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Q4 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 Fourth Quarter and Full Year 2022 Earnings Conference Call. (Operator Instructions). As a reminder, we are recording today's call. If you have any objections, you may disconnect at this time. Now, I will turn the call over to 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 fourth quarter and full year 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 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 by law.

Also please note that unless otherwise stated, all figures mentioned during this 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, Raymond.

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

Thank you. Good morning, everyone and thank you for joining us today. We have a lot to go over, but before I get started, I want to begin by thanking my team for their persistence and dedication to delivering results for the company despite a challenging global environment. We continued to be impacted by lingering pandemic regulations, but still managed to deliver strong results for 2022 and maintained our market leadership in our industry.

Starting with our core component business, we produced and delivered 129,686 drivetrain units in 2022, representing US$90.8 million in revenue. Of which, 27,542 drivetrain units were in the fourth quarter resulting in US$19.1 million in revenue. Though lower than last year's results, I am proud of our performance that maintains our position as market leader in our industry. Market recovery has been slower than anticipated in the fourth quarter after China loosened their pandemic restrictions which impacted our business. Furthermore, the weakened yuan had a material impact on our financial results, representing over half the negative performance of our revenue year-over-year growth.

Given these challenges, I believe the worst is past us. We have already seen a strengthening market in the beginning of 2023. China is pushing for economic recovery with new loans in January rising over 17% year-over-year to just under 5 trillion yuan. This has driven purchasing in industries we support, such as logistics and manufacturing as they seek to satisfy the supply gap built up in 2022. In addition, 2023 forecasts indicate a stronger yuan by the end of the year, which will support our financials. These factors will result in a banner 2023 year for Greenland's component business, particularly in the third and fourth quarters.

2022 illustrated the vulnerability of Greenland's dependency on the Chinese yuan. To address this foreign exchange risk, we are exploring strategies and opportunities to expand the core component business to other markets outside of China. We will share more details regarding this direction at a later date.

Shifting to our HEVI electric industrial heavy equipment division, I am proud of the progress we have made throughout the year. Our mission with HEVI is to be a pioneer in the introduction of clean and sustainable alternatives to the traditional heavy emission products in the industrial heavy equipment industry. This year, we expanded our product line. First with our GEL-5000, an all-electric 39,683 lb, 5 ton rated-load wheeled front loader that has quickly become the favorite machine when we're conducting product demos. Second, a line of DC mobile chargers that provide clients with simple and easy charging solutions for their site without breaking the bank. We have two models that are as small as a carry-on luggage that support 220V or 480V power, which is readily available on commercial and industrial sites in the United States. With these mobile chargers, a potential client can integrate our electric heavy equipment into their fleet and site operations without having to invest in a costly DC charging station.

In addition to our mobile charging solutions, our electric heavy equipment have completed or scheduled compatibility testing with the market leading providers of DC fast charging stations in the United States, so our customers will always have charging options to best suit their needs. Companies such as Siemens, Blink Charging, ABB, EVgo and Electrify America, just to name a few. We partnered with Cyngn, a California-based fleet technology developer to incorporate their state-of-the-art GPS asset tracking system, the Infinitracker, into our entire product line. Each HEVI equipment sold will come with the Infinitracker and three years of service for free. This offers our clients security, safety, and easier incorporation of HEVI products into their fleet management system.

Due to our focus on value, we have made significant progress towards the adoption of our electric heavy equipment. As I have reiterated on past earnings calls, as a pioneer of new technology in our industry, we will overcome the challenge of adoption by securing a fleet deal with a brand name organization. I am proud to announce that we currently have multiple active product demos and pilots with staple organizations such as United Rentals, the world's largest equipment rental company. Our accomplishments will have a profound impact on the HEVI brand and product reputation that will rapidly convert the hundreds of interested leads that we've been accumulating into product sales.

