Cenntro Electric Group Announces Second Half and Full Year 2022 Audited Financial Results

June 30, 2023

2022 Net Revenue Increased 4.3% to $8.9 million

Expanded Product Lineup, Increased Average Selling Price, Refined Go-to-Market Strategy, and Built Foundation for Accelerated Growth via New Production Capacity

FREEHOLD, N.J.--(BUSINESS WIRE)--Jun. 30, 2023-- Cenntro Electric Group Limited (NASDAQ: CENN) ("Cenntro" or "the Company"), a leading EV technology company with advanced, market- validated electric commercial vehicles ("ECVs"), today announced its financial results for the second half and full year ended December 31, 2022.

Full Year Financial and Operating Highlights

- Net revenue of $8.9 million increased 4.3% year over year on higher average selling prices and expanded go-to-market strategy that includes a direct in-country sales model.
- Expanded product lineup with four new vehicles for Europe and North America.
- Homologated two new vehicles and began shipping vehicles in Europe.
- Received both EPA and California Air Resources Board's ("CARB") Certificate of Conformation for LS400 for the U.S. market.
- Expanded vehicle direct in-country distribution and go-to-market service infrastructure.
- Expanded vehicle assembly capacity in the U.S., Europe and China.

"In 2022, our management team has worked tirelessly to carefully navigate numerous challenges which affected our industry last year, including global supply chain issues, closed ports in China due to China's "ZERO Covid-19 Policy", Covid-related quarantines and lock-downs, and extended timelines required to achieve country-by-country homologations including U.S. Environmental Protection Agency ("EPA") certifications and state-level certifications such as the California Air Resources Board's ("CARB") certification for zero-emission vehicle in the state of California. Despite these challenges, we made significant progress towards our goal of becoming a leading designer and manufacturer of electric commercial vehicles," said Peter Wang, Chief Executive Officer. "Throughout 2022, we significantly expanded our product lineup with four new vehicles for the European and North American markets with the introduction of the LS100, LS260, LS300 and LS400. We also successfully homologated the LS260 and LS100 and began shipping in Europe and received the EPA's Certificate of Conformity for our LS400 in December 2022. On June 23, our LS 400 received certification from the California Air Resources Board ("CARB") as a zero-emission vehicle in the state of California. The certification is awarded to vehicle manufacturers who meet specific emissions standards in compliance with CARB's regulations. Having received credentials from CARB and the EPA, Cenntro can now sell its LS400 in every state throughout the United States.

"Further, we expanded our go-to-market strategy from a distributor model to now include an in-country direct sales model. We have launched eight EV centers across the U.S., Poland, Germany, Italy, Spain, Morocco, and the Dominican Republic. Going forward, we believe our in-country direct sales team will allow us to better control both the sales process as well as the after-sales service support to our dealers and customers. Our regional teams can provide varied amounts of support to regional dealers in areas including pricing, sales margins, inventory, customer experience, and marketing strategy.

"These major investments and milestone achievements will set a strong foundation to accelerate our growth and marks a major turning point for Cenntro to capture our market potential. I am confident that with our production, distribution, and service support infrastructure capabilities, we are poised to rapidly accelerate commercialization and momentum in the months ahead," concluded Wang.

Edmond Cheng, Chief Financial Officer added, "From a financial perspective we navigated a challenging business, capital, and credit market environment in 2022. Because the Company relies on China for its supply chain, the Company continued to be impacted by China's zero-covid policies, which were in place until the end of the year. Particularly, it impacted our ability to cost effectively source key components from suppliers due to supply chain disruptions and significantly higher freight costs. While a number of our peers pursued their growth plan to achieve sufficient scale, we made note of the noticeable drawbacks, including an acceleration of their cash burn rate in a very challenging capital and credit market. This type of overly ambitious production ramp-up would appear to have placed too heavy a burden of working capital requirements on the financial condition of our peers. Instead, our approach focused on building fundamentals including generating our global demand capabilities through investments in our eight Electric Vehicle Centers and the completion of the acquisition of Tropos Motors Europe GmbH to now become Cenntro Automotive Europe. At the same time, we tightly controlled our costs. One of management's guiding principles at Cenntro is frugality, including many of us taking on multiple roles and responsibilities.

