

2022 Results Conference Call Script

Wednesday, April 5, 2023

13:00 London/8:00 EDT (NYC)

Operator Comments

Good morning and welcome to the Gorilla Technology Group 2022 financial results conference call. As a reminder, today's call is being recorded. All participants are in a listen-only mode. For opening remarks and introductions, I would like to turn the call over to Gary Dvorchak of the Blueshirt Group. Mr. Dvorchak, please go ahead.

Gary Dvorchak – The Blueshirt Group

Thank you. Good morning, and welcome to Gorilla's conference call to discuss 2022 results. With me today are Jay Chandan, our Chief Executive Officer, and Daphne Huang, our Chief Financial Officer.

Certain statements made during this conference call that are not historical facts may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include those regarding our future plans, objectives, growth, and expected performance, including our outlook for the fiscal year 2023. These forward-looking statements are our outlook only as of the date of this call. While we believe any forward-looking statements we make are reasonable, actual results could differ materially because the statements are based on current expectations and are subject to risks and

uncertainties. We do not undertake, and expressly disclaim, any obligation to update or alter our forward-looking statements whether because of added information, future events or otherwise. Further information on these and other factors that could affect the company's financial results is included in filings we make with the SEC from time to time, including the section titled risk factors in the Company's Form F-1 previously filed with the SEC.

Additionally, some financial measures discussed on this call will be non-GAAP. A discussion of why we use non-GAAP financial measures and a reconciliation schedule showing GAAP versus non-GAAP results is available in the earnings press release that can be found on our investor relations website at [www.gorilla-technology.com] or on Form 6-K filed with the SEC.

With that, I will turn the call over to our CEO Jay Chandan. Jay, go ahead.

Jay Chandan - Chief Executive Officer

Thanks, Gary, and thanks to everyone for joining us on the call today. Although we went public last summer and have reported first half of 2022 results, this is our first conference call in conjunction with earnings. We're excited to report great news to you and to take your questions. We intend to maintain this practice, conducting a conference call with each quarterly report.

Daphne will provide more details on our financials and 2023 outlook later in the call. I will focus my comments on our strategic objectives and key priorities for the year ahead.

Let me start with a guiding principle. When I became CEO, I was determined that we needed to establish trust as a top priority for Gorilla. This means trust for employees, trust as a partner, trust as a vendor and platform solution provider and trust for all shareholders. After the merger, we looked at every element of our business, top to bottom - products, marketing, human resources, you name it. In every part of the business, we looked at where trust was high, and where it was lacking. This drove a lot of the decisions we made in the second half of the year, which I'll elaborate on now.

2022 was a transition year for us. We made some necessary changes and started exciting new initiatives. The key changes were as follows. First, we expanded our offering to encompass security convergence, which complements our core advanced AI video analytics offering. Second, we beefed up video analytics by acquiring the technology assets of Seequestor. Third, we improved our access to capital by listing on Nasdaq via the merger with Global SPAC Partners. Finally, we expanded from a Taiwan-based regional supplier to a London-based global leader with customers across the globe. Notably, we expanded our salesforce in Singapore, Thailand, Taiwan, the UK and in the MENA regions, which should revitalize existing business, create expansion opportunities within our existing customers, whilst driving business momentum with new, large customers.

We are already seeing the evidence of success! Most important is the large Smart City cybersecurity implementation project in the MENA, which gives us great revenue visibility for the next two to three years. We also won our first U.K. customer for a Smart Port project. We announced that we will develop a new generation Edge AI Appliance with Hailo and Lanner Electronics. And we

continued to strengthen our team, most recently adding Dr. Evan Medeiros to the Board and Lawrence Ng as Head of Asia.

The MENA project is a milestone for us, with size far in excess of anything we have done to date. The project will stretch over a few years, with revenue from the first phase approximating over \$100 million dollars. Phase One should be completed over the next twelve months. The second phase will be significantly larger. The devices installed are likely to be 3 to 4 times more than Phase 1. The revenue opportunity should be at least double Phase 1. A project win like this demonstrates the power of the new strategy, team, products, and infrastructure we built this year. This large MENA project is just the first of what we believe could be many similar projects around the world in the year ahead.

We have three key priorities for 2023. First, to build upon the foundation of innovation at Gorilla and establish us as a trusted, predictable platform-as-a-service solutions provider. Second, to pivot away from marginally profitable, cost-plus project business and increase our focus on larger, longer-term opportunities. We will increase our mix of predictable, recurring revenue streams with more strategic platform business. Third, to create a culture at Gorilla fostering trust and respect that allows all our employees to innovate and grow their careers. We believe such a culture will enable us to sustain our commitment to workforce diversity and belonging. As a result, our teams are more collaborative and we aim to exceed client expectations. To support this, we have created an attractive employee incentive program to attract, engage and retain talent.

The key elements of our human resources initiative include, professional development, participation in RSUs, team wide recognition of accomplishments,

freedom of choice of projects across the world, and attractive bonuses or raises based on personal and company performance.

To enable this pivot to a high growth global profitable business with strategic customer accounts, we've set out an aggressive 3-year plan with a laser focus on key, measurable KPIs determined to drive value for all our stakeholders in the years to come.

