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GTEC.OQ - Q2 2022 Greenland Technologies Holding Corp Earnings Call

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CORPORATE PARTICIPANTS

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Raymond Wang *Chief Executive Officer - Greenland Technologies Holding Corporation*

Jing Jin *Chief Financial Officer - Greenland Technologies Holding Corporation*

PRESENTATION

Operator

Thank you for standing by, and welcome to the Greenland Technologies Holding Corporation Reports Second Quarter and First Half 2022 Unaudited Financial Results Conference Call.

(Operator Instructions)

I would now like to turn the conference over to Julia Qian. Please go ahead.

Julia Qian - *IR Contact - Blueshirt Group*

Thank you, operator, and hello, everyone.

Welcome to Greenland Technologies Second Quarter and First Half 2022 Earnings Conference Call. Joining us today are Mr. Raymond Wang, Chief Executive Officer; and Mr. Jing Jin, Chief Financial Officer.

We released the 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 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 - *Chief Executive Officer - Greenland Technologies Holding Corporation*

Thank you, Julia. Good morning, everyone, and thank you for joining us today. We have a lot to talk about during this call. But before I jump into it, I just want to start by thanking my team for their hard work and dedication to our mission at Greenland Technologies to continue to deliver the best quality products and develop innovative solutions for our clients, shareholders and local communities.

Q2 has been a challenging quarter for the Company, with \$20.6 million in revenue generated, representing the first quarter where we did not produce positive year-over-year growth since we became a publicly listed Company under NASDAQ in 2019. This decline is primarily attributed to the reinstated COVID restrictions and shutdowns in China that lasted in some cities for over a month. Despite Greenland being lucky to avoid shutdown of our own facilities, some of our key clients were not as lucky and had to close their operations for weeks and [some] (corrected by company after the call) for over a month. This resulted in orders being delayed by client request and ultimately a decline in our Q2 sales and revenue.

Now allow me to emphasize that this is a short-term disruption. And I adamantly believe the execution of our long-term strategy will continue to generate profitable growth and value for the Company. If we take a step back and view our first half results, then you will see that despite losing a month of sales opportunity due to these COVID restrictions, we are still on pace with last year's performance, with \$49.9 million in revenue compared to \$52.8 million in 2021 and \$5.6 million in net income this year compared to \$5.3 million in the last year. We would have continued our trend of positive business growth were it not for the COVID-related restrictions. And further, our gross margin has actually grown by 330 bps to 23.5%. This tells me that we remain on the right course, and we will continue to focus on our current strategy.

Now our clients impacted by the closure have generated a significant backlog of orders for our drivetrains and components that will contribute towards a strong second half 2022, with [FY] (corrected by company after the call) 2022 results of our component business to be-on-par if not higher than what we produced in 2021.

We continue to achieve key milestones in our HEVI division, which is focused on the manufacture of electric industrial heavy equipment. This quarter, we launched the GEL-5000, which is a 5-ton rated load, 40,000 pounds lithium-powered wheeled front loader. We launched that in July, and the unit is now available for demonstration and sale. The GEL-5000 actually receives the most interest on our website compares to our other products. And we've already scheduled multiple demonstrations for the vehicle as part of our sales process. In addition, this quarter, we secured our first assembly site located in Baltimore, Maryland, and expect to open the doors at the end of this month. We expect this facility to produce over 500 units per year when it is operating at full capacity.

Our sales focus for our HEVI division is on the Mid-Atlantic region of the United States so we can provide the appropriate support to our future customers. Now we aren't where we want to be in terms of sales, but it hasn't been due to a lack of demand, but a lack of infrastructure. Initially, we positioned our equipment along DCFC charging networks. However, we found that the deployment of new charging stations to be slow or too costly for local businesses to justify. Accessible charging infrastructure is critical to the deployment and adoption of EVs and is currently in its infancy across our market. So to address this, we have been developing our own line of mobile chargers that will allow our customers to charge our products without requiring investment into an on-site charging station. We will be offering multiple charging solutions that support sites with power ranging anywhere from 110V, 220V or even 480V. These units can fully charge our equipment in 8 hours or less. A bit longer than our DCFC chargers would but aligns with most of our prospects who would simply let the units charge overnight to be ready for a full day of work in the morning. These chargers are expected to enter production at the end of Q3 of this year and support our strategy to drive equipment sales by making our products easier to integrate into an existing sites operation.

