

Canoo
First Quarter 2022 Earnings Call
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Presenters

Nick Cunningham, SVP Investor Relations and Capital Markets

Tony Aquila, Investor, Executive Chairman, CEO

Ramesh Murthy, Interim CFO, SVP Finance, Chief Accounting Officer

Q&A Participants

Sameer Joshi – H.C. Wainwright

Jaime Perez – RF Lafferty

Operator

Greetings. And welcome to the Canoo first quarter 2022 earnings call. At this time, all participants are in a listen-only mode. A 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.

Please note that this conference is being recorded.

I would now like to turn the call over to our host, Nick Cunningham, senior vice president of investor relations and capital markets. Thank you. You may begin.

Nick Cunningham

Welcome to Canoo's quarterly earnings conference call. This is Nick Cunningham, and I'm the SVP of Investor Relations and Capital Markets at Canoo. This is my second earnings conference call since joining the company, and I'm thrilled to be working alongside such experienced and innovative partners.

Today, I have with me investor, chairman, and CEO, Tony Aquila, and interim CFO and chief accounting officer, Ramesh Murthy.

Tony will give you an update on our business last quarter. Ramesh will then run through our financial results for the quarter. He will then turn it back to Tony who will provide closing remarks. We'll then open the call up for questions.

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 10Q and 10K and other reports that we may file with the SEC, including form 8Ks.

All of our statements are made as of today and are based on information currently available to us. Except as 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, I will turn the call over to Tony.

Tony Aquila

Thanks, Nick. And thanks everyone for joining today for an update on our Q1 2022 activity.

Last quarter, we made it clear that we are a high-tech, customer-centric, advanced mobility company. Again, to all our believers and supporters, thank you for riding alongside us on our journey. Today, I'm going to cover highlights from the quarter including our solid and growing partnerships with two states and the nation, the NASA win, an update on financing, and our progress towards production.

Governments around the world are helping to accelerate the migration to EVs and clean energy. We are inspired by our future-forward partners in the states of Oklahoma and Arkansas, as well as the Cherokee Nation, which continue to attract significant technology investments to the region.

I was recently in Oklahoma where Google announced an additional investment in the state where they have invested a total of \$4.4 billion in their data center in Pryor. The data center is the second largest in the world. This adds to the growing number of leading companies investing in the region.

With the passage of the Large-scale Economic Activity and Development, or, if you will, LEAD Act, we believe the state of Oklahoma will offer an increasingly business-friendly climate. The legislation creates a nearly \$700 million program to incentivize top job creating businesses to invest in Oklahoma.

The bill received overwhelming bipartisan support from the Oklahoma legislature, passing the Senate by a 41 to 5 vote, and the House by an 81 to 17 vote. Thank you, to both the House and the Senate, for their support of this monumental achievement.

I'd like to give a few shoutouts starting with House Speaker Charles McCall; Senate President Pro Tem, Greg Treat; and Governor Stitt for their incredible leadership. Senator Roger Thompson and the representative, Kevin Wallace, deserves particular credit for helping to draft and pass this important legislation. Thank you, Senator Kevin Matthews of Tulsa, and your democratic colleagues for your help in driving bipartisan support for this bill.

We were active in supporting this initiative and are encouraging key partners to invest in the region.

We appreciate the support from Governor Asa Hutchinson and his collaboration with Oklahoma. He is positioning Arkansas as a leader in advanced mobility and clean energy, and we are here to assist. He established a three-state partnership with Oklahoma and Louisiana to create a regional hub for the development, production, and use of clean hydrogen.

I hosted a hands-on event in Bentonville, which includes several LDVs. It was attended by fleet managers from municipalities and state agencies of Oklahoma and Arkansas. In June, we are planning to attend the UP Summit in Bentonville, which includes visionaries across the multi-dimensional mobility community. We are gathering to generate ideas that we believe will challenge and change the mobility landscape.

