



The Road to Success for CleanTech

Sailing

HZ20222049

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CleanTech 2022 Budget Meeting

Meeting Outline

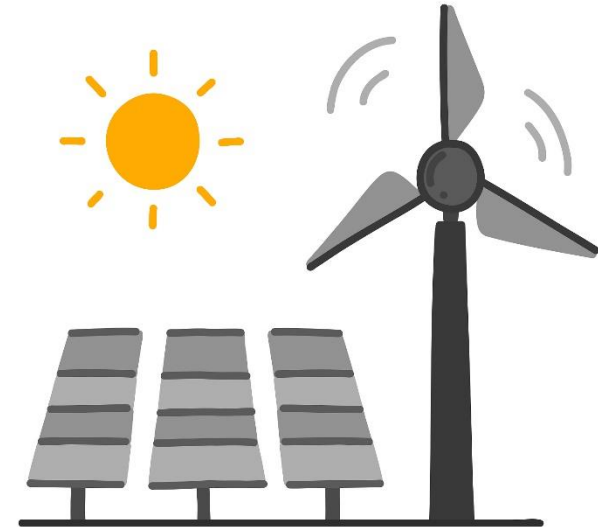
Overview



Issue 1 Annual Budget Executive Plan

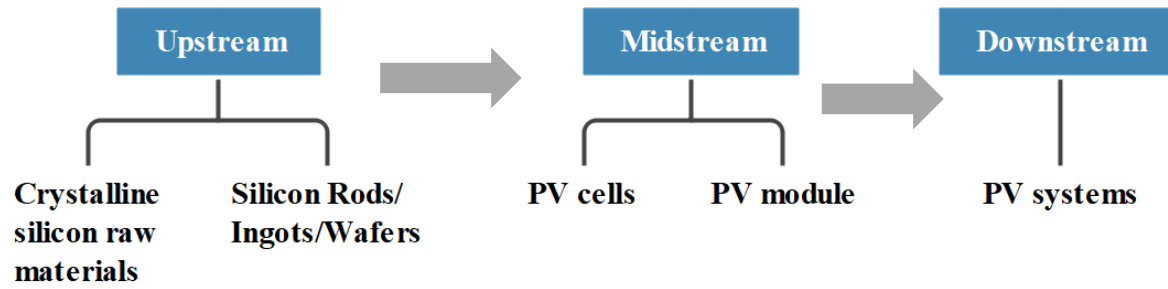


Issue 2 R&D Budget Proposal



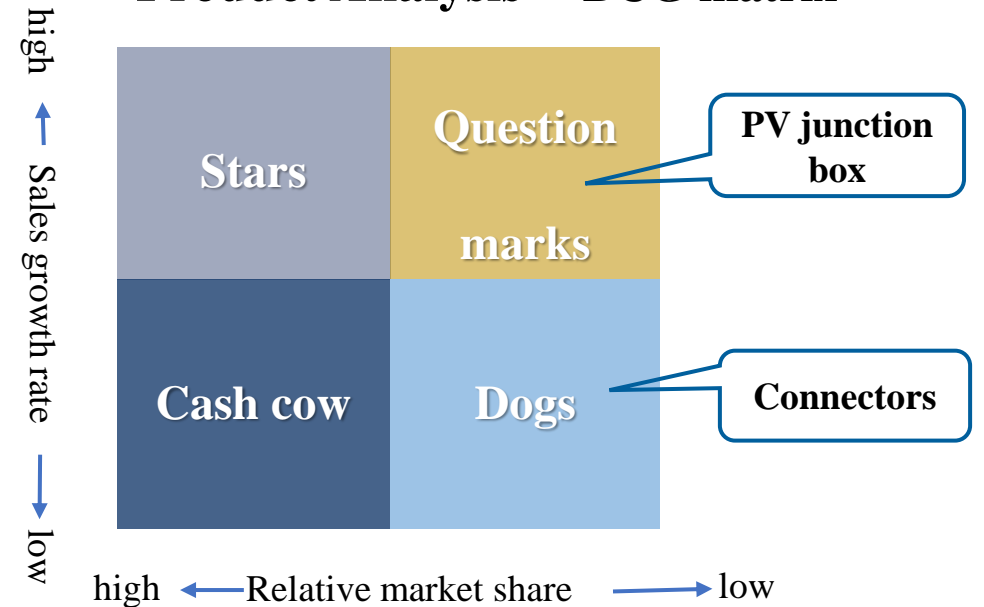
Overview

Industry Analysis



Weak Bargaining Power & Serious Competition

Product Analysis —BCG matrix



Low Market Share

Problems

Material Cost Increase
Serious Competition
Low Market Share

Proposals

Annual Budget Executive Plan
R&D Budget Proposal

**The Road to Success
for CleanTech**

Issue 1

Annual Budget Executive Plan

Achieve CleanTech's Annual Budget--Set KPI for Departments

Suggestions:

- 1. Sales Volume Increase 25%;**
- 2. Operating Fixed Cost Decrease 10%;**
- 3. Financial Expense & Administrative Expense Decrease 30%**

Applicable KPI

Income	2021 Beginning Balance ((10 thousand yuan)	Applicable Budget (10 thousand yuan)	Change
Operating Revenue	58,159	74,152.73	Sales Volume increases 25%
Operating Cost	46,584	59,219.91	Operating variable cost increases 5%; Operating fixed cost decreases 10%
Gross Profit	11,575	14,932.82	
Taxes and Surcharges	159	200.21	
Operating Expense	1,007	1,282.84	
Administrative Expense	1,367	956.90	Administrative Expense decreases 30%
R&D Expense	2,910	3,707.64	
Financial Expense	168	117.60	Financial Expense decreases 30%
Operating Profit	5,964	8,167.62	
Non-Business Expenditure	20	20.00	
Total Profit	5,944	8,147.62	
Income Tax	817	1,140.67	
Net Profit	5,127	7,350.49	

Asset	Amount (10 thousand yuan)
2021 Ending Balance(E)	60,890.00
2022 Budget Basis	67,740.00

$$\text{Asset Turnover Rate} = \frac{\text{Operating Revenue}}{\text{Average Asset}} = 1.153$$

Target 1 : Operating Revenue > 73,000

✓ Operating Revenue = 74,152.73

Target 2 : Net Profit > 7000

✓ Net Profit = 7,350.49

Target 3 : Asset Turnover Rate > 1.15

✓ Asset Turnover Rate = 1.153

Set KPI for budget

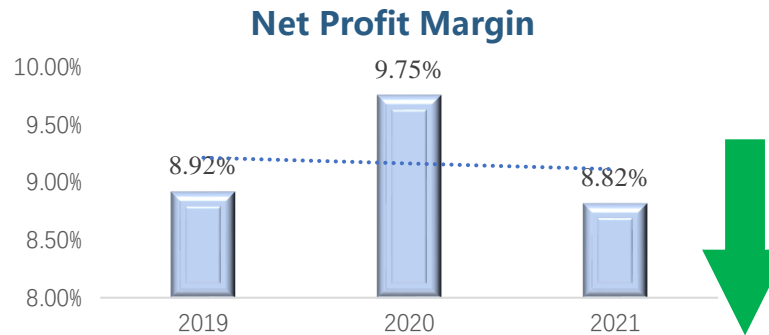
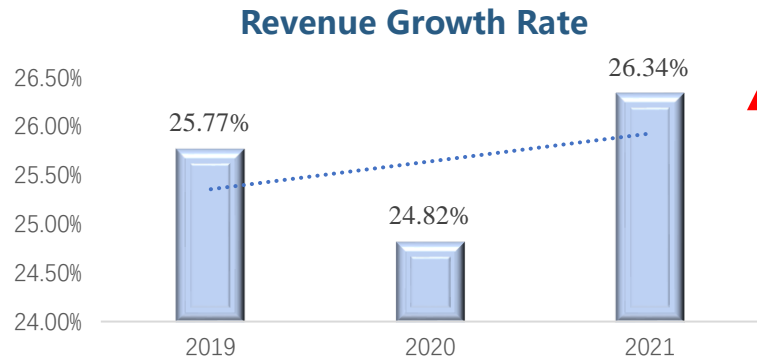
Applicable KPI

Financial
Performance Analysis

Sensitive Analysis

KPI for
each Department

Vertical Comparison to Identify Problems



Problem Recognition :
Net Profit **not in Sync** with Revenue Growth

Indicators	2019	2020	2021
Operating Cost Rate	75.70%	77.90%	80.10% ↑
Administrative Expense Rate	-	2.69%	2.35%
Net Profit Growth Rate	12.20%	36.46%	14.21% ↓

Indicators	2019	2020	2021
Percentage of Accounts Receivable	43.48%	42.92%	56.93% ↑
Receivables Turnover	2.30	2.33	1.94 ↓
Inventory Turnover	5.40	5.68	5.30 ↓

Reasons :

1. Significant increase in **operating costs**
2. The percentage of **administrative expenses** remains high
3. **Net profit growth** slowing - Original industry has bottlenecks, need to upgrade track
4. Over-representation of **receivables** and the **turnover ratio** is decreasing
5. Low **inventory turnover**, backlog will increase storage costs

Set KPI for budget

Applicable KPI

Financial
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KPI for
each Department

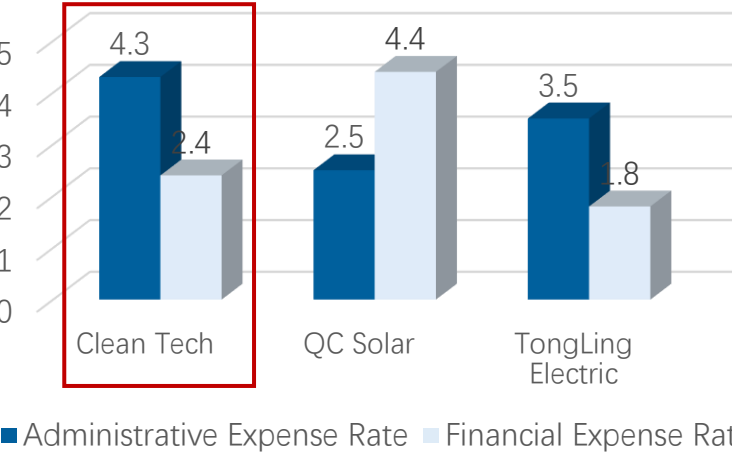
Horizontal Comparison to Identify Problems

