

Canoo
Q2 22 Earnings Call
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Presenters

Nick Cunningham, SVP, Investor Relations & Capital Markets
Tony Aquila, Investor, Executive Chairman and CEO
Ramesh Murthy, Interim CFO, SVP Finance & Chief Accounting Officer
Kunal Bhalla, SVP, Corporate Development

Q&A Participants

Sameer Joshi – H.C. Wainwright
Jamie Perez – R.F. Lafferty

Operator

Greetings, and welcome to Canoo's second 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 this conference please press star zero on your telephone keypad. Please note that this conference is being recorded.

I will now turn the conference over to our host, Nick Cunningham, Senior Vice President of Investor Relations and Capital Markets. Thank you. You may begin.

Nick Cunningham

Great. 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. One of the things that makes Canoo so unique in this stage of our development is how close we are as a team. Getting to see the progress we make on a daily basis is really exciting for me, and I'm looking forward to seeing everyone's reaction as we get closer to SOP. Today I have with me Investor Chairman and CEO Tony Aquila, Interim CFO and Chief Accounting Officer Ramesh Murthy, and SVP of Corporate Development, Kunal Bhalla.

Tony will provide an update on our business. Ramesh and Kunal will then run through our financial results for the quarter, and they will turn it back to Tony for 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 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 link toward the bottom left of the page. We will pause briefly while you watch the video.

Great. So today we are going to be covering some key themes during the call. We're going to do an update on orders and our sales pipeline, financing strategy, our recent investor roadshow, our gamma phase completion and testing update, our recent partnership announcement with Walmart, a manufacturing update, and then the announcement around our contract with the U.S. Army, while Ramesh and Kunal will cover our financial results.

Based on the video I think you can see why our customers and all of us here at Canoo are so excited about our technology. For those of you that joined us in Boston and New York, I'm sure you can appreciate the sentiment. And now I will hand it over to Tony.

Tony Aquila

Thanks, Nick. And welcome, everyone, to the call. Thank you all for joining. We wanted to share that video so you could see for yourself our vehicle's unique attributes and how well it performed in those extreme tests. In the quarter we achieved some important milestones while navigating a tightening environment. We announced significant commercial partnerships including our agreement with Walmart, a key catalyst and market validation of our technology platform's competitiveness as we pull forward our LDV program. Our gamma vehicles are already in the hands of our partners and customers both current and future.

Over the past five quarters we have worked the guide the market to understand our different approach and that we are a technology first customer-centric advanced mobility company. And we understand true total cost of ownership, because we come from the service maintenance repair technology side of the industry. We have always had a focus on minimalism with maximum functionality with a commitment to be America-first and key allied nation sourced and built.

We are proud to have been the one leading the charge to bring it back to America. We are also very pleased to see the Inflation Reduction Act move forward and is another event that validates our strategy and approach. Last quarter we shared we are able to build vehicles on our platform using only 1,800 parts in our BOM using our technology first approach, and we believe we will achieve an industry leading standard of just 1,600 parts by the time we go to full scale SOP, which has a meaningful long-term impact on TCO.

This approach has aided us in dealing with the inflationary and supply chain environments, which not only affect the first owner but every owner thereafter, allowing us to demonstrate that the future is about becoming a TEM, not just an OEM. During the quarter we saw many legacy OEMs struggling with quantity and quality issues in their BOM cost and their reliance on Chinese-made parts and technologies.

As you have seen in the videos and saw over the last few quarters, the majority of our focus to date has been on technology and real product validation. Our decision to prioritize domestic manufacturing at the end of last year was the right move and positioned us to win higher margin business with commercial fleet operators.

Over the course of the quarter our operations and manufacturing processes started to mature as we continued to work through the typical SOP challenges by using a slow-build process and leveraging advanced technology which helps us improve the efficiency of automation and enhance quality. We have invested the time and resources to build a strong product foundation which will reduce or prevent issues in manufacturing. But you must learn to crawl and then walk before you run.

