

# NIO Earnings Call Transcript

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**Quarter: 3**

Operator: Hello, ladies and gentlemen. Thank you for standing by for NIO Inc. Third Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. Today's conference call is being recorded. I will now turn the call over to your host, Rui Chen, head of investor relations and corporate finance of the company. Please go ahead, Rui.

Rui Chen: Good morning, and good evening, everyone. Welcome to NIO's Third Quarter 2025 Earnings Conference Call. The company's financial and operating results posted on the company's IR website were published in the press release earlier today. On today's call, we have William Li, Founder, Chairman of the Board, and Chief Executive Officer, and Stanley Qu, Chief Financial Officer. Before we continue, please be kindly reminded that today's discussion will contain forward-looking statements made under the safe harbor provisions of The US Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the company's actual results may be materially different from the views expressed today. Further information regarding risks and uncertainties is included in certain filings of the company with the US Securities and Exchange Commission, the Stock Exchange of Hong Kong Limited, and the Singapore Exchange Securities Trading Limited. The company does not assume any obligation to update any forward-looking statements except as required under applicable law. Please also note that NIO's earnings press release and this conference call may include discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. Please refer to NIO's press release, which contains a reconciliation of unaudited non-GAAP measures to comparable GAAP measures. With that, I will now turn the call over to our CEO, William Li. William, please go ahead.

William Li: Hello, everyone, and thank you for joining NIO's 2025 Q3 earnings call. In Q3 2025, the company delivered 87,071 smart EVs, representing a year-over-year growth of 40.8%. During the quarter, we launched two large zero battery electric SUVs, the Omo L90 and the new Omo ES8. Both models have received strong recommendations from users for their comprehensive competitiveness and continue to see solid demand. In the meantime, Firefly continued to see steady market growth and meeting more diverse needs by covering a broader range of price segments. The new Envo and the Firefly brands are able to drive significant growth in deliveries. In October, the company delivered 40,397 smart EVs, up 92.6% year-over-year, marking three consecutive months of record-high delivery. For Q4, we expect total deliveries to be in the range of 120,000 to 125,000, a year-over-year increase of 60.1% to 72%, achieving a new quarterly high. On the financial front, thanks to the ongoing cost optimization, in Q3, the vehicle gross margin improved to 14.7%, and the gross margin of other sales was 7.8%, resulting in an overall gross margin of 13.9%, the highest in nearly three years. This reflects the company's strengthened product and service profitability. Operational efficiency in R&D, sales, and general administration continued to improve. Non-GAAP operating loss was narrowed by 30% quarter over quarter. In Q3, the company's operating cash flow and free cash flow both turned positive. NIO remains committed to the battery electric vehicle roadmap featuring chargeable, swappable, and upgradable batteries. Leveraging the company's full-stack R&D capabilities in 12 key tech areas, the three brands are able to precisely meet users' needs across multiple market segments. The competitiveness of our new products under all their brands has been well received. The new brand recently introduced three color themes for the ET9 Horizon edition. The Horizon edition is a special