Indicators	Clean Tech	LingXian PV	MingXi PV	QC Solar	TongLing Electric
Revenue Growth Rate	26.34%	38.02%	48.11%	46.20%	35.42%
Net Profit Growth Rate	14.21%	16.33%	20.16%	1.76%	39.91
Gross Profit Margin	19.90%	18.70%	23.00%	18.36%	14.26%
Net Profit Margin	8.82%	7.90%	10.90%	8.81%	5.98%

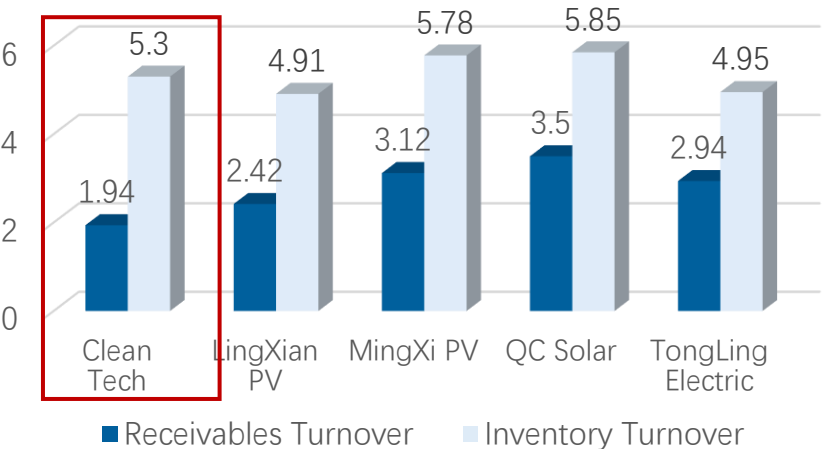
Problem Recognition :

- 1. Slow revenue growth and profit growth rate.
- 2. Low gross margin and net profit margin.

Analysis of Costs



Analysis of Asset Structure

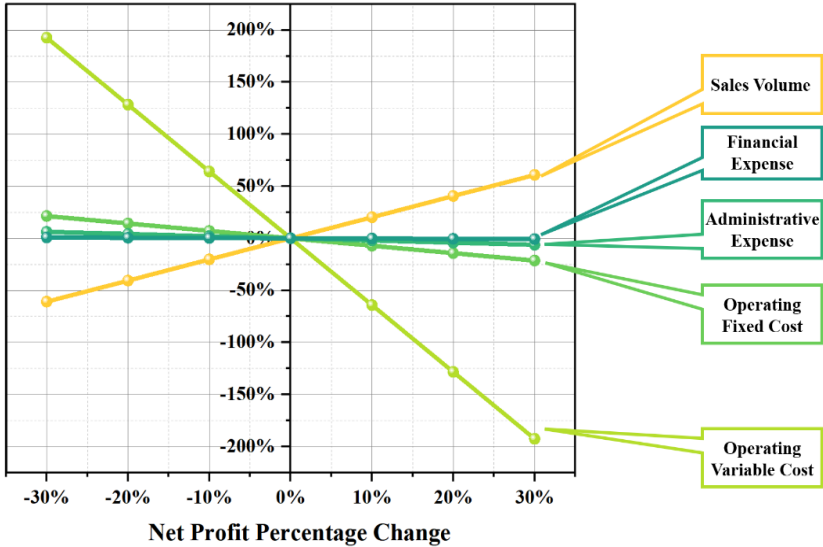
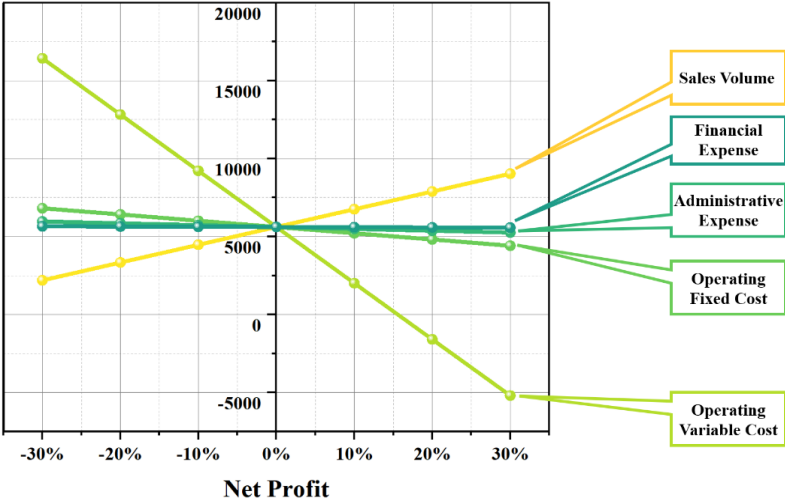


Reasons :

- 1. High administrative expense rate
- 2. Room to reduce the financial expense
- 3. Receivable turnover rate is too low compared to the industry
- 4. Inventory turnover is relatively low

Sensitive Analysis

Net profit(amount) Item	Percentage change	-30%	-20%	-10%	0	10%	20%	30%
sales volume		2199.38	3338.37	4477.35	5616.34	6755.33	7894.31	9033.30
operating variable cost		16433.14	12827.54	9221.94	5616.34	2010.74	-1594.86	-5200.47
operating fixed cost		6818.21	6417.58	6016.96	5616.34	5215.72	4815.09	4414.47
Administrative Expense		5969.03	5851.46	5733.90	5616.34	5498.78	5381.22	5263.65
Financial Expense		5659.68	5645.24	5630.79	5616.34	5601.89	5587.44	5573.00



Net profit (Percentage Change) Item	Percentage change	-30%	-20%	-10%	0	10%	20%	30%
sales volume		-60.84%	-40.56%	-20.28%	0.00%	20.28%	40.56%	60.84%
operating variable cost		192.60%	128.40%	64.20%	0.00%	-64.20%	-128.40%	-192.60%
operating fixed cost		21.40%	14.27%	7.13%	0.00%	-7.13%	-14.27%	-21.40%
Administrative Expense		6.28%	4.19%	2.09%	0.00%	-2.09%	-4.19%	-6.28%
Financial Expense		0.77%	0.51%	0.26%	0.00%	-0.26%	-0.51%	-0.77%

Sensitivity : Operating Variable Cost > Sales Volume > Operating Fixed Cost > Administrative Expense > Financial Expense

Set KPI for budget

Applicable KPI

Financial
Performance Analysis

Sensitive Analysis

KPI for
each Department

KPI for Each Department

Income	2021 Beginning Balance (10 thousand yuan)	Applicable Budget (10 thousand yuan)	Change	Responsible Department
Operating Revenue	58,159	74,152.73	Sales Volume increases 25%	Sales Department
Operating Cost	46,584	59,219.91	Operating variable cost increases 5% Operating fixed cost decreases 10%	Purchasing Department Production Center Warehousing Department
Administrative Expense	1,367	956.90	Administrative Expense decreases 30%	No specific Department, an overall cost control plan
Financial Expense	168	117.60	Financial Expense decreases 30%	Financial Department

Direct material takes up 80% operating cost, constitutes of:

- Purchase Price – controlled by long-order agreement
- Transportation fee, insurance & loading fee – controlled by Activity Based Classification

