

Canoo Inc.
Third Quarter 2021 Financial Results
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Presenters

Kamal Hamid, Vice President of Investor Relations

Tony Aquila, Executive Chairman

Josette Sheeran, President and Director

Renato Giger, Senior Vice President & Interim Chief Financial Officer

Ramesh Murthy, Senior Vice President, Finance and Chief Accounting Officer

Peter Savagian, Chief Technology Officer

Q&A Participants

Craig Irwin – Roth Capital Partners

Jaime Perez – RF Lafferty

Amit Dayal – HC Wainwright

Operator

Good day and welcome to your Canoo third quarter 2021 earnings call. All lines have been placed on a Listen-Only mode and the floor will be open for your questions and comments following the presentation. At this time it is my pleasure to turn the floor over to Kamal Hamid, Vice President of Investor Relations. The floor is yours.

Kamal Hamid

Welcome to Canoo's quarterly earnings conference call. My name is Kamal Hamid and I'm the VP of Investor Relations at Canoo. Today, I have with me Investor, Chairman and CEO Tony Aquila; Senior Vice President and Interim CFO Renato Giger; and Senior Vice President of Finance in Chief Accounting Officer Ramesh Murthy. Tony will provide an update on the progress we have made since our last call. Renato and Ramesh will then review our financial results for the quarter and turn it back to Tony, who will provide closing remarks. We will then open up the call for questions.

Please be advised that 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 a discussion of those factors that could affect our future financial results and business, please refer to the disclosure in today's earnings release in 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 — 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'll turn the call over to Tony.

Tony Aquila

Thank you, Kamal. Thank you everyone for joining us today. Before discussing the third quarter, I want to take a quick look back at what we've accomplished so far. We first took ownership of the past, and then we focused on the present and the future. We assembled a qualified, seasoned board with public company experience and continue to strengthen the management team. We refined our strategy and go to market and we're the first EV stack to rationalize our plan.

No good deed goes unpunished. And as we discussed in our Q4 2020 earnings call, we are now seeing some of our peers adjust their guidance. As part of our re-founding, we instituted public company discipline, and refined our strategy to focus on maximizing return on capital and creating long term shareholder value.

These included expanding our tam to an estimated 4.4 million vehicles by developing 3 new derivatives on our multi-purpose platform design; targeting monetization touchpoints to reach multiple owners across the vehicle lifecycle via upfitting, customization, and over the air services and more; designing our proprietary asset management software platform, which will enable company customers to manage all vehicles in their household with easy access to our ecosystem of service providers and exiting low to no return on capital businesses and prioritizing investments in our own IP.

We have grown our IP portfolio by 144% to over 127 pending or registered patents since the beginning of the year, increased focused on design, ADAS, and chassis. We will continue to prioritize IP that drives shareholder value. Our team has grown by 87% Since the beginning of the year. We now have approximately 700 employees in 100 contractors and have strengthened core areas including engineering, power train, ADAS, business functions, FP&A, customer journey, and IT.

We diversified our footprint beyond California by adding locations in Texas and Michigan, opening up additional labor pools at a lower cost. You've heard me say it before. Our discipline is big news or no news. We completed more than 500,000 miles or beta testing validation, and our next big milestone will be getting gamma vehicles into the hands of our potential customers. We selected Pryor, Oklahoma as the site of our own facility, and secured up to 300 million in non-diluted incentives and just recently announced that we selected Panasonic, a pioneer and world class battery manufacturer, as our battery supply partner. I would like to personally thank Allan Swan, the president of PENA for his leadership and the entire Panasonic team for their support.

We assessed numerous suppliers and selected Panasonic because they are the best. They have an unquestionable track record with billions of cells on the road today for Tesla. In our view, Panasonic operates one of the fastest safest lines and they are serious about their commitment to being environmentally friendly. Selecting Panasonic enables us to deliver enhanced safety and lower cost of ownership to our customers.

Earlier this year, we selected Oklahoma as the location for our own manufacturing facility. Today, we are excited to announce that we have expanded this partnership to include Arkansas and additional locations in Oklahoma. Our corporate headquarters will be relocated to Bentonville, along with an advanced manufacturing industrialized facility, technology hubs in Tulsa and Fayetteville to support R&D and electronics powertrain battery vehicle engineering and testing, a software development center in Tulsa, and a customer support and Finance Center in Oklahoma City.