Further, we closed a \$10 million fund raise through a combination of a Direct Registration and Private Placement with Aegis Capital at the end of last month. With global markets at risk of recession, with no strong tailwinds to correct course in the short term, it is imperative for corporations to shore up cash reserves to be able to weather the storm. This fundraise strengthens our ability to weather the current market conditions while providing and offering flexibility for us to be able to pursue any opportunities that should arise. As such, a portion of these funds will be used to accelerate the expansion of our HEVI division through talent acquisition, inventory growth and facility ramp-up while the remainder will be held on reserve for the right opportunities that can further develop our channels for both product and service channel offerings.

Despite a challenging second quarter, Greenland continues to generate positive results and deliver value to our shareholders. Our component business remains on track for another successful year with a strong backlog and positive industry tailwinds. Our HEVI division continues to achieve the milestones we set for our strategy while remaining nimble to address industry challenges as it pioneers new technology. And our balance sheet remains strong through business performance and recent fundraising activity. We at Greenland remain focused on executing our strategy to produce long-term profitable growth for the Company and our shareholders.

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

Jing Jin - Chief Financial Officer - Greenland Technologies Holding Corporation

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

Challenges from the first quarter continued into the second. Our team did a great job working with customer and our supply chain to reduce the impact of the China's COVID-19 shutdowns and the global supply shortage. We also had the added headwinds of an unfavorable foreign exchange and the global inflation. For Greenland, we ended the quarter in a strong financial position. Demand remains robust for our industrial EV models, and we are executing our long-term growth strategy. Even with the short-term challenges, we drove a 330 basis point expansion in our gross margin year-over-year to 23.5% during the period and the further enhanced our balance sheet with \$10 million in proceeds from registered direct and private placement offerings in July. This will allow us to support the next phase of our growth without having to go back to the market over the near term.

In terms of our results, revenue in the first half of 2022 was \$49.9 million. The slight decrease from \$52.8 million in the prior year reflects the impact of China's pandemic lockdowns. It was a case of customers not being open and able to place orders. That demand moves into the second half and led to our higher backlog exiting in Q2. On an RMB basis, revenue decreased by about 5% from the first half of 2021. The number of the transmission products fell 10% to 70,841 units during the period.

We continue to drive cost savings across our operations where possible. As a result of our strong supplier relations combined with the lower sales volume, we were able to reduce our cost of goods sold by 8% to \$38.7 million. And we generated gross profit of \$11.2 million, up 4% from \$10.8 million in the first half of 2021. We continued to benefit from our strategic shift toward high-value products with a 200 basis point expansion year-over-year in the first half gross margin to 22.5%.

Total operating expenses roses 25% to \$5.6 million, primarily due to our investment in support of our growth strategy. Operating expense as a percentage of total revenues however was only up 2.8% percentage points to 11.3% compared with 8.5% in the first half of 2021. Within that, selling expenses increased 32% to \$1.2 million. General and administrative expenses increased 52% to \$2.5 million, while research and development expenses were relatively on-a-par with the prior year.

We generated \$5.6 million in income from operations, down 12% from the first half of 2021. Net income was \$5.3 million, a decrease of 5% from \$5.6 million in the prior year.

In summary, Greenland remains well positioned. We are executing our product road map, expanding our production footprint and focus on profitable growth. Underlying catalysts remain firmly in place. We strengthened our balance sheet and are excited for the second half of 2022 as we continue to execute our long-term business strategy.

So that concludes our prepared remarks. Operator, we can now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Raymond Wang - Chief Executive Officer - Greenland Technologies Holding Corporation

Great. Thank you very much.

So I want to thank everyone for joining the call and for your continued interest and support in Greenland and our mission here. We will continue to execute. That is our promise. We will continue to deliver and do the best that we can in this market to continue to generate growth and value for our shareholders, for our clients, for our Company and for our local communities. And for that, I just want to thank everyone for all of your continued support for the Company.

Operator

Thank you all again. This concludes today's call. You may now disconnect, and have a wonderful day.

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