We have been successful in generating interest in our products because they are designed to align with the needs of our clients. Our all-electric heavy equipment is priced comparable to their diesel equivalent and offer a lower cost of ownership realized in the very first year with significantly lower power and maintenance costs. For example, our GEL-1800, an 11,000 lb electric front loader that runs for nine hours on a single charge, only costs US$135,000 with a default bucket, battery and the base 220V DC mobile charger. This is comparable to the price of a diesel system sold in the Mid-Atlantic region. However, the GEL-1800 will only use roughly US$4 of electricity per hour of operation compared to the standard 4-6 gallons of diesel per hour needed to run traditional equipment. This results in roughly US$20,000 saved per year in fuel costs alone. Plus, our electric equipment have 40% to 60% less maintenance costs than a diesel system because there is no internal combustion engine or related parts to maintain. HEVI products offer a strong financial advantage to a company looking to switch to electric. It is at this stage, after showcasing the financial benefits, that we can deliver the environmental and operational benefits that our electric equipment provides such as zero operating emissions, which is perfect for indoor applications, and eliminates over 92 tons of CO_2 emissions per machine per year. And with 60% less operating noise, this results in a safer worksite that does not disrupt the local community, which is particularly an advantage in sensitive environments or in urban settings. All of these value propositions combined will lead HEVI to successfully penetrate and capture market share and the US$200 billion heavy industrial equipment industry.

Our first U.S. assembly site based in Baltimore, Maryland, is developing on schedule and we anticipate the first finished product to roll off the assembly line in the second quarter of this year. This site illustrates the first step in Greenland's effort to expand and diversify our manufacturing capabilities around the world.

Greenland is well funded to support the development and growth of HEVI through our strong balance sheet and a US$10 million fund raise completed last July with AEGIS capital. The updates shared earlier are evidence of these funds in use to grow the business and we will continue to invest into this business to capture the significant opportunities present.

In 2023, HEVI will continue its focus on market penetration and product adoption. In addition, we will be establishing a network of Approved Service Providers through partnership with existing businesses. HEVI will provide training and OEM part sourcing so local equipment service centers can provide support for our products to our local clients. Further investment will also be made to improve HEVI's product offering, technologies and overall value proposition. And we will focus on recruiting the talent and leadership needed to successfully execute our strategy.

Now, there's a lot to be excited about for Greenland in 2023. We expect to see a rebound of our core component business. Continued expansion of our manufacturing capabilities and infrastructure in the United States.

Securing the first deal of HEVI electric industrial equipment with a flagship company that will put the HEVI brand on the map. And the development of new products, technologies and innovation that will lead Greenland towards an incredibly exciting future.

Now 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 Corporation - CFO*

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

For the full year 2022, total revenue was US$90.8 million, down 8% from US$98.8 million in 2021, primarily due to lower sales volume as a result of pandemic shutdowns in China as well as negative foreign exchange impacts from a stronger dollar. We sold 129,686 units of transmission products, compared with 141,431 units in 2021. On an RMB basis, excluding the impact of foreign exchange, total revenue decreased by about 3.7% from a year ago.

Our cost of goods sold decreased 10% to US$71 million in 2022, primarily due to lower sales volume. Gross profit was US$19.8 million, a slight increase of 1.2% from US$19.6 million in 2021. Gross margin was 21.8%, up 200 basis points from 19.8% in 2021, as a result of the strategic shift in Greenland's product mix towards higher value, and more sophisticated products, such as hydraulic transmission.

Meanwhile, total operating expenses increased 22% year-over-year to US$13.9 million, as we continue to invest in HEVI infrastructure, talent, and technology as part of our expansion.

Our income from operation was US$6 million, compared with US$8.3 million in 2021. Net income was US$6.6 million, compared with US$7.3 million in 2021.

We ended the year with a strong balance sheet, with US$16.3 million of cash on hand. Given our strong financials and a significant growth potential, we believe Greenland's current market capitalization does not accurately reflect our true value.

