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Q3 2022 Nano Labs Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 17, 2022 / 1:30PM GMT

## CORPORATE PARTICIPANTS

**Jianping Kong** *Nano Labs Ltd - Chairman and Chief Executive Officer*  
**Bing Chen** *Nano Labs Ltd - Chief Financial Officer*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Nano Labs the third quarter of 2022 earnings conference call. During today's call, all participants will be in listen-only mode. This conference is being recorded today Thursday, November 17, 2022. Joining us today from Nano Labs are the Company's Chairman and Chief Executive Officer, Mr. Jianping Kong, and the Company's Chief Financial Officer, Mr. Bing Chen.

On our call today, Mr. Kong will give you an overview of the Company's performance. Mr. Chen will share the details of the Company's financial results. After that, we will conduct a question and answer session to take your questions.

Before we continue, I would like to remind you that some information discussion on this call will contain certain forward-looking statements with the meaning of Section 21E of the Securities Exchange Act of 1934 as amended and as defined in the U.S. Privately Securities Litigation Reform Act of 1995.

Such statements are based upon management's current expectations and current market and operating conditions and relate to events that involve known or unknown risk, uncertainties, and other factors. All of which are difficult to predict and many of which are beyond the Company's control which may cause the Company's actual results performance or achievements to differ materially from those and the forward-looking statements.

Further information regarding these and other risk uncertainties or factors is included in the Company's filing with the Securities and Exchange Commission. During today's call, Mr. Kong and Mr. Chen will deliver their remarks in Chinese and the Company's representative will provide corresponding English translations. With that, I now turn the call over to Mr. Kong, the Company's Chairman and Chief Executive Officer. Mr. Kong, please go ahead.

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**Jianping Kong** *Nano Labs Ltd - Chairman and Chief Executive Officer*

Okay. Thank you.

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**Jianping Kong** *Nano Labs Ltd - Chairman and Chief Executive Officer*

(Through Translator) Thank you, operator and everyone for joining Nano Labs third quarter of 2022 earnings conference call today. Since this is our first earnings conference following our IPO on July 12, 2022, please allow me to provide a brief overview of the Company.

We are a leading fabless integrated circuit design company and product solution provider in China. We are committed to the development of high throughput computing chips, high performance computing chips, distributed computing and storage solutions, smart network interface cards, vision computing chips, and distributed rendering framework.

We have built a comprehensive flow processing unit architecture which offers solutions that integrate the features of both high throughput computing and high performance computing. We have successfully designed our 14-nanometer, 22-nanometer, and n+1 ASIC chip, and our 38-nanometer memory chip. In addition, our Metaverse rendering platform, iPolloverse, achieved a new breakthrough recently. We are committed to become the underlying infrastructure service provider of the Metaverse.

In the third quarter of 2022, despite the Ethereum network completed the Merge, transiting from Proof-of-Work to Proof-of-State in September impacted our business and financial performance. We still achieved a significant growth in both product delivery and net revenue.

We believe Metaverse will present new growth opportunities for us. So we always focus on improving our competitiveness through

continuous development of our Metaverse rendering platform, iPolloverse to ensure we have competitive advantage over our peers in the evolving market.

As a result, in September, iPolloverse has achieved a major technical breakthrough in the live rendering technology to accommodate 10,000 concurrent users on the same screen, completed the creation of consensus mechanism and connected with AI-generated content. We expect it will be launched next year.

iPolloverse's latest rendering solution reduces the threshold to each users to participate and is committed to realizing the open social and immersive experience in the 3D Metaverse, allowing tens of thousands of users interact in the real-time and at a low cost in the same scene.

Looking forward, we will continue our R&D and the production of new products and conduct research in ZK computing and the rendering computing chips. Also, we expand our global business in North America, North Europe, the Middle East and Southeast Asia.

Thank you for your continued support to the Company. Next, I will turn the call over to our Chief Financial Officer, Mr. Chen, for a closer review of our financial result. Mr. Chen, please go ahead.