collection reserved for NIO's most prominent flagship models. The distinctive design, advanced technology, executive excellence, and exclusive services make the ET9 Horizon edition a standout in the market. The all-new ES8, an all-around tech flagship SUV, was launched and started delivery at NIO Day in September. Leveraging the unrivaled space and driving experiences made possible by all-electric technology, the all-new ES8 has remained a top seller in the premium large zero SUV segment, surpassing 10,000 deliveries within just 41 days, the fastest for a price above 400,000 RMB. In November, the ES6, another all-around SUV in NIO's lineup, celebrated its 300,000 unit delivery milestone, topping the sales chart of China's fabs model twice over 300,000 RMB. Within the Amo brand, the L90 delivered over 33,000 units in three months since its launch in late July, leading the large battery electric SUV segment for three consecutive months. The L60 also delivered strong performance, maintaining a top two position in the battery electric SUV segment with MSRP above 200,000 RMB during the first March. With exceptional products, experiences, and word-of-mouth, the Amo brand increasingly becomes the preferred choice for families. Since delivery began, Firefly has led the high-end small EV market in sales volume, establishing itself as a benchmark in the market. With creative launches of special editions, it continues to strengthen its appeal among users who value quality and individuality. This dynamic small car is already making its way into the global market and will expand into more countries and regions across Europe and Asia. In smart driving, the new world model, NWM, is the first world model that not only understands and predicts the real world but also operates with a closed-loop training system. Actually, the industry trend is increasingly toward a work model roadmap. Next, we will gradually roll out upgrades on NWM for vehicles equipped with NIO's NX90 31 and Amelia's O ring X smart driving chips, further enhancing urban and highway NOP plus, parking, and smart safety performance. The upgrade will also enable execution of open set command. For the on-road smart driving, the Coconut 210 scheduled for release at year-end will upgrade its model-based end-to-end solution for urban and highway NOA, as well as parking, delivering a more seamless driving experience. Our self and service network currently includes 172 NIO houses, 395 NIO spaces, 422 Amo stores, as well as 405 service centers, and 70 delivery centers. Our global charging and swapping network now operates 3,641 power swap stations, providing users with more than 92 million swaps. Besides, NIO has built over 27,000 power chargers and destination chargers. On September 17, NIO completed a total of \$1.16 billion in equity financing on both the US and Hong Kong stock exchanges, further strengthening its balance sheet and providing ample resources for its long-term commitment to R&D; and user services. On November 23, the 2025 NIO Cup Formula Student Electric China successfully concluded in course A. NIO has been supporting this competition since 2015, helping cultivate tens of thousands of young professionals for the industry. Today also marks the company's eleventh anniversary. Over the past eleven years, we have remained committed to in-house R&D; in core smart EV technologies, continued investing in charging and swapping infrastructure, built a multi-brand sales and service system, and created a vibrant community for over 900,000 users to share joy and grow together. These advantages have been increasingly recognized by our users. This year, our new products across three brands have performed strongly in their respective market segments, marking the beginning of a new phase of rapid growth. At the same time, through the cell business unit mechanism, we have comprehensively optimized our organization and enhanced operational efficiency, consistently improving our business rooted deep and growing beyond. Looking ahead, we will continue to provide more competitive technology products and services to deliver better user experience and greater user value. As the company evolves into a user enterprise, leading in technology and experience, we aim to shape a sustainable and brighter future with more users. Thank you for your support. With that, I will now turn the call over to Stanley for Q3 financial details. Over to you, Stanley.

Stanley Qu: Thank you, William. Let's now review our key financial results. For 2025, average total revenues reached 21.8 billion RMB, increased 60.7% year over year and 14.7% quarter over quarter. Vehicle sales were 19.2 billion RMB, up 15% year over year and 19% quarter over quarter. The year-over-year growth was mainly due to higher deliveries, partially offset by lower average selling price from product mix changes. The quarter-over-quarter increase was mainly from higher deliveries. Other sales were 6.226 billion RMB, up 31.2% year over year and down 9.8% quarter over quarter. Year-over-year growth was driven by increased sales of used cars, technical R&D; services, and sales

of car accessories, and after-sales vehicle services. While the quarter-over-quarter decrease was mainly due to the decrease in revenues from used cars technical R&D; services, partially offset by the increase in parts accessories, and after-sales vehicle services and provision of power solutions. Looking at margin, vehicle margin was 14.7%, compared with 13.1% in Q3 last year and 10.3% last quarter. The year-over-year and the quarter-over-quarter increase were mainly due to the decreased material cost per unit primarily driven by our comprehensive cost reduction efforts. Overall, gross margin was 13.9%, versus 10.7% in Q3 last year, and 10% last quarter. The year-over-year increase mainly reflected higher vehicle margin and better profitability in sales of parts, accessories, and after-sales vehicle services, driven by cost reduction and efficiency improvements. The quarter-over-quarter increase was mainly attributable to higher vehicle margin. Turning to OpEx, R&D; expenses were 2.4 billion RMB, decreased 28% year over year and 20.5% quarter over quarter. The decrease year over year and quarter over quarter were mainly driven by lower personnel costs in R&D; functions due to organizational optimization and decreased design and development costs from different development stages. SG&A; expenses were 4.2 billion RMB, up 1.8% year over year and 5.5% quarter over quarter. Year over year, SG&A; expenses stayed stable. The quarter-over-quarter increase was mainly driven by the increase in sales and marketing activities associated with new product launches. Loss from operations was 3.5 billion RMB, down 32.8% year over year and 28.3% quarter over quarter. Excluding share-based compensation expenses and organizational optimization charges, adjusted loss from operations was 2.83 billion RMB, representing a decrease of 39.5% year over year and 31.3% quarter over quarter. Net loss was 3.5 billion RMB, showing a decrease of 31.2% year over year and a decrease of 30.3% quarter over quarter. Excluding share-based compensation expenses and organizational optimization charges, adjusted net loss was 2.7 billion RMB, representing a decrease of 38% year over year and 33.7% quarter over quarter. Furthermore, we generated positive operating cash flow and positive free cash flow this quarter, together with the \$1.16 billion US dollar equity offering in September. We ended the quarter with 36.7 billion RMB in total cash and cash equivalents, restricted cash, short-term investments, and long-term time deposits, laying a solid foundation for our future growth. That wraps up our prepared remarks. For more information and the details of our unaudited third quarter 2025 financial results, please refer to our earnings press release. Now I will turn the call over to the operator to start our Q&A; session. Operator?

