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Q4 2021 Greenland Technologies Holding Corp Earnings Call

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Julia Qian *The Blueshirt Group, LLC - MD*

PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the Greenland Technologies Fourth Quarter and Full Year 2021 Earnings Conference Call. (Operator Instructions) As a reminder, we are recording today's call. (Operator Instructions)

Now I will turn the call over to Julia Qian, Managing Director of the Blueshirt Group Asia. Ms. Qian, please go ahead.

Julia Qian *The Blueshirt Group, LLC - MD*

Thank you, operator, and hello, everyone. Welcome to Greenland Technologies Fourth Quarter and Full Year 2021 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. The press release is available on the Company's IR website at <https://ir.gtec-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 statement, 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. Go ahead, Mr. Wang.

Raymond Z. Wang *Greenland Technologies Holding Corporation - CEO & President*

Thank you, Julia and good morning everyone. Thank you for joining us today. As I've started every earnings call up to this point, I want to begin by recognizing my team here at Greenland for their hard work and dedication in delivering results for the company, our clients and our shareholders. Their efforts have led Greenland Technologies to the best year in terms of revenue and sales in the history of our company. I'm extremely proud of their efforts and the leadership of our management team that have helped us navigate and overcome the many challenges present in today's global environment.

Despite these challenges, we were able to meet and nearly surpass the top line of my revenue guidance with \$98.8 million and 141,000 transmission units delivered, which represents a tremendous growth of 48% and 30% year-over-year growth, respectively. This demonstrates that the global material handling industry continues to grow, and we at Greenland Technologies have the capability to meet and capture this opportunity.

And this growth has been motivated by the significant increase in global demand for forklift trucks and material handling equipment as business sales models transition to e-commerce platforms which require a rapid expansion of logistical infrastructure. We would have surpassed my top line guidance of \$100 million in revenue for the year where it not for the continuation of global supply chain constraints.

Now on the other hand, our earnings were lower than we expected due to two primary reasons. First, despite global demand for forklift

trucks increasing, the Chinese forklift market has begun slowing down, and it reflects the 2022 forecasted GDP of roughly 5.5% for the country. We will see improvement as more forklift OEMs in China expand their business to the global markets, and we will be ready to capture that opportunity. Secondly, raw material and component costs have remained high longer than anticipated. Materials such as steel have peaked over 200% in 2021. We have implemented price increases to offset this trend and are optimistic as we have witnessed a correction of this material pricing in the fourth quarter, which will serve as a headwind in the first half of 2022.

Another contributing factor is our increased investment in our new electric industrial heavy equipment division and expansion into the U.S. market. Now these expenses are in line with forecast and contributed to the overall increase in 2021 operating expenses.

Now focusing on the electric industrial heavy equipment division. I am proud that we have achieved all of our targeted milestones for 2021. We were able to launch our initial equipment product line in the United States, which includes our GEF-series lithium-powered forklifts and the all-electric lithium-powered GEL-1800, which is a 1.8 ton rated load wheeled front loader. As of November, 2021, these vehicles are available for sale in the Mid-Atlantic region of the United States. We have since followed up with the launch of our all-electric lithium-powered GEX-8000 in February, which is an 8-ton rated load wheeled excavator and our upcoming GEL-5000, a 5-ton rated load wheeled front loader, arriving in the second quarter of this year.

As I stated prior, our goal is to shift assembly of our electric industrial equipment to the United States to better serve the region. I have announced the selection of Maryland as the home for our first assembly site, and we are on track to open the doors in the second quarter or third quarter of this year. We selected Maryland for its impressive infrastructure to service the Mid-Atlantic region by road, rail, sea or air. Their educated and trained workforce, commitment to sustainability and their willingness and support to do business. This initial site will be modest in size at about 60,000 square feet with an annual production of about 500 to 750 vehicles when fully operational. We will deploy additional sites as we expand our target regions.

We are also developing Experience Centers that will provide education, sales and local service to our prospects and clientele. As we are pioneering new technology, these sites will be integral in expediting the sales process as interested users get an opportunity to get behind the wheel and operate the equipment firsthand. The target location for the first center will be in New Jersey due to the abundant opportunity across their logistic, municipal, agriculture and construction industries. The design process is near complete for our Experience Centers, but due to limited site inventories in high-traffic areas, the launch date for our first center is delayed to the end of this year in 2022; potentially into next year, should we have to build-to-suit our needs.

It is important to note that this delay does not prevent our ability to sell our equipment. We have been attending in-person trade shows with our vehicles and have a growing sales team operating out of our offices in New Jersey, promoting our products. Interest has been very strong for our products, particularly in the municipal and agricultural industries, but we are discovering the sales process to be longer than anticipated. I'm extremely optimistic that with patience and persistence this product line will quickly bear fruit and add significant value to the company and our shareholders.