Over the coming quarter, we expect to move a 1,000-vehicle order from the state of Arkansas from stage two to stage three. Our team will continue to work with the states for additional incentives to further solidify the region as a center for advanced mobility. This environment was selected for the combination of two visionary states and a nation, the Cherokee Nation, where we stand by our commitment toward workforce development.

We have already broken ground on our mega micro factory in Pryor, Oklahoma and are getting ready for the next phase of development. I would like to personally thank our government affairs team, in particular Chris Moore, for their many, many months of work in supporting initiatives within the states and the nation. Thank you to the citizens of Oklahoma and Arkansas and the Cherokee Nation for the strong support. We have never felt more welcome.

Great news as well. The final CFIUS dilution condition related to the shareholder, DD Global Holdings, has been satisfied. And we are no longer subject to any further provisions under the national securities agreement.

On the federal level, the administration continues to make strides with the National Electric Vehicle Infrastructure Formula Program, which dedicated \$7.5 billion in infrastructure funds over the next five years to the states for additional EV charging stations. Our five initial rollout states will receive over \$665 million of \$5 billion allocated to states to fund EV charging infrastructure with over 50 percent of that rolling out in the next three years. An additional \$2.5 billion will be devoted to EV charging in rural areas and in underserved communities.

In March, the administration authorized use of the Defense Production Act to provide funding for mining, processing, and recycling of lithium, nickel, cobalt, graphite, manganese, and other materials. While the benefits from this initiative may not be immediate, we believe it may increase the supply of these materials from domestic sources over the medium to long-term.

This potentially benefits our partners like Arkansas which has one of the nation's largest lithium reserves.

We were chosen by NASA in a competitive process to produce vehicles that will transport astronauts to the launchpad for the Artemis lunar missions. These will be the first electric NASA crew transport vehicles. The Artemis program will be the first human lunar landing in over 50 years, and will be the first to bring a woman and a person of color to the moon.

A quick shoutout to Representative Steve Womack from the third district of Arkansas who recently highlighted our NASA contract on the House floor. Artemis may well prove to be one of the longest running space programs, and we are honored to partner with NASA in this historic endeavor.

Over 600 million people tuned in to watch the first moon landing in 1969. And with today's media landscape and population, we anticipate billions of impressions associated with the Artemis program. These vehicles will be produced in America by the people of the heartland, including Native Americans and veterans. We look forward to sharing more info in the future.

On to financing, we had been clear with our partners and associates regarding our philosophy of raising capital judiciously. We will continue with this disciplined approach. It is a different market today, one with challenging conditions, but our strategy aligns with this type of market environment.

We live in uncertain times. The team and myself have successfully navigated similar turbulent markets in the past. I reiterate, we will raise appropriate amounts to satisfy what we need, bridge to milestones, and be in a position to take advantage of our track record, our value creation, and potentially improving market conditions.

To start, we entered into a \$250 million equity purchase agreement with financing partner, Yorkville Advisors. Next, we have a commitment for a \$50 million PIPE from an existing shareholder, further demonstrating long-term support and belief in the company. We also filed a \$300 million shelf, bringing our total accessible capital to \$600 million, optimizing our financial needs to SOP.

We are in ongoing discussions with parties for additional financing, as it makes sense, based on our disciplined approach to managing our execution plan.

A related party is exploring raising up to \$1 billion of non-diluted capital for the construction of the Pryor facility, Oklahoma mega micro factory in Mid-America Industrial Park, in the form of an ESG, clean energy, Native American Affected Communities Opportunity Zone funding vehicle. Further to our focus on sourcing regenerative non-diluted investment capital, this taps into eco-friendly high net worth investors focused to deploy this capital in a tax efficient manner that makes a big ESG difference.

Moving on to supply chain dislocations, risks, and achievements. We have sourced 95 percent of parts for our LV and LDV domestic production and are grateful to be sourcing 91 percent of parts from the U.S. and allied nations. We take a different approach to traditional problems in the supply chain, starting with our design, which requires 50 percent less parts. Today, we have arranged for on-time delivery of 100 percent of the required semi-conductor chips for gamma and TT builds.

