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Q3 2023 Greenland Technologies Holding Corp Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Greenland Technologies Reports Third Quarter 2023 Unaudited Financial Results Conference Call. (Operator Instructions). Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Josh Centanni, Investor Relations Director. Please go ahead.

Josh Centanni *Greenland Technologies Holding Corporation - Investor Relations Director*

Thank you, operator, and hello everyone. Welcome to Greenland Technologies Third 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 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. Please go ahead, Mr. Wang.

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

Thank you, Josh. Good morning, everyone, and thank you for joining us today. We've achieved another outstanding quarter at here at Greenland, and we could not have done it without the dedication of our global team. Greenland delivered on our mission to increase efficiency and operational excellence in the business as evidenced by our growth in sales, margins and balance sheet. Product deliveries are up 10%, with margins up 30% year-over-year. We are extremely proud of our success in developing and driving innovative products for our clients that generate industry-leading margins for the business.

As expected, most of the financial performance is generated by our transmission and drivetrain business. One of the core drivers of our increased margins is the development and distribution of our new product line of industry-leading drivetrains that award us with a 40% to 45% profit margin. Our margins will continue to grow as this product line ramps across our client portfolio. In addition, we have expanded our product line with drivetrains to support equipment in new markets such as outdoor heavy machinery and military applications and has led to our \$20.8 million in accounts receivable, which is up 45% year-over-year.

Greenland has been able to successfully navigate the volatile geopolitical environment due to our global clientele of OEM equipment companies. We have seen an increased demand for products to replace lost equipment and increased inventories by brands able to operate in areas of conflict. Now the primary risk for us for the remainder of the year at Greenland is the weakening yen to the dollar. Year-to-date, the yen to dollar has fallen 8% from 6.7 to 7.3. That's a lot. However, even with the haircut off the top, we are still on track to generate over \$90 million in revenue for the year. And this truly showcases the strength and growth of our core business that will continue into the new year. HEVI continues to make process -- progress as we pioneer the electric heavy machinery market here in the United States.

We are very proud to win the Port of Baltimore Bid to support their efforts to electrify their port equipment with our GEL-5000 all electric front loader. We have a solid pipeline of opportunities generated through our sales process with additional leads nearing closing, which we will report when signed. Now as a pioneer in this industry of electric heavy machinery, it is our responsibility to discover the right sales strategy to win adoption. And there's no other player to reference in our market. HEVI continues to stay nimble by exploring new strategies to accelerate the sales process, and I am confident that with our culture of discovery and innovation, we will lead to successful market penetration and expansion.

The HEVI authorized service provider model continues to show promise in adoption and positive feedback from companies interested in joining our network given its unique structure. The ASP model requires no inventory or financial investment and creates a new revenue stream for member companies with the equipment and capability to support our heavy machinery. We will appropriately align expansion of the HEVI ASP network with the progression of our sales activity to ensure that our clients have access to top-tier service and support. Now last quarter, I announced the formation of HEVI Energy, a new business line dedicated to providing power solutions to the growing network of DC-powered products across America.

HEVI Energy will solve the challenge of adopting DC-powered equipment, such as electric school buses, garbage trucks and recent passenger cars and vehicles without having to install our traditional DC charging station that is very expensive and can take months to deploy. We're not yet ready to share additional details at this stage. However, I can say that HEVI Energy shares the same vision as HEVI Corp. in delivering a U.S.-made and certified product to the U.S. market. Now it is no secret that I feel Greenland is significantly undervalued given our operational performance.

Our sales performance and market share continues to grow with new product lines creating significant growth opportunities for the business. We have amassed over \$21 million in cash, up 32% year-over-year and have many tailwinds to propel us to success in the following quarters. Unfortunately, our efforts have not appropriately reflected in our valuation. And the GTEC Board and I will continue to explore opportunities to address this disparity to realize the proper share price for our company and long-term shareholders. Now I am proud of the work that the GTEC team has accomplished. We still have much to do and milestones to achieve, but I believe we're on the right track to succeed for the company and our shareholders. Now with that, let's dive into the details of our financial performance. J.J., if you can take it away.