With the acceleration of the LDV we have partnered with a third party for limited production while our facilities come online. Our sales pipeline is now over \$1 billion, and approximately 60% of that has been organically developed across our product portfolio. 5,500 stage three orders from grade A credit partners across state, federal, and private enterprises. One of our large customer orders consists of a higher margin less complex version of our platform, the lifestyle delivery vehicle, or the LDV.

These vehicles will be uniquely upfitted by us for use in last mile delivery applications. In one move we have secured orders for up to 10,000 vehicles and more. Our stage two orders now stand at over 27,000, a 56% increase from the prior quarter.

We are continuously focused on lowering our cost of capital in the long term, and that requires balancing the business with just in time capital and maintaining financial flexibility. We made two moves which reduce cost of capital and increased both capacity and access to capital. We filed a \$300 million pre-paid advanced facility and established a \$200 million ATM facility. I will let Ramesh and Kunal talk to you in more detail about our capital raising philosophy and explain these financing facilities in greater detail. And we can also discuss it in the Q and A.

Now let's discuss our progress on our gamma program. Our vehicles have performed extremely well across a multitude of tests, and our unique design results in a highly stable and safe structure. We have completed another important milestone which is the hand off for certification to meet federal motor vehicle safety standard requirements. Our gamma build accelerated last quarter, with 36 properties built during the quarter, an increase of 177% over the previous quarter from improving our build process.

We have built a total of 89 gamma properties since the beginning of the program, more than doubling the number of vehicles since we last reported. We completed 90% of our first phase crash tests and have proven the structure of our car, our vehicle crash platform performance. Assuming our progress remains on track, we will meet all regulatory requirements and certifications. We completed over 265 tests related to crash and safety in gamma. Our gamma fleet has completed over 153,000 miles across real and simulated driving scenarios.

It was great to see many of you during our very first in person investor road show in Boston and New York City. You experienced our gamma vehicles, and some of you even aggressively drove them in various real world environments. We welcome others to come visit us and experience our platform. Driving our vehicle will give you more insight on what our technology platform can unlock, and is much better than I could ever put into words. Stay tuned for our plans to be on the road again soon.

Within weeks of signing, we already are performing our advanced delivery tuning for four LDVs with fully upfitted rack systems that are currently making deliveries for Walmart in the Dallas metroplex area.

It was an interesting weather season with 95 to 110 degree weather. We have made 307 real world deliveries and driven over 1,150 miles. The drivers' feedback has been positive across overall comfort, safety, ease of driving, load and unload speed, and driver ergonomics. Driver productivity means our platform is potentially able to unlock additional employee satisfaction and deliveries per day for Walmart while reducing total cost of ownership.

The first agreement represents \$300 million of potential revenue for us, with an additional path of deeper partnership opportunities to generate revenue for us with our new partner. Use of our gamma vehicles for this program is a milestone that our platform is in its final market facing ready phase, and positions us to focus on delivering vehicles in early 2023 to Walmart.

With the acceleration of the LDV, we have partnered with a third party for limited production while our facilities come online. We are in current negotiations for additional facilities near our locations in Bentonville and Pryor for additional capacity to help with our increasing demand. Our SOP remains in Q4 2022 but we have modified our initial deliveries into the first quarter of next year, starting with LDVs to fulfill the Walmart and other anticipated orders to be announced.

We will proceed cautiously as our team continues to work hard on securing on time delivery of our bill of material components and semi-conductor chips for SOP. The lifestyle vehicle, or LV, will be available in 2023 after we have ramped up initial low volume production. We are very focused on a 20,000 vehicle run rate by the end of 2023 while our facilities are coming online with the production likely weighted towards the end of the year. We are now focused to be able to double that production by 2024 to keep pace with the growing demand.

Based on the competitive process the Army recently selected Canoo's electric vehicle for analysis and demonstration. We are very proud to be one of the few that the Army selected to participate in their program as they focus to electrify their fleet. So it is an honor to be selected for this program. The Army is evaluating and harnessing the latest technologies to strengthen the operational effectiveness and speed of our military while being sensitive to the environment.