Building on what I said last quarter, supply chain issues have worsened, especially as things have heated up on the geopolitical arena. We are still in process of securing on-time delivery of 26 percent of the semi-conductor chips needed for SOP, which, at standard cost, represent less than 2 percent of our BoM. This issue has our teams' full attention, and we are working aggressively to resolve it.

As many OEMs and others have indicated, there may be industry relief for the semi-conductor supply chain shortage coming just in time, aligning to our Q4 2022 SOP. We expect to hit SOP in Q4 2022. What remains is whether we will hit our full target of 3,000 to 6,000 units.

Since the end of Q1, we have more than doubled the gamma builds to 39 vehicles. We completed our second year of deep winter testing of more than 2,000 additional miles. We will soon be entering desert testing for the second year to validate our systems once temperatures have reached optimal conditions.

There is an open invitation to any analyst out there that covers us that would like to come down to do a test drive in one of our complete gammas. You will find it an exciting and different experience.

With gammas increasingly coming off the line and entering testing, we are preparing to start the scale of production at our Bentonville advanced manufacturing facility. Our second building is going up now, and we are front loading battery production for SOP. Battery module production increased over 156 percent, sequentially, to battery modules for 43 gamma vehicles. We have been hiring and training personnel for Bentonville and they are currently training on our battery line.

On to sales, our stage two orders have increased 17 percent from Q4 2021 to Q1 2022, totaling over 17,500 units to date. Our preorders are completely organic. We continue to move forward sales discussions with several key partners, and we solidly anticipate that we will be sold out this year and next. We will keep you updated as we make further progress with our sales efforts.

I would like to thank our partners, our suppliers, our employees for continuing to contribute to Canoo's mission. We are here today with the spirit of embracing challenge and change rather than shying away from it.

And now, for our financials. Ramesh?

Ramesh Murthy

Thank you, Tony. Our first quarter of 2022 results are as follows.

Research and development expenses of \$82.5 million for the quarter compared to \$39.3 million in the prior year period. Excluding \$7 million of stock-based compensation, research and development expense was \$75.5 million. SG&A expense was \$55.6 million for the quarter, consistent with the prior year period. Excluding \$13.7 million of stock-based compensation, SG&A expense was \$41.9 million.

GAAP net loss was \$125.4 million for the quarter compared to a GAAP net loss of \$15.2 million in the prior year period. GAAP net loss in the first quarter of 2022 included a \$15.5 million non-cash gain on the fair value change of earnout shares' liability related to the periodic remeasurement of the fair value of a contingent earnout shares' liability.

Adjusted EBITDA was negative \$117.4 million for the quarter compared to negative \$49.8 million in the prior year period.

Turning to the balance sheet and cash flow. We ended the quarter with \$104.9 million of cash and cash equivalents. Cash used in operations for the three months ended March 31, 2022 was \$120.3 million compared to \$53.9 million for the three months ended March 31, 2021. Capital expenditures were \$28.4 million for the three months ended March 31, 2022 compared to \$12.1 million for the three months ended March 31, 2021.

Due to the timing of the inflow from our announced funding, management has added a growing concern qualification to our financial statements for Q1.

Turning to our guidance. For the second quarter of 2022, we anticipate the following expenditures. Approximately \$95 million to \$115 million for operating expenses, excluding stock-based compensation and depreciation and approximately \$85 million to \$105 million for capital expenditures.

Before we open the call up for Q&A, I'll turn it over to Tony for closing remarks. Tony?

Tony Aquila

Thank you, Ramesh. We will push forward to support workforce development within the heartland where we will build our vehicles. We are committed to technological, industrial level change which will upfit these communities and uplift them.

Our commitment to hiring and training a workforce consisting of veterans and Native Americans is just solid. We are in a good spot to listen, to learn, to act, and to provoke this change.