Set KPI for budget

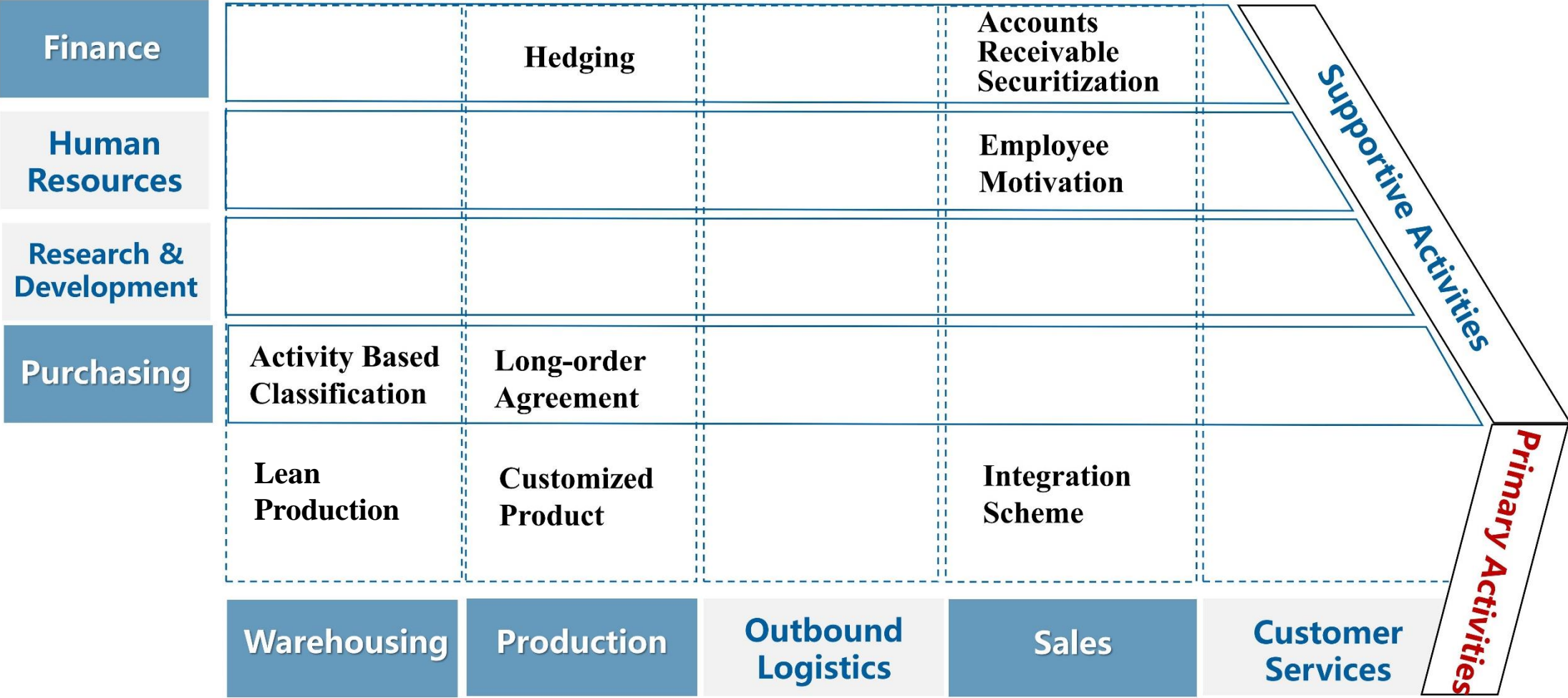
Applicable KPI

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Performance Analysis

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KPI for
each Department

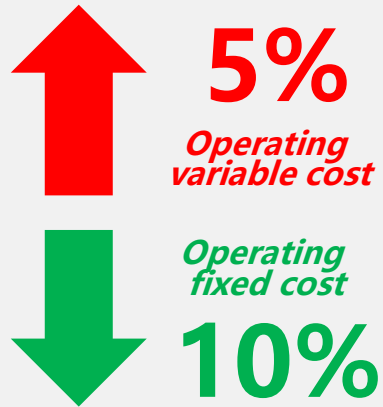
Action Plan in Value Chain



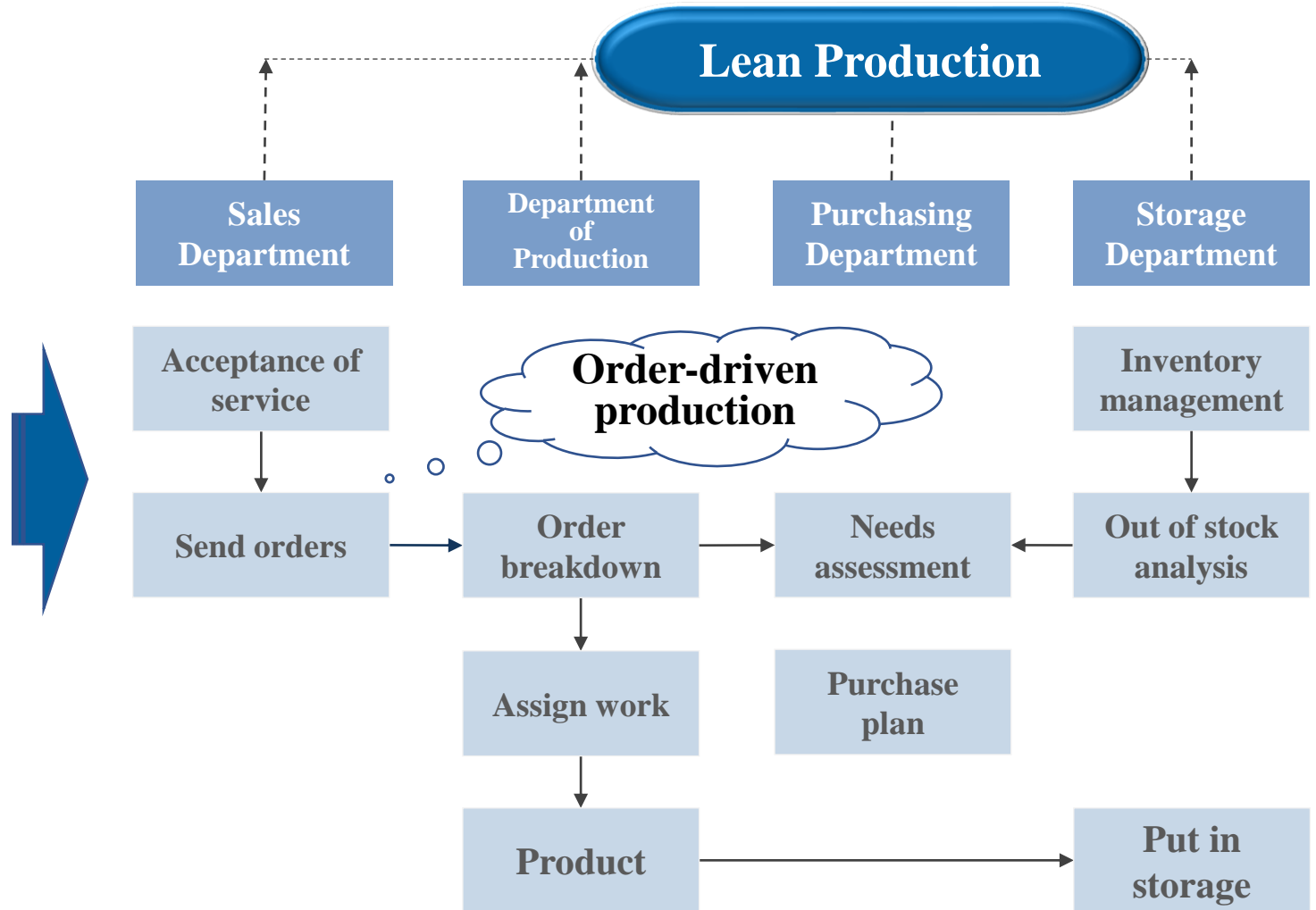


Warehousing Department - *Lean production*

Goals and results



Accelerate inventory turnover and reduce inventory storage





Production Center - *Customized Product*

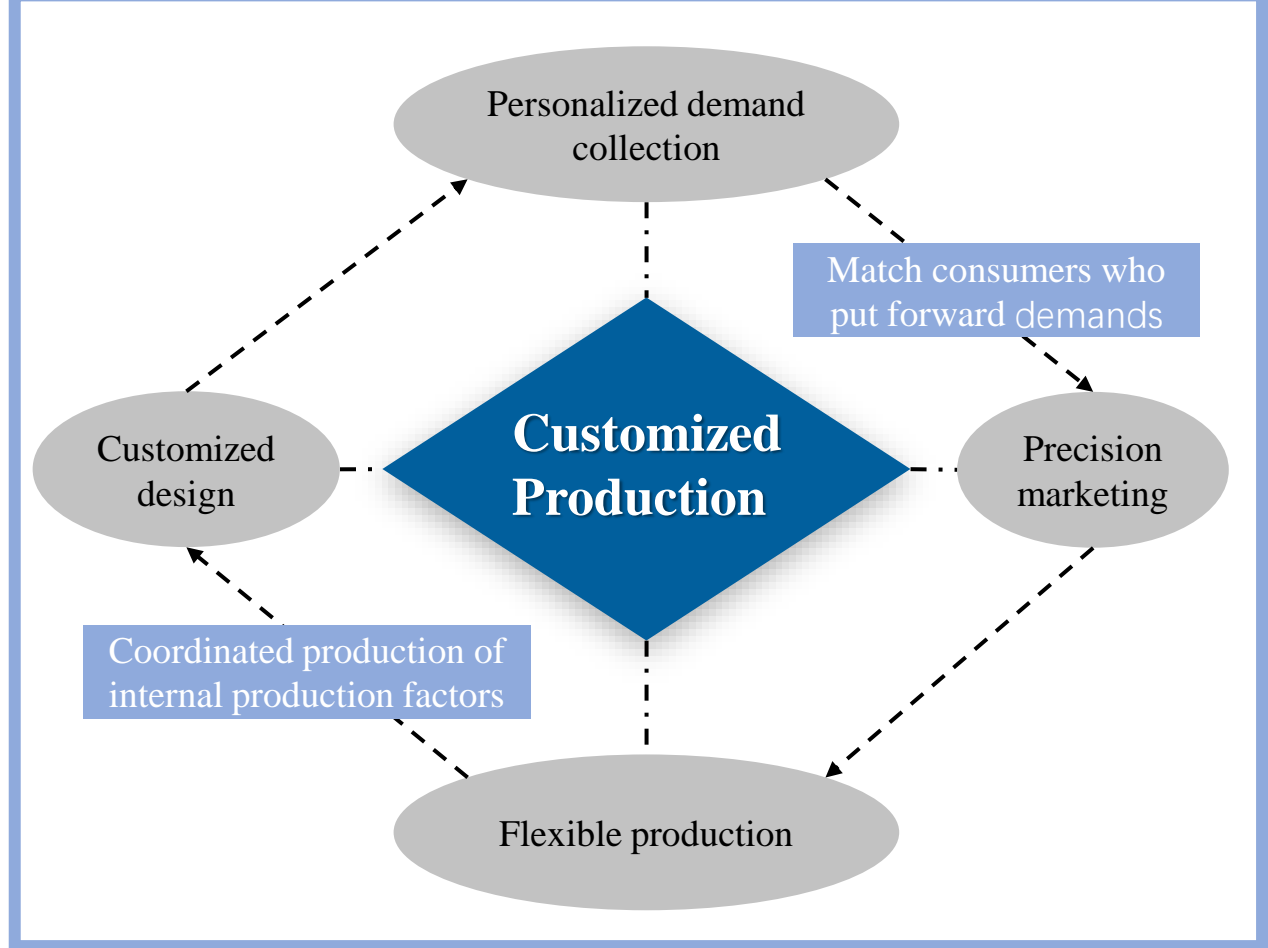
Goals and results



Enhance customer stickiness and expand sales



Fulfill customers' variable needs





Sales Department

4.82 billion yuan of market growth space in 2022

VS

Target: Sales volume increase by 25%

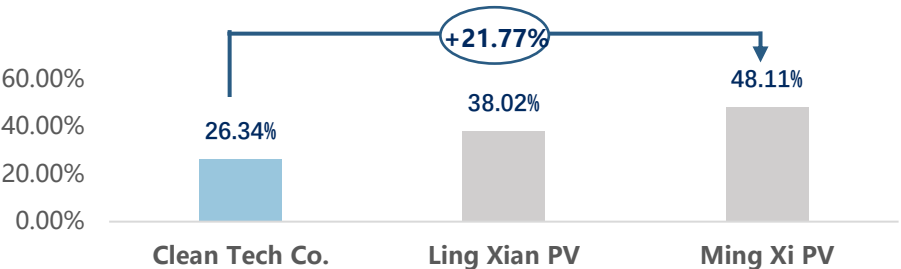
Feasible!

