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Q1 2023 Greenland Technologies Holding Corp Earnings Call

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## CORPORATE PARTICIPANTS

**Raymond Wang** *CEO - Greenland Technologies Holding Corp*  
**Josh Centanni** *Director, IR - Greenland Technologies Holding Corp*

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

### Operator

Good day ladies and gentlemen, thank you for standing by and we warmly welcome you all to the Greenland Technologies First Quarter 2023 Earnings Conference Call. (Operator Instructions) Now to turn the call over to Josh Centanni, Investor Relations Director of Greenland. Mr. Centanni, please proceed.

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### Josh Centanni *Director, IR - Greenland Technologies Holding Corp*

Thank you, operator and hello, everyone. Welcome to Greenland Technologies First Quarter 2023 Earnings Conference Call. Joining us today is Mr. Raymond Wang, Chief Executive 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. Please go ahead. Mr. Wang.

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### Raymond Wang *CEO - Greenland Technologies Holding Corp*

Thank you, Josh. Good morning, everyone and thank you for joining us today. I will be handling a majority of this call as my CFO, Jing Jin has lost his voice and is in no condition to contribute to today's call. I'd like to start by thanking our global team for continuing to drive the business during a difficult global market and continuing to develop a more efficient operation.

As expected and stated during our last earnings call, our component business continues to recover from global market conditions in the first quarter. Again, this is due to the current market conditions in the material handling and manufacturing industry in China as OEMs recover and ramp up from the country's zero-tolerance policy. Now China's manufacturing PMI has fallen to 49.5 this year, which is below estimates of 50.3 showing a slower recovery to the fears of a global slowdown. However, based on feedback from our clients in the component business and our internal estimates, we still stand by our forecast that our business will normalize and grow-especially in the second half of this year. The material handling industry continues to grow with demand reaching all time highs. Grand View Research recently increased their forecast of the global forklift market to a compound annual growth rate (CAGR) of 13.2% through 2030, with a greater shift towards electric forklifts due to increased emission regulations around the world. As a market leader in the forklift drivetrain and transmission industry, this market growth will reflect on our own metrics and results.

And we are ready to capitalize on this demand with our advanced components for all forklift and material handling systems. As displayed in our results, we continue to improve our margins through product innovation, lower costs and operational efficiencies. Gross margins are up 320 basis points to 24.9% compared to last year. These improvements will further contribute to a successful 2023 as the market recovers and accelerates later this year.

Switching to our HEVI electric industrial heavy machinery business, we continue to make strides laying the foundation for the company. We recently recruited a new Chief Operating Officer, Dana Hopkins, who has really hit the ground running and developing the infrastructure we need to succeed. It has always been our responsibility as a pioneer to educate the heavy machinery industry on the advantages of electric compared to traditional fossil fuel systems and we continue to see great success in this area. We have more and more organizations signing up for pilots and demos of our product. HEVI participated in three industry tradeshows this quarter alone, where we were met with tremendous interest at each one. Speaking with attendees and learning how our products can improve their operations always fuels my perspective that the demand for electric heavy equipment is there and HEVI is on the right path to capture this opportunity. But I understand that HEVI needs to move and advance faster toward our milestones, so we will adapt our strategy accordingly.

As we develop and deploy our network of Authorized Service Providers, we will incorporate a new referral incentive to leverage their network to uncover and close new opportunities. This will increase the effectiveness of our sales personnel with warm leads and open new doors. HEVI will explore new markets for our product line that can benefit from clean operations. Industries such as property maintenance, landscaping and utility companies to name a few. This also lends itself to exploring new market territories, both domestically and internationally, that possess significant opportunity. We will be doing so in a prudent and calculated manner as to not take us away from our focus on establishing our presence in the mid-Atlantic region of the United States. We have received interest in our products from companies in these industries at various tradeshows and we will begin to expand our marketing to target them accordingly. HEVI has also received a lot of feedback expressing interest in other heavy machinery that would benefit greatly from electrification. These opportunities are worth further research and market study and may lead to an expansion of our product line sooner than we originally planned.

I am proud of the work that the GTEC team has accomplished. There is still more work to be done and milestones to be achieved. And I believe we are on the right track to reach those goals.

With that, let me dive into the financial results for the first quarter of 2023. As always, please refer to our earnings filings for full details of our financial results.

For the first quarter 2023, total revenue was US\$22.1 million, a decrease of 24% from US\$29.3 million a year ago, largely due to logistical and supply chain challenges resulting from the initial wave of COVID cases following the end of China's zero COVID policies and significant pent-up travel demand during this year's Chinese New Year holiday. In addition, revenue was impacted by a stronger dollar relative to the Chinese Yuan. On an RMB basis, excluding the impact of the foreign exchange, total revenue decreased by about 18% from the previous year. And we sold 36,841 units of transmission products, compared with 41,902 units in the first quarter of 2022.

Our costs of goods sold fell 28% to US\$16.6 million in Q1 2023, primarily due to lower sales volume. Gross profit was US\$5.5 million, compared with US\$6.4 million in Q1 2022. However, driven by a strategic transition in Greenland's product mix towards a higher value component and more sophisticated products like hydraulic transmissions, our gross margin rose 320 basis points to 24.9% from 21.7% a year ago.