Operator: Thank you. If you wish to ask a question, please press 1 on your phone and wait for your name to be announced. If you wish to cancel your request, please press 2. If you are on a speakerphone, please pick up the handset to ask a question. For the benefit of all the participants on today's call, please limit yourself to two questions. And if you have additional questions, you can reenter the queue. Our first question comes from the line of Tim Hsiao from Morgan Stanley. Please go ahead.

Tim Hsiao: Hi. Thanks for taking my question. This is Tim from Morgan Stanley. So I have two questions. The first question is about a breakeven target because we noticed that NIO's updated fourth quarter delivery guidance of 120,000 to 125,000 came in around 20% lower than our previous target of 150,000. Just wondering if there was a volume shortfall adversely affecting the company's breakeven target for the fourth quarter. And considering the sub-seasonal demand and positive uncertainty, when could the company achieve the previous monthly ROE of 50,000? That's my first question.

William Li: Thank you for the question. Actually, for the company, we still have the confidence in achieving quarterly breakeven in Q4, and this is still our financial target towards the end of the year. But in the meantime, we did see the impact coming from the phase-out and the termination of the trade-in and replacement subsidies since October. But this is actually the challenge faced by the entire industry. In that case, in Q4 for the entire industry, we may not see the year-end sales spike that we normally expect towards the end of the year. As you are closely tracking the market and all the numbers, probably you have also foreseen that potential change towards the end of the year. And in the meantime, as next year, the purchase tax exemptions on the new energy vehicles will be further reduced for the new products like the ES8 with order backlog that will continue towards the next year. Car companies, including NIO, provide the guarantee for the purchasing tax exemptions to users waiting up for their cars next year. Yet no car company is going to provide the guarantee for the trade-in and replacement subsidy. In that case, the overall market demand has been affected because of the

cancellation of the trade-in subsidy. Especially for our company, our Amo L60 and L90 are majorly affected by this cancellation as they are also relatively low price segment and are more sensitive to such changes. Yet we still have confidence in achieving the Q4 breakeven target. This is mainly because we do see a strong demand for our high-margin products like the all-new ES8. We still have ample order backlog and also new order intake for that product. So overall speaking, the order intake on the Amo has been affected because of the cancellation of the trade-in subsidy, yet the overall impact on the gross profit is limited. In that case, we do have the confidence for the financial targets. In the meantime, in terms of the vehicle gross margin, in Q3, we have achieved the vehicle gross margin of 14.7%, better than we expected. In the meantime, we are also working with our supply chain partners on the continuous cost reduction and also commercial negotiation efforts towards Q4. With that, we foresee the vehicle gross margin in Q4 to be around 18%. And for the ES8 in Q4, we also expect significant growth in sales and the delivery volume with a very lucrative margin of over 20%, then the overall gross profit for the entire company will be significantly improved from Q3. In the meantime, we also see good financial performance of our non-car sales business, and we also expect such momentum to continue into Q4. So we see improvements both in the sales revenue contributed by the non-vehicle business as well as the gross margin improvement of that part. With that, the gross profit, the vehicle gross profit, or the non-vehicle gross profit will also see improvement from Q3 to Q4. And in terms of the expense and also cost control, since this year, we've been taking a series of actions in improving our operational efficiency and our expenses utilization. And we already see some good results from the Q3 financials. And we will also continue such effort in Q4 in improving the sales SG&A; expenses as well as the R&D; expenses and their efficiency. Especially in Q4, we don't expect any major or high-profile marketing or campaigns. In that case, we will be controlling our expenses in Q4 with our SG&A; as well as the R&D.; So to sum up, our sales volume was affected by the phase-out of the trade-in and replacement subsidy, yet the gross profit is not majorly affected. In the meantime, we will continue our efforts in improving the efficiency and utilization of our investment and expenses. In that case, we expect also improved business results from Q4 and also have the confidence in achieving the quarterly breakeven target.