Actions

Vertical & horizontal comparison

	2020	2021	2022
Unit-price	a	a	$a \cdot (1+2\%)$
Sales volume	b	$b \cdot (1+x)$	$b \cdot (1+x) \cdot (1+y)$
Income	46,034	58,159	74,152.73
Sales growth rate	-	26.34%	25%

2021 Revenue growth rate



	2021	2022
New installed capacity	170	225
PV junction box demand	4.86	6.43
PV junction box price	20	22
Market space of junction box	97.2	141.46
PV connector requirement	4.86	6.43
PV connector price	2.5	2.5
Market space of connector	12.15	16.08

Employee Motivation

Integration scheme

Accounts Receivable Management

Cost Control Work Plan

Cost Control in Value Chain

Cost Control in Value Chain

Primary Activities

Supportive Activities



Sales Department - *Employee Motivation*

Goals and results

 **25%**
Sales Volume

**Expand sales volume
and improve cash
collection**



Key Performance Indicators	Assessment items	Assessment criteria	Proportion
Performance indicators (50%)	Performance tasks	Performance up to standard	10%
	Cash collection rate	Proportion of cash receipts in sales	30%
	Sales expense ratio	Amount reimbursed due to sales	10%
Sales capacity (50%)	Customer development and maintenance	Confirm signing	45%
		The customer has requirements and has contacted the person in charge	
		Old customers follow up or develop new customers with budget	
		Interested in the product but no need for it and leave contact information	
		Invalid customer	
	Sales growth rate	Sales increment compared with last month	5%
Total points			



Sales Department - *Integration scheme*

Goals and results

 **25%**
Sales Volume

**Improve customer
satisfaction and
expand sales**



Product Integration

**Strategic cooperation with other
component suppliers**



Combined sales provide convenience for customers

Service Integration

“Sales + Installation + After-sales Service”



Improve customer satisfaction



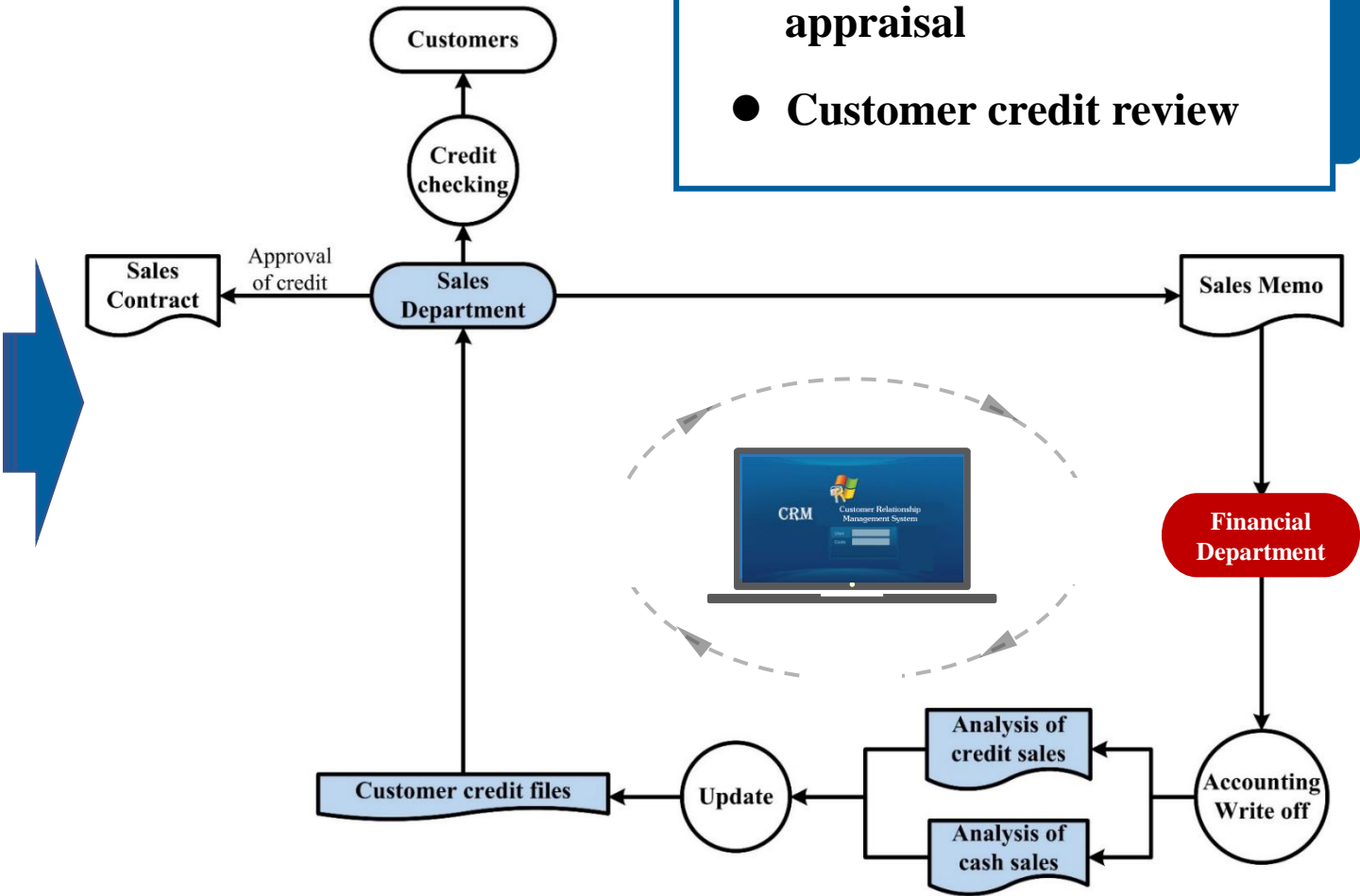
Sales Department - Accounts Receivable Management

Goals and results

 **25%**
Sales Volume

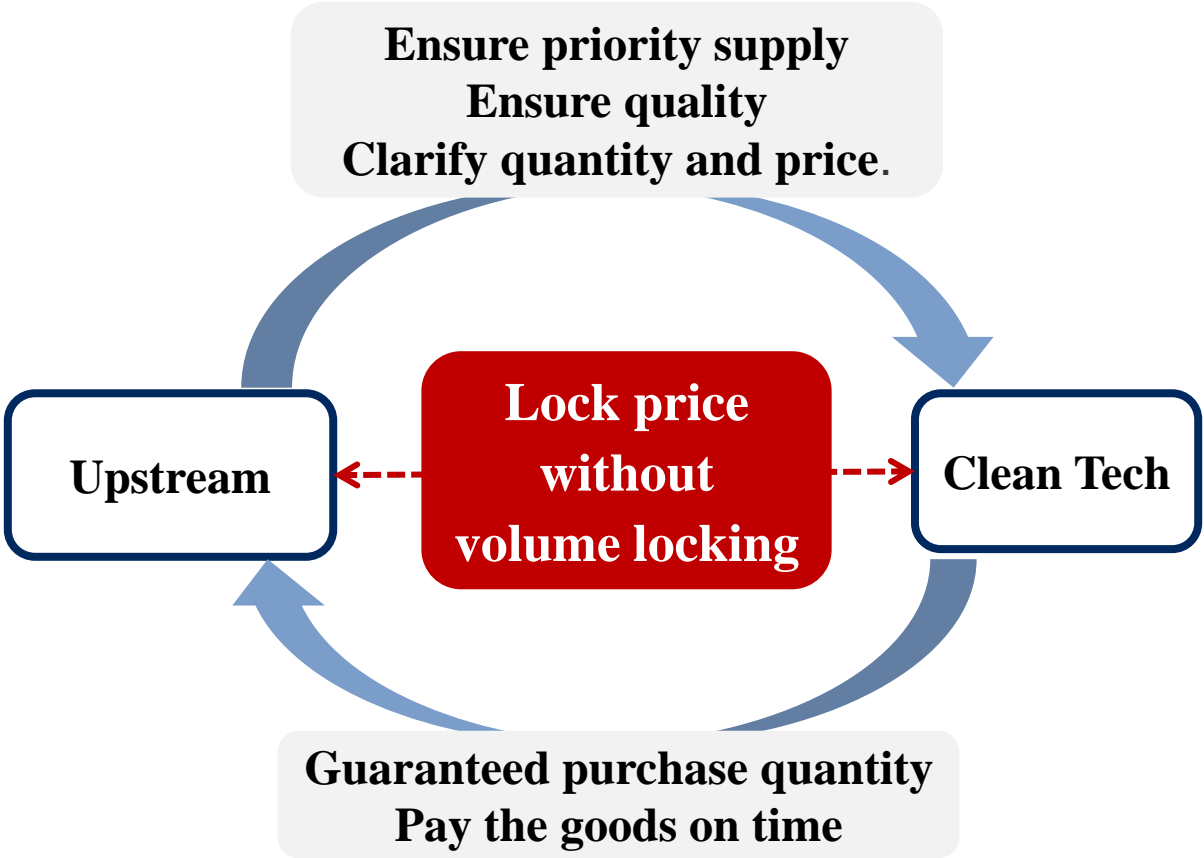
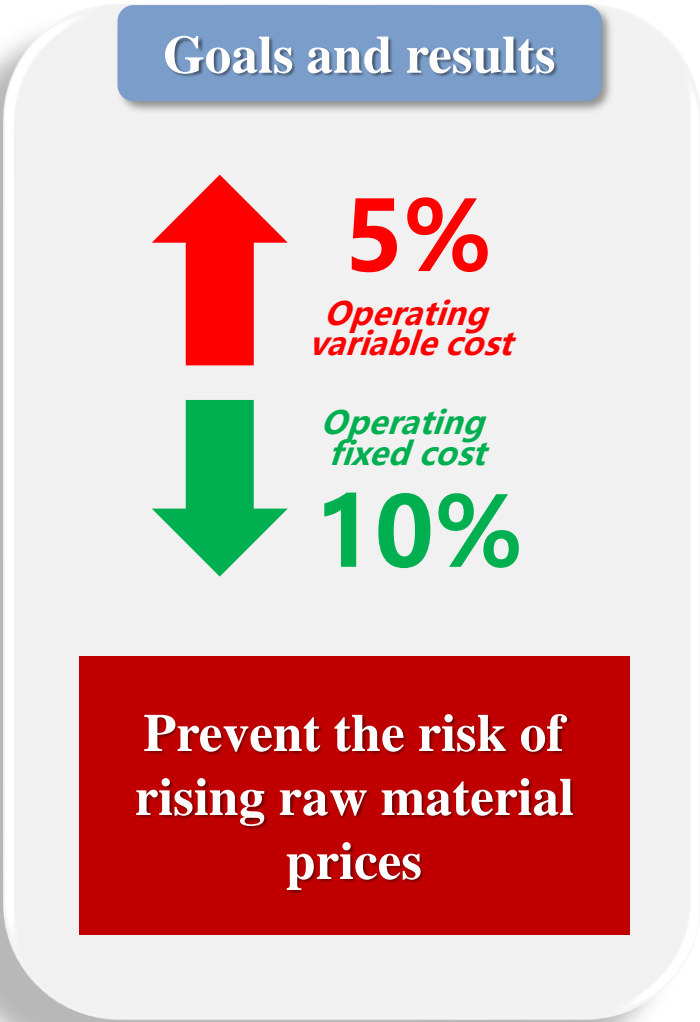
**Department
collaboration to
improve cash
collection!**