Part of our strategy to penetrate the U.S. market is to establish partnerships with local companies that share our vision and commitment to sustainability. We have recently announced strategic partnerships with great companies such as CYNGN to develop on-site autonomous solutions with our product and Princeton NuEnergy to adapt their innovative plasma-assisted lithium battery recycling process to further reduce the carbon footprint of our products. I will focus more on these partnerships during our Q1 2022 earnings call, but just wanted to highlight that these collaborations help to illustrate our long-term strategy and vision for our electric product lines.

Now let's discuss guidance. For 2022, I will not be issuing an annual guidance for revenue or earnings due to the volatile and unprecedented environment. But let me share our outlook on the upcoming quarters. As I mentioned earlier, I anticipate the first quarter to deliver strong sales results with headwinds throughout the year that will contribute to modest growth of our core transmission and drivetrain business in 2022. Plus we expect our price increases to offset higher manufacturing and transportation costs that will further preserve and improve our margins.

With respect to our Electric Industrial Equipment division, we have the products ready to go and are building out the infrastructure to drive sales and penetrate the market. For 2022, we expect to deliver between 100 and 150 electric vehicles. As our U.S. assembly and

experience center network expands, we anticipate delivering between 1,750 to 2,000 electric vehicles by 2024. At that scale, the EV division will rival our core transmission and drivetrain business for the company.

The demand is there as organizations are ready to embrace cleaner and more sustainable alternatives and we are the only available product in this industry in the United States. This demand will further be expanded as new legislation drives more sustainable business operations, greater expansion in the charging infrastructure throughout the nation and the introduction of consumer incentives that include adoption of electric industrial equipment to qualify.

And with that, let me turn the call over to our CFO, Jing Jin, who will provide details on our financial performance. J.J., go ahead.

Jing Jin Greenland Technologies Holding Corporation - CFO

Thank you, Raymond, and thank you everyone for joining our call today. I will now go over our key financial results for the fourth quarter and the full year 2021. For the full details of our financial results, please refer to our earnings press release.

As Ray noted, we continued to drive record revenue growth and gross margin expansion led by higher transmission sales, while increasing investments in our infrastructure to support the next phase of our growth. We are working closely with our supply chain partners to try to offset the higher cost impacting areas from raw materials and components to shipping. The important takeaway is we see continued growth in 2022 and are investing in support of that with higher revenue generating sales count and the R&D investments that will ensure we have the value-added EV vehicles and transmission products our customers want.

Turning to our results. We achieved record revenue of \$98.8 million for the full year. This is up 48% over 2021 led by growth in sales of our transmission products. We sold 141,431 units of transmission products in 2021, up almost 30% from the previous years.

Compared to 2020, our cost of goods sold rose 47% to [\$79.2 million] (corrected by the company after the call) in 2021, primarily due to the increase in sale volume and the increase in raw material prices. We generated gross profit of \$19.6 million, an increasing of 53% from \$12.8 million in 2020, led by the ongoing strategic shift in our product mix towards higher value, most sophisticated products. Notably, our gross margin was up [70] (corrected by the company after the call) basis points year-over-year to 19.8%.

Meanwhile, total operating expenses increased 86% to \$11.3 million, as we continue to invest in support of higher revenue level and targeted long-term growth with the expansion of its revenue generating headcount and more than doubling of its R&D for the full year of 2021 compared to the full year of 2020. Despite the increase, we held operating expenses at 11.5% of total revenues, which was only up 2.3 percentage points from 2020. Within that, selling expenses increased 18% to \$1.9 million. General and administration expenses increased 85% to \$3.9 million and research and development expenses increased 132% to \$5.5 million in 2021. Especially the R&D investment is already paying off as we launched three new electric industrial vehicle lines in 2021 and which we expect will drive increased revenue over the coming quarters.

As a result of our strong sales and efficient operation and expense management, which achieved a record net income of \$7.3 million in 2021, up 14% from the prior year.

Next, let me briefly walk you through our financial results for the fourth quarter of 2021. Total revenue were \$22.9 million compared with \$23.9 million in the same period of 2020. The slight decline was due to the recognition of our orders that accumulated during the pandemic but were not fulfilled until the fourth quarter of 2020, combined with the adverse impact in the fourth quarter of 2021 of the ongoing supply chain constraints that limited availability of the necessary materials and components. The number of transmission products sold was 31,349 units, compared with 37,164 units in the fourth quarter of 2020. Gross profit was \$3.7 million, compared with \$4.6 million in the fourth quarter of 2020. Total operating expenses were \$3.8 million as the Company expanded its operations, compared with \$1.9 million in the fourth quarter of 2020. Net income was \$0.4 million, compared with \$2.2 million in the same period of 2020.

Importantly, we took the opportunity to strengthen our balance sheet in 2021 in the pursuit of our long-term growth strategy. As of the end of December 2021, our cash, restricted cash and cash equivalents was \$17.8 million, nearly doubled \$9.4 million a year earlier.

