

Canoo
Q4FY22 Earnings Release Call
March 30, 2023

Presenters

Tony Aquila, Investor, Executive Chairman and CEO

Ken Manget, CFO

Kunal Bhalla, SVP Corporate Development & Capital Markets

Ramesh Murthy, CAO

Q&A Participants

Amit Dayal – H.C. Wainwright

Andrew – Roth MKM

Jamie Perez – R.F. Lafferty

Pavel Molchanov – Raymond James

Operator

Greetings and welcome to the Canoo Fourth Quarter and Full Year 2022 Earnings Release 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 this conference is being recorded.

I will now turn the conference over to your host Kunal Bhalla, Senior Vice President Corporate Development and Capital Markets. Thank you, you may begin.

Kunal Bhalla

Thank you, and welcome, everyone, to Canoo's Quarterly Earnings Conference Call. Today, I have with me Investor, Chairman and CEO, Tony Aquila; along with CFO, Ken Manget; and CAO, Ramesh Murthy. Tony will provide an update on the business. Ken will then run through our capital raise strategy, and Ramesh will share the financial results for the quarter. We will 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 a discussion of factors that could affect our future financial results in business, please refer to the disclosure in today's earnings release and on our most recent forms 10-Q and 10-K and other reports that we may file with the SEC, including form 8-K. 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. Now, please navigate to the webcast landing page and access the video links towards the bottom left of the page. We will pause briefly while you watch the video.

As many of you already know, our discipline is big news or no news. This means we're focused on meaningful milestones and impactful news. We're focused on long-term growth and value creation for all our stakeholders. Turning it over to Tony to talk about some big news, but not all news. Over to you, Tony.

Tony Aquila

Thank you, Kunal, and thank you, everyone, for joining us for our Q4 and full year 2022 results. Before getting into it, I'd like to thank all our associates for their hard work and dedication to our mission. We are pushing the envelope on technology innovation, and what an EV means to consumers and fleets. That requires a specific mindset, skill set and focus on milestones. As we continue our journey to create a high-tech advanced mobility company in an extremely volatile macro-economic climate, I'd like to recap some of our significant achievements during the last year.

If you look at the steps that we have taken since I became CEO, we immediately jumped in and started the verification and realignment of the strategy. I'd like to sincerely thank our believers, all stakeholders that hung in there with us while we have worked through the transition. And to those that were focused on headlines, they can now focus on the milestones achieved. As you can see in our earnings release, we have now reached a conclusion on the SEC investigation. The resolution includes an agreement to pay \$1.5 million dollars. Our agreement with the staff still needs to be approved by the commission itself, something we hope will happen in the next few weeks. This ends a significant chapter from the company's past management and paves the way for us to focus entirely on the work of our re-founding.

Our entire management team continues to work hard to address all legacy issues, and the sacrifice for shareholders is not lost upon us. The transition from legacy Canoo to today has been expensive for our associates and all stakeholders, as reflected in the price of our shares. legacy matters have been a big distraction, and as we continue to eliminate these Legacy matters, it only increases our ability and efficiency in achieving future milestones and we are increasingly excited about the direction of the company.

I'd like to remind everyone that as the largest shareholder and long-term focused investor, we invest continuously on many levels to help de-risk the business and increase its opportunities for success. Our just in time discipline has helped us become more efficient, especially during the realignment. However, it has added more complexity as we and others access the capital markets in the current market conditions. We see this as a portion of the long-term cycle, but just a portion of accessing the capital markets.

Our aim is consistent with the long-term investor's view. It's to look back at the strategy with the goal of having managed a better return on capital, dilution and total value creation. We led the charge by alerting investors about the risk factors that the EV industry faces, not only to talk about the opportunities and advantages, which are great. As we have shown, we have signed up world-class customers, and we will continue to focus on our three-stage customer engagement model and on growing a solid customer pipeline.

We have remained focused on event and milestone driven just in time capital raises as we work to put the legacy and the realignment of the business behind us. We will now enter the next phase and that phase will be more focused on milestones versus event based or just in time. This will lower the cost, make more efficient use of capital and allow us to focus on long-term sources.