This engagement with the U.S. Army follows our partnership with NASA to provide the first electric crew transportation vehicle for the Artemis Lunar Exploration Launch in 2023. Further suggesting that our design and validation from the U.S. government is intact for future programs. We were honored to visit Kennedy Space Center on May 11th to demonstrate our innovative electric vehicles and to engage key NASA leaders on how best to adapt them for the needs of the Artemis astronauts. The team remains focused on delivering multiple lifestyle vehicles to NASA for the Artemis crew transportation by June of 2023.

Overall, it was an exciting quarter. But there is much more to come, so I look forward to keeping you updated. I will now hand it over to Ramesh. Ramesh?

Ramesh Murthy

Thanks Tony. Today, I'll focus on four key areas: cash, access to capital, Q2 results, revenue and forward looking guidance. As Tony has mentioned before, and I believe, it's becoming more clear to everyone that our philosophy on cash and access to capital is in line with what a technology driven company would do. We are a milestone and event focused in how we access capital on our road to profitability.

By focusing on milestones and key events, we can drive sustainable value to the company and all our stakeholders. We will continue to do our best and do things before others in the market. If you look at our early focus on sourcing U.S. and allied nation parts, which Tony announced last year, now more than a year later others in the industry are attempting to follow suit.

We ended the quarter with access to approximately \$250 million including approximately \$220 million of unused capacity on our SEPA facility, and cash and cash equivalents of \$33.8 million. Thanks to the pipe from AFV we were able to access another \$50 million in Q2. Since Q2, we were able to execute the PPA and the SEPA facilities which Kunal will walk you through. Last quarter we were very disciplined, and only used the SEPA facility for \$33 million during the worst half performance for the S&P 500 since 1970.

Both of the new facilities provide further access to capital. We now have over \$275 million in fixed assets as of June 30th, which can be leveraged for additional non-dilutive financing. What's important to note, we have now reached a milestone with 80% of our supplier tooling will have the capacity to produce over 50,000 units on an annual basis.

As we mentioned in previous calls, we have also secured more than \$400 million in non-dilutive incentives from the states of Oklahoma and Arkansas.

Turning to cash flow, cash used in operations for six months ended June 30th, 2022, was \$236 million, compared to \$108.8 million for the six months ended June 30th, 2021. Capital expenditures were \$65.4 million for the six months ended June 30th, 2022, compared to \$28.7 million for the six months ended June 30th, 2021.

Passing it over to Kunal to discuss our new financing facilities. Kunal?

Kunal Bhalla

Thanks, Ramesh. As Tony mentioned, we made two important moves this quarter. We established a \$300 million prepaid advance facility, and are announcing a \$200 million ATM facility today. Our PPA agreement advances our relationship with one of our financing partners. Some of the benefits include better visibility to capital, greater control, reduced market risk while retaining the flexibility to align timing with the needs of the business, and overall, potentially less dilution with the embedded convertible feature. And we've drawn down the first \$50 million tranche.

Next, we have put in place a \$200 million ATM program that will replace the SEPA facility. This new program allows us to access our market liquidity with greater control and provides over 150 basis points, or 30% reduction in our current projected cost of capital, which is important to be disciplined about until we're free cash flow positive. With these facilities available to us, we have addressed the majority of our capital needs for the remainder of 2022, as we execute our milestones towards SOP.

In addition to these facilities, we intend to file a new \$300 million universal shelf to allow access to the remaining \$200 million under the PPA and for continued access to the capital markets going forward. And we plan to access \$150 million to \$200 million in incremental capital this year. Back to you Ramesh.

Ramesh Murthy

Thanks, Kunal. Moving on to the Q2 results. Our second quarter 2022 results are as follows, research and development expenses of \$115.5 million for the quarter, compared to \$57.6 million in the prior year period. Excluding \$8.2 million of stock-based compensation, research and development expense was \$107.3 million. SG&A expense was \$55.2 million for the quarter, compared to \$44.6 million in the prior year period. Excluding \$12.6 million of stock based compensation, SG&A expense was \$42.6 million.

GAAP net loss was \$164.4 million for the quarter compared to a GAAP net loss of \$112.6 million in the prior year period. GAAP net loss in the second quarter of 2022 included a \$9.5 million non-cash gain on the fair value change of earn out shares liability, related to the periodic free

measurement of the fair value of our contingent earn out shares liability. Adjusted EBITDA was negative \$149.8 million for the year, compared to negative \$76.7 million in the prior year.