Tim Hsiao: Thank you, William, for all the details. My second question is about our volume targets, together with the new model schedule. Because I think back to previous quarters, the management mentions that we target, like, 50,000 monthly run rate in the fourth quarter. So if we are not going to achieve that, when can we achieve 50,000 monthly sales? And considering all the macro uncertainties, will NIO need to consider moving up the launch schedule of the new models to the first quarter or earlier to bolster the sales momentum into next year? That's my second question. Thank you.

William Li: Thank you for the question. As also previously mentioned in my remark, the guidance we provide for Q4 is 120,000 to 125,000 units. In terms of the adjustment on the guidance, as also explained, it's mainly because of the impact on the phase-out of the trade-in and replacement subsidy. With that, we will not be able to see the year-end sales spike driven by the seasonality towards the end of the year, especially this will affect the sales of our cars that have already experienced their new car hype stage. But this is also the challenge faced by the entire industry. Based on our current product lineup and also launch cadence, we do expect that sometime next year, in the 50,000 monthly delivery. This is based on the consideration that we will be launching three large models next year and also based on the continuous improvement in our cell capacity and also our sales and marketing efficiency. So we do see the opportunity of achieving more than 50,000 units per month somewhere in the first half of next year. And in the meantime, we will also not just randomly change our new car launch cadence or plan simply because of short-term or temporary policy changes or impact. We will still keep our original launch cadence, that is to launch two new models in Q2 next year and one new model in Q3 next year.

Tim Hsiao: Thanks. Thank you, William and Stanley. Looking forward to the first breakeven quarter and more to come.

Operator: Thank you. Your next question comes from Paul Gong with UBS. Please go ahead.

Paul Gong: Hi, William. Thanks for taking my question. My first question is regarding the 2026 outlook. Given there would be 5% of the purchase tax being levied on the EVs, how shall we think about the company's preparation for such a policy change? Or shall we compensate for the customers for this

amount and adjust it along the supply chain and internal cost control? Or do we expect to let the consumers take the majority of the ads? This is my first question.

William Li: Thank you for the question. As next year, the purchasing tax on the new energy vehicles will be halved. Actually, the impact on us is less major in comparison to other new energy vehicle models and also companies. As 80-90% of our users choose to buy the car while subscribing to the battery. In that case, the price of the battery is excluded from the tax base. In that case, our tax exemption is still more advantageous than other companies and also non-swappable models. And in the meantime, for the popular products like the Allion ES8 with very long waiting time for the deliveries and pickup, we are also the first car company to announce the purchasing tax guarantee for our users who have to pick up their cars next year. We have made this purchasing tax guarantee already at the launch of the ES8. For other products and models, as their waiting time is not as long as on the ES8, so far, we don't have the guarantee policy for other models. As for the specific measures that we are going to take in the face of the purchasing tax changes next year, well, it highly depends on the dynamics of the market, the landscape of the competition, and also the practices of other peers. So we will keep flexibility in our measures and also policies. But currently, we don't have a very specific plan. And in the meantime, we also see that the entire industry, including the public and users, are gradually digesting the phase-out of the purchasing tax policies on the new energy vehicles. Especially right now, if we look at the smart EV industry in China, it is now less policy-driven. As the actual user experience and also the cost advantage of battery electric vehicles are more evident and also becoming more attractive to the users. In the first ten months of this year, the sales volume growth of the app actually increased significantly. This also gave us the confidence in continuing such momentum. So there will be an impact from the purchasing tax phase-out, but it will be very limited.