We navigated the volatile economic environment in 2022 with a mixed view of our performance as we reflect back but let us walk you through the key milestones. US manufacturing and job creation. You know, we believe there, as you know, we led the charge to bring jobs and manufacturing to the US heartland, which we are very proud of, completed our phase one SOP in Michigan, announced vehicle manufacturing facility in Oklahoma City and kicked off phase two SOP OKC, including establishing an EV battery module manufacturing facility in Pryor, Oklahoma. Partnering with the state of Oklahoma and the Cherokee Nation to establish workforce training programs, committed to hiring up to 550 employees to support our manufacturing ramp as we scale production.

IP protection. We reduced our reliance on China by focusing on US and allied nation source components. We had previously stepped in to lead the share purchase from the Chinese investor to address the city's concerns in the settlement, mitigating potential IP leakage risk. We also focused on BoM optimization, the build and materials, reduced part counts to under 1,800 parts, one of the lowest even for EV vehicles. We reduced supply chain risk. This will come further into focus as we begin manufacturing and delivering vehicles. We believe there is still more room to optimize and achieve on a continuous basis.

Fleet sales. One sell--thousands of vehicles orders has been our strategy and our product has received multiple points of validation. Now we're very proud to have customers like Walmart, Zeeba, KingBee, recently Schindler Elevator and CBRE, to add to the names of our customer partners. Our product is being well received in the market and we are excited to help electrify the working fleets in America and beyond.

American innovation. We delivered the US Army Light Tactical Vehicle, the LTV. We achieved an order to deliver the LTV, and we did it in 101 days. This validates our highly modular platform architecture, and our ability to rapidly develop specific use cases. These actions have been supported by both current and past administrations. The IRA bill is validation of our strategy and provides a strong tailwind. For commercial vehicles placed into service in 2023, Canoo fleet customers will benefit from the maximum allowed credit of 7,500 per unit. Under new IRA

sourcing rules, most vehicles don't qualify for the consumer credit. This validates the realignment of our strategy to first focus on large fleet and government use cases.

As we stand here today and reflect, we struggled and underestimated the complexity of some of our milestones, especially taking into account the legacy impacts and the macro-economic backdrop. We struggled with the transition and timely resourcing of components as we shifted away from China exposure. Delays in bringing up onshore manufacturing, we over, under and mis hired in certain areas. Timing and cost of capital being desynchronized with the realignment of the strategy was also a constraining factor.

As we start to put the legacy matters behind us, we will be better focused on our future. Let us walk you through some of our strategy and recent milestones. Our capital raising strategy is maturing, especially as we remove legacy matters, like the SEC overhang, which improves our access to low-cost, long-term non-diluted capital. We have all been through a lot these last 16 months and some of us even longer. As we continue to mature, migrating from an R&D design and premarket delivery to a manufacturing and marketing launch organization, hitting these milestones will better help us manage the current market turbulence based on our growing track record of achieving important milestones.

The shift from R&D design and premarket delivery to manufacturing and market launch will come with some organizational changes and risks. On the good side, our cost per FTE is going down as a result of changes in our mix as we align with our continuing R&D becoming more focused on certain segments like customer innovation and fleet, government, military, Department of Defense and very specific geographic expansion markets. We are fortunate that our realignment allows us to be one of the first to access the benefits for our customers and ourselves in the newly implemented IRA bill.

Now, let me share some of the fourth quarter and recent highlights. We received 217 mile EPA certification for the LDV, which we will continue to focus on improving. This is already up to 50% higher than what is targeted by many of those in our customer base. Further, our advanced deliveries with Walmart proved excellent range and retention in triple digit heat and below freezing temperature conditions. We remain persistent in making our vehicles among the most durable and reliable.

We now have a \$2.8 billion order book. We had 5% growth over the last quarter and 323% growth since this time last year. Others have been flat or declining. We continue to see strong demand for our product and it's a tribute to the hard work of our design, manufacturing, engineering, and customer journey teams, so we're very proud. Initial phase of the international expansion, we announced that with GCC Olayan as our distribution partner in Saudi Arabia. We will share and make more clear how our geographic expansion strategy aligns with our North American strategy in the coming quarters.

Oklahoma City manufacturing readiness continues to progress, and we remain focused on exiting 2023 at a 20K run rate. General Assembly lines have arrived at OKC. Other equipment is being put in place. Highly automated, high speed battery line has arrived at the Pryor facility. We will update you on the progress in the coming weeks and quarters. IP monetization. The US Department of Defense has awarded us a battery systems and technology contract currently for advanced testing in multiple environments. This additional use of our technology speaks to the TEM technology equipment manufacturer versus an OEM, which is an original equipment manufacturer, and the versatility of multiple different layers of our technology that can be scalable and adaptable to important and emerging use cases and markets.

