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Q4 2022 Nano Labs Ltd Earnings Call

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CORPORATE PARTICIPANTS

Bing Chen *Nano Labs Ltd - CFO & Senior VP*

Jianping Kong *Nano Labs Ltd - Chairman & CEO*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Nano Labs Fourth Quarter of 2022 Earnings Conference Call. (Operator Instructions) This conference is being recorded today, Tuesday, March 14, 2023. 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'll conduct a question-and-answer session to take your questions. Before we continue, I'd like to remind you that some information discussed on this call will contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 as amended, and as defined in the U.S. Private 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 risks, 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, performances or achievements to differ materially from those in the forward-looking statements.

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

Unidentified Participant

Mr. Kong, please go ahead.

Jianping Kong *Nano Labs Ltd - Chairman & CEO*

[Interpreted] Thank you, operator and everyone, for joining Nano Labs Fourth Quarter of 2022 Earnings Conference Call today. On our call today, I will provide an overview of our recent development and our strategic initiatives in the next fiscal year.

Interpreted The fourth quarter of 2022 was a difficult quarter for our industry and overall crypto market, the dynamic market environment such as the conversion of Ethereum from POW to POS in mid-September last year had partially impacted our business. We continue to provide high-quality products to our customers. We also actively shifted our development strategy to adapt to the changing market conditions. Our management team has visited other countries and met industry experts and potential partners to explore expansion opportunities in the global market. We will continue seeking for growth potential to increase our market share. In the future, we will pay more attention to overseas markets, focusing on North America, North Europe, the Middle East and Southeast Asia.

Interpreted In addition, I would like to share the most recent developments of our iPollo Metaverse. AIGC has been connected to the iPollo Metaverse as an important Layer 2 tool. It is a distributed 3D real-time rendering network aimed at the needs of metaverse construction. Depending on the decentralized technology and innovative consensus mechanism, it can deeply integrate with AIGC, lower the threshold for user creation providing metaverse developers with low-cost rendering solutions and more efficient developer tools.

Interpreted iPollo's elastic computing network now supports the inference of stable diffusion machine learning models, allowing for the generation of patterns from the text that can be directly minted as NFTs. With the integration of AIGC an important Layer 2 tool, iPollo Metaverse as the metaverse infrastructure provider allows the developers to create the metaverse, which provides a wide range of possibilities for the creation of unique and innovative metaverse experiences.

Interpreted At the same time iPollo Metaverse is committed to achieving open social and immersive experiences in the 3D metaverse world, which allows tens of thousands of real users to achieve real-time and low-cost interaction in the same scene with high fidelity and

zero-latency environment, bringing users to new Web3.0 lifestyle. At the same time, our company also plans to provide 3D printing services for the user's metaverse world so that the virtual and reality can be organically combined. We expect to launch our iPollo Metaverse as soon as we can. We believe our iPollo Metaverse will become an iconic product in the industry.

Interpreted 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 results. Mr. Chen, please go ahead.

Bing Chen Nano Labs Ltd - CFO & Senior VP

[Interpreted] Thank you, Mr. Kong. Good morning, everyone. On behalf of the management, I will provide a brief financial overview of the fourth quarter of 2022. Net revenues increased to RMB 12.7 million or USD 1.8 million for the fourth quarter of 2022 from RMB 3.2 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 to -- significantly to RMB 89.3 million or USD 12.8 million for the fourth quarter of 2022 from RMB 26.9 million for the same period of 2021, mainly due to the inventory write-down caused by a decline in market expectations.

Interpreted Total operating expenses were RMB 60.3 million or USD 8.7 million for the fourth quarter of 2022 from RMB 113 million for the same period of 2021. Selling and marketing expenses increased to RMB 5.6 million USD 0.8 million for the fourth quarter of 2022 from RMB 3.4 million for the same period of 2011. The increase in selling and marketing expenses was primarily due to the increase in advertising expenses to support marketing strategies, expand market share and improve brand visibility.

Interpreted General and administrative expenses increased to RMB 15.5 million USD 2.2 million for the fourth quarter of 2022 from RMB 10 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 and the salaries of general and administrative staff increased and increase in equipment fees and travel fees due to the development and expansion of its business.

Interpreted Research and development expenses decreased to RMB 39.2 million or USD 5.6 million for the fourth quarter of 2022 from RMB 99.6 million for the same period of 2021. The decrease in research and development expenses was primarily because the direct materials related to research and development decreased in the current period.