Next, I will briefly walk you through on financial results for the fourth quarter of 2022. Total revenue was US$19.1 million, a decrease of 17% from US$22.9 million in the same period of 2021, primarily due to the decrease in the sales volume associated with pandemic lockdown in China. On an RMB basis, total revenue fell about 6% from the fourth quarter of 2021. The number of transmission products sold was 27,542 units, compared with 31,349 units in the fourth quarter of 2021.

Gross profit was US$3.8 million, compared with US$3.7 million in the fourth quarter of 2021. Gross margin was 19.9%, up 380 basis points from 16.1% in the fourth quarter of 2021 as a result of deliberate improvement in our product mix.

Total operating expenses were US$5.5 million, compared with US$3.8 million in the fourth quarter of 2021. Net loss was US$0.8 million, compared with net income of US$0.4 million in the same period of 2021.

Looking forward, we are extremely optimistic about 2023. We are seeing a recovery in demand in our core transmission business following the end of China's zero COVID restrictions and we look forward to updating you on progress at our HEVI subsidiary in the United States.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) First question is from the line of Graham Mattison from Water Tower Research. Please go ahead. Your line is open.

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

Hello, everyone. Thanks for taking my call. It looks like 2022 played out much like you talked about on the call a year ago, where you said it would expect better margins and choppy revenue. If you look into 2023, what's going to be the bigger driver for you? Is it backlog that sort of accumulated over the course of the prior year or is it a recovery in China in terms of the market?

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

Good morning, Graham. That's is a great question. I actually think that both are going to weigh significantly into the 2023 forecast. The reason being is because there is still a big gap in the demand that will have to be filled with the backlog.

But because the funds have just truly begun to open up at the beginning of the year, it's going to cause a little bit of a timeline gap before it really starts hitting. So, I think that we'll really start seeing it ramp up in Q2 of 2023. And then it's just going to go gangbusters from there.

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

Thanks, great. Can you get a little bit more color on the higher margins in terms of what was driving that, and your move towards higher quality products? As you look at it at 2023, is there room for the gross margin to improve further?

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

From a product standpoint, we have an integrated drivetrain unit that is actually specifically catered towards the power of lithium product and electric forklifts. This is a product that has been a flagship development that we've been pushing across our clientele to meet the demand of OEMs to support the demand for lithium powered forklifts on a global scale. Markets like China have been leading the world in it where the adoption right now is probably about three out of every four forklifts, but there's still a lot of opportunity across the globe, such as in the United States, where though electric forklifts are still representing over 50% of forklift sold, still a majority are lead acid. So there's a significant opportunity across the globe and OEMs that are trying to meet this.

As such, we've been getting a lot more adoption and demand for these integrated products, which is wonderful for us because this product integrates the speed reduction gearbox, the electric motor and the driving axle into a single package. From our manufacturing standpoint, we actually have the highest margin out of all of our components sold today through that product. This is a significant driver, the push from our standpoint for sales to meet this demand, and it's not an area that we see slowing down. That's definitely a big driver for improved margins from a product standpoint and the core component business.

Now, I think that there's still opportunities for larger gains on the margin front for us to expand this particular product to cover a larger range of material handling vehicles, such as larger scale outdoor forklifts or even greater applications in the commercial electric EV industry as well. Things that we are actively exploring, but nothing to announce just yet in earnest.

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

One last question, then I'll jump back in queue. That's great news about the progress you're making in terms of the demos with the HEVI product. Can you talk about some of the customer feedback that you're hearing so far? If somebody were to place one of these flagship orders, how would that roll out if the first production is coming in 2Q? Would the order typically be like over a year? How should investors think about that in terms of timing?

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

Initial feedback has been extremely positive, extremely positive. These demos and pilots are something that we drive and encourage because there's always a lot of concern and doubt for new technology on whether it's strong enough, or whether the battery can provide enough life to get the job done. Our units are truly designed for that. There's no better way for us to prove it than to get it into the hands and to get people behind the wheel of the equipment. Feedback has been extremely overwhelmingly positive. We've been extremely glad about what we've hearing and what that means for the overall business as well.