We continue strengthening the management team. We announced Ken Manget as CFO and added Tony Elias as our EVP of Operations. Ken and Tony, in their respective areas, bring a wealth of experience in capital raising, strategic finance and manufacturing. Ken will introduce himself shortly and provide an update with Ramesh on the results and financial guidance.

I'd now like to take this time to introduce Ken.

Ken Manget

I'm very pleased to be with you all today. I've spent most of my career in multiple areas of the capital markets. I was first on the sell side where I structured billions of equity and debt capital raises, including non-dilutive financing for major automotive OEMs. Subsequently, I was at Ontario Teacher's Pension Plan, where I first met Tony while managing a \$10 billion global equity strategy that invests in growth equity, pre-IPO in public companies. I'm excited to leverage my years with [of?] diverse perspective and experience with the team at Canoo.

The timing of me coming in is to focus on Canoo's transition from engineering in R&D to scale manufacturing. My mission is to be better focused on better aligning our capital needs and capital sources as we shift more towards a milestone basis. I've hit the ground running, and I'm actually working with the team on finalizing our 2023-2024 diversified capital plan. I recently led our first registered direct offering of \$52.5 million that was oversubscribed. As in this raise, we focused on allocating to improve the diversification of our shareholder base.

I will now be picking up the mission of moving us from a just in time capital rate strategy to what Tony described before, which is a more milestone driven strategy. My focus in this quarter will be to better align capital efforts with the coming online of manufacturing across the supply base. We will continue to carefully manage our cash and improve efficiency of capital allocation until we implement our more Aligned Capital Strategy.

Ramesh will now walk through the results.

Ramesh Murthy

Turning to cash flow. We ended the year with \$36.6 million of cash and cash equivalents. Cash used in operations for the quarter and year ended December 31st, 2022, was \$70.6 million and

\$400.5 million respectively, compared to \$120.2 million and \$300.8 million respectively, for the same period in 2021. Cash used in operations for Q4 '22 period was 23% lower than the previous quarter.

Capital expenditures were \$8.5 million and \$97.3 million respectively, for the quarter and year ended December 31st, 2022, respectively, compared to \$62.6 million and \$136.6 million respectively for the three and twelve months ended December 31st, 2021. Net cash provided by financing activities for the three and twelve months ended December 31st, 2022, was \$109.2 million and \$90.4 million respectively, compared to net cash used financing activities for the three and twelve months ended December 31st, 2021, was \$6.0 million and \$11.4 million respectively.

Moving to the income statement. Our fourth quarter 2022 results are as follows, research and development expenses of \$44.2 million for the quarter compared to \$88.2 million in the prior year period. We had a bell curve in our R&D spend as we move from pre-production to manufacturing. Our R&D spend in Q4 '22 was 25% lower than Q3 '22. And our R&D spent in second half of '22 was 53% lower in R&D spend compared to the first half of 2022. SG&A expense was \$36.4 million for the quarter, compared to \$50.7 million in the prior year period. Our SG&A spent was 32% lower than Q3 '22 and 28% lower than Q4 of 2021.

GAAP net loss was \$80.2 million for the quarter compared to a GAAP net loss of \$138.1 million in the prior period. This is attributed in part to the completion of our Gamma program. Adjusted EBITDA was negative \$60.7 million for the quarter compared to negative \$120.3 million in the prior year period. Our fiscal year 2022 results are as follows, research and development expenses of \$299.2 million for the year, compared to \$246.2 million in the prior year. SG&A expense was \$196 million for the year, compared to \$194 million in the prior year. GAAP net loss was \$487.7 million in the year, compared to a GAAP net loss of \$346.8 million in the prior year.

Adjusted EBITDA was negative \$408.6 million for the year, compared to negative \$332.6 million in the prior year. We had previously forecasted a 40% reduction in operating expenses for the second half of the year. However, we achieved a 45% reduction in operating expenses, excluding stock compensation and depreciation. Turning to our forward-looking guidance. We continue to be tactical and prudent with our spend to align with milestones. Our guidance for Q1 2023 is as follows, OpEx, \$55 million to \$70 million and capital expenditures, \$30 million to \$45 million.

Turning it back to Kunal.