I would like to thank, again, our partners, our suppliers, and our associates for their unwavering support of our mission. As always, we will keep our eyes on the goal and stick to our philosophy of big news or no news. Thank you.

Nick?

Nick Cunningham

Operator, please open it up for questions.

Operator

Thank you. And at this time, we will conduct our question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press the star key followed by the number two if you would like to remove your question from the queue.

For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, to ask a question, press star one on your telephone keypad. We'll pause for a moment to poll for questions.

And our first question comes from Sameer Joshi with H.C. Wainwright. Please state your question.

Sameer Joshi

Yes. Thanks. Good afternoon, everyone.

Just a quick question on the expected capex that was announced or guided during the previous conference call of around \$60 to \$80 million. I think it came in at \$28.4 million. Was this related to financing timing? Or was it related to some other reasons?

Ramesh Murthy

Yeah. Thank you, Sameer, for your question. So, it was not related to financing timing.

Frankly, what it is, it's more--it's a payment related to milestone recognition of our fixed assets. So, once we get fixed assets, we have to follow the accounting rules for milestone recognition. So, what you see lower on capex in Q1 is what gets picked up into Q2.

Sameer Joshi

Right. And so, that's why the guidance is likely higher for this quarter. So, for the year, are we still looking at around \$230 to \$250 million?

Ramesh Murthy

Sameer, as you know, we typically provide guidance only for one quarter. So, we provided our guidance for Q2 '22.

Tony Aquila

But I think our capital raising efforts kind of tells you--and if you know our track record, pretty disciplined.

Sameer Joshi

Yes. That would've been my next question, the \$250 plus \$50 additional shares of the \$300 million. What do you expect the timeline to be for one, the closing of the first PIPE and then drawdown of the rest of the \$250 million?

Tony Aquila

The first PIPE will probably close this week no problem. And then just after the S3 filing, the access to the Yorkville. So, that's a couple of weeks. So, it's pretty--it's virtually immediate.

Sameer Joshi

Understood. One more question on the VDL Nedcar. There was some return of a prepayment of around \$30.4 million. Is this now out of the way or is there anything more to be expected?

Tony Aquila

No. But we continue to have a working relationship with them, with VDL. They're actually doing some stuff with us. So, we have a continuing relationship. So, we're continuing to receive benefits from our partnership.

Sameer Joshi

Understood. And congratulations on the NASA relationship. Can you give us a little bit more insight into--from now until the week of the launch? Is there--what kind of testing or pre-qualification or any other checkboxes, milestones that you need to achieve?

Tony Aquila

Yeah. So, look, I think the thing that we're very focused on is the second building in Bentonville. The first building is up. It's getting ready for some of its installation work.

The second building is moving at record speeds. The team there is doing an incredible job. That's a pretty big focus for us, obviously, because Bentonville can produce 20,000 vehicles for us.

I think also in addition to that, you saw the commentary about exploring more non-dilutive capital in the essence that the MAIP, where we're building this, is an opportunity zone. That can

give us access to some very interesting capital. And a lot of people talk about ESG like it's a thing, but for us, it's just our culture is why we're doing what we're doing.

So, it aligns well. So, we'll be very focused on that in the quarter.

In addition to that, the microchips gap for SOP. We've secured gamma and TT. But that 2 percent of the BoM cost does give us a little bit of agitation. So, we're going to dogpile on that and find the various sources.

One thing with using half the number of microchips of almost all vehicles out there, it does make you more reliant on the chips you have, right? From a yin and a yang.

Sameer Joshi

Yeah. No. You actually answered the next question I was going to ask. For NASA itself, is there anything--any additional hurdle or milestone that you need to achieve or path before the vehicles can actually be launched to the moon?

Tony Aquila

Yeah. So, this is a--the contents of that would be confidential and really a NASA discussion. Any discussions we make on that would most likely be joint and/or authorized, but it's a very exciting program. In fact, I will be spending most of the week there with some of our team members.

I'm really proud of what the country's doing, and it's just an amazing privilege to be a part of it.