Meanwhile, total operating expenses increased 5% year over year to US\$3.1 million. The Company has focused on significantly streamlining costs over the past year, which is mostly offset increases in research and development investment and marketing activities related to the Company's expansion.

Our income from operations was US\$2.4 million, compared with US\$3.4 million in Q1 2022. Net income was US\$2.5 million, compared with US\$2.9 million in Q1 2022.

As of the end of March, our balance sheet remains strong with US\$15.4 million cash on hand, an increase of 125% from a year earlier. With solid financials and sound growth strategies, we are confident in our ability to grow both the core transmission business as well as our HEVI division as we deliver significant value for our shareholders. And with that, that concludes our prepared remarks. I'm going to open the call up for questions. Operator, please, you may go ahead.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) First question comes from the line of Theodore O'Neill from Litchfield Hills Research. Please go ahead.

### Theodore O'Neill Analyst - Litchfield Hills Research

Good morning. Congratulations on the good quarter.

### Raymond Wang CEO - Greenland Technologies Holding Corp

Thank you.

### Theodore O'Neill Analyst - Litchfield Hills Research

I think you were saying this on the call. But as you experienced slower growth in China, can you pivot more resources towards HEVI?

### Raymond Wang CEO - Greenland Technologies Holding Corp

Yes, we can and we actually have been. Part of our focus right now is expanding the team, accelerating the expansion of our team and talent to be able to execute on our vision.

This is very important for us to be able to properly capitalize on the opportunities that we've been uncovering. So, we have been investing further in that aspect of it and we anticipate further investment as well, also a little sooner than we initially planned in both our marketing efforts, our sales and marketing efforts and on our territory and expansion.

### Theodore O'Neill Analyst - Litchfield Hills Research

You mentioned gross margin improvement here from product mix. Does that reflect on anything permanent? And related to that, do you have any pricing pressure in that channel?

### Raymond Wang CEO - Greenland Technologies Holding Corp

A great question. A big portion of the product switchover towards our higher margin is actually based on the shift in the market towards lithium powered forklifts in particular, our highest margin yet most expensive transmission that we offer is our drive train units specifically catered towards lithium powered forklifts. And because on a global scale, OEMs on the market are switching over to lithium, that's been really driving our product.

Right now, it's actually a premier product still, just like with our traditional, both hydraulic and transmissions support fossil fuel forklifts, we've always been the premier product from a cost standpoint, but that has not driven away our clientele.

### Theodore O'Neill Analyst - Litchfield Hills Research

Thank you very much.

### Operator

One moment for the next question. The next question comes from the line of Rommel Dionisio from Aegis Capital. Please go ahead.

### Rommel Dionisio Managing Director - Aegis Capital Stock

Good morning. Thank you. Raymond, I knew you were involved on the HEVI side with some pilot programs, United Rentals and so forth. You also presented at a tradeshow in New York recently. I wonder if you could just share with us some of the initial feedback to the extent that you can on some of these pilot programs, as well as the tradeshow you've been attending? Thank you.

### Raymond Wang CEO - Greenland Technologies Holding Corp

Absolutely. With our United Rentals pilot, they have truly been enjoying the equipment, they've been getting a lot of positive feedback and their sales teams have always been excited to travel over to the location where it stores to learn more about it and see how they can introduce that to their clientele.

And it's gone so well that United Rentals has both requested an extension of our pilot and additional products as well to demo. Right now, they have our GEL-5000, our largest and most popular unit. But our GEL-5000, we've been getting so much demand for our product line for both product demos and pilots that we actually are shuffling around our inventory to be able to properly meet that demand. It's been a little more of a challenge than we anticipated logistically to support this influx of requests for our products across both New Jersey, Maryland, Delaware, New York and Pennsylvania, just to name a few. But what we're doing now is instead of catering towards individual single demos, we are actually looking to initiate a campaign where we do more product demo days to invite multiple organizations at once.

With an opportunity to be able to drive, experience our equipment, utilize it to move some material, truly feel it out and coupled that with a stronger and smoother sales, operation and process, we hope that will be a more effective use of our equipment to generate sales.

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**Rommel Dionisio *Managing Director - Aegis Capital Stock***

Okay. Maybe just a quick follow up. I know your 54,000 square foot facility in Baltimore was supposed to eventually produce over 500 units annually. I think you were targeting first unit to roll off the assembly line in second quarter, is that still on track?

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**Raymond Wang *CEO - Greenland Technologies Holding Corp***

Yes, we are still on track for that. The first units will be a GEX-8000, which is our electric excavator, and a GEL-5000, our largest and most popular front loader.

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**Rommel Dionisio *Managing Director - Aegis Capital Stock***

Great. Thank you, Raymond. By the way, want to wish JJ a quick recovery. Thank you.

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**Raymond Wang *CEO - Greenland Technologies Holding Corp***

Thank you very much. He'll be glad to hear that. Thank you.

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**Operator**

Thank you for the questions. The next question comes from the line of Graham Mattison from Water Tower Research. Please go ahead.

