it stands right now, I anticipate that our Q3 orders are going to pend into Q4 and then will complete.

For the HEVI business itself, education is key and critical, and we are focusing our efforts primarily on the Mid-Atlantic region for outreach. We are attending the trade show circuit for the regional shows. We are targeting the largely popular shows in our target region for key industries. For example, next week, HEVI will be exhibiting at the New Jersey Municipalities (MUA Expo), which is the largest expo if you are looking to do any sales to the government sector. We will continue to do shows in agriculture and construction as well. In addition to that, we have actually increased our sales force already doubled doing outreach to our target markets, and we have expanded our marketing team by about 50% to further establish our brand presence in this sector. That is our task right now to get the word out.

Operator

(Operator Instructions) The next question comes from the line of Rommel Dionisio from Aegis Capital.

Rommel Dionisio Aegis Capital - Analyst

A question on in your prepared comments, you discussed streamlining some of the cost expenses. I wonder if you could just provide us a little more granularity. I mean despite the slowdowns, the COVID shutdowns, temporary ones and inflationary pressures and some streamlining, you are still posting pretty positive year-over-year units and foreign currency denominated revenues. Is it more on the cost reduction front that you are streamlining? It doesn't seem like you are losing sales, I guess, is the point I'm trying to get at. I wonder if you could just provide some granularity on that, on your cost reduction efforts.

Jing Jin Greenland Technologies Holding Corp. - CFO & Corporate Secretary

Yes, thank you, Raymond. As we mentioned before, in our Chinese site especially producing transmission products, we have the leading edge on such production costs and also a really strong supply chain, the partnership with our suppliers. That's one of the keys we still can maintain good gross margin year-over-year and quarter by quarter. As you mentioned, despite of the HEVI side, we are still facing a little bit of challenge, especially in recent Chinese Zero COVID Policy that maintained and restricted our sales to the customer. I think that's the one key that we might face some slowing down for the coming quarters. But in general, I think we still maintain a really good production line, streamlined especially for the fuel engine sites to the electronic engine-driven. I think that's one of our technology and our production workers to give the full efforts on such contribution. We are pretty confident in our cost production and also to deliver the relatively competitive products to the customer. But still, as I mentioned, we might face a little bit of headwinds, especially for the coming quarter. But in general, we are still pretty confident on that.

Raymond Wang Greenland Technologies Holding Corp. - CEO & President

Yes, thank you, JJ. And also, just to add to that and emphasize one additional point, we have been going through a multi-year exercise to truly streamline our component product offering. When we started out, we were developing customized solutions to cater to the needs of our clientele. But I would say within the last 4 years, we have been going through an effort to standardize our products which drives efficiency in our assembly lines. In 2019, for example, we were running over 50 different series of drivetrain components, each with between 3 to a dozen different models amongst them. But now, we have actually trimmed that down to about 36, about 3 dozen different series and a smaller number of models. That just adds to greater efficiency, so there is less variability in our cost purchasing and faster assembly processes overall because it streamlines that.

Just like JJ said, that effort has been also leading towards some of our developments and components for integrated drivetrain, specifically cater towards electric material handling vehicles and applications. Those have been higher-margin products for us as well.

Operator

Our next question comes from the line of Cory Synnestvedt from Wells Fargo Advisors.

Cory Synnestvedt Wells Fargo Advisors - Analyst

Congrats on continuing to maintain profitability in a tough market. My question, Ray, is on the fleet deal in your opening comments, and I'd just like to get a little bit more color on that in terms of ideally what does that initial first fleet deal look like?

Raymond Wang Greenland Technologies Holding Corp. - CEO & President

Yes, that's a great question, and the answer is of itself varies between the different industries that we target. For example, let's say, for the national rental industry, most likely, the fleet deal itself would manifest as a pilot for adoption in select areas for the rental program for distribution out and ultimate testing. Whereas for the construction industry, we are primarily focused upon large deals in the urban environment. For incorporation of our products into the overall bid process as a perfect case or scenario of the application of our vehicles to not just support the overall businesses, return on investments in operations, but also their ability to secure and win bids and contracts as part of their overall business.

Operator

Seeing no more questions in the queue, let me turn the call back to Mr. Wang for closing remarks.

Raymond Wang Greenland Technologies Holding Corp. - CEO & President

Thank you very much. And again, thank you, everyone, for joining today's call and listening to today's broadcast.

This is a very challenging market for sure, but Greenland has been continuing to execute and produce results for our shareholders and for our loyal investors as well. I just want to reiterate my personal stance that I still honestly believe Greenland offers a unique position on the street that doesn't exist in many companies today, and we are doing everything in our power to be able to reward our loyal shareholders.

The rest of the year is looking to be very strong, pending the challenges that we have already addressed earlier on this call. We are excited for what the future holds for the Greenland business and growth potential into the future.

So with that, I do want to thank everyone for both supporting the business, staying tuned in, and for all of our hardworking team members working day in, day out to make that happen and produce these results. We wouldn't be here without you. So thank you very much.

Operator

Thank you all again. This concludes the call. You may now disconnect.

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