Paul Gong: My second question is regarding the expense control. And we have already seen quite some cost reduction, especially from the R&D; in Q3. And per your guidance, Q4 should see further efficiency improvement there. Heading to 2026, shall we expect the lower cost structure on the expense side to stay as a constant and new normal? Shall we expect, like, low 2 billion something for the R&D; per quarter? Around 4 billion or even lower than 4 billion on the SG&A; per quarter?

William Li: Thank you for the question. As mentioned, in Q3, our R&D; expenses are around 2 billion RMB on a non-GAAP basis. And also for Q4 and the next year, we expect our quarterly R&D; expenses to be flat, also around 2 billion per quarter. And so far, we don't have any plan to dial back on the R&D; expenses. But in the meantime, we will focus more on improving the efficiency of our R&D; activities, especially leveraging our self-business unit mechanism. We will make full use of the output of this 2 billion R&D; investment every quarter inside the company for the project initiation and approval. We have established the ROI evaluation mechanism. We also have the closed loop with the project review and also improvement. By continuing such efforts, we believe that at RMB 2 billion per quarter in R&D;, we will be maintaining our existing product development as well as the key technology development without compromising on the competitiveness of the entire company. And in terms of the SG&A; expenses and its percentage to the sales revenue, as in Q4, based on the sales volume guidance, we have lowered our volume from 50,000 units per month. In that case, originally, our target is to achieve a 10% ratio between SG&A; and the sales revenue, and now it's around 12%. And in Q4, we will also be keeping that level, but this is against the overall background of achieving the quarterly breakeven in Q4. And in terms of the absolute amount, that's around 4 billion per quarter, as you mentioned. And next year, we will focus on improving our efficiency in sales and also overall activities. Overall, we believe that 10% between SG&A; to the total sales revenue should be a winnable target for us to achieve.

Paul Gong: Thank you, William and Stanley. Looking forward to more efficient operation going forward.

Operator: Thank you. Your next question comes from Nick Lai with JPMorgan. Please go ahead.

Nick Lai: Yes. This is Nick from JPMorgan. Thank you for taking my question. The first question is actually regarding the possibility into 2026. Based on William's comment earlier, now from the second quarter of next year, we have three new models and monthly sales reaching 50,000 units. And William also mentioned that this expense ratio of expense should be compared. So with all these comments, is it fair to say that the second quarter of 2025 breakeven and then next year, for the full year or at least the second half of next year, likely, you know, profitability should also be very strong? That's my first question. How should we think about profitability in 2026?