"Sales volume of our electric commercial vehicles decreased 50.1% year-over-year to 458 compared to 918 in 2021. We achieved an increase of 23.4% to 337 units for the first half of 2022 compared to 273 units in the first half of 2021. However, due to challenges including, but not limited to, the shutdown of ports in China during the second half of 2022, change to our go-to-market model in the United States which impacted sales of the Metro® in the United States, and the extended time needed to fully homologate our LS400 in the U.S. Our sales volume in the second half of 2022 declined by 81.2% to 121 units from 645 units in the same period of 2021. This decline in volume was more than compensated for by the increase in average selling price ("ASP") from approximately $7.9 thousand in 2021 to approximately $18.0 thousand in 2022, an increase of 126.5%. Our improvement in ASP was driven by our transition to an in-country direct sales model and the launch of new models including the LS200 and Teemak. As a result, full year revenue for 2022 increased by 4.3% to $8.9 million. At the end of 2022, we had approximately $154M in cash and cash equivalents on our balance sheet. We also had $31.8 million in inventory which consisted of approximately $19.8 million in finished goods inventory ready to be launched in 2023.

“We are also working diligently to finalize and file our Form 10-Q for the quarter ended March 31, 2023, and to re-establish timely financial reporting as soon as possible.

“As we look into 2023, we are confident that some of these challenges are behind us, and we look forward to providing an update on our progress throughout 2023,” concluded Cheng.

Second Half 2022 Business Highlights

- Announced the launch of six Electric Vehicle Centers in support of our global distribution system including an expansion in Spain, Italy, Poland, Turkey, Morocco, and the Dominican Republic.
- Logistar 400 All-Electric commercial vehicle received EPA's Certificate of Conformity.
- Commenced shipment of LS260 and LS100 vans to European markets.
- Completed construction of advanced lithium-ion battery facility in Mexico.
- Herne, Germany factory began assembly of Metro and Teemak product lines.
- Commenced shipments of LS200 vans and cargo trucks to the European market.

Full Year 2022 Financial Results

Net Revenues

Net revenue was $8.9 million in 2022, an increase of 4.3% from $8.6 million in 2021. The increase was primarily due to the launch of the LS 200 in the European market and an improvement in ASP.

Gross Profit/(Loss)

Gross loss was $0.5 million in 2022, compared with gross profit of $1.5 million in 2021. Gross margin was negative 5.7% in 2022, compared with 17.5% in 2021. The decrease in our gross profit was caused by (i) the additional inventory write-down of approximately $0.9 million representing approximately 10.8% of revenues of vehicle sales; (ii) a decrease in gross profit margin, excluding inventory write-down, of our Metro model from a gross margin of approximately 32.6% in 2021 to approximately 12.7% in 2022 reflecting additional costs in quality improvements and higher shipping costs in 2022; (iii) the realized gross margin of our newly introduced model Logistar 200 was approximately 21.0%.

Operating Expenses

Total operating expenses were $54.7 million in 2022, compared with $18.0 million in 2021. The increase was primarily driven by headcount growth, increased marketing events and travel expenses as we expand globally as well as increased research and development expenses to broaden our product portfolio.

Net Loss Attributable to the Company’s Shareholders

Net loss was $110.1 million in 2022, compared with net loss of $16.4 million in 2021.

Adjusted EBITDA[1]

Adjusted EBITDA was negative $43.2 million in 2022, compared with Adjusted EBITDA of negative $7.0 million in 2021.

Balance Sheet

Cash and cash equivalents were $154.0 million as of December 31, 2022, compared with $261.1 million as of December 31, 2021.

Second Half 2022 Financial Results

Net Revenue

Net revenue was $3.9 million in the second half of 2022, compared with $6.1 million in the second half of 2021. The decrease was due to the reduction in the sales volume of Metro EVs being partially offset by the increase in the sales volume of the new Logistar™ 200.

Gross Profit/(Loss)

Gross loss was $1.0 million in the second half of 2022, compared with gross profit of $1.1 million in the second half of 2021. Gross margin was negative 26.8% in the second half of 2022, compared with 17.2% in the second half of 2021. The change in gross margin was primarily due to the increase of inventory write-down, a decrease in our Metro model gross margin reflecting additional costs in quality improvements, higher shipping costs, and a competitive pricing strategy for our newly introduced Logistar 200.