Moving on to revenue. I'll take a minute to discuss the milestone we reached in achieving an order from a Grade A credit customer and partnership with Walmart. This is our first key commercial fleet agreement that further allows us to focus on the larger volume, higher margin revenue opportunities, which includes revenues from upfitting and other non-vehicle revenues. Starting with 4,500 vehicles, with an option to increase to 10,000 vehicles, this order adds another opportunity for us to go after additional non-dilutive and lower cost of capital financing opportunities.

Turning to our forward looking guidance. With the focus of SOP in Q4 of '22, we anticipate the following expenditures for the remainder of the year, approximately \$200 million to \$245 million of operating expenses, excluding stock based compensation and depreciation and approximately \$100 million to \$125 million for capital expenditures. For context, our anticipated spent in operating expenses for second half of the year is 20% less than the first half. This is because we are completing our gamma phase investments and moving closer to commercial production.

Our capex investment for second half is primarily related to facility readiness, machinery and equipment, and production tooling. These investments will get our LDV in the hands of paying customers and support another milestone of 20,000 run rate in 2023. We expect spending in 2023 to continue on at least our current pace in order to achieve our 2023 Production guidance, and in order to achieve other long term business aspirations, additional capital will be required. We will update the market on our outlook and guidance for the next year in the coming months.

Let me close by saying, we are preparing for SOP readiness. We have customers. We have access to capital. We have a strategy that benefits our company and shareholders against the backdrop of this global economic condition. We are making it happen. Before we open the call up for Q&A, I'll turn it over to Tony for closing remarks. Tony?

Tony Aquila

Thanks, Ramesh. I would like to say thank you to all our growing Canoo believers and supporters out there. Also, I want to thank deeply, the Canoo employees for their dedication to our mission. A big shout out to them, and to the states of Oklahoma, Arkansas, and the Cherokee Nation for welcoming us and allowing us to create something in their region. Our team will keep working hard toward achieving milestones, and we will talk about them more in the future.

Let's now open the line for questions. Operator?

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 the 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 while we pull for questions.

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

Sameer Joshi

Yeah. Thanks for taking my questions. I just have a couple. Will you let us know if there have been any issues that were discovered during the crash tests and the safety tests? And if so, how they were addressed?

Tony Aquila

Yeah, that's--so we performed better than expectations, with the exception of a few areas that we're making some modifications with, and in some cases have already made those modifications, but we know that they're all doable to focus on our five-star crash rating. So nothing material happened that would cause us a setback. I think that's probably the majority of your question.

Sameer Joshi

Yeah. That was the reason, to see if there could be any delays. And in terms of just manufacturing and ability to deliver, do you see any pitfalls? Any issues going forward?

Tony Aquila

Look, I see plenty of pitfalls. Yeah. I think we've done a good job navigating them. We have very--by standard of vehicles, for those of you that know, with 1,800, moving down to 1,600 components to assemble a vehicle on our platform is demonstrably low. That reduces our risk. It does increase our reliance on some sophisticated parts, which we're mitigating on a constant, daily basis. Similar to what I said last quarter, in any given day, we kind of run a concern of 25 to 50 components, as we continue to securitize those components for our phase one and phase two production.

Sameer Joshi

Got it. And just one last one for me. Do you have any visibility on any additional funds that could be received from Oklahoma State or any other government entity?

Tony Aquila

Well, there is the opportunity for us to receive an additional, I think it's up to \$85 million, but we are not prepared to speak to that at this time. But we do have the access to additional capital, as well as we're in discussions to get greater advances on those capitals, since we are pulling forward some of our programs. So we'll discuss that more in the coming quarters in our cash flow.

Sameer Joshi

Thanks. Thanks for taking my questions. That was useful. Thanks.

Tony Aquila

You bet. Thank you.

Operator

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

Jamie Perez

Thanks for taking my call. Good day, everybody. The Inflation Reduction Act just passed this morning. It's probably a little bit too early, but can you give us some idea of what it means or quantify what it means to Canoo directly?