William Li: Thank you for the question. Actually, for the full year, our business target is to achieve profit for the full year 2026 on a non-GAAP basis. And we do see confidence in achieving this profitability target for next year. Non-GAAP, as we basically look at this from both market trend as well as the relative competitiveness of our product and services. Here are some insights into the trend over the past one year or so. We will be really looking at the penetration rate of the battery electric vehicle in the premium segment and also most specifically in the large railroad SUV market. In Q3, the sales volume of the fab increased by 26% quarter over quarter, while for RIV and TEAHIVE, the sales volume only increased by 127%. Well, actually decreased by 127% quarter over quarter. And if we look at the entire new energy vehicle market, the penetration rate has reached 55% in Q3, and this is majorly powered by the growth in the battery electric vehicle. And in the first three quarters, the sales volume of the bypass increased by 33%, while for rib, it's only 3%. And more specifically in October, the BAV sales volume increased by 13% while for the rib, it decreased by 13%. So this is also showing how well received and adopted the BAV model is. And more specifically, on the premium segment, price above 300,000 RMB, this is where our new brand and our products are in. For the past, it's still at a relatively low penetration rate, but we do see a trend of improving that penetration. This also gives a huge opportunity for enlarging our penetration and market share in that segment. For this year, especially, we see the trend where the premium battery electric vehicle products are more and more received by the users. We have already seen the awareness and also the appetite for such products. And, also, this has powered the increase in the penetration rate of this product. For the full year last year, the penetration rate of the battery electric vehicle in the premium segment was only 12%. But in 318%, and in the first three quarters, the penetration rate of the fab has increased by 33%. Yet for the range-extended vehicle, it actually decreased by 10%. And more specifically, for the large railroad SUV segment, the sales volume of the bus took the first place for the first time in September, and it continued such momentum in October. In October, we see the total volume of the fab registration was around 39,000 units. Well, for RIB, that was only 24,000 units. Regarding the sales volume and also for next year, as for the OA L90 and also the new OA ES8 next year, we will still continue the bus around these two new products relatively new to the market. Plus, we are going to introduce another three new large models. So we will be having five new large models available to the market next year from the new and Amo brand. And if we look at the mid to large and also the large SUV segments where our new models will be targeting, in Q3, the sales volume of fab models increased by 140%. Well, for WIP, it's only 19%. But as mentioned, the overall penetration rate of a bath among the premium largest vehicle models, it's still relatively low, which means that we do have huge opportunities and potential in this segment. So overall speaking, our product launch cadence is in line with the market shift and also the trend, especially considering our large models are also competitive in both products as well as the charging and swapping experience. And, also, for these five large models, they will also contribute the major sales volume among all of our products. As they are high-margin products, they will also contribute more significantly to the vehicle gross margin. With that, next year, we expect the vehicle gross margin to be around 20%. That is the further improvement on top of our existing gross margin for Q3 and also outlook for Q4. But, also, this result will be dependent also on the continuous cost optimization efforts together with our supply chain partners. And in terms of the expenses, as we rolled out this cell business unit mechanism, we have tightened our control over expenses. We already see some good results and we will continue such efforts next year in controlling the R&D; and also SG&A; expenses. And also, for our large vehicle models, based on its strong market performance and demand, it already proves that with the right product definition and also with our unique advantages in battery swap, we do can capture a decent market share in that segment. And in the meantime, we also see a positive trend and also huge potential for the battery electric vehicles to take up a higher market share and also penetration among large models and also premium models. And also, thirdly, we have confidence in achieving the product gross margin of 20% plus our continuous efforts on the cost and expenses control. With all that combined, we think that achieving a full year profitability on a non-GAAP basis for the year of 2026 is a reasonable target for the team.

Nick Lai: Clear and certainly, I think, an exciting outcome for next year. My second question is more about the choice between in-house chain against media. Can you remind us what is our long-term

strategy between insourcing and outsourcing? What are the pros and cons between these two strategies?

William Li: Thank you for the question. Our NX1931 is the first smart driving chip made also with a five-nanometer process, and its tape-out mass production application on the car and also full-stack operations were all earlier than the competitors of similar performance in the industry. We also see how this in-house developed chip is contributing to both performance improvement as well as the cost structure optimization. So for the long term, we will continue our investments and also efforts in the chip-related technologies. And in the meantime, maybe you have also noticed that with media, we have announced a partnership where we are going to share our chip solution and the technologies with more industry players, both from the automotive as well as from the non-automotive industry, as we do see a good potential of applying this high computing power resonant chip on different types of devices, for example, on robots. So we will work with our tech partners together to explore more use cases and also application scenarios of our chip.

Operator: Thank you. Your next question comes from Bin Wang from Deutsche Bank. Please go ahead.

Bin Wang: Thank you. The first question is about the margin in the third quarter. It clearly has a big margin drop by 4.4% by its explanation because of cost reduction. Since the just enough. Do you think because of the mix because in our IT, has been a volume contribution more than 20,000 units. Can you break about the margin driver? How much came from the margin from the onboard LID? How much from the cost reduction? Really construction was the key item you actually got cost the job in the number three quarter. Thank you.