- Employee Performance appraisal
- Customer credit review





Purchasing Department - *Long-order Agreement*





Purchasing Department - *Activity Based Classification*

Goals and results



5%
*Operating
variable cost*

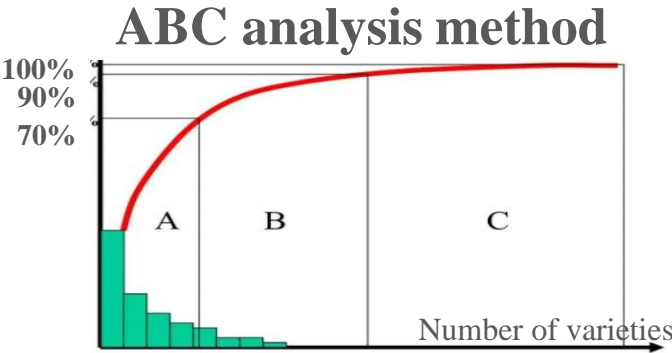


10%
*Operating
fixed cost*

**Planned and focused
procurement to
reduce resource waste
and material cost**

Inventory type	Characteristic	Management	procurement method
A	The number of varieties is small , but the most funds are occupied	Key Management. Small batch and multi-batch purchase	Bidding procurement
B	The number of varieties and the amount of funds are in the middle	Secondary key Management.	Competitive procurement
C	The number of varieties is large, but the funds occupation is small	General Management.	Quantitative procurement

Amount of Money



Material	Cumulative proportion	Classify
		A
		B
		C

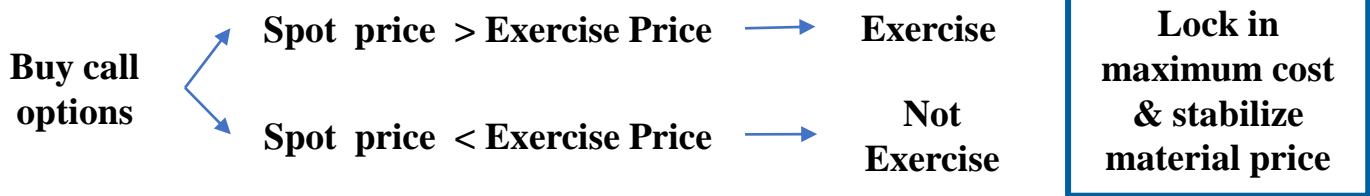
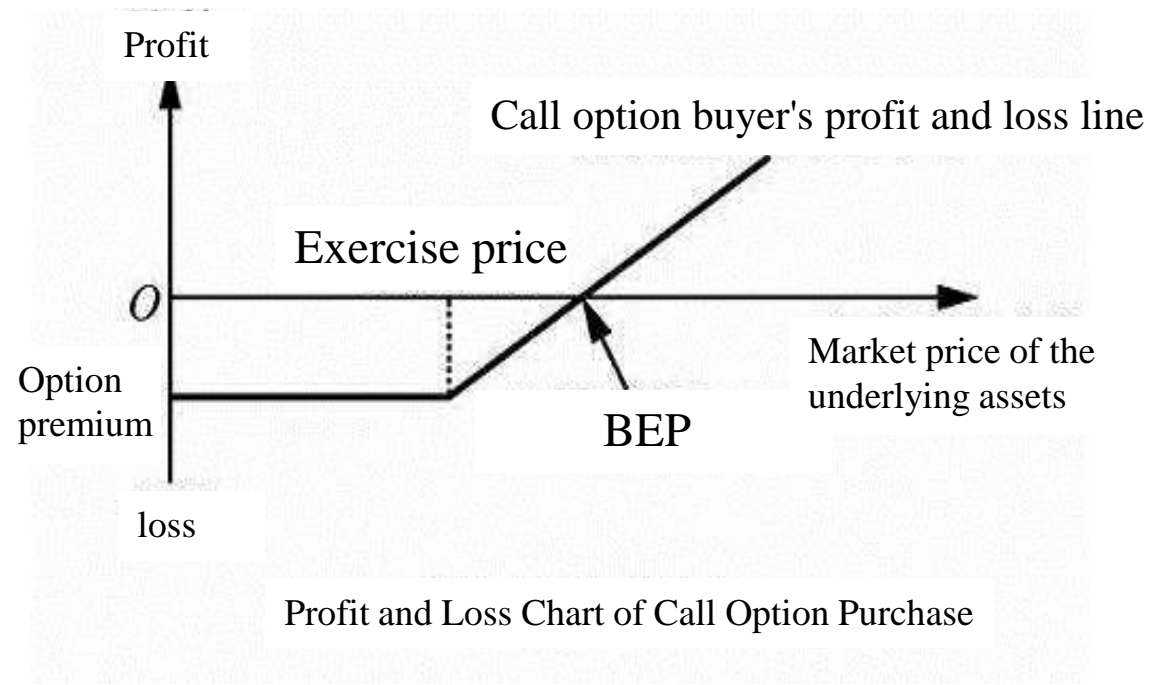


Financial Department - Hedging

Goals and results

Financial Expense
30%


Buy copper options to prevent the risk of copper price rising





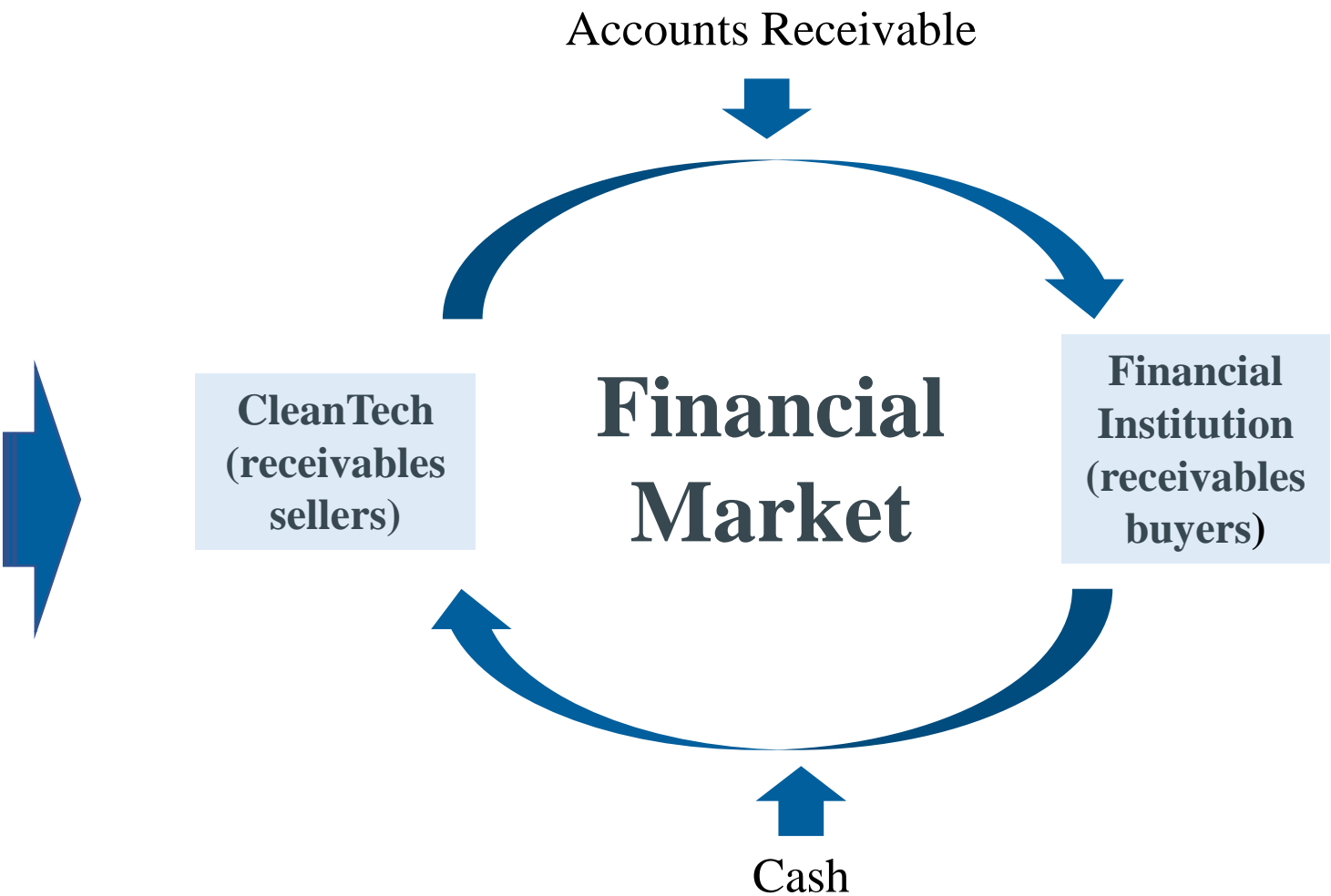
Financial Department - *Accounts Receivable Securitization*