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**Bing Chen Nano Labs Ltd - Chief Financial Officer**

(Through Translator) Thank you, Mr. Kong. Good morning, everyone. On behalf of the management team, I will provide a brief financial overview of third quarter of 2022.

We are pleased to deliver a strong financial performance during the third quarter of 2022. Net revenues increased significantly to RMB590.3 million, US\$83.1 million, for the three months ended at September 30, 2022, from RMB13.5 million for the same period of 2021. The increase in net revenues was primarily due to the increase in sales volume of iPollo V1 Series and B1 Series products.

Cost of revenues increased significantly to RMB459.9 million, US\$64.8 million, for the three months ended September 30, 2022, from RMB5 million for the same period of 2021.

Total operating expenses were RMB80.4 million or US\$11.3 million for the third quarter of 2022, from RMB16.2 million from the same period of 2021. Selling and marketing expenses increases significantly to RMB8.7 million, US\$1.2 million, for the three months ended September 30, 2022, from RMB1.7 million for the same period of 2021. The increase in selling and marketing expenses was primarily due to the increase in advertising expenses to support marketing structure, expand the market share, and improve brand visibility.

General and administrative expenses increased to RMB20.8 million, US\$2.9 million, for the three months ended September 30, 2022, from RMB2.6 million for the same period of 2021. The increase in general and administrative expenses was primarily due to the increase in employee salary expenses as the number of salaries of general and administrative staff increased and there's increase in various fees due to the development and expansion of its business.

Research and development expenses increased to RMB51 million, US\$7.2 million, for the three months ended September 30, 2022, from RMB11.9 million for the same period of 2021. The increase in research and development expenses was primarily due to the increase in employee salary expenses and the share-based compensation expenses as a result of an increased number of research and development personnel and the increase in material fees and equipment fees used for research and development activities.

Profits from operations was RMB49.9 million or US\$7 million for the third quarter of 2022 compared with loss from operation of RMB7.8 million for the same period of 2021. Net income was RMB52.5 million or US\$7.4 million for the third quarter of 2022 compared with net loss of RMB6.1 million for the same period of 2021.

Basic and diluted earnings per ordinary share with RMB0.49, US\$0.07, for the three months ended September 30, 2022, compared with basic and diluted loss per ordinary share of RMB0.06 for the same period of 2021.

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As of September 30, 2022, the Company had cash and cash equivalents of RMB86.8 million or US\$12.2 million compared with RMB233.9 million as of December 31st, 2021.

We are confident in our potential to grow and we will continue to improve our operating efficiency where it creates a value to our customers and shareholders and build consumer momentum towards our growth objectives. Now, I'd like to turn the call over to the operator for questions and answer session.

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### QUESTIONS AND ANSWERS

#### Operator

Thank you very much. (Operator Instructions) The first question comes from [David Wong] as a private investor. Please go ahead.

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#### Unidentified Participant *Unknown - Analyst*

Hi, everyone. Thanks for taking my questions. I noticed that in September of 2022, the Ethereum network completed the Merge, transiting from Proof-of-Work to Proof-of-Stake. Do you think the Company's revenue going to be affected? Put another word, how much do you think it's going to impact the Company's future performance? Thank you.

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#### Unidentified Speaker

(Through Translator) Thank you for your question. The Merge is a big deal for the crypto market, the impact of which on us is negative in short term but positive in long term. In the short term, I would say this transition might impact our business and our sales may decrease because customers are generally skeptical right now. They will probably wait and see what happens before making any movements.

I would say it is rational in terms of economic behaviors. However, in the long term, I believe that our products will gradually replace the mining rigs with older graphic cards. The growth potential of our product is too huge. We believe the competitiveness of our products is strong and we are optimistic about the future development of our products.

For long term, we believe the impact is positive because the transition of the Ethereum network to the Proof-of Stake a lot of numbers of graphic cards with rendering capabilities will be idled, which provides a lot number of cheap (GPUs) for iPolloverse Metaverse rendering needs. We believe that we can grasp the development opportunities of the Metaverse and launch product that meet marketing demands in a time manner. Next question. Thank you.