William Li: Thank you for the question. As you've mentioned, our vehicle growth margin result in Q3 and the improvement from the previous quarter, this is majorly driven by two factors. The first is the cost reduction contributed by the supply chain driven by the increase in our sales volume. And the second factor is the sales and the delivery of the L90, which is a high-margin product that we have started to deliver from Q3 in comparison to Q2. We have delivered more than 20,000 L90 contributing better margin performance than the L60 in the previous quarters. These are two major drivers of the gross margin improvement in Q3. As for the specific breakdown, I will also share more information offline with you. But here, I can share with you some of the vehicle margin performance model by model. For the new ES8, as mentioned by William, the vehicle margin is 20%. Of course, we didn't start the delivery of the ES8 until late Q3, so its actual contribution in the volume side is relatively small. And for the ET5, ET5T, their vehicle gross margin is between 15 to 20%. And for ES6, and EC6, their vehicle gross margin is over 20% and even reaching 25% as these are already products being in the market for a while. We have already worn off the new car bus on this model. And for the L90, the vehicle margin is around 15 to 20%. Overall speaking, for the new models plus the onboard L90, they do have a pretty good vehicle margin performance.

Bin Wang: My second question is about your latest chip joint venture with Xcela. This is maybe not for shareholders with a 36.4% stake in the company. My question is number one, why did you choose this partner, Xcela, from Chongqing? Why not somebody else? Secondly, what's the best model about this joint venture? Is it just a sales company? And it's always actually you really made a joint venture to make a check by itself. Meanwhile, do you actually get any license fee income already from the store manager? Because this is to be will save your chips. Thank you.

William Li: Thank you for the question. Yes, some media has covered the establishment of this chip joint venture. And, also, we are leveraging our partners of this joint venture to sell our chip and also our IC design capabilities to other clients and also potential users. But this is not an exclusive partnership with you. We have the possibility and also the opportunities to sell our chip solution and the product to other partners and companies from our site. So that's one part of the way to sell that solution. We can also leverage our partners' resources to provide our chip solution to other car companies or other clients and they will be acting as a tier one providing such a solution. In the meantime, as mentioned, we also see opportunities of applying such a chip in the non-car or the non-automotive industry. So that is also a pretty common practice for car companies to share their technologies across different industries. And for our partners, they do have mature experience and also skills in the industry, in the design industry. They also have their own client and also network connections. And, they have some

chip products that can be complementary to our chip across different scenarios. So overall speaking, we believe that this is a win-win partnership.

Operator: Thank you. Your next question comes from Jeff with Citi. Please go ahead.

Jeff: Hi. This is Jeff from Citi. My first question is on the 4Q ASP. So it looked like the 34 billion of revenue guidance should match with vehicle ASP. Up 12% Q on Q at the 246,000 RMB. So if the GB margin reaches 18%, that's around 6 billion gross profit. Right? So this is my first question. And my second question is the first quarter. Because we recognize the 4Q guidance, such as the revenue up 56% Q on Q. Right? And the GP margin reached 18%. But having said that, entering the first quarter next year, our volume is not going to drop back to the third quarter level. Right? And secondly, it looks like our high-margin products, the Q on Q volume, in the first quarter is going to be stable. So, therefore, the product mix should further improve into one queue. On a Q on Q base. So my second question is would the first quarter vehicle margin also stay closer to the 18% level because the higher margin products contribute more to the mix.

William Li: Thank you for the question. Regarding the average selling price, it will increase in Q4. This is mainly driven by the sales of the high-margin product, the ES8. As for the full year, our volume guidance for the year, that is around 40,000 units, and most of this result will be happening in Q4. So it is also contributing to the improvement. And regarding your second question on the gross margin outlook for Q1 next year, well, normally, Q1 is the low season of the automotive industry. So overall speaking, the soft volume in Q1 will not be as good or as high as we normally expect for Q3 and Q4 in the previous years. But as also mentioned, in Q4 this year, we may not see the common sales spikes fueled by the seasonality. In that case, even if we are going to encounter the low season in Q1 next year, the impact or the reduced or the decrease from Q4 this year to Q1 next year won't be that significant in comparison to the previous years. Not to mention that we also have the ES8 order backlog that will last into the next year. This will also help to offset the seasonality impact in Q1 next year. So overall speaking, our operations and also volume forecast for Q1 next year will not be as good as in Q4 this year, but will also not be as low as in Q1 this year. So overall speaking, the vehicle gross margin falls into the same trend. It will be lower than the margin outlook we have for Q4 this year, but will be better than Q1 last year.