Goals and results



Financial Expense
30%

Activate accounts receivable to supplement cash flow



Issue 2

R&D Budget Proposal

Short-term applicable cost control work plan:

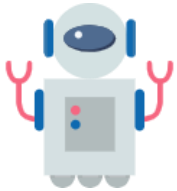
- 1. Heavily rely on 25% sales volume increase*
- 2. Inevitable material cost increase*

Proposal:

- 1. Invest 50 million in R&D is Feasible**
- 2. 70% Invest in Technology Development and 30% in Product Development**

Analysis of Feasibility and Necessity

Necessity



The intelligent level of photovoltaic industry **be significantly improved** by 2025

Downstream **technical innovation requires** synchronous innovation of junction box



Intelligent junction box has **good performance** and **high gross profit**, so it must seize the track

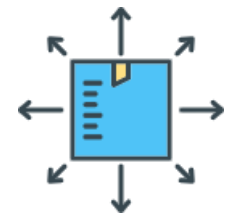
Feasibility

Technically and financially feasible



Market feasible: gross profit is high, which can make a lot of profits in a short time

Channel feasible : have existing customer resources and sales channels



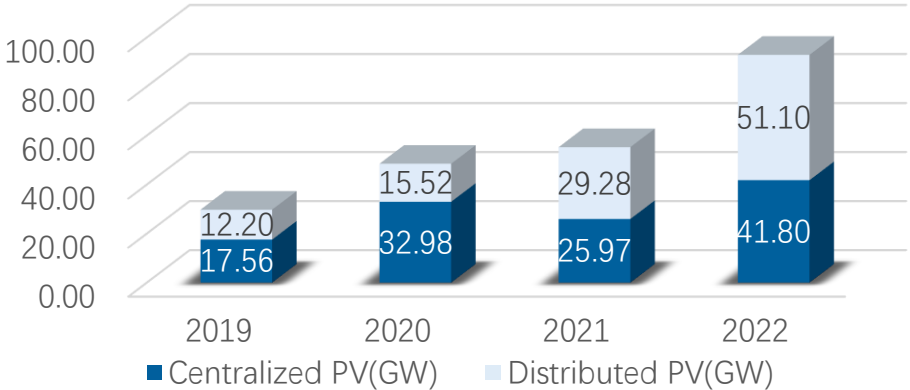
Upgrade the track to the intelligent junction box!

NPV & Payback Period

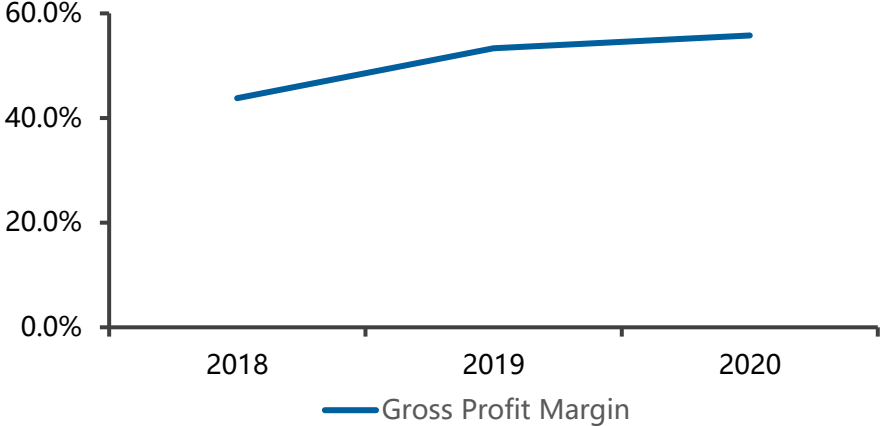
Is it profitable?

YES!

Percentage of New PV Installations in China

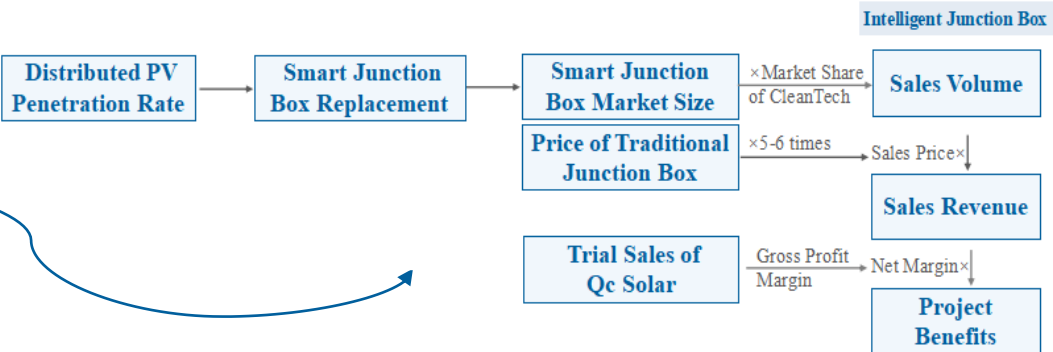


Gross Profit Margin of Qc Sola Intelligent Junction Box



Key Assumptions

1. Intelligent junction box replacement ratio is around 17.35%.
2. The gross profit margin of Intelligent junction box is around 50%.



NPV & Payback Period

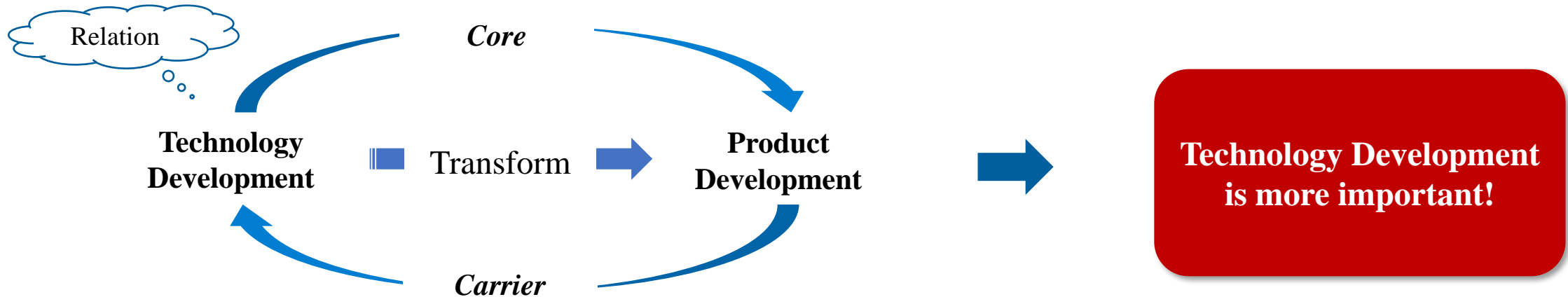
Items	2021	2022E	2023E	2024E	2025E
Average Cost of Junction Box (Yuan/Set)	13.78				
Average Cost of Smart Junction Box (Yuan/Set)	68.90				
Gross Profit Margin	50%				
Average Selling Price of Intelligent Junction Box (Yuan/Set)	103.35	103.35	103.35	103.35	103.35
China Junction Box Market Size (Million Sets)	13315.50	18679.25	19090.91	19473.68	20338.98
Percentage of Distributed PV	53.40%	58.37%	58.37%	58.37%	58.37%
Intelligent Junction Box Replacement Ratio	13.35%	14.59%	14.59%	14.59%	14.59%
China Smart Junction Box Market Size (Million Yuan)	183716.95	281724.28	287933.02	293706.04	306756.67
Market Share of Clean Tech	-	-	-	1%	3%
Product Net Margin for Clean Tech	-	-	-	25%	25%
Project Input	-	-500	-500	-	-
Project Benefits	-	-	-	734.27	2300.68
NPV	-		1028.36		
Payback Period			1.27 years		

Invest!