As we enter into 2022, we are very optimistic and remain committed to driving increased revenue and the profitability, as we work to build greater value for our shareholders.

That concludes our prepared remarks. Let's now open for the call questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Rommel Dionisio of Aegis Capital.

Rommel Tolentino Dionisio Aegis Capital Corporation, Research Division - Head of Consumer Products and Special Situations

I just wanted to touch base on the core China business. Raymond, I certainly appreciate your commentary on the deceleration of the economy. You've been generating such strong market share gains there over the last several quarters. I just wonder if you could touch on, are those trends continuing?

And the opportunity also you mentioned to expand that business to rest of world, what are some of the particular geographic markets that you see as being a low-hanging fruit in terms of opportunity there?

Raymond Z. Wang Greenland Technologies Holding Corporation - CEO & President

Thank you for your question. So for the core business of drivetrains and transmissions, we have been very proud of our position as market leader in our space for providing those drivetrains and transmissions to forklift market.

For those on the call, China right now is the market leader -- is the global leader in forklift sales and OEM manufacturing. China itself consumes about 700,000 forklifts per year, whereas the United States right now #2 consumes about 400,000 but rapidly rising, especially with the shift towards e-commerce and warehousing logistics.

Now with that said, as China slows down, we still maintain our position as market leader working with the OEMs. The slowdown that we're seeing is with some of the smaller OEMs that we support, they are rapidly trying to adapt their business to be able to support more of a global presence, whether it be to markets such as Europe, Africa and South America as well, that are continuing to rise faster to account and make up for the slowdown that's going on in the Chinese market.

For the smaller operations, their transition is going to take just a little bit of time, but we're extremely optimistic that we will still maintain our market share and partnerships with these key clients. As for the business expansion to the global market, this is one of the key strategies for Greenland especially in the launch of our EV business. Because the EV product line diversifies the offering here at Greenland especially outside the borders of China where a majority of our core business of transmissions and drivetrains are sold.

So by targeting the EV industrial market in a space that is completely untapped at this stage in markets such as the United States will really help in the long term, continue to diversify the company and protect us and mitigate risk from various, let's say, regulatory environments or political environments as well. It helps us to mitigate our risk.

So this supports our long-term strategy for the company in expanding to the EV business line, plus the opportunity is significant and I feel very strongly it's going to add a lot of value to our shareholders. And since we are the first one with a product here commercially available in the United States, this is a very -- I don't want to call it a low-hanging fruit, but it's a very attractive and very large fruit, an opportunity for our business.

The front loader and excavator markets combined are about \$70 billion. And not a single other player in the United States is electric. So for us to penetrate this market, capture some market share, that's going to be a significant opportunity for us. And then once we penetrate the U.S. market, then it will allow us to expand very rapidly to the rest of the world from South America to Europe to Africa.

And the demand is so strong in those markets that we couldn't turn away from it. So we announced the deal that we made, a strategic partnership with Elive based out of Morocco. That's going to be between a \$5 million to [\$8.4 million] (corrected by the company after the call) minimum deal across 5 years and onward. And we're extremely excited about those prospects. But our focus for our company is going to be on penetrating the U.S. market.

Operator

Our next question comes from Cory Synnestvedt with Wells Fargo Advisors.

Cory Synnestvedt Wells Fargo Advisors

How is it going with the institutional investor base? I know you were trying to basically get some interest going there. How's things been going? How are they receiving you when you've been able to interact with them?

Raymond Z. Wang Greenland Technologies Holding Corporation - CEO & President

I've been doing a lot of conferences, NDR road shows and one-on-one conversations with the institutional base. And the interest in Greenland has been very strong. They are all extremely supportive and understand our vision on what we're trying to do tapping into the industrial vehicle market. And they absolutely agree that the timing is there. The markets are ready for it. And for us coming in with a very strong manufacturing background as our bread and butter, they're 100% on board from that standpoint.

One of the challenges that we have is from a stock standpoint, we trade at a very low volume. And our market cap is right around \$60 million. It's right about \$63 million last I checked. \$63 million, whereas we've posted almost \$100 million in revenue. So though we are significantly undervalued from a market standpoint. From an institutional side, we typically tend to be smaller than the guidelines for them to really get involved with Greenland.

But I've had conversations with many different analysts and investment banks, and they're so interested in us that they've told me that they've opened up personal positions just to follow our company for that level that we will get there. So the interest has been there, but the commitment has been low just because of our current market cap and trading volume.

At this stage, per our last poll, we have around 95% of our shareholders are retail.

Operator

(Operator Instructions) Seeing no more questions in the queue. Let me turn the call back to Mr. Wang for closing remarks.

Raymond Z. Wang Greenland Technologies Holding Corporation - CEO & President

Thank you very much, operator, and thank you, everyone, for participating in today's call and for your support. We really appreciate your interest into Greenland and look forward to reporting to you again next quarter on our progress. And with that, I hope everyone has a fantastic day.

Operator

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

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