California, will maintain its current focus on engineering in vehicle design. Combined, these facilities are expected to employ as many as 1200 people providing high education and jobs in the region. Now, with these final pieces in place, we will now focus on completing definitive agreements with each state, which will include approximately 100 million in additional non-dilutive financial incentives making the total approximately 400 million.

With these agreements, we are targeting approximately 100 million in vehicle orders with the states in universities where we are locating these facilities. I'd like to thank Governor Stitt and Governor Hutchinson and their teams for their support and commitment in championing advanced manufacturing jobs and high tech innovation opportunities in their states. Their forward thinking will create high tech jobs in their states for the new EV economy.

I am also honored to announce that we will be partnering with the George Kaiser and the George Kaiser Family Foundation to help in their transformation of Tulsa into a vibrant and inclusive economy while helping us with recruiting, education, and diversity of our workforce. Our thanks also extends to other great families, organizations, tribal nations, and local governments in the region who share and support our vision.

In light of our expanded partnership with Arkansas and Oklahoma, we are now able to accelerate our advanced manufacturing industrialization facility in the U.S. ahead of VDL Nedcar (PH). Addressing growing demand for the LV delivery and the LV, which will avoid a 25% tariff on cargo vans imported into the U.S., putting us ahead of schedule, create a direct link between our prior factory and our industrialization facility and produce the LVD and other LV variants on the same production line.

We will accelerate our advanced manufacturing production in the US to begin before Q4 2022. Given these advancements, by the end of November, we will reprioritize our relationship with VDL Nedcar. We have been focused on reducing execution risk as Europe and the Netherlands are still struggling with pandemic inflation, shipping, and taxation.

As for our progress towards production, we have engineering design is complete and sourced for our LD gamma build. And here's a sneak peek at what we are doing in the United States with one of our partners. Please navigate to the webcast landing page and access the video link toward the bottom left of the page. We will pause briefly while you watch the video.

As you can see the progress on gamma, which is our last step prior to production, and we're excited to get vehicles into the hands of our customers. And now for our financial results, Renato.

Renato Giger

Thank you, Tony. Our third quarter of 2021 results are as follows. Research and development expenses are \$59.4 million for the quarter, compared to \$18.9 million in the prior year period. Excluding \$5.8 million of stock based compensation, Research and Development expense was \$53.6 million. SG&A expense was \$45.5 million for the quarter compared to \$8.4 million in the prior year period.

Excluding \$13.2 million of stock based compensation SG&A expenses were \$32.2 million. GAAP net loss was \$80.9 million for the quarter compared to a GAAP net loss of \$23.4 million in the prior year period. GAAP net loss in the third quarter of 2021 included a \$25.8 million non-tasking on the fair value change of earned out-shares liability related to the periodic remeasurement of the fair value of our contingent earned out-shares liability. Adjusted EBITDA was negative \$85.8 million for the quarter compared to negative \$20.1 million in the prior year period.

Ramesh Murthy

Thank you, Renato. Turning to the balance sheet and cash flow, we ended the quarter with \$414.9 million of cash and cash equivalents. Cash used in operations for the nine months ended September 30, 2021 was \$180.6 million compared to \$65.1 million in the prior period. Capital expenditures were \$74 million for the nine months ended September 30, compared to \$1.2 million in the prior period.

Turning to our guidance for the fourth quarter of 2021, we anticipate the following expenditures. Approximately \$95 to \$115 million for operating expenses, excluding stock based compensation and depreciation, and approximately 60 to 80 million for capital expenditures. Before we open the call up for Q&A. I'll turn it over to Tony for closing remarks.

Tony Aquila

Thank you, Ramesh. It's been a year of milestones in growth. I want to thank the board, the entire Canoo team, and all our partners for their hard work and dedication. We would now like to open the call for questions. Operator?

Operator

Thank you. The floor is now open for questions. If you do have a question, please press “*” “1” on your telephone keypad at this time. If you're using a speakerphone we ask that you pick up your handset while pick — while — we ask that you pick up your handset to provide the best sound quality. Again, if you do have a question or comment, please press “*” “1” on your telephone keypad at this time. Please hold a moment while we pull for questions. We'll take our first question from Craig Irwin with Roth Capital Partners. Please go ahead.

Craig Irwin

Hi. Good evening, and thanks for taking my questions. So hey, that's — that's really exciting progress with gamma vehicles. I love the video. As always, cool videos. Can — can you maybe remind us of the size of the gamma fleet you're going to field and the technical capabilities of this fleet? You know, do — do you expect to use these vehicles in — in some of your partnerships as early testbeds for some of the ADAS stuff that you've been looking at? You know, can you help us shape out sort of what — what the — what the real technology development will be on these platforms?