For the delivery for next steps, let's take a company like United Rentals for example, the way that we see it playing out is after the initial demo phase, then it'll transition to a follow-on pilot where UR will purchase between 50 to 150 units of our particular product to do a full deep dive, 12 months pilot study on our product live in market, to get a better understanding of profit margins, maintenance costs, the whole shebang.

If that pilot proves positive for their business overall, then they would proceed to nationwide or global distribution, which is definitely something that we would be in favor of. From a delivery standpoint, our Baltimore, Maryland site is prepared to complete the first finished product in Q2 within actually the next few weeks. However, it does not represent our only manufacturing capability. We still have our assembly sites overseas, where our product right now both the components and the assembly are being done today. We would have the capability to support a larger order in the 50-unit, 100-unit scale from that site, and in combination with our Baltimore, Maryland sites together. We can do probably about 200 units with a six-month turnaround time.

Operator

We'll now take our next question. This is from the line of Theodore O'Neill from Litchfield Hills Research. Please go ahead.

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

Thank you, very much. Raymond in your prepared remarks, you said you're going to train people to repair and maintain the machines and I'm talking about the HEVI subsidiary and all these questions I have. For the early adopters of your machines, how do you address the service issue for them?

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

Today, it's all about empowering our clientele. Since we're doing a direct sales model, we're selling straight from OEM to the end consumer. We are not reliant upon catering to a dealership network. What this provides us the opportunity to do is we're able to actually promote the clients right to repair our equipment when they purchase it. And this has truly been disruptive and supportive and a big advantage for the HEVI brand, as we introduce it to various companies.

From a servicing standpoint, this provides choice for the client. So should that company have their own team of mechanics, have the necessary equipment to perform a particular service need, maintenance need or repair, then they are able to do so with our full support and blessing.

For example, if they needed to replace or remount the tire, instead of being dependent on working with a HEVI dealer and paying costs that can be upwards of over US$1,000 per tire, they can actually work with their local tire supplier, we will give them all the specs. If they still desire, we will sell them our own OEM tire, and then they can handle that replacement with our blessing and education.

Now should that company then not have the equipment expertise or desire to conduct that service, then this is where our Approved Service Providers would come into play. We would be able to offer a list of established shops that we've established a relationship with, that we've trained them on our equipment, that they can get in contact with to perform that repair. With our distributed assembly model, the reason why the HEVI business is focused on the Mid-Atlantic area is to support that Approved Service Provider models, we can provide that part to that shop either same day or no more than one business day. This way, it keeps the shop engaged and it keeps them supplied to be able to provide that service to that client.

The third option is to be able to provide direct support from our team of technicians, right out of our distribution sites and assembly sites, just like in Baltimore, Maryland and then in New Jersey.

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

As those first machines roll off the assembly line in Q2, how should we think about how much of it goes into demo pool? How much goes into pilot sales and how much goes into regular commercial sales?

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

Right now, we've been receiving so much demand and interest into our product that I've dedicated our entire inventory of electric heavy equipment to support demos and pilots. We're actually fully booked all the way into May at this stage, which is a wonderful problem for us to have. What is going to come out it's going to be a matter of timing because we're right on that precipice of crossing that first adopter phase. Our brand is getting established to the comfortability that we are going to be able to start converting these interests into direct product sales. Our production capabilities are going to meet either the need for both the demos or the products, whichever is coming first, from a timeline standpoint.

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

One more question. If you have a strong demand for the machines, and you end up building some part of it in your plants in China, and then bringing it over here and assembling it into a finished unit, is there any issue with tariffs in that transfer of part of the equipment?

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

At this stage, the tariffs would remain the same at roughly 25% for equipment. However, our Baltimore, Maryland site, we're actually in process right now of getting it FTZ designated, which will help support the overall duty and tariffs scenario for any product coming into that site for assembly.

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

Thank you, very much.