Operating expenses

Total operating expenses were $30.0 million in the second half of 2022, compared with $13.0 million in the second half of 2021. The increase was primarily driven by headcount growth, increased marketing and travel expenses as we expand globally as well as increased research and development expenses to broaden our product portfolio.

Net Loss Attributable to the Company’s Shareholders

Net loss was $87.7 million in the second half of 2022, compared with net loss of $11.9 million in the second half of 2021.

Adjusted EBITDA[1]

Adjusted EBITDA was negative $30.2 million in the second half of 2022, compared with Adjusted EBITDA of negative $4.0 million in the second half of 2021.

We define Adjusted EBITDA as net (loss)/income before net interest expense, income tax expense and depreciation and amortization as further adjusted to exclude the impact of stock-based compensation expense and non-recurring expenses. We caution investors that amounts presented in accordance with our definition of Adjusted EBITDA may not be comparable to similar measures disclosed by our industry peers because not all companies and analysts calculate Adjusted EBITDA in the same manner. We present Adjusted EBITDA because we consider it to be an important supplemental measure of our performance and believe it is frequently used by securities analysts, investors, and other interested parties in the evaluation of companies in our industry. Management believes that investors' understanding of our performance is enhanced by including this non-GAAP financial measure as a reasonable basis for comparing our ongoing results of operations.

US-GAAP NET INCOME (LOSS) TO ADJUSTED EBITDA RECONCILIATION

	Year Ended December 31,	
	2022	2021
	(Unaudited)	
Net loss	$ (112,145,263)	$ (16,421,807)
Interest expense, net	844,231	1,069,581
Income tax expense	—	—
Depreciation and amortization	953,872	632,256
Share-based compensation expense	4,031,629	1,128,325
Nasdaq listing related expenses	—	6,559,095
Expenses related to TME Acquisition	348,987	-
Expenses related to one-off payment inherited from the original Naked Brand Group	8,299,178	-
Impairment of goodwill	11,111,886	-
Convertible bond issuance cost	5,589,336	-
Loss on redemption of convertible promissory notes	7,435	-
Change in fair value of convertible promissory notes and derivative liability	37,774,928	-
Adjusted EBITDA	$ (43,183,781)	$ (7,032,550)

[1] Represents a non-GAAP financial measure.

About Cenntro Electric Group Ltd.

Cenntro Electric Group Ltd. (or "Cenntro") (NASDAQ: CENN) is a leading designer and manufacturer of electric commercial vehicles. Cenntro's purpose-built ECVs are designed to serve a variety of organizations in support of city services, last-mile delivery, and other commercial applications. Cenntro plans to lead the transformation in the automotive industry through scalable, decentralized production, and smart driving solutions empowered by the Cenntro iChassis. For more information, please visit Cenntro's website at: www.cenntroauto.com.

Forward-Looking Statements

This communication contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that are not historical facts. Such statements may be, but need not be, identified by words such as "may," "believe," "anticipate," "could," "should," "intend," "plan," "will," "aim(s)," "can," "would," "expect(s)," "estimate(s)," "project(s)," "forecast(s)", "positioned," "approximately," "potential," "goal," "strategy," "outlook" and similar expressions. Examples of forward-looking statements include, among other things, statements regarding assembly and distribution capabilities, decentralized production, and fully digitalized autonomous driving solutions. All such forward-looking statements are based on management's current beliefs, expectations, and assumptions, and are subject to risks, uncertainties and other factors that could cause actual results to differ materially from the results expressed or implied in this communication. For additional risks and uncertainties that could impact Cenntro's forward-looking statements, please see disclosures contained in Cenntro's public filings with the Securities and Exchange Commission (the "SEC"), including the "Risk Factors" in Cenntro's Annual Report on Form 10-K filed with the SEC on June 30, 2023 and which may be viewed at www.sec.gov.