Kunal Bhalla

Thanks, Tony, Ken and Ramesh. We're excited about 2023 as we scale our production and begin deliveries of our product to all our customers. Operator, please open the line for questions.

Operator

Thank you. And ladies and gentlemen, 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 star 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. One moment please while we pull for questions.

Our first question comes from Amit Dayal with H.C. Wainwright. Please state your question.

Amit Dayal

Hey. Good afternoon, everyone. Thank you for taking my questions. Just to begin with, Tony, could you give us or remind us, I guess, what the production and delivery targets for 2023 are?

Operator

The speaker line, you may be muted. We can't hear you.

Tony Aquila

Yeah. Sorry about that. We were muted. I apologize. Yes, with respect to that, we have focused on a 20,000~~K~~ run rate exit, and we'll be fine tuning that with our customers as to what the deliveries will be in the quarters. But right now, we're just to be cautious with everybody. We know with a lot more certainty than we do on a weekly basis, as we ramp things up or a quarterly basis, we know with with with strong confidence that we can exit the year at a 20K run rate based on the delivery schedules and the installation schedules of all the equipment.

Amit Dayal

Understood. Thank you, Tony. And then in terms of sort of the activity that is happening at the facilities right now, would you say you are at 70%, 80% preparedness, or maybe even sort of at a higher number, relative to being able to start some initial production activity?

Tony Aquila

So yeah. We did some initial SOP phase one, which tested the robotics and a whole bunch of activities in Michigan. We then now have torn down the majority of all that, those items, and we've relocated them to Oklahoma City. So they're already programmed and tested. There's some new pieces that have arrived, that have been tested, for example, the battery line at the manufacturer. We now have to put that up and test it, but I would say, from items on the ground, we're probably somewhere in the 65%-ish range of items on the ground, probably at north of 85% with what's inbound. And we have a few areas where we are working on manual workflows, or semi manual workflow flows, where we have some vendors which are taking a little bit longer and need longer lead time. But we found workflow around that which gave us the confidence to put the stake in the ground, about a 20,000 unit run rate.

Amit Dayal

Thank you. And then just adjacent to that, in terms of production folks, and people on the floor, just the folks who will be putting all this--in terms of hiring them, are you already starting that activity, and do you feel confident about finding the right people for these things? I mean, there's a lot of headline about jobs, etc. right now, but just wondering how you are positioned in terms of your hiring needs?

Tony Aquila

Yeah. Look, I'd say, where we sit today, based on the fact that we've studied the labor shed now for multiple years on Oklahoma and we've kind of zigzagged a little bit by diversifying our risk from being concentrated only in Pryor, Oklahoma, to now splitting it to Oklahoma City and Pryor, our confidence comes up. We've partnered with the Cherokee Nation and the state of Oklahoma to focus on better ways to train and give people opportunities. We feel good about the labor shed.

I think what we still got to work through is just that first ramp of associates. Now, the new facility we have, it already has a completed training center. We need to equip it, but we'll be using AI tools. And with respect to your question on hiring, I think most of the early manufacturers, I think we upgraded our manufacturing team a bit earlier in the process because you come to different phases of needs. The people have performed great tasks, but now we're bringing in teams that have experience at scale. And we're doing it as we step into the 20,000, 40,000, 60,000 run rate and above, trying to get ahead, trying to learn from what some of our peers experienced with, if you will, bringing it up to scale.

Amit Dayal

Understood. Thank you. Just one last one for me, maybe for Ken, in terms of the non-dilutive financing options, what options do you have in front of you? Any color that would be helpful. Thank you.

Ken Manget

Yeah. We expect to be discussing that in the coming quarter or two. We're exploring a number of diversify funding sources, which leverage some of the background I was describing earlier.

Tony Aquila

I can add to that as well. For example, we couldn't--prior to getting some of the Legacy matters addressed, especially with respect to the SEC, we couldn't actually file for things like in the Department of Energy loan program, and things of that nature. Now, our opportunities are exponential for us to access capital, as we start to establish this management team's track record.

Amit Dayal

Understood. That's all I have, guys. Thank you so much.

Ken Manget

No worries.

Operator

Our next question comes from Craig Irwin with Roth MKM. Please state your question.

Andrew

Hey, it's Andrew on for Craig, here. Thanks for taking my question. And just a quick one for me. Great news to see the over 300% growth in orders this year. I was wondering if you could just kind of give a little bit more detail maybe where you're seeing strength and demand, what segments, mix, order size? Just anything additional that you could share would be great. Thank you.

