

Canoo
2Q21 Earnings Call
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Presenters

Kamal Hamid, VP of Investor Relations
Tony Aquila, Chairman, CEO
Josette Sheeran, President
Renato Giger, Interim CFO
Ramesh Murthy, VP of Finance, Chief Accounting Officer

Q&A Participants

Aileen Smith – Bank of America
Craig Irwin – ROTH Capital Partners
Jamie Perez – R.F. Lafferty

Operator

Greetings, and welcome to the Canoo Second Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero, on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Kamal Hamid. Thank you, sir, you may begin.

Kamal Hamid

Welcome to Canoo's Second Quarter 2021 Earnings Conference Call. My name is Kamal Hamid and I'm the VP of Investor Relations at Canoo. Today, I have with me, our investor, Chairman and CEO, Tony Aquila; our new President Josette Sheeran; Interim CFO, Renato Giger; and newly promoted as SVP of Finance and Chief Accounting Officer, Ramesh Murthy. Tony will provide an update on the progress we have made since our last call, on the topics we report on every quarter, and Josette will provide a glimpse into her mandate. Renato and Ramesh will then go over our second quarter financial results and turn it back to Tony who will then provide closing remarks. We'll then open the call up for questions.

Before passing it over to Tony, I'd like to provide a recap on our recent Investor Relations day, which took place on June 17th, just two weeks before the end of the quarter. We had more than 800 online and in-person participants. The day provided a first glimpse at the Canoo ecosystem. In person attendees participated in vehicle test rides and got to speak with our team leaders across the business. Attendees also learned more about our technology and engineering and were able to see all of our vehicles in person.

For those of you who may have missed the IR Day event, I encourage you to watch the replay, which is currently available on our website and on YouTube. I've been in investor relations for

more than 25 years and participated in many analyst days. The level of interest we saw in June, especially in a pandemic impacted environment was amazing and it reinforces that people are very interested in our product and that we are on the right track. Before I turn the call over to Tony, I'll take care of a housekeeping item and read our forward-looking statements.

Please be advised we may make forward looking statements based on current expectations. These are subject to significant risks and uncertainties and our actual results may differ materially. For discussion of factors that could affect our future financial results and business, please refer to the disclosure in today's earnings release and on our most recent form, 10-Q and 10-K and reports that we may file on form 8-K with the SEC. All of our statements are made as of today, August 16th, 2021, and are based on information currently available to us. Except those required by law, we assume no obligation to update any such statements. During this call, we'll discuss non-GAAP financial measures. You can find the reconciliation of these non-GAAP financial measures to GAAP financial measures in today's earnings release, which can be found on the IR section of our website. With that, let me turn the call over to Tony.

Tony Aquila

Thank you, Kamal. Thank you, everyone, for joining us today. Before going further, I want to thank the Canoo team for their hard work and dedication, especially during the resurgence of the pandemic. As to the effects of the pandemic, we continue operating with a conservative stance. Early on, we adjusted our projections because we believe in under promising and over delivering. We've pushed back the full return to office at our Torrance facility, where we are complying with ongoing county restrictions on in person work. We continue to operate remotely with limited on-site presence in Torrance.

That said, the geographical diversification of our workforce that we announced in our prior call has allowed us to maintain in person operations at different levels and at different locations. We have also limited non-essential travel. Further, the industry as a whole has been impacted by supply chain disruptions for material shortages or vendor delays. Chip shortages have been one clear example of this disruption, but we have reduced risk and alleviated impact to our SOP. We have previously consolidated our electrical architecture into a narrow set of controllers using fewer chips. Less parts overall means we believe we are less exposed to global supply chain disruptions.

Overall, our sourcing team is in close communications with suppliers to address potential bottlenecks as we continue to make the precautionary adjustments and create mitigation strategies to ensure we're on track to reach SOP in Q4 of 2022. To put it into context, we now have 40 people in supply chain procurement, with decades of experience, which support our drive to delivering on SOP in Q4. We will continue to monitor the situation and keep you updated to any material changes.

Before I update you on the quarter, I would like to highlight some of the key global developments that are accelerating the shift towards electrification and will benefit our

strategy of EVs for everyone, democratizing access to productivity for hardworking families. The US infrastructure spending bill, which passed in the U.S. Senate will allocate \$73 billion to power grid improvements and \$7.5 billion to EV infrastructure. Recently, the European Commission proposed requirements for a 55% decrease in new car Co2 emissions by 2030 and 100% decrease by 2035. The proposal also included mandates for ESG reporting requirements.

In effect, this means that more than 13 million vehicles sold annually in Europe alone will need to transition from internal combustion to zero emissions by 2035. On July 29th, Congress introduced a tax rebate of \$2,500 for the purchase of used electric cars. President Biden's August 5th Executive Order aims to make 50% of all new passenger cars and light trucks sold in 2030 zero emissions. This would impact more than 10 million vehicles sold annually in the U.S. We applaud Congress in the Biden Administration's rollout of domestic policies to support the EV economy.

American innovation is helping lead the world to a zero-carbon future. We need and look forward to continued support from Congress and the White House. We are clearly at an inflection point as governments accelerate efforts to establish carbon neutral targets.