With Gorilla Technologies focus on leveraging and delivering AI capabilities to meet our customers needs by providing best solutions, we find it imperative to reiterate our commitment to operating in the highest ethical standards. We maintain strict compliance with all applicable laws and regulations. Additionally, we note advances in AI technologies have largely outpaced the development of comprehensive legal frameworks on its responsible use by governments across the globe. As such, Gorilla has voluntarily adopted the principles outlined in our AI Ethics Policy and is committed to safeguarding customer data and ensuring that Gorilla's AI systems and algorithms are developed and implemented in alignment with the current global understanding of ethical AI practices.

In the absence of a comprehensive legal framework, Gorilla has developed the Policy alongside guidance from the Alan Turing Institute, a national institute for data science established in 2015 by Universities in the United Kingdom (UK) and the UK Engineering and Physical Sciences Research Council.

Before turning the call over to Daphne to go over detailed financials, I'd like to summarize our progress. In November of 2022, we laid out four immediate priorities for the coming year. These were: First, to build a world-class customer-centric team

responsible for commercializing Gorilla's technologies. Second, to globalize the Company by bringing our technologies to the countries that are leading the world in Smart City adoption. Third, to build a robust sales pipeline that will complement our existing products and services, with a special focus on Security Convergence. And fourth, to transform our business away from a cost-plus model and toward a value-based platform as a service model which will bring in customer stickiness and a continuous revenue stream. I am proud of our team's hard work to deliver on all these objectives so rapidly and am confident we will make even more progress in 2023.

Now, Daphne can take us through the financial highlights. Daphne?

Daphne Huang - Chief Executive Officer

Thank you, Jay. 2022 was a challenging year if measured strictly by near-term revenue performance. Given our focus to walk away from less strategic or less profitable business, we are confident that we will see improved financial performance from our upleveled strategy. In fact, we are beginning to see evidence of success supporting our decision to walk away from marginally profitable business. Solid growth in security convergence demonstrates the wisdom of our product pivot, and the MENA win shows that this segment can drive explosive growth in the years ahead.

Of course, the revenue decline in 2022 was challenging but necessary to instill sound operational and financial discipline. We executed the reset well, holding gross margin stable despite intentional reduction in projects which impacted revenue.

So let's go through our financial results for 2022.

For 2022, total revenue was \$22.4m, down from \$42.2m in 2021, as we walked away from less profitable or small-scale legacy business. This refocus enabled us to grow our security convergence business to \$12.7 million from \$12.1 million in 2021. Security convergence is now 57% of revenue. Meanwhile, Video IoT felt the brunt of our shift to more strategic, profitable business, declining to \$9.7 million from \$30.1 million in 2021.

Despite the deleveraging associated with a smaller revenue base, the increased mix of strategic revenue enabled us to maintain gross margins at 37%. Over time, gross margin should expand with scale.

Operating expense growth focused on transforming Gorilla into a global cybersecurity leader, added public company expense, with incremental one-time expenses related to the deSPAC merger, the public listing and the SeeQuestor asset acquisition.

In total, operating expenses in 2022 were \$94.8 million. Excluding one-time expenses, opex was \$21.9 million, which compares to \$23.9 million in 2021.

In 2023 operating expenses should be higher than 2021, reflecting growth of the business and increased annual public company costs, but lower than 2022 as the one time listing expenses are not repeated.

One-time deSPAC expense in 2022 was \$70 million, reflecting non-cash charges related to accounting for the reverse merger transaction as a capital reorganization

and inclusive of the deSPAC. Other transaction-related one-time expenses totaled \$2.8 million.

Turning to profitability, excluding one-time expenses, net losses for the year totaled \$14.6 million, higher than prior year mainly due to increase in public company expenses. Adjusted EBITDA loss was just \$6.0 million and operating cash flow was an outflow of \$8.3 million. Capex was \$2.9 million. We ended the year with \$23 million of cash.

Now, let's turn to guidance. The MENA project gives us outstanding visibility on revenue for the next couple of years. For the full year 2023, we expect revenue in a range of \$65 to \$75 million dollars. Operating expense as a percentage of revenue is expected to decline as we anticipate significant revenue growth.

Now, we would like to open the call for any questions. Operator, please go ahead.

Question-and-Answer Session

**** Operator runs the Q&A session ****

Seeing no more questions in the queue, let me turn the call back to Mr. Chandan to conclude the call.

Jay Chandan – Chief Executive Officer

Thank you, operator.

Before we conclude, I want to mention some investor relations events we have coming up. We will be presenting and holding 1x1 meetings at the 18th Annual Needham Technology and Media Conference in New York City in mid-May. This is a private event for the clients of Needham, so please contact your sales rep to register and schedule meetings. We will also have a presence at the London Tech Week in mid-June. We will announce more on that in the weeks ahead.

Thank you all for attending our first earnings call. We have never been more excited about the future for Gorilla. We undertook an extensive transition after closing the merger and going public last year. We globalized the company, rationalized our customer accounts with a focus on profit, and are already winning substantial projects in new regions, as you see with the huge MENA win. Our momentum is building...and the best is yet to come.

Thanks again for joining us today and for your continued support. If you have any questions, please contact Daphne or our investor relations team at The Blueshirt Group. This concludes our call today. You may all disconnect.