Tony Aquila

Yeah. Sure. So look, our orders have been around the Grade A, BBB credit type customers, because we know that's going to reduce our cost of capital. But in addition to that, we focused on customers that have unique workflows, and for us to meet those workflows so we can get multiyear long term orders. And these are generally higher margin because the customer gets a very good return on capital, and they're higher margin for us as well.

So the mix has been primarily focused around the LDV, with limited units of the LV, and primarily large, medium sized fleets. We are working to figure out the allocation we can do have the orders in the order book to the small and more individual users. So we get a distribution to some of them, but we'll be doing it on a very concentrated rollout, so we don't also have the same problems that some of the other companies had with mass rollout of their vehicles, because you do have to anticipate some service maintenance, repair support items.

We come out of this area from our past as well. We've built a great team that has worked with us before that is leading that initiative. So I think very concentrated large orders, get our book up to where the credit rating is really good as we look at some of those non-diluted financing items that we'll be announcing in the coming quarters.

Andrew

Okay. Thank you very much.

Tony Aquila

You bet.

Operator

And our next question comes from Jamie Perez with R.F. Lafferty. Please state your question.

Jamie Perez

Thank you for taking my question. Good day, everybody. Tony, you have any update on the Walmart order as far as how that's going along?

Tony Aquila

It's going along fine. In fact, they're here today working with us. We've got a pretty robust delivery schedule. Actually, we're trying to taper it back just a little bit so we can distribute some other customers as well. They've been an amazing partner for us to work with. And we'll be delivering vehicles to them as per the schedule that they will announce shortly as well as part of their bigger fleet strategy. So everything is moving at or above what our original expectations were, and that's probably all it's appropriate for me to say right now.

Jamie Perez

All right. Fair enough. Yeah. I think that's all the question I have for tonight. Thanks a lot.

Tony Aquila

No worries, no worries.

Operator

Thank you. And a reminder to ask a question, press star one on your telephone phone keypad. Our next question comes from Pavel Molchanov with Raymond James. Please state your question.

Pavel Molchanov

Thanks for taking the question. Now that we're 100 days into the inflation reduction at commercial EV incentive, the first tax credit, is it too early to say how much effect is it having on demand? Is it stimulating the market the way it was supposed to?

Tony Aquila

I think, actually, it's, for the big companies, it's more of a business target and a target for business performance. So it really--it's just been extra additive. But for the medium sized businesses, it's a tipping point decision. It's actually helped, and we didn't really even cover what's in the pipeline, but there's a tremendous amount of companies that have emerged, because now, it's really affordable for them to enter into this as they navigate some of the charging issues and other things. So the inflation Reduction Act is a super additive to helping the customers that have more difficulty in the transition, if that makes sense.

Pavel Molchanov

Right. Yeah, it absolutely. I mean, I guess maybe the counterbalancing variable is that oil prices and gas, gasoline and diesel have fallen to the lowest levels in about a year and a half. Is that a headwind at all to the adoption curve, as you talk to perspective customers?

Tony Aquila

Yeah. I think it would be for those companies that are focused on selling one or two at a time, because it's immediate return on capital versus kind of, if you will, your greenhouse gas emission targets, and so on. I think for the bigger companies, that's a marginal issue. And the

life--because they look at the long life of the vehicle, that total cost of ownership and return on capital. These are just better platforms, as we proved with thousands of miles of testing and deliveries. I mean, these are--so we know the outcome of the math. Right now, it's still very positive for us, looking at on a return on capital from a long-term basis. So those customers are still steaming ahead. But to your point, I would imagine for the small, small business, which we have not focused on on the individual user bases at this time, I would imagine that they are slowing down.

Pavel Molchanov

When you think about a payback period for, let's say the LDV, right now, what are we looking at like, four or five years, something like that?

Tony Aquila

It depends on how they use it with the fact that our range is now 50% greater than what most of our customers, not all, but most of our customers are requiring. They actually can get a lot more return on capital, which accelerates the amount of deliveries they can do on a daily basis as we see these bigger customers emerging. And so the payback period can be depending on them as soon as three and a half years.

Pavel Molchanov

Okay. Thank you very much.

Tony Aquila

You bet.

Operator

Thank you. And that concludes today's question and answer session, as well as today's conference call. All parties may disconnect. Have a great day.