Now, I'd like to introduce Josette Sheeran. As many of you know, Josette brings a wealth of operational experience at a global scale. Over to you, Josette.

Josette Sheeran

Thank you, Tony. It's great to be with you on this call. And I look forward to meeting many of you over time. I joined the Canoo Board last year, and I've now been asked to take on this role by Tony. Working alongside him and the team, I've come to appreciate their achievements. And I'm honored to join Canoo's mission to bring electric vehicles to the heartland that are purpose-built for working men and women.

For those of you who don't know me, I've worked at the intersection of government business and stakeholder partnerships at a global level. As a U.S. trade negotiator leading the State Department's economic energy and transportation work, I took great pride in negotiating, protecting and empowering U.S. industry and innovation. In leading the World Food Program, we successfully transformed the effectiveness and efficiency of the world's largest humanitarian logistics and supply chain and the entire food aid system.

The revolution and mobility has the power to transform whole economies. A net zero economy simply cannot be achieved without transforming the transportation sector. This is the time when electric vehicle adoption can happen at scale and be a leading force in building a more sustainable future. It's only been a few weeks since I joined as President. I've already relocated to Texas, and I'm diving in with Tony and the team here at Canoo.

One of my mandates is to enhance Canoo's sustainability and ESG foundation. As mentioned in our recent press release, we've received a AA ESG rating from MSCI and I look forward to

building upon those. We are focused on scaling Canoo, working to build alliances and develop our business to expand our reach as we get our EVs on the road. I'll hand it back to Tony.

Tony Aquila

Thank you. And welcome aboard, Josette. You will be hearing more from Josette on future calls as we continue to execute on our strategy. We told you we were focused on meaningful news or no news. With that in mind, let me update you on our second quarter reporting. The team is focused on executing our business plan to reach the start of production on schedule with the lifestyle vehicle in late 2022. We have awarded two significant contracts that we shared with you during our investor day.

First, our phase one contract manufacturing with Nedcar. We ran a comprehensive selection process to reach this strategic decision, which provides us with an expanded geographic footprint from both an in-market and distribution perspective. As part of this agreement, we expect to deliver 500 to 1,000 lifestyle vehicles in 2022 and 15,000 lifestyle vehicles in 2023. Nedcar has an experienced and proven team running one of the top-rated plants, supporting BMWs Mini program amongst other major OEMs. The video group will not only serve our initial launch into North America, but later will serve as our launch point to expand into EMEA. Josette and the team will be working closely with them to ensure alignment across our ESG sustainability commitments and to mitigate any gaps.

Further, the framework we have established with Nedcar will allow us to increase capacity from 15,000 to up to 25,000 units in 2023. And now that our go-to-market team is kicking off, we wanted to secure additional capacity. Second, we also announced phase two of our manufacturing strategy, selecting Oklahoma as our partner. This two-pronged strategy is important for a few reasons. As a new OEM, working with Nedcar will allow us to refine our manufacturing process while augmenting our production expertise, which will be deployed in our Oklahoma manufacturing plant.

It will allow us to geographically diversify our manufacturing operations and position us to increase our commitments, products and volumes to adapt to changing market demands and build flexibility in distribution. The state of Oklahoma has committed approximately \$300 million in non-dilutive financial incentives to support our facility. Approximately one third of the incentives are anticipated to come during the first 36 months. So, I'd like to thank the people of Pryor, Oklahoma, Governor Stitt, the Principal Chief of the Cherokee Nation, Chuck Hoskin, Jr, the Chief Administrative Officer of Mid-America Industrial Park, Dave Stewart and his fantastic team. Our manufacturing facility will be located in a historically significant place, a beautiful location that we're really excited about.

As we build our facility, we are committed to preserving the nature, the beauty and the land. This is the former site of the Oklahoma ordinance works facility where tens of thousands of workers produced munitions during World War II. The Mid-America Industrial Park has attracted the presence of seven Fortune 500 companies. This includes Google and DuPont, in

part through its continued investment in education and workforce development. We are privileged to build our vehicles on this site in the great state of Oklahoma. We have been honored to learn more about the people of Oklahoma and have been inspired by the Native American residents' connection to the land.

While the world is now shifting to tread softly on the environment, their communities have always done so. We look forward to working closely with them to build a facility and product that is sustainable and reflective of our shared values. We are currently targeted to bring up to 2000 high paying jobs to our facility, with a goal of hiring at least 40% of the workforce from the local community, which consists of Native Americans and veterans.

Launching this facility in the U.S. is good for Oklahoma, good for America and it's the right thing to do for Canoo. We are in the final process of selecting a construction manager, architect, engineering firm and more. Multiple high-quality providers are bidding for these contracts and there is a potential that we will select one in the coming quarter. We can then start to provide updates on our construction progress.

Now, let me provide you an update on our progress towards production through the end of the second quarter. At IR day, we had announced approximately 500,000 miles of beta testing. And as of June 30th, we locked engineering and design to commence our gamma builds. We have also sourced 87% of components, compared to 74% in the first quarter of the year. And excluding bulk material, we are 95% sourcing complete. I would like to point out, this accounts for all complex components with the exception of batteries. And we are targeting to make a final selection of our battery partner in 3Q.