Jing Jin Greenland Technologies Holding Corporation - CFO & Corporate Secretary

Thank you, Raymond. Thank you, everyone, for joining our call today. I will now go over our financial results for the third quarter. For the full details of our financial results, please refer to our earnings release that was issued today. For the third quarter, our revenue was USD 21.8 million, up 0.2% from USD 21.7 million a year ago. The increase in revenue was primarily an increase in the company's sales volume driven by increasing market demand. On a constant currency basis, excluding the negative foreign exchange impact from a stronger dollar, revenue increased by approximately 4.6% as compared to the year prior.

The total cost of goods sold was approximately USD 15.57 million, representing a decrease by approximately USD 1.40 million due to the decrease in production cost. Greenland gross profit was approximately USD 6.2 million representing an increase by 30.3% as compared to Q3 last year. Further, as we mentioned, our strategic focus on higher-value products and efficient manufacturing continues to pay off. In Q3, our gross margin increased 28.7% compared to 22.1% in Q3 2022 and '23. Our outstanding performance underscore our industry leadership and the success of our business strategies. Total operating expenses rose 26.5% to USD 3.4 million as compared to the 3 months ended September 30, 2022. This was primarily due to the increase in the shipping fee, the company's R&D investment in higher value and more sophisticated products and investment into our HEVI line of business.

The combination of those results drove strong profitability during the quarter. Our Q3 income from operations was USD 2.8 million up 35% from the same quarter last year. Our balance sheet remains strong as we end up the quarter, the cash and the cash equivalents of USD 21.5 million up 32.2% from USD 16.2 million for the same quarter last year. Our robust cash position provide as the substantial operational flexibility and empowers us to sustain investment in our HEVI line business. As we look forward, we project a positive earnings outlook for the remainder of 2023. We are optimistic about achieving substantial financial growth and delivering value to our

shareholders. Our unwavering commitment to implementing efficient business strategies ensuring operational efficiency and addressing the dynamic needs for our customers reinforces our confidence. That concludes our prepared remarks. Let's now open the call for questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

First question is from the line of Theodore O'Neill from Litchfield Hills Research.

Theodore Rudd O'Neill Litchfield Hills Research, LLC - CEO & Research Analyst

You mentioned the currency issue in your prepared remarks, could you give us an idea what the revenue would be on a constant currency basis? And would you repeat what the impact was on currency as percent in the quarter?

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

Absolutely. The currency impact from this year alone was 8%. So we've generated in the past 9 months right now, a little over \$67 million. So we would be about 8% higher, roughly.

Theodore Rudd O'Neill Litchfield Hills Research, LLC - CEO & Research Analyst

Okay. And in the Port of Baltimore business you've got here, are there milestones we should be looking for on that project?

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

Delivery for our unit is scheduled for February. So we will see that hit our balance sheet for HEVI in the first quarter.

Theodore Rudd O'Neill Litchfield Hills Research, LLC - CEO & Research Analyst

Okay. And last quarter, you said that you had done 38,256 transmission units and I was wondering if you could give a comparable number for Q3? And also, you talked about having some supply chain disruption impacting that business. And I was wondering if you could update us on that?

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

Yes. So actually, the overall transmissions right now for the past 9 months is 112,414 sets. which actually is an increase from 102,000 that we did last year. So as it stands, we're roughly about 10% year-over-year increase. And this is a trend that we will continue to see throughout the remainder of the year as global demand continues to pick back up. And this is reflected as well in our accounts receivable for the company that's already topped off right now at right around -- I don't have the number off the top of my head. Sorry, I apologize right around \$23 million. So from a transmission unit delivery standpoint, that continues to rise, which we're very proud of.

Theodore Rudd O'Neill Litchfield Hills Research, LLC - CEO & Research Analyst

And were -- I think you mentioned there were just supply chain issues in that last quarter. Do you have any update on that?

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

Yes. It's more of a risk standpoint in the geopolitical environment. Right now, we've been very fortunate in our market leading position to have priority with a lot of our raw material suppliers like steel foundries and what have you. Though there's been impact, it hasn't been drastic enough to significantly impact the business. However, the warning that I put in Q2 is should the geopolitical volatility continue to exacerbate and there's increased tariffs or restrictions between countries then that can be something that we would need to be able to address for such as if let's say, the U.S. were to drastically ban the exportation of raw steel overseas to China or something of that nature.

