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NA.OQ - Nano Labs Ltd Second Half of Fiscal Year 2023 Earnings
Conference Call

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CORPORATE PARTICIPANTS

Jianping Kong *Nano Labs Ltd - Chairman of the Board, Chief Executive Officer*

Bing Chen *Nano Labs Ltd - Chief Financial Officer, Senior Vice President*

CONFERENCE CALL PARTICIPANTS

Oscar Tracy - *Private Investor*

Eva Karen - *Private Investor*

Kathleen Smith - *Private Investor*

Helena Melvin - *Private Investor*

Rebecca Allison - *Private Investor*

Editor

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Nano Lab's second half of fiscal year 2023 earnings conference call. (Operator Instructions) This conference is being recorded today, Monday, March 18, 2024.

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 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 US Private Securities Litigation Reform Act of 1995. Such statements are based upon management's current expectations and current market operating conditions and relate to events that involve unknown -- 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, performance, 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 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 translation. With that, I will now turn the call over to Mr. Kong, the company's Chairman and Chief Executive Officer. Mr. Kong, please go ahead

Jianping Kong - *Nano Labs Ltd - Chairman of the Board, Chief Executive Officer*

(interpreted) Thank you, operator and everyone for joining Nano Lab's second half of fiscal-year 2023 earnings conference call today. In the second half of 2023, our company benefited from the supportive government policy and positive macro trends. The Hong Kong government's strong support for the laboratory industry and the historic approval of the first bitcoin spot ETF by the SEC in early 2024 have bolstered the industry, infusing optimism and propelling progress.

Our management team is actively pursuing global market expansion opportunities. Through a series of market expansion initiatives, we aim to continue exploring potential market opportunities to increase our market share.

In terms of research and development, our Cuckoo series iterative products are currently undergoing intensive R&D efforts. Significant advancements were made in the later half of 2023, and we anticipate the launch of enhanced versions of our products in 2024, which are expected to deliver substantially improved performance. Additionally, our company is concurrently upgrading our packaging technology and IP to enhance the efficiency of chip production. We are also laying the groundwork for research and development of AI computing, ZK computing, and other chips to seize emerging market opportunities.

Our metaverse business line, iPollo Metaverse, offers a photographic studio service that includes 3D scanning and 3D printing services. These surveys have not only received high praise from athletes at the Asian Games but also provided diverse digital applications scenarios for various IPs. It assists in the digitalization of various types of IPs, helping them enter the metaverse track. Furthermore, the photographic studio service offers personalized customization services to users, allowing a wide range of enthusiasts to experience the joy of DIY in the metaverse.

We firmly believe that with the favorable policies and support combined with our continued dedication and efforts, we will continue to progress and provide additional services for the development of the web3.0 industry. 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 - Chief Financial Officer, Senior Vice President

(interpreted) Thank you, Mr. Kong. Good morning, everyone. On behalf of the management team, I will provide a brief financial overview of the second half of fiscal year 2023. During the period, although our performance fell short of our ideal, we are encouraged by the gradual recovery in the market.

Net revenue was RMB26.1 million or USD3.7 million for the second half of 2023 from the RMB603.0 million for the same period of 2022. The decrease in net revenues was primarily due to the drop of sales volume of iPollo V1 Series and B1 Series. Meanwhile, the revenues in 3D printing products, our new product, was RMB787,000 for the second half of 2023 compared to nil for the same period of 2022. Cost of revenues was RMB66.6 million or USD9.4 million for the second half of 2023 compared to RMB549.2 million for the same period of 2022.

Operating expenses were RMB83.8 million or USD11.8 million for the second half of 2023 compared to RMB140.7 million for the same period of 2022. Selling and marketing expenses decreased to RMB5.8 million or USD0.8 million for the second half of 2023 compared to RMB14.3 million for the same period of 2022. The decrease in selling and marketing expenses was primarily due to a decrease in advertising fee and marketing promotion expenses.

General and administrative expenses decreased to RMB22.4 million or USD3.2 million for the second half of 2023 from RMB36.3 million for the same period of 2022. The decrease in general and administrative expenses was primarily due to a decrease in professional fees and employee salary expenses as the number and the salaries of general and administrative staff decreased.

Research and development expenses decreased to RMB55.6 million or USD7.9 million for the second half of 2023 from RMB90.2 million for the same period of 2022. The decrease in research and development expenses was primarily due to a decrease in equipment costs, salary expenses and share-based compensation expenses. The company expects to continue its significant investments in research and development to support its future development product iteration, and the competitive strengths.