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**Graham Mattison *Senior Research Analyst - Water Tower Research***

Hi. Good morning, Raymond. Quick question on the quarter. The first quarter financial results are certainly the best quarter that you guys have had in the last three. It looks like things are recovering in the Chinese market. Are you still seeing Q3 and Q4 to be the banner quarters you thought before? What gives you that confidence?

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**Raymond Wang *CEO - Greenland Technologies Holding Corp***

Yes, I do still see the third and fourth quarter being the strongest of the year for us. And I still am optimistic that 2023 will be a banner year for our core component business.

That is primarily due to the trend that I outlined last earnings call where the Zero COVID policy lifting in China was truly devastating to the entire region. But particularly in the manufacturing sense, it caused a big gap in the production cycle for a lot of the OEMs that at that time were even just trying to come back from shutdowns and aggressive policies to try to control the pandemic.

Majority of our clients has been overcoming a lot of bumps and bruises in their operations at the end of 2022, but the demand is there, it's stronger than ever. They are still revving up and ready to go, and it's just part of their ramp up cycle. Because of that, it's not a fast process for them to get everything up and running so quickly, but the flow is beginning to normalize as we are seeing in our results. As they ramp up, then our deliveries will execute, and we've been ready to go.

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**Graham Mattison *Senior Research Analyst - Water Tower Research***

Great. Coming out of the COVID lockdowns, do you see any changes in the competitive positioning and competitive landscape of the market for the transmission business?

**Raymond Wang CEO - Greenland Technologies Holding Corp**

Initially, we did. During end of 2021 through mostly 2022, we started to see a shift of our sales start to move outside of China. Still a majority was in China, we're talking a switch from a few percent, from about 96% at the beginning of 2022 to about 91%-92% towards the middle. We were seeing some trends that a lot of OEMs are trying to shift their manufacturing outside of the country of China.

However, now that the manufacturers are starting to rev up and I think that because of challenges that they experienced in the international markets who still needed more time investment and expertise to ramp up their manufacturing opportunities, we're actually seeing it come right back. Right now, a majority of our sales are entirely to Chinese OEMs right around the 97%-98%, again.

**Graham Mattison Senior Research Analyst - Water Tower Research**

All right, great. One last question and that's great with the feedback that you're getting at the tradeshow as you're talking to people. Can you just walk us through the sort of process there? When you get a potential customer coming in saying they're really interested at it, what's the next step is that they come and do a demo or do you get a product on their site? Just give some sense around how long the sales cycle it typically is in the industry for you?

**Raymond Wang CEO - Greenland Technologies Holding Corp**

It is difficult to compare to industry average sales cycle because for the heavy industrial machinery industry, it's actually just led by a very small handful of players with very strong brand recognition. It's almost similar to politics for certain classes of machinery, you either go one brand or another brand. That's about it.

Because of that, they have a much faster sales process. It's focused more on delivery and service. Now, for our side, we have to overcome the big challenge of educating, getting people comfortable with the brand-new technology. But that actually is driving a lot of the interest that we see in the tradeshow because people will double take every time when they see our machinery and then learn that it's electric. And then they get a buzz with questions. How long does it last? How do you charge it? How much does it cost? These are the questions that really showcase the advantages and benefits of our product line. So it gets them very excited.

Now, our traditional sales process that we're pursuing is from the interest that we received, we would schedule a demo on the client's site to provide them with an opportunity to be able to utilize the vehicle, see the power, really envision how it can support their operations, and go from there. But the challenge was, from a logistical standpoint, this was expensive and slow. We were doing multi-day demos. In many cases, an asset would be at that prospect site for a week plus while we have others waiting in the line. For example, just last week, we were at the New York fleet show in Queens, New York. From that show, we actually walked away with over two dozen requests for demos and pilots from organizations around the New York City area. If we were to do it one by one, we were finding it was just too slow. We are changing it up and now we're actually looking to do more of a group demo and pilot for just a few hours or on-site demos for no longer than a day.

**Graham Mattison Senior Research Analyst - Water Tower Research**

Got it. One question to add in. As you're starting to roll more equipment off the line beginning in 2Q, will that help that demo process?

**Raymond Wang CEO - Greenland Technologies Holding Corp**

Yes, it will. As it stands right now, our entire fleet is just dedicated to demos and we still have a pipeline right now of over 100 different organizations that are waiting for their turn for the machines.

**Graham Mattison Senior Research Analyst - Water Tower Research**

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

**Raymond Wang CEO - Greenland Technologies Holding Corp**

Thank you for the questions.

**Operator**

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

**Raymond Wang CEO - Greenland Technologies Holding Corp**

I just wanted to thank everyone again for participating in our call and continuing to follow the progress of our company. We are on the path for great things. Though it may not reflect in our stock value, I still strongly believe that our company possesses significant value for our shareholders and the opportunity and the timing where that will become recognized is surely coming down the line.

So, I just want to thank everyone again for participating on our call. I want to thank my team for continuing to work so hard every day to deliver this value to our shareholders. And I hope everyone has a fantastic rest of your day.

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**Operator**

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

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