Operator

The next question is from the line of Graham Mattison from Water Tower Research.

Graham O. Mattison *Water Tower Research LLC - Senior Research Analyst*

Congratulations on the gross margins in the quarter. Can you talk a little bit more about what's really driving that? I mean, is that better efficiency on your part or just the market demanding a higher tech product or a combination of both?

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

It's a combination of both, it really starts with a more efficient operation. That's something that I've been harping on for the past 18 months because with our market-leading presence right now in our transmission and drivetrain industry, where we would see growth is not just the expansion and increasing our market share, but in maximizing our returns for the sales that we're doing. So that was a big focus, both from a manufacturing efficiency standpoint and from a product line standpoint, that we were able to achieve by developing innovative products that benefit our clientele, yet also utilize state-of-the-art technology and manufacturing processes to increase our margins for those products.

And then once that was developed, then it was our sales process to distribute that to our clientele for adoption, and that's been extremely successful. So if you look at our numbers for the past 3 quarters, there is a steady creep up of our gross margin. Last quarter, it was about 29%. This quarter, we topped over 30%. And this is just showcasing the efforts of our work towards that operational excellence.

Graham O. Mattison *Water Tower Research LLC - Senior Research Analyst*

Got it. Great. How much runway is there on margins. As you look into next year, is there a potential to expand that further with a shift in product mix? Or do you see more of it just -- would it be more -- as we look towards 2024, do you see it -- the bigger driver being more on the margin side or the revenue side?

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

So I see from our core transmission and drivetrain business, the runway is going to be more on the margin standpoint and conservatively output that right around the 34% to 35% level. However, for our HEVI line of business, I do anticipate that we will begin to deliver some meaningful results and performance out of that line of business next year, and that's going to be more of a revenue top line impact.

Graham O. Mattison *Water Tower Research LLC - Senior Research Analyst*

Got you. That makes sense. Question on the HEVI side, have you seen any impact from your service center, the ASP model so far now that you've announced that?

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

From an establishment standpoint, that has been very reassuring for our overall model. So we have the confidence that we are pursuing the right approach from a service need standpoint. So not to discredit that, that's been phenomenal. However, it's -- that entire model is still predicated around the sales, the product being out in the field to generate that service volume for those ASPs to make it rewarding on both sides. And right now, since we are still solving, cracking that nut on the sales side and adoption, we are not going out there and just signing up as many ASPs as possible. We're doing it appropriately to ensure coverage for our clientele in anticipation for the sales that comes through. And as sales begins to ramp up, then we're extremely confident we can rapidly ramp up the ASP network as well.

Graham O. Mattison *Water Tower Research LLC - Senior Research Analyst*

Got it. Great. And then last question. Any update on the partnerships with -- or the demo programs that you had running with some of the big rental companies?

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

Yes. I can't share too much at this stage. However, I can say that, particularly with some of the rental companies that I've named in prior earnings calls, those are still active and developing. I'm extremely pleased with the progress that we're making. Those relationships definitely take some time to execute into a large fleet deal, let's say. But they're still active. They're still progressing. We're still in active projects and communication. And I'm extremely pleased with the outcome so far.

Graham O. Mattison *Water Tower Research LLC - Senior Research Analyst*

Is that a potential -- I mean, given the timing of how that process works, is that something to look for in 2024?

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

That one is a little harder to say. Our optimistic target is to have some related announcements for it in 2024, but from an actual impact to the balance sheet, that might take until 2025. Our product lines on the HEVI side, they have a 6-month runway from order to delivery. So it would have to realize itself by June of next year for delivery to hit, so if a national brand rental company we're at a drop of 100 or 150 unit order on our desk than we'd really see in 2025.

Operator

Next question is from the line of Rommel Dionisio from Aegis Capital.

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

I wonder if you could just talk about the overall market outlook in the core transmission business in China. Obviously, in the wake of the Chinese Premier visit to the United States and it does seem like you've definitely demonstrated strong market share gains and the markets come back. I wonder if you could just talk a little bit about the outlook going into 2024 on a macro level for that market.