Loss from operations was RMB124.4 million or USD17.6 million for the second half of 2023 compared with loss from operations of RMB86.9 million for the same period of 2022. Net loss was RMB120 million or the USD16.9 million for the second half of 2023 compared with RMB80.3 million for the same period of 2022.

Basic and diluted loss per share was RMB1.91 or USD0.27 for the second half of 2023 compared with RMB1.47 for the same period of 2022. As of December 31, 2023, we had a cash and cash equivalents of RMB48.2 million or USD6.8 million compared with RMB87.8 million as of December of 31, 2022.

With the support of favorable policies, we will remain our dedication to offering foundational service for the development of the web 3.0 industrial. Moving forward, we will continue to move with the market tailwinds and step up R&D efforts to enhance our portfolio and navigate through the challenges at the current stage. We are confident in our ability to enhance shareholder value and sustain business growth.

Thank you for your support and trust along the way. Now I would like to turn the call over to the operator for question-and-answer session.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

[Oscar Tracy], private investor.

Oscar Tracy - - Private Investor

Hi, thank you for your presentation. Could you explain the reasons behind your underperformed trade value and also your stock price? Thank you.

Unidentified Company Representative

(spoken in Chinese)

Jianping Kong - Nano Labs Ltd - Chairman of the Board, Chief Executive Officer

(interpreted) The primary reason is that our top priority at the current stage, more than anything else, is given to developing our core value and building up our products. Besides, while the market is picking up, the lags in stock price and in secondary market underplay our performance. We believe that as long as we remain focused on our product quality, we will have an explosive growth in the future with the booming development of web 3.0. Thank you.

Operator

[Eva Karen], private investor.

Eva Karen - - Private Investor

Thanks, management team. Could you please explain the reasons behind the decline of the company's performance in the second half of 2023 compared with the same period of 2022? Thank you.

Unidentified Company Representative

(spoken in Chinese)

Jianping Kong - Nano Labs Ltd - Chairman of the Board, Chief Executive Officer

(interpreted) It takes time for market dynamics to become actual customer demand, so the positive market trend wasn't well reflected in the sales during the second half of the year. Additionally, although our new product has been showing strong trends, but it didn't significantly contribute to the second half performance as it was launched in the fourth quarter. We believe it will become a substantial growth driver. Furthermore, many of our new products are still in the pipeline and waiting for launch, which have not contributed to our revenue of second half 2023.

Operator

[Kathleen Smith], private investor.

Kathleen Smith - - Private Investor

Hi, there. What are the company's expectations for the market and also the financial performance in 2024? Thank you.

Unidentified Company Representative

(spoken in Chinese)

Bing Chen - Nano Labs Ltd - Chief Financial Officer, Senior Vice President

(interpreted) As overall market is improving, we anticipate an increase in sales for both V series and B series products in 2024 compared to 2023. The new product lines such as 3D printing is going strong currently, so we expect a marked increase in sales as well. Thank you.

Operator

[Helena Melvin], private investor.

Helena Melvin - - Private Investor

My question is, does the company have any initiatives to promote brand globally?

Unidentified Company Representative

(spoken in Chinese)

Jianping Kong - Nano Labs Ltd - Chairman of the Board, Chief Executive Officer

(interpreted) Our management team has visited other countries and regions and engage in valuable discussions with local industry experts and potential partners which serve as great opportunities for expanding our global market presence. Meanwhile, we continuously participate in exhibitions and events worldwide to promote our products and services. That's all. Thank you.

Operator

(Operator Instructions)

[Rebecca Allison], private investor.

Rebecca Allison - - *Private Investor*

May I know what are the considerations behind the company's agreement with shareholder to convert loans into ordinary shares, which I believe was signed in September last year?

Unidentified Company Representative

(spoken in Chinese)

Jianping Kong - *Nano Labs Ltd - Chairman of the Board, Chief Executive Officer*

(interpreted) Our major shareholders both have confidence in the future of Nano Labs and the whole industry. Therefore, we are willing to lend to the company and convert it into equity at a fair market price. I believe the move is a strong message of confidence and assurance, which will contribute to the company's further development in 2024 and beyond. Thank you.

Operator

Thank you. That concludes the question-and-answer session. Let me turn the call over to Mr. Chen for closing remarks.

Unidentified Company Representative

Okay, Mr. Chen, please go ahead.

Bing Chen - *Nano Labs Ltd - Chief Financial Officer, Senior Vice President*

(interpreted) Thank you very much for joining the conference call. If you have any questions, please contact us through e-mail at ir@nano.cn and reach our IR counsel, Ascent Investor Relations at investors@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, again, for attending Nano Lab's second half of 2023 earnings conference call. This concludes our call for today, and we thank you for listening. Goodbye.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the company sponsoring this event.

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