Interpreted Loss from operations was RMB 136.9 million or USD 19.7 million for the fourth quarter of 2022 compared with loss from operations of RMB 136.8 million for the same period of 2021. Net loss was RMB 132.8 million or USD 19.1 million for the fourth quarter of 2022 compared with net loss of RMB 135.5 million for the same period of 2021. Basic and diluted loss per ordinary share was RMB 1.19 or USD 0.17 for the fourth quarter of 2022. Compared with basic and diluted loss per ordinary share of RMB 1.32 for the same period of 2021. As of December 31, 2022 the company had cash and cash equivalents of RMB 87.8 million or USD 12.6 million compared with RMB 233.9 million as of December 31, 2021.

Interpreted Although the company is facing an uncertain market environment, we are actively addressing our development strategy and are full of confidence in the company's future development potential. We believe that our capabilities and technology are the solid foundation for our business development. We will continue to create long-term value for shareholders. Now I would like to turn the call over to the operator for questions-and-answer session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from Katherine Ross, private investor.

Unidentified Participant

So I actually have 2 questions here. First of all, I wanted to know like what has caused the company's financial metrics decline in the fourth quarter.

Bing Chen Nano Labs Ltd - CFO & Senior VP

[Interpreted] First, the conversion of Ethereum mainnet from proof-of-work to proof-of-stake in September 2022 affected some of the company's existing business. Besides the decline in the price of cryptocurrency during the second half of 2022, further results in a decline in our financial performance.

Unidentified Participant

Do you have some expectations for your like new products?

Jianping Kong Nano Labs Ltd - Chairman & CEO

[Interpreted] We are currently developing Cuckoo3.0. Also recently, we launched a new A-series iPollo computing devices, which feature high-performance graphics cards with large memory and high-core central processing units. The products are designed to support computing of AI-generated content and zero-knowledge proof. At the same time, the company's iPollo Metaverse has recently made new technological progress AIGC has been connected to the iPollo Metaverse as an important Layer 2 tool. So developers can better leverage AIGC to create metaverses. It also offers extensive possibilities for creating unique and innovative metaverse experiences. Additionally, we also plan to provide 3D printing services for users' metaverses to integrate the virtual and the real world.

Operator

Thank you. Our next question will be from Irene Laubmann, a private investor.

Unidentified Participant

I have 2 questions. Actually, my first question will be, could you give some brief introduction of AIGC and the ZKP computing and my second question is, what is the performance outlook for 2023?

Jianping Kong Nano Labs Ltd - Chairman & CEO

[Interpreted] AIGC uses artificial intelligence technology to generate content that is characterized by automation and high efficiency. In recent years, the metaverse have been gradually developing and in the process of new moving towards the metaverse, a large amount of digital content is needed to support it. It is important to meet the demand by relying solely on human design and development. AIGC can solve this problem perfectly because it will be a new content generation tool in the web3 era.

Interpreted Zero-knowledge proof is an encryption protocol where one party proves to another party that something is true without revealing how it is true. The intent of the zero-knowledge is that proving knowledge of certain information through simple disclosure is insignificant. The challenge is to prove the perception of such information without revealing the information itself or any other information. Zero-knowledge proof plays an important role in the encryption and web3, and it's highly expected in the Ethereum scaling and even blockchain.

Bing Chen Nano Labs Ltd - CFO & Senior VP

[Interpreted] We strive to enrich the company's product portfolio and our product iterations can improve performance and reduce power consumption. This is expected to attract more customers. We expect to gain considerable benefits from the new product portfolio and our product iterations. We estimate that our financial performance in 2023 will be well improved compared to the fourth quarter of 2022.

Operator

Our next question will be from Kathleen Smith, private investor.

Unidentified Participant

So my question is what's the key direction of the company's development in the future.

Jianping Kong Nano Labs Ltd - Chairman & CEO

[Interpreted] In the future, we will strive to enrich our product portfolio not only focusing on the interactive upgrade of the premium series of products. In addition, we began to develop AIGC, real-time rendering, ZKP computing and 3D printing as well as other development directions of metaverse. In addition, in the future, we will pay more attention to overseas markets. Focusing on North American, North Europe, the Middle East and Southeast Asia. Thank you.

Operator

Thank you. We have no further questions at this time, and that concludes the question-and-answer session. Please let me turn the call back over to Mr. Chen for closing remarks.

Bing Chen Nano Labs Ltd - CFO & Senior VP

[Interpreted] Thank you very much for joining this conference call. If you have any questions, please contact us through e-mail at ir.nano.cn or reach our IR Ascent's 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.

Operator

Thank you for attending Nano Labs Fourth Quarter 2022 Earnings Conference Call. This concludes our call today, and we thank you for listening. Goodbye.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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