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

Of course. At a macro level, we still continue to see strong global demand for drivetrains and transmissions, particularly on the forklift industry itself. Though the geopolitical environment has been very volatile and challenging. And though economies across the world have struggled with the right balance to promote growth in the company -- in their countries. We still see an operational level, there's significant demand to satisfy the shift towards e-commerce and delivery. That behaviorism to catch up with technology has just taken such a strong foothold across the globe.

And it's really that transition to rely on the logistics that power that, that's really driving that increase in demand for forklifts overall, and that will continue to drive our component business. And that's a little agnostic right now at this stage to the global affairs. If we were to drill down to the macro level, which brands are going to do better or which countries are going to do better? I can talk about that for a little while. At the macro sense, we still anticipate it's going to go strong at most likely a 8% to 10% compound annual growth rate for the next 2 to 4 years.

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

Okay. That's very helpful. And maybe 1 follow-up question, if I could. Congratulations, first of all, on the landmark win with the Port of Baltimore. I wonder, Raymond, if you can just share with us kind of how that, to the extent that you can, how that kind of played out, what pushed them over the edge to make that order? Just if you could characterize what really pushed them over the edge to make that decision?

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

Yes, it was -- what pushed that over was our guiding principle for our sales process, which is getting people behind the wheel. Because this is brand-new technology and it's been diesel power since -- for the past century, we knew that despite all of the benefits and cost savings that we can talk about. The best way to get people to feel comfortable is to get them behind the wheel. So that's what we did. With the Port of Baltimore, we invited them to our site in White Marsh for their operators. And they brought a small school bus full of those operators to try out our equipment. And once they got to operate at firsthand, they saw the quality. They saw the power. They understood the advantages.

And at that point in time, they were extremely comfortable to be the first company to pioneer our technology. And that process did take some time. I will say that the process we wanted, let's say. The demand for it was entered into procurement in February. However, it took until August of this year before it entered bid, and then we were able to officially win that deal. So I called that out because for the asset values of our equipment and for the clientele, it's a very long sales process, longer than we initially anticipated, even when we achieved soft victories, just the purchasing process itself can take quarters. So that was a learning lesson, and one that I just wanted to share on the call.

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

Okay. One last housekeeping question, if I could. I noticed you cited higher shipping fees in the quarter. Was that just because of higher units? Or I thought shipping rates have kind of stabilized. I wonder if you could just clarify that, please?

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

Of course. So the shipping rates have normalized around the world, which is fantastic. Until we get up to manufacturing scale with our HEVI line of business for all of the assembly process that we're performing in the United States at our White Marsh facility. Many of the component needs, many of the tooling and equipment that we've required has been air shipped over to meet our time lines for our clientele. So this is a short-term cost increase from a shipping standpoint for the business that will be moved away from once we start manufacturing at scale with a steady line of sales to support that.

And on the components side of the business, we are seeing increased shipping costs to meet some of our clients' needs to be able to support their infrastructure on a global scale. So I have to be careful how I say this. We're not doing this for all of our clients, but to meet the demand of some of our top-tier clients. We have onset some of the shipping.

Operator

And there are no further questions at this time. So I will now hand the conference back to Raymond Wang for any closing remarks. Thank you.

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

Wonderful. So everyone, I just wanted to thank you all for joining us today. As we reported our Q3 2023 earnings. It's been a very strong quarter, and we are consistently delivering on the milestones and expectations that we're setting. Our component business is extremely stable profit generating and continues to deliver quarter after quarter with no signs of stopping.

And the HEVI line of business as an industry first, as an industry first player to pioneer this industry. Once we establish, once we penetrate the market and convert adoption from diesel over to electric. This is going to generate some significant growth opportunities for the company, for our shareholders, and also most importantly, it will lead to a cleaner environment for our local communities for tomorrow.

And that's something that we are extremely proud of we are extremely dedicated to achieving. And we wanted to thank you all for joining us along for this journey, and we're extremely optimistic for what the next few quarters we'll bring. But thank you very much, everyone, for joining, and I hope you have a wonderful day.

Operator

This concludes today's conference call. Thank you for participating, and you may now disconnect.

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