Tony Aquila

Well, for us, it's actually a pretty important thing. As you know, Jamie, we kind of made the bet last year, that vehicles for everyone were going to be a key, especially the working people, and this has incentives for businesses. I think it's a great step forward in a continuing effort by this administration to make these vehicles more affordable and more accessible. And I think our product lineup kind of fits really well to that.

In addition to that, I think it also signals to federal and state agencies to accelerate their efforts in electrifying. So I think it's a good tailwind. It was a big barrier that I think we needed both red and blue to align on. And we have that first alignment. So for us, it opens up a lot more TAM opportunities. And of course, our product mix is really fitting for the markets I described. So we'll see, as you can see, the demand is spiking for us pretty fast, which is what we're getting very focused on our ability to produce vehicles.

Jamie Perez

All right. And my second question, I mean, we've been seeing a lot of cost inflation. I mean, what's the impact to the cost? Are you making any cost inflection in your projection? And are you going to change any pricing? Is that going to have an impact?

Tony Aquila

So right now, we have not. That's a great question. So we definitely feel like we can raise price. I think right now, we're able to hold it because as I told you, by the time we go to SOP, we'll believe that we'll be at 1,600 components, which is--we've been parlaying that technology approach arbitrage into maintaining our costs. While the elasticity is tightening, we've been able to hold the line. But my anticipation is just based on demand and market pricing dynamics we have. We are in a very good position to increase. But we really are focused on making sure that these vehicles are affordable, and it's profitable for us and them to own them.

Jamie Perez

Awesome. And my final question, can you give us a little detail on the Walmart? I mean, I know it's a 5,000 unit order with another option for another 5,000 for 10,000. I mean, how big would Walmart is going to do this? I mean, because Walmart is pretty big. I mean, are they going to deploy this all over the states? I mean, how big could this program--and could this be one of many tranches of orders?

Tony Aquila

Yeah. Look, I mean, there's tremendous upside for us on this, and additional clients we're focused on and markets, including governments and municipalities. The potential for Walmart is endless. They're very methodical. They're actually great partners. We've learned a lot from them. They have an incredible logistic skill, which were parlaying some of that knowledge into just watching them and how we purchase. It's great to have a partner who can teach you on many fronts and have many TAMs that we can access together.

We're focused on five states region because we're, like Walmart, have a very high standard of satisfaction. And then we'll just kind of roll it out from there. And we'll announce those states in greater detail and in the coming weeks or month.

Jamie Perez

Now, the deal includes the fleet management and sort of, since Walmart is the largest and most current large fleet order, is it pretty much something you guys going to hone-in, tune into the fleet management software side? Because I know you're very focused on the software end of the business.

Tony Aquila

Yeah. So we've built and deployed some software to another customer that in engulfed 8,000 mixed fleet vehicles. So the technology was deployed ahead of any of our vehicle platform. So the technology platform is highly agile and is focused on, you know, a big part of the way we do business with customers. Customers want a light touch high engagement model, and they want technology first, not last.

And I think when you get a chance, Jamie, and you can come drive the vehicle, and you can really put it to the test, and maybe some of the people on the call here that'll ask questions, will talk about how it's pretty impressive what this vehicle can do, and the depth of the platform. But yes, we are focused on that. We're also very focused and sensitive to integration with our client systems. And so architect being a very capable iOS system to operate the vehicle, was very critical. And when we share that with the market, I think the market will love its simplicity, and its capacity for the household vehicles.

Jamie Perez

All right. Awesome. Okay. That's all the questions I had. Thanks for taking my questions.

Tony Aquila

Thanks, Jamie.

Operator

Thank you. And that concludes our Q&A session. I'll now hand the floor to management for closing remarks.

Tony Aquila

I'd just like to thank everyone for participating in today's call. And I look forward to following up with everyone as does the team, in the quarter, and we look forward to more things to speak about, either mid quarter or by the end of the next quarter. Thank you.

Operator

Thank you. This concludes today's conference. All parties may disconnect. Have a great day.