Operator

We'll now take our next question. This is from the line of Rommel Dionisio from Aegis Capital. Please go ahead.

Rommel Dionisio ***Aegis Capital - Analyst***

Thank you, and good morning. A couple of points about the China Business. Could you discuss pent-up demand? Obviously, with these restrictions having been in place for so long, I wonder if you could just talk about how much pent-up demand there potentially could be, as well as your market shares? It's obviously been a challenging market, but you seem to have held up relatively well, perhaps better than the rest of the market. I wonder if you could just discuss those market shares in China as well. Thank you.

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

Absolutely. From a market share standpoint, with what we've seen in Q3, I would actually admit that we were expecting a much faster rebound to close that gap in the fourth quarter of the year to even drive our performance even higher than what we've delivered. Now, from a timing standpoint, some of the volatility that we've witnessed in the market, such as the drawback of the Chinese community and supply side after the listing of their pandemic restrictions further delayed the drive back into the business to fulfill this gap into the later end of the fourth quarter. In addition to that, because it's been so long under these pandemic restrictions, it is taking a bit longer for our clients, the forklift OEMs, to ramp their operations back up to speed again, to meet it.

We were a little too optimistic, we thought that they would be able to move fast enough for the fourth quarter. But this is something that we're going to see that's going to continue to drive performance as they ramp up to fulfill that gap that has been pent up for so long into the Q1 and the remainder of the year for 2023.

Now for the market share standpoint, that's absolutely correct. Our balance sheet will show that even from a supply standpoint, we've had our own challenges with the volatility in the market and these restrictions, but we were at an advantageous position where we had a majority of the raw material and components in our facilities on decks that we were able to deliver to the clients as necessary. And we're continuing to drive that forward. It's going to take about another quarter to normalize to get back into the flow with our pipeline for both the raw material coming in, and our finished products going out but we will anticipate normalization in the end of Q1.

Rommel Dionisio ***Aegis Capital - Analyst***

Just to follow-up on that point on the supply chain, are you also seeing in the benefit of lower freight costs as well and perhaps components as the supply chain gets better? Thank you.

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

Yes, we are, we absolutely are. One thing that was also a little surprising on our end, in a prior earnings call, I was showcasing that our sales of drivetrain units were beginning to shift into the global space. So, we're starting to see just a slight decrease of our sales performed in China versus the global markets. And because of that, we were keeping a very close eye on freight charges going outside the country of China. However, we've started to see that actually claw itself back, so now the sales performed to meet demand is continuing to rise back up into China and reduce down on the global side.

I think that this is just an evidence of the challenges that the pandemic and supply and logistics challenges have had on a global scale, where countries that were trying to move away from globalization are struggling to ramp up their manufacturing capabilities to satisfy their needs and all the other challenges we've addressed the call. So, they're starting to rely back on the manufacturing strength in China.

Now, with that said, from a Greenland standpoint, I think that it's important for us to further diversify the markets of our core component business. One of the purposes of HEVI was to further diversify our entire business model, so it's not entirely dependent upon the core component manufacturing in one specific region. We need to be a little more aggressive and not just rely on HEVI to do that diversification, but also explore opportunities with our core component business as well.

Rommel Dionisio ***Aegis Capital - Analyst***

Great. Thank you, very much.

Operator

Thank you. See no more questions in the queue. Let me turn the call back to Mr. Wang for closing remarks.

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

Wonderful. I just wanted to thank everyone for all of your questions, and all of your support in our mission with Greenland. We have significant opportunity, growth potential and value that is requiring patience as we pioneer the electrification of the industrial heavy equipment sector, but we have all the right capabilities, infrastructure and technology to be able to capitalize on the first-mover advantage in this space in the United States market. We are extremely optimistic that we will be successful in our mission to penetrate the market, capture market share, and to be able to deliver on building value for both Greenland and their shareholders. With that, I just want to thank everyone for joining our call this morning and I hope you have a wonderful day.

Operator

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

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