Sameer Joshi

Yeah. Yeah. No, certainly.

Yeah. Congrats on all the progress you've made thus far. And good luck. Thanks.

Tony Aquila

Thank you, Sameer. Thank you.

Operator

Thank you. Just a reminder, to ask a question at this time, press star one on your telephone keypad. Press star two to remove yourself from the queue.

Our next question comes from Jaime Perez with RF Lafferty. Please go ahead.

Jaime Perez

Good day, everybody. And thanks for taking my question.

Could you give us an update on the equipment and the plant? I think last quarter, you gave us an update of how much is in the plant. So, could you just give us some color on that?

Tony Aquila

Yeah. We're producing vehicles now. We're running somewhere between probably up to 12 units a week right now. So, we have--that's giving us a chance to work with our current robotics and everything and work out our processes. When you have half the number of parts and you have a unique design that's designed to be repairable, it actually is proving to be much better.

We have areas that we've been able to accelerate so that we can improve our processes. So, those items are going in there. We're testing them. We're fine tuning them. We're getting them ready for SOP in Bentonville.

And I don't know if you guys can travel yet, but love to have you come down and drive them. Driving your first vehicle by wire is an experience. And so, love to have you come down.

Jaime Perez

Well, I'm not that far away. So, I think I'll take you up on your offer.

Now, the gamma vehicles, are they testing? Are they in customers' hands? Or are the customers--if they're in customers, are they individuals or fleet? Could you give us some update on that?

Tony Aquila

Yeah. So, right now, we are using them for customer engagement. And we're primarily concentrating on fleet customers right now.

Jaime Perez

All right. All right. And now, as far as the preorders, is the bulk of that fleet customers or individual reserve?

Tony Aquila

Those are purely organic now. We haven't laid in there anything but the 1,000 of the 2,000 fleet orders. And I believe maybe some--probably one-third of it is coming from various fleets in the--maybe a little more than that. I'd have to get the specific breakdown, but we can get that to you if you want it.

Jaime Perez

Oh, sure.

Tony Aquila

But focus for us right now is obviously on larger users because we want to book ourselves out into Pryor's opening.

Jaime Perez

Right. Now, any feedback from these large clients as far as the performance of the vehicles? Automating requirements? Because we hear on other EVs and been in touch with their--potential clients or fleet clients and then demanded some low requirements. How's that going along with Canoo?

Tony Aquila

It's going really well. We should've played--I was driving them around in L.A. I guess a week ago and people were just stopping us on the street asking questions. Pulling up to us on stop signs just because of the amount of space, the utilization, the turning rate, and the capabilities are--it's the best I've felt about it all coming together.

But the best thing is I tell everyone, when you drive it and you sit in it and you see it and you park it next to something that you're used to, it just tells you what we did. So, that's going to be the best way for you to write your note is to actually come down and drive it.

Jaime Perez

Oh, yeah, I can't wait, especially the unique design.

Now, as far as the--congratulations on the Artemis win. I know this might be a little bit hypothetical, but what other opportunities are you looking at in this? Because it's a pretty opportunist--it's a pretty visible thing to go to watch the countdown and watch a Canoo vehicle take the astronauts to the rocket ship.

So, what other opportunities do you think this might open as far as maybe government or other programs?

Tony Aquila

Well, I think, Jaime, we told you about our focus was to focus on the market movers and really focus on purpose-built activities, and that--have a high return for our customers and for ourselves. And obviously, this is not just the only thing we're focused on, right?

So, although it's an important one, but it does open us to engage with other government agencies, which we already are.

Jaime Perez

All right. So, thanks for the update. That's all the questions I have. All right. Have a great day.

Tony Aquila

Thanks, Jaime.

Operator

Thank you. There are no further questions at this time. I'll turn the floor back to management for closing remarks.

Nick Cunningham

Thank you all for joining our call, and have a great day.

Operator

Thank you. All parties may now disconnect. Have a good day.