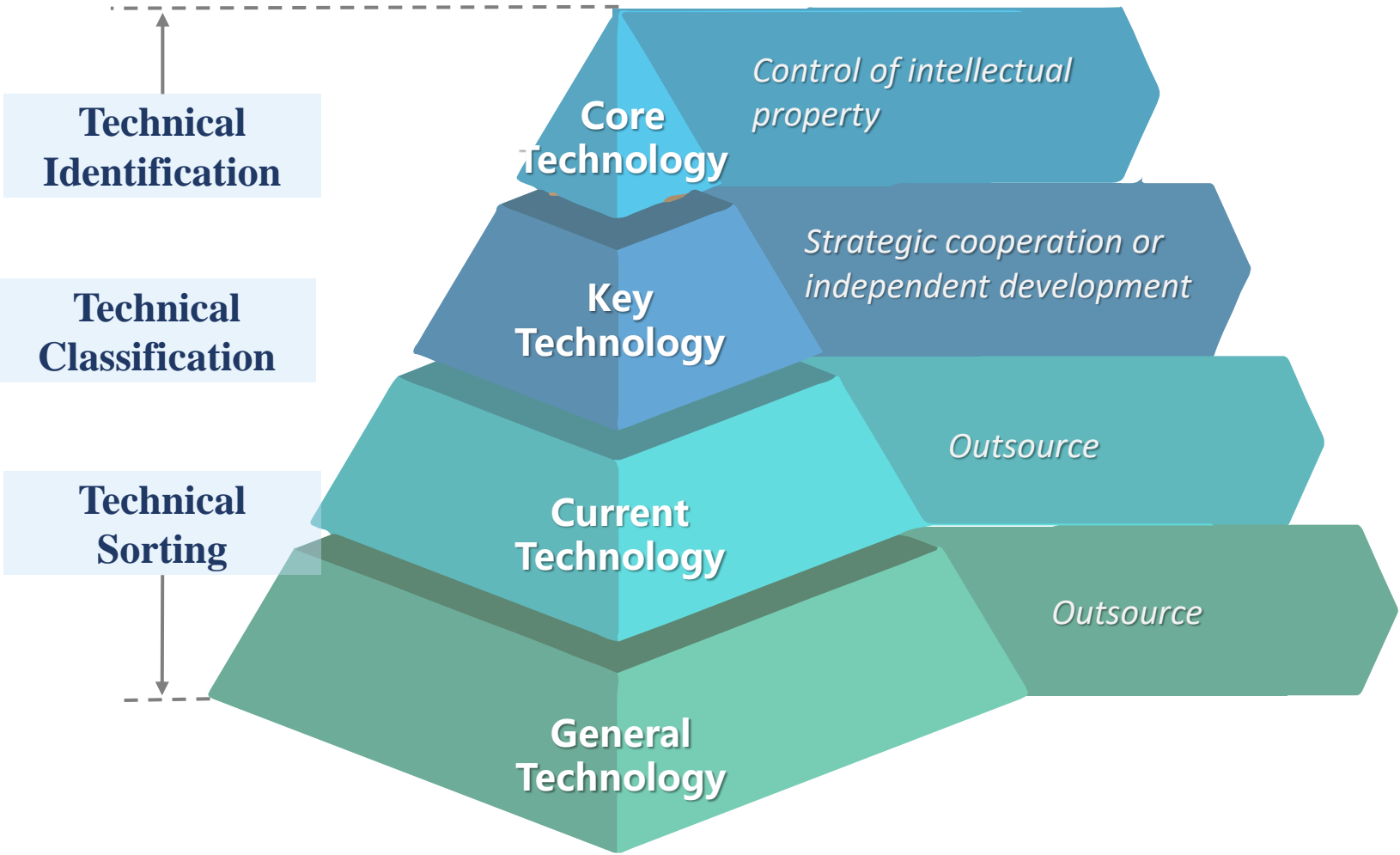
NPV>0
Payback Period in line with expectations

“Technology Development” VS “Product Development”

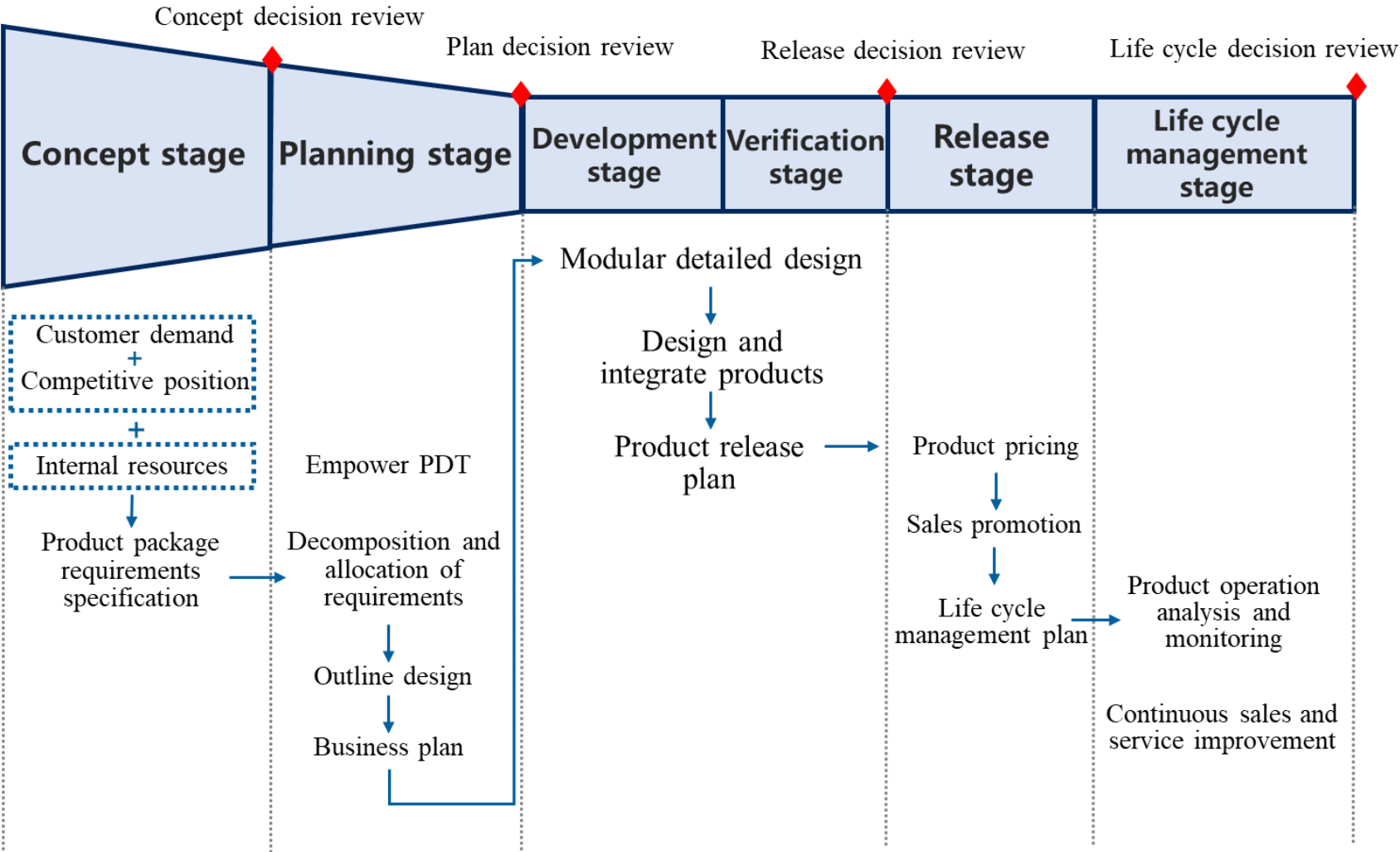
	Technology Development	Product Development
Focus	Focus on principle research and technical achievements, to support product development.	Directly facing customers and markets, to generate sales income.
Characteristic	Longer cycle and more difficult, but can gain a favorable competitive position.	Less difficult but more replaceable.
Accounting Treatment	Totally expensed	Expensed or Capitalized
Impact on Income Tax	Gain immediate 75% tax-deduction	For expensed cost, gain 75% deduction; for capitalized cost gain 175% tax-offset effect during asset amortization



Management Focus of Technology Development



Management Focus of Product Development



Budget Allocation

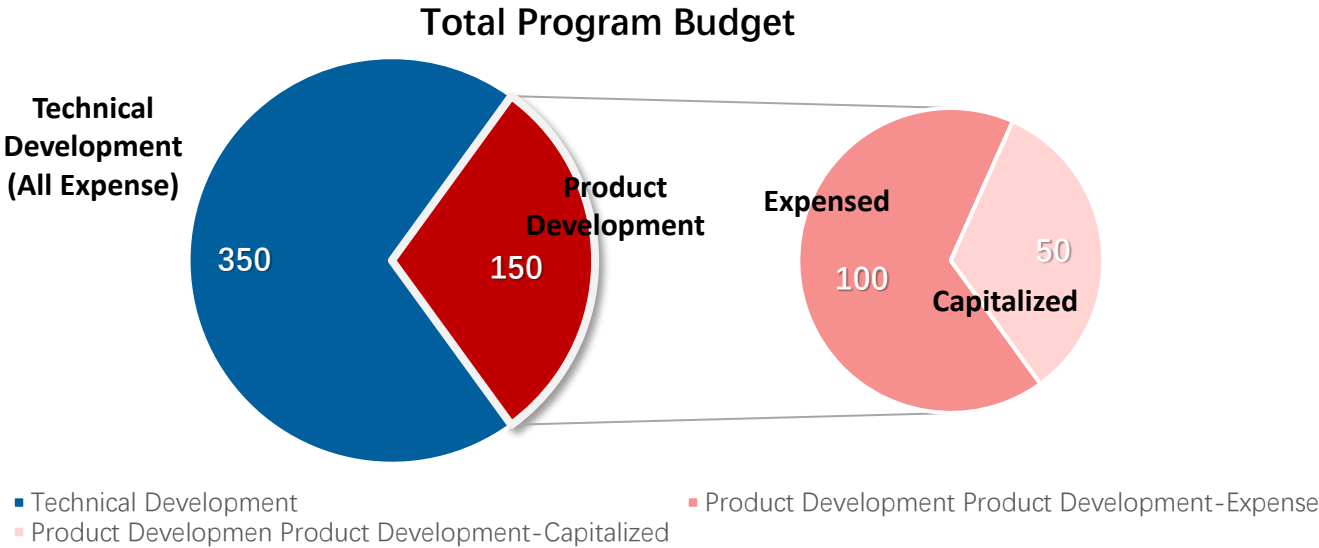
Income	100% Expensed	90% Expensed, 10% Capitalized	80% Expensed, 20% Capitalized
Operating Revenue	74152.73	74152.73	74152.73
R&D Expense	4207.64	4157.64	4107.64
Income Tax	1165.89	1179.02	1192.14
Net Profit	6981.74	7018.61	7055.49
Total Assets Turnover	1.16	1.16	1.15

Accounting Treatment:

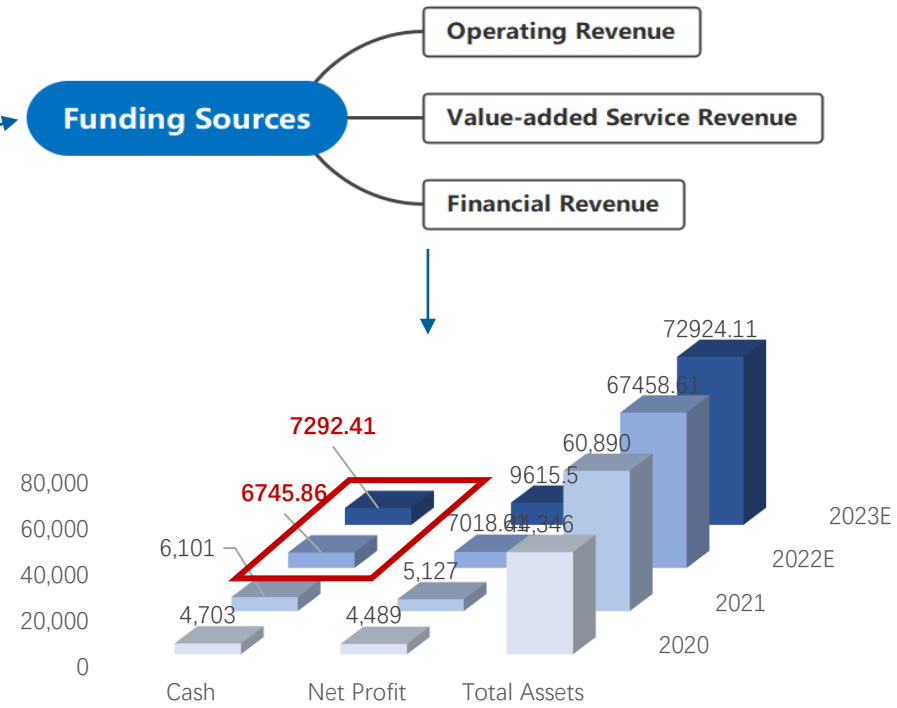
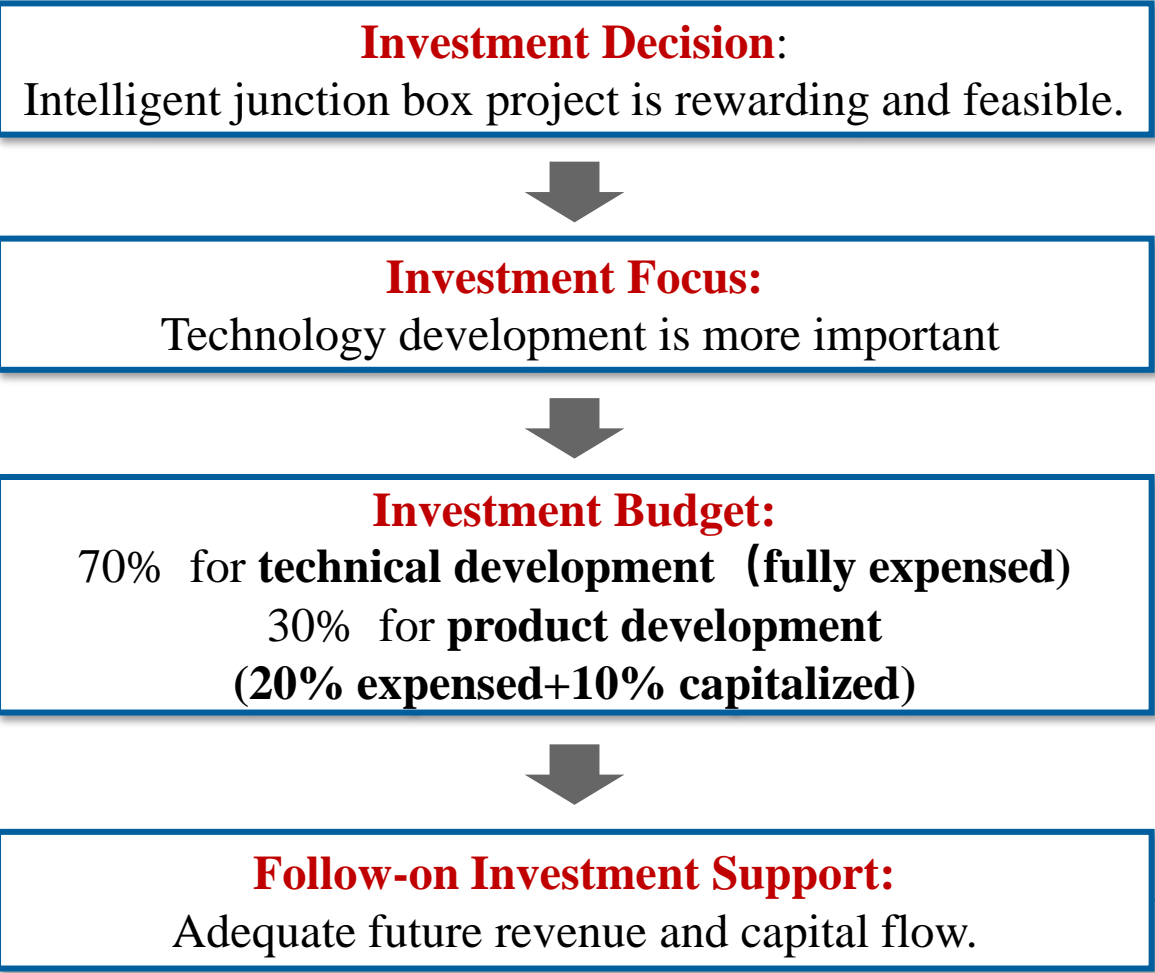
- ❑ Only 90% expensed 10 capitalized - Achievement of budget targets.
- ❑ 90% expensed and 10% capitalized of ¥ 5 million of R&D investment.

Breakdown of Budget :

- ❑ Refer to Huawei IPD using the "7-2-1" principle for resource allocation.
- ❑ 70% is for technical development and 30% is for product development.

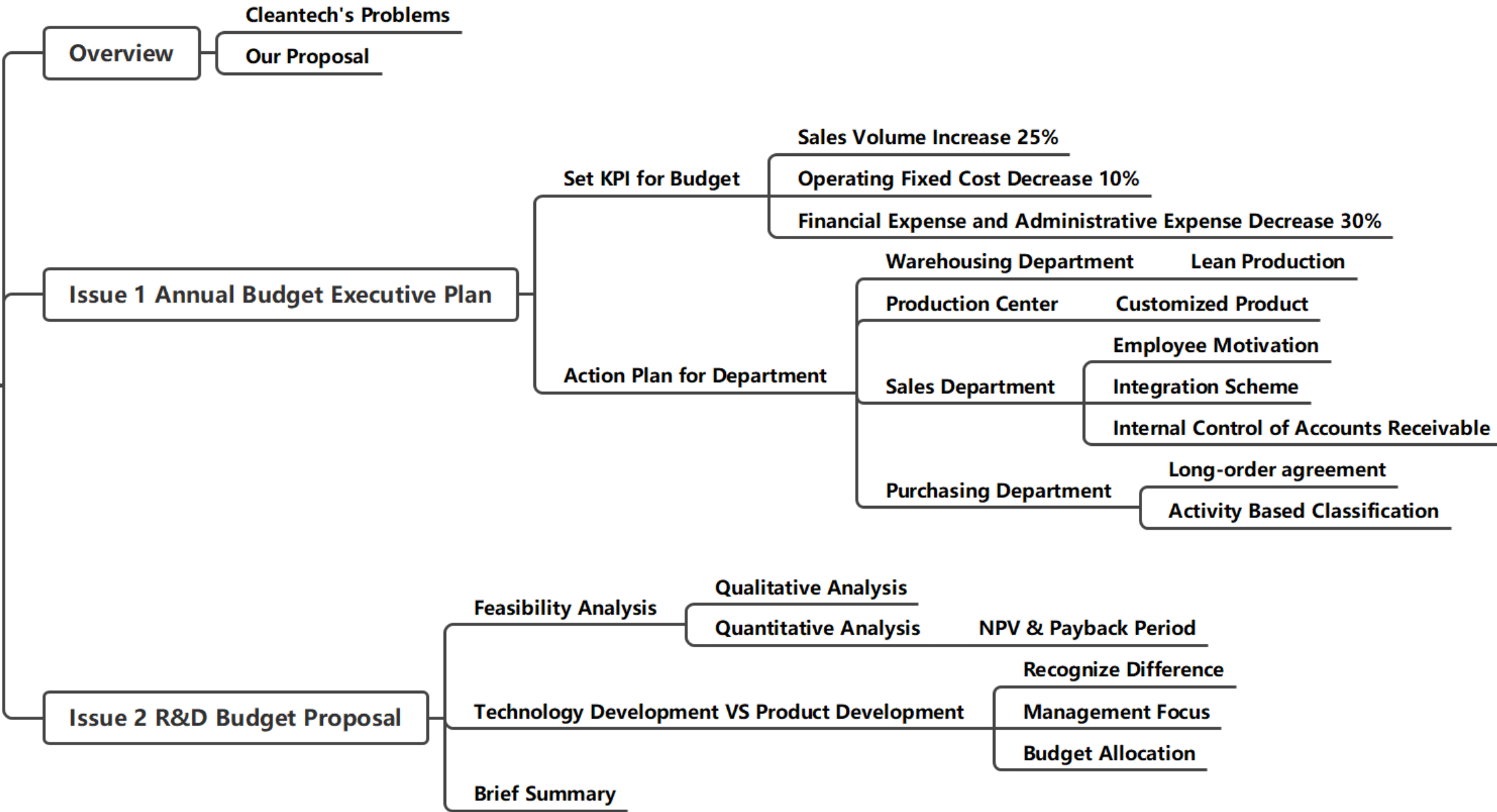



Brief Summary



- Investment Sustainability Analysis**
- Rich funding sources
 - Sufficient cash flow to meet future continuous R&D investment

Summary





“Budget Execution” + “R&D ”

Become Top Domestic PV Module Suppliers!

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