In Q2, Pete Savagian, our CTO and his team have completed engineering design for 67% of the lifestyle vehicle components and have moved those into tooling. Our gamma phase is now in progress. To put it into context, this phase includes comprehensive testing and final validation. It will consist of 300 to 600 vehicle tests, including crash testing and certification. We are also dedicating at least 10 to 15 gamma properties for vehicle durability validation. We will start the countdown to SOP for our lifestyle vehicle when we enter the fourth quarter of this year. And I look forward to introducing Pete to these calls as we give you more detailed information in the coming quarters.

Turning to our go-to-market and sales pipeline. During IR day, we said that we are starting go-to-market, and we are advancing our sales funnel. In the second quarter, we opened pre orders for all announced vehicles. Our consumer response to date has been organic. Pre orders for all vehicles have come from across the United States, which tells us that our vision to bring EV's everyone resonates. We have seen the highest levels of interest from California, Washington, Texas and Florida. We are also seeing numerous inquiries from the EU and Asia on when we will be opening up pre orders in the region. And we will provide updates at the appropriate time.

In the coming quarter, we are accelerating our go to market strategy according to plan and we are expanding our sales and marketing team. Moving on to our sales funnel. As of June 30th, we have engaged customers with buying capacity for approximately 500,000 vehicles. These customers are qualified for our product and the timing of product release. We define these as stage one opportunities. In stage two of our funnel, we have surpassed 9,500 refundable, non-binding pre orders for our announced vehicles. The final Stage or stage three of our sales funnel includes a binding contract with a nonrefundable deposit. And we'll begin reporting on these at the appropriate time.

As we have continued to make progress in human capital in the face of a tough environment, our workforce increased by 230, to 656 total employees, compared to fourth quarter 2020 or a 54% increase. In the second quarter alone, we added 112 associates, or up 21% sequentially. Our total engineering headcount grew by 23% sequentially. We now have over 480 hardware and software engineers, comprising more than 70% of our total workforce. More than two thirds of our hiring in both quarters was focused on engineering.

For sales and marketing, headcount increased by 31% compared to the prior quarter as we ramp up our marketing efforts. We added key executive hires in human resources, IT, data security, sales and design. We will go into this deeper when we report on our third quarter. We continue to build out our Justin office with additional general and administrative and sales and marketing associates. Despite this challenge of COVID, we continue to bolster our team with the right people to execute on our key initiatives.

You learned about our vision for our app during Investor Day. It provides an asset management solution for every vehicle owner, which we believe will create value for our customers and in turn, help us develop a strong and loyal customer base. We are building an entire business unit around this ecosystem, which will drive customer experience with data and software.

And our app will work for all vehicles, whether it's a Canoo or another OEM in your driveway, it will give every vehicle owner, family or fleet owner the power to manage all their mobility assets quickly and efficiently and opens doors for additional savings and value. We're here with American innovation to bring EVs to everyone. With that, I'd like to turn the call over to Ramesh and Renato to provide details on our financials. Renato.

Renato Giger

Thank you, Tony. Our second quarter of 2021 results are as follows. Research and development expenses of \$57.6 million for the quarter, compared to \$14.6 million in the prior year period. Excluding \$8.5 million of stock-based compensation, research and Development expense was \$49.1 million. SG&A expense was \$44.6 million for the quarter, compared to \$3.4 million in the prior year period. Excluding \$17 million of stock-based compensation SG&A expense was \$27.6 million.

GAAP net loss was \$112.6 million for the quarter, compared to a GAAP net loss of \$23.2 million in the prior year period. GAAP net loss in the second quarter of 2021 included a \$8.2 million noncash loss on the fair value change of earner shares liability related to the periodic remeasurement of the fair value of our contingent earn our shares liability. Adjusted EBITDA was minus \$76.7 million for the quarter, compared to minus \$17.7 million in the prior year period. Ramesh.

Ramesh Murthy

Thank you, Renato. Turning to the balance sheet and cash flow. We ended the quarter with \$563.6 million of cash and cash equivalents. Cash used in operations for the six months ended June 30th, 2021 was \$108.8 million, compared to \$42.3 million in the prior year period. Capital expenditures were \$28.7 million for the six months ended June 30th, compared to \$1 million in the prior year period.

Turning to our guidance. For the third quarter of 2021, we anticipate the following expenditures, approximately \$75 million to \$85 million for operating expenses, excluding stock-based compensation and depreciation and approximately \$45 to \$55 million for capital expenditures. Additionally, in the fourth quarter of 2021, we expect to draw down \$40 million of the \$300 million in incentives to support our Oklahoma construction. Before we open the call up for Q&A, I'll turn it over to Tony for closing remarks.

Tony Aquila

Thank you, Ramesh. We are encouraged by the regulatory tailwinds and the heightened public interest in EVs. We've been investing in the right team to execute on our key initiatives. As I've said before, we're focused on big news or no news. We'll continue to update you on our progress and our achievements, which have positioned us well on our countdown to SOP for LV in 2022.