Tony Aquila

Yeah. So the — the — we'll — we'll be focused on about 120 to 150 of those vehicles. And some of them will be in the hands of potential partners.

Craig Irwin

Understood. Understood. And then, you know, there — there's been a scarcity of marketing vehicles, right? You know, you — you do get vehicles to some of these — these major trade shows, but I think there's quite a lot more demand across the country because when people see the car in person, it's a very different response than sometimes, you know, seeing in a two dimensional video or even, you know, a picture. You know, what's the potential some of these vehicles may be being made available for ride and drive or — or as marketing vehicles over the next couple years?

Tony Aquila

Yeah, we'll be doing selective events in early to mid-next year to bring people through the vehicles. We'll do some road shows. We've already started a few very selective and quiet ones, and we'll continue to do those.

Craig Irwin

Understand. Yeah. And I — I attended one. It was fun. So complete — completely understand the — the — the reprioritization of VDL Nedcar car, right, given you guys are moving faster and bringing along production and — and — and executing ahead of, sort of, the — the original game plan. You know, I noticed there was a \$26 million payment to Nedcar in the — in the quarter. Can you maybe discuss, you know, what you see the relationship possibly looking like? You know, I know, there's, you know, a number of weeks for you to still finalize this. But what's your vision for how Nedcar fits into the future of Canoo?

Tony Aquila

So Craig, you know, we — we took a bit of a punch in the face, obviously, in the beginning when we said, hey, we were going to have VDL Nedcar as phase one and industrialization in our manufacturing in phase two and three. And we did that because that was the right thing for us to do and to relay to the market while we were working out and mitigating risks and finding our state partners.

We've since been able to do that. And you know, including, the continuing pandemic issues, plus the — the demand for more LVD rising fast, we obviously were working on the track to get it closer to where our ground zero manufacturing is going to be. And so all those things, you know, we just got lucky they all came together. And we have a — I personally have a very good relationship with the (INAUDIBLE) family.

And — and if you remember way back when I said this, I said, you know, we're using it as a backfill till we get things figured out, you know, here in the U.S., but that it was really for geographic expansion into Europe. And so now that becomes more clear. We'll continue our discussions with them through the month to figure out what that looks like.

We're not worried about the 26 million. We have a very good relationship with them. We have very little leakage of that, we'll have some, if we choose to reprioritize the timing. But we didn't ship any of the equipment that we're shipping into the industrialization center. So everything kind of worked out. Actually, costs kind of come in better, right? And we are bigger fans of owning our own facilities than we are contract manufacturing because there are inherent risks with that, having it out of your control. And so I think we're just, you know, we just keep punching out these things and tightening it up and bringing it to center and executing on what we say we are and, to the extent we can, pulling it forward.

Craig Irwin

Excellent, excellent. And the last question for me, can you maybe update us on — on the CAPEX for your company owned manufacturing, what your expectations are over the next, you know, number of quarters? And, you know, it — it's incredibly impressive to port forward capacity in this environment where everybody's complaining that, you know, they can't get delivery of equipment because of this global supply chain issue. Maybe if — if you could talk a little bit about, you know, how you work with your partners to pull this off and, you know, what gives you the confidence that this — that this is — is materializing?

Tony Aquila

Well, I think, you know, there are still — every company is kind of going through some kind of impact with inflation and — and scarcity of materials. I think the fact that we had the foresight to bring down our numbers to reasonable numbers that we could raise allowed us to secure realistic supply lines. And we've, you know, obviously, I covered the point, you know, and I remember, right, you are one of the ones kind of upset with me in the beginning —

Craig Irwin

— I gave you a hard time. I did.

Tony Aquila

But as you can see now, you know, we've been in this space a long time. You know, in our former company, we didn't miss guidance, you know, consensus for 34 quarters. I mean, we intend to, you know, be very realistic and move up, not move down. And you know, there is, we've got to keep it still conservative, and we're going to continue to do that, but we continue to mitigate all those steps and feel really good about the supply line.

Panasonic doesn't just select anyone, as you probably know. And I think, you know, bringing our partners deeply along with what we're doing, why we're doing it, and what the size and impact is that we can bring not only, you know, as a TAM (PH), but into the community's into what the product purpose is. So I think, you know, we continue to gain supporters. But look, you know, we've got to keep — we've got to keep making first downs here and — and win the game

Craig Irwin

Excellent. Well, congrats. You've beat my numbers, I think, three quarters in a row now. So that's a — that's good place to be, and I'll hop back in the queue.