CENNTRO ELECTRIC GROUP LIMITED
CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. dollars, except for the number of shares)

	December 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 153,966,777	$ 261,069,414
Restricted cash	130,024	595,548
Accounts receivable, net	565,398	2,047,560
Inventories	31,843,371	8,139,816
Prepayment and other current assets	16,138,330	7,989,607
Amounts due from related parties - current	366,936	1,232,634
Total current assets	203,010,836	281,074,579

Non-current assets:		
Equity method investments	5,325,741	329,197
Investment in equity securities	29,759,195	-
Property, plant and equipment, net	14,962,591	1,301,226
Intangible assets, net	4,563,792	3,313
Right-of-use assets	8,187,149	1,669,381
Amount due from related parties - non-current	-	4,834,973
Other non-current assets, net	2,039,012	2,151,700
Total non-current assets	64,837,480	10,289,790
Total Assets	$ 267,848,316	$ 291,364,369
LIABILITIES AND EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	$ 3,383,021	$ 3,678,823
Accrued expenses and other current liabilities	5,048,641	4,183,263
Contractual liabilities	2,388,480	1,943,623
Operating lease liabilities, current	1,313,334	839,330
Convertible promissory notes	57,372,827	-
Deferred government grant, current	26,533	-
Amounts due to related parties	716,372	15,756,028
Total current liabilities	70,249,208	26,401,067
Non-current liabilities:		
Other non-current liabilities	-	700,000
Deferred government grant, non-current	497,484	-
Derivative liability - investor warrant	14,334,104	-
Derivative liability - placement agent warrant	3,456,404	-
Operating lease liabilities, non-current	7,421,582	489,997
Total non-current liabilities	25,709,574	1,189,997
Total Liabilities	$ 95,958,782	$ 27,591,064
Commitments and contingencies		
EQUITY		
Ordinary shares (No par value; 300,841,995 and 261,256,254 shares issued and outstanding as of December 31, 2022 and 2021, respectively)	-	-
Additional paid in capital	397,497,817	374,901,939
Accumulated deficit	(219,824,176)	(109,735,935)
Accumulated other comprehensive loss	(5,306,972)	(1,392,699)
Total equity attributable to shareholders	172,366,669	263,773,305
Non-controlling interests	(477,135)	-
Total Equity	$ 171,889,534	$ 263,773,305
Total Liabilities and Equity	$ 267,848,316	$ 291,364,369

CENNTRO ELECTRIC GROUP LIMITED
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in U.S. dollars, except for number of shares)

	For the Years Ended December 31,	
	2022	2021
	Consolidated	Combined
Net revenues	$ 8,941,835	$ 8,576,832
Cost of goods sold	(9,455,805)	(7,073,391)
Gross (loss) profit	(513,970)	1,503,441

OPERATING EXPENSES:		
Selling and marketing expenses	(6,525,255)	(1,034,242)
General and administrative expenses	(32,822,709)	(14,972,682)
Research and development expenses	(6,362,770)	(1,478,256)
Provision for doubtful accounts	(5,986,308)	(469,702)
Impairment loss of right-of-use assets	(371,695)	-
Impairment loss of intangible assets	(2,995,440)	-
Reverse of deferred tax liabilities	898,632	-
Impairment loss of property, plant and equipment	(550,402)	(6,215)
Total operating expenses	(54,715,947)	(17,961,097)
Loss from operations	(55,229,917)	(16,457,656)
OTHER EXPENSE:		
Interest expense, net	(844,231)	(1,069,581)
Loss on redemption of convertible promissory notes	(7,435)	-
(Loss) income from equity method investments	(12,651)	15,167
Change in fair value of convertible promissory notes and derivative liability	(37,774,928)	-
Change in fair value of equity securities	(240,805)	-
Convertible bond issuance cost	(5,589,336)	-
Foreign currency exchange loss, net	(409,207)	-
Impairment loss of goodwill	(11,111,886)	-
Other (expense) income, net	(924,867)	1,090,263
Loss before income taxes	(112,145,263)	(16,421,807)
Income tax expense	-	-
Net loss	(112,145,263)	(16,421,807)
Less: net loss attributable to non-controlling interests	(2,057,022)	-
Net loss attributable to the Company's shareholders	$ (110,088,241)	$ (16,421,807)
OTHER COMPREHENSIVE LOSS		
Foreign currency translation adjustment	(3,889,706)	512,140
Total comprehensive loss	(116,034,969)	(15,909,667)
Less: total comprehensive loss attributable to non-controlling interests	(2,032,455)	-
Total comprehensive loss to the Company's shareholders	$ (114,002,514)	$ (15,909,667)
Weighted average number of shares outstanding, basic and diluted *	263,323,238	175,090,266
Loss per share, basic and diluted *	(0.42)	(0.09)