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#### Unidentified Participant *Unknown - Analyst*

Thank you.

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#### Operator

Thank you. The next question comes from [Lucas Law] as an independent investor. Please go ahead.

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#### Unidentified Participant *Unknown - Analyst*

Hello there, management and everyone. We noticed that the Company's net profit margin in semiannual report was about 30%, but in the third quarter it was less than 10%. Could you explain what caused the decline in net s that we get in net profit margin? Thank you.

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#### Unidentified Speaker

(Through Translator) Thanks for your question. To address the decline of the price of cryptocurrencies and the transition of Ethereum network from Proof-of-Work to Proof-of-Stake in the third quarter, we wrote down some inventories according to our expectations to markets. These write-downs partial offset our third quarter net income. Next question please.

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#### Operator

Thank you. The next question comes from Kathleen Wong as a private investor. Please go ahead.

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**Unidentified Participant *Unknown - Analyst***

Oh, hi there. I have one question today. Compared with Q1 and Q2, there's a significance increase in the Company's revenue in the third quarter. Could you please explain the reasons? Thank you.

**Unidentified Speaker**

(Through Translator) Our pre-sale products were delivered on a large scale in the third quarter of 2022. So, accordingly, the overall revenue increased significantly. Besides, we expanded our overseas sales channels to acquire more overseas customers. These new overseas customers also contributed a lot to our revenue growth. We will continue our efforts to expand those channels and expect to expand our customer base in the future. In the meantime, we will continue to strengthening relationships with our existing customers by providing high quality products and services, fulfilling their orders efficiency and addressing their needs in a timely manner. Thank you. Next question please.

**Operator**

Thank you. The next question comes from the line of ^ [Oscar Tracy] as a private investor. Please go ahead.

**Unidentified Participant *Unknown - Analyst***

Thanks for taking my question. Would you please introduce me about the Company's Metaverse rendering platform, the iPolloverse? Thank you very much.

**Unidentified Speaker**

(Through Translator) Okay. iPolloverse provides computing network services for the Metaverse. Both supply and demand sides can access to it without permission. iPolloverse is compatible with rendering engines, reduce development costs, and operational costs of the visual Metaverse and improve transmission efficiency. Also, it can reuse the spare equipment to improve the real-time performance and better serve with the philosophy of environmental, social, and governance(ESG).

In September, iPolloverse has achieve a major breakthrough in live rendering technology to accommodate 10,000 concurrent users on the same screen and completed the creation of the consensus mechanism for rendering computing power in a more user-friendly manner. iPolloverse is also expected to become the underlying infrastructure of AI-generated content. Next question please.

**Operator**

Thank you. The next question comes from [Eva Johnson] as a private investor. Please go ahead.

**Unidentified Participant *Unknown - Analyst***

Oh, hi. Good morning, everyone. I would like to know what is the Company's plan of launching new products in the future.

**Unidentified Speaker**

(Through Translator) Thank you. At present, we are actively developing our second generation of B series and the third generation of Cuckoo series. They are expected to be launched next year. New generations will have superior performance compared with the previous ones. Meanwhile, we are actively exploring the opportunities of ZK computing and rendering computing chips.

We believe the new generations of our products will become our next icons. We will publish the latest progress of our scientific research through press release when appropriate. Thank you. Next question.

**Operator**

Thank you. I remind the participants, please press star and one to ask a question. And that concludes the question and answer session. Let me turn the call over to Mr. Chen for closing remarks. Mr. Chen, over to you for closing remarks.

**Bing Chen *Nano Labs Ltd - Chief Financial Officer***

(Through Translator) Thank you very much for joining this conference call. If you have any questions, please contact us through emails at ir@nano.cn or reach our IR counsel Ascent Investor Relations at tina.xiao@ascent-ir.com. Management will respond to your questions as

soon as possible. We appreciate your interest and support in Nano Labs and look forward to speaking with you again next time. Thank you.

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**Operator**

Thank you again for attending Nano Labs third quarter of 2022 earnings conference call. This concludes our call today and we thank you for listening in. Goodbye.

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