Tony Aquila

Thanks, man.

Operator

I'll take our next question from Jaime Perez with RF Lafferty. Please go ahead.

Jaime Perez

Good day, everybody. Thanks for taking my question. So you opened up in the U.S. facility in — on the fourth quarter of 2020, which is next year. How much of the leader long — equipment have you ordered? What's the schedule for tooling and pre-production? So if you could give us a little bit of color on the progression of getting to the manufacturing stage.

Tony Aquila

We — we obviously feel good enough that we'll be ahead of Q4 with our suppliers. We're — we're — we're currently mitigating a couple items right now, but we are — all of them will come in before the Q4 timeline. So we're in — we're in positive territory right now. We have most of the stuff being built and/or built, and we are continuing to monitor the situation, make sure nobody slips. And where we see anything, we have mitigation strategies in place.

And we're 100% sourced. Our engineering is locked. I mean, we've made a lot of progress. And you know, deep complements to Soheli and his team for what they pulled off. They've been working nonstop.

Jaime Perez

Yeah. No, the company has made great progress since last year, especially when you took over. Now, the — the Arkansas advanced (INAUDIBLE) facility, I mean, how different is that from the facility in — in Oklahoma?

Tony Aquila

Oh, it's very different. This is an advanced manufacturing facility that will allow us to produce vehicles for unique use cases as well as accelerate our testing into gamma. We're looking for ways to take down the traditional go to market way. And this will produce vehicles that we will sell as well. So it gives you a valve, plus that valve is for your advanced innovation which is connected — if you notice, we've we basically laid out for you guys an entire corridor strategy of how you get the labor shed and how you get the best arbitrage and how you get an amazing workforce and community involvement.

So you know that facility will be an area that Innovation for us and rapid prototyping. And so we can push through gamma faster on the other derivatives and get product market from there while we're tooling up in the factory and prior. Does that makes sense?

Jaime Perez

Yeah, that's — that does. Thank you for the response. That's all the question I have. Thanks a lot.

Tony Aquila

You bet.

Operator

Again, if you do have a question or comment, please press “*” “1” on your telephone keypad at this time. We'll take our next question from Amit Dayal with HC Wainwright. Please go ahead.

Amit Dayal

Thank you. Good afternoon, everyone. Tony, just to begin with, with respect to the Panasonic relationship, have you committed to any minimums on the battery orders from them?

Tony Aquila

Yes, we have.

Amit Dayal

Okay, can you share —

Tony Aquila

— We have — we have we have minimums in excess of what we have projected to the market, if that's your question.

Amit Dayal

Okay. Thank you. And then, you know, as you get closer to commercializing the offerings, I mean, have you sort of narrowed down the pricing range for the vehicles, or should we expect it to be similar to kind of what was guided for, or any — any change in that front?

Tony Aquila

Yeah, there's a little bit of creep going on. You know, we're mitigating it in some advantaged areas. We, you know, we've reduced our cost significantly by accelerating this site by about \$6 to \$8,000 a unit that we would have been carrying, if we were supplying into the U.S. from — from Europe. So that is a positive for us, obviously. But we, I would say, you know, we'll see some creep, like everybody else. But I think we'll be — my projection is we'll be below others.

Amit Dayal

Thank you. And then, the 100 million in orders from, you know, Arkansas and Oklahoma universities and the state, are these definitive agreements or just sort of MOU level agreements?

Tony Aquila

Yeah, these are discussions that we're having. And we'll finalize out — finalize those in the definitive agreements. But you know, you'll see the press releases from the states. I mean, these two — these are two amazing governors that are businessmen, they get it, they know how to help, they want to create, you know, high tech jobs, they — they want to, you know, create this as a new industry in the corridor, and so they've been extremely helpful. And you know, obviously, we're always conservative, but we — we'll be focused on having those in the definitive agreements.

Amit Dayal

That's all I have. Thank you.

Tony Aquila

You bet.

Operator

That concludes our question and answer session. I would now like to turn the call back over for closing remarks.

Kamal Hamid

Thank you — thank you all for joining us today. Feel free to reach out with any questions or if you want more information, and we look forward to updating you in about four months. Thanks, everybody.

Tony Aquila

Thank you, everyone.

Operator

This does conclude today's teleconference. We thank you again for your participation. You may disconnect your lines at this time and have a great day.