CENNTRO ELECTRIC GROUP LIMITED
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOW
(Expressed in U.S. dollars, except for number of shares)

	For the Year Ended December 31,	
	2022	**2021**
	Consolidated	**Combined**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (112,145,263)	$ (16,421,807)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	953,872	632,256
Amortization of operating lease right-of-use asset	1,616,853	636,921
Impairment of property, plant and equipment	550,402	6,215
Impairment of intangible assets	2,995,440	-
Reversal of deferred tax liabilities	(898,632)	-
Impairment of right-of-use assets	371,695	-
Impairment of goodwill	11,111,886	-
Written-down of inventories	2,155,400	1,265,890
Provision for doubtful accounts	5,986,308	469,702
Convertible promissory notes issuance costs	5,589,336	-
Loss on redemption of convertible promissory notes	7,435	-

Changes in fair value of convertible promissory notes and derivative liabilities	37,774,928	-
Changes in fair value of equity securities	240,805	-
Foreign currency exchange loss, net	409,207	14,212
Share-based compensation expense	4,031,629	1,128,325
Government grants of federal loan forgiven	-	(53,619)
Gain from disposal of plant and equipment	(10,334)	(55,087)
Gain from disposal of long-term investment	-	(508,156)
Equity pickup of the equity investment	12,651	(15,167)
Changes in operating assets and liabilities:		
Accounts receivable	233,570	(2,002,919)
Inventories	(20,483,127)	(5,087,563)
Prepayment and other assets	(6,753,851)	(2,687,994)
Amounts due from/to related parties	(1,190,573)	(128,640)
Accounts payable	(2,144,725)	(128,508)
Accrued expense and other current liabilities	1,358,858	1,376,950
Contractual liabilities	633,825	286,499
Long-term payable	(700,000)	700,000
Operating lease liabilities	(1,108,721)	(903,096)
Net cash used in operating activities	(69,401,126)	(21,475,586)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equity investment	(4,256,276)	(310,038)
Proceeds from disposal of long-term investment	-	465,941
Cash payment for long-term investment payable	-	(909,808)
Purchase of plant and equipment	(3,285,072)	(756,269)
Purchase of land use rights and property	(16,456,355)	-
Acquisition of 65% of CAE’s equity interests	(3,612,717)	-
Payment of expense for acquisition of CAE’s equity interests	(348,987)	-
Cash acquired from acquisition of CAE	1,118,700	-
Purchase of equity securities	(30,000,000)	-
Proceeds from disposal of land use rights and property	-	7,812,967
Proceeds from disposal of property, plant and equipment	309	75,934
Loans provided to third parties	(1,323,671)	-
Loans provided to related parties	-	(232,529)
Repayment of loans from related parties	1,280,672	1,088,441
Net cash (used in) provided by investing activities	(56,883,397)	7,234,639
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loans proceeds from related parties	-	5,020,218
Repayment of loans to related parties	(1,726,614)	(6,493,707)
Repayment of loans to third parties	(1,113,692)	(3,928,380)
Proceeds from bank loans	-	53,619
Purchase of CAE’s loan	(13,228,101)	-
Reduction of capital	(13,930,000)	-
Cash proceed from reversed recapitalization	-	247,382,859
Loan proceeds from Naked Brand Group Limited	-	30,000,000
Proceed from issuance of convertible promissory notes	54,069,000	-
Redemption of convertible promissory notes	(3,727,500)	-
Proceed from exercise of share-based awards	14,386	-
Payment of expense for the reverse recapitalization	(904,843)	(883,300)
Net cash provided by financing activities	19,452,636	271,151,309
Effect of exchange rate changes on cash	(736,274)	205,566
Net (decrease)increase in cash, cash equivalents and restricted cash	(107,568,161)	257,115,928
Cash, cash equivalents and restricted cash at beginning of year	261,664,962	4,549,034
Cash, cash equivalents and restricted cash at end of year	$ 154,096,801	$ 261,664,962
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ (369,410)	$ (830,837)

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Cashless exercise of warrants	$	18,549,864	$	-
Right of use asset financed by lease liabilities	$	-	$	1,206,244
Exemption of debt due from shareholders	$	-	$	426,781
Direct cost related to reverse recapitalization payable	$	-	$	904,843
Reduction of capital investment recorded as due to related parties	$	-	$	13,930,000

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