Operator: Thank you, Jeff. Your next question comes from Ming-Hsun Lee with Bank of America. Please go ahead.

Ming-Hsun Lee: Hello, William. This is Ming. So my first question is regarding your overseas plan because I think in the past few years, you have built several sales channels in Europe. And could you give us more of your strategy for overseas expansion for the next few years? Thank you. That's my first question.

William Li: Thank you for the question. We entered into Europe in 2021. And from 2021 to 2024 in the past several years, we've been doing direct to customers or direct to users, the direct selling model for the European market. Yet in the meantime, with all the external factors, such as the tariffs in the EU, we also started to realize that for a broader market entrance, we do need to rely on and leverage more on the partner's support and resources. That's why starting this year, we have started to look for local partners for our market entry. Right now, we already have identified high-quality partners in more than 10 countries and regions, and the Firefly will be the first brand where we introduce to the overseas markets leveraging our partners' resources and network. The product will become available not only in Europe, Asia, but also in the Middle East and South America. So overall speaking, for the global market expansion, we are switching our business model from the direct-to-selling business model to a more partner-based and also local partner-supported business model. And also for the Firefly and its product, it's actually a very good product suitable for broader markets and also its European version and right-hand drive version already developed. Ready for the global market entry. So we do have confidence in the global expansion of the Firefly product. And in the meantime, we are also developing the Onward product for the global market. It is also a brand with a reasonable price range and product set lineup for the global market expansion. As for the new brand, as it targets the premium segment, it does take patience and time to establish brand awareness on the new product. In that case, we are also more patient and also more long-term for the global market expansion of the new brand. So overall speaking, in China, we started with the new premium one, and then we have the Amo brand and the

Firefly. But for the global market expansion, they will take the opposite way where we will start with Firefly and then when Amo has the product ready for the global market, we will then push out Amo and then NIO.

Ming-Hsun Lee: Thank you, William. My second question is regarding the expansion of more mass market opportunities. So since Amo is very successful in L90 and also recently, L60. Volume sales also continue to grow. So in the future, do you expect to launch more products under the Amo brand and to have more business opportunities for the segment at the 200,000 RMB or even below? Yeah. Thank you.

William Li: Thank you for the question. For the Amo brand, it is defined as a family-oriented brand for the mass market. So just like Toyota and Volkswagen, for the long term, we do need to create a wide and broad product bandwidth to cater to more needs and also to cover more price and market segments. So for the long term, for the Amo brand, our price bandwidth will be ranging from 100,000 to 300,000 RMB. Within that range, we are going to offer more diverse products and options for our users to choose from. We started with L60 priced around 200,000 RMB. And for the L90, the fully loaded one has a price point of around or close to 300,000 RMB. And next year for the L80, it will also be between 200 to 300,000 RMB. So that is already a plus segment captured by the existing three products. In the meantime, we are also developing a new product platform where we are targeting the price range below 200,000 RMB. We believe that with this diversified product and price lineup, plus a more mature power swap network, we are able to achieve a reasonable market share in the price range from 100,000 to 300,000 RMB. This is also the single largest price segment in the market in China's passenger vehicle market with a total volume of 15 million. In such a large market, there's no reason for us not to launch enough products to capture a sufficient market share.

Operator: Thank you. Your next question comes from Xing Chang with CICC. Please go ahead.

Xing Chang: Hi. Thank you for taking my question. I have only one question, a follow-up question. Regards to the R&D; expense. We have already seen our R&D; expense in the third quarter decreased a lot to our previously guided level. So but in the industry is increasing investment in intelligence and also AI-related other areas. How do we allocate our limited R&D; expense and how do we balance the short-term R&D; efficiency and also long-term R&D; cost?

William Li: Thank you for the question. Actually, this year, our major focus in the R&D; activities is to improve the efficiency and also to identify the priority of different R&D; activities and projects. In that regard, the CPU mechanism has played a very important role in helping to make useful use of the R&D; investment and expenses. In the meantime, we will also make sure that we will not lose our long-term competitiveness as that is a baseline that we will not cross. So with the CPU, we are pleased to see that even if we're dialing back on the R&D; expenses in the recent quarters, yet we still maintained the R&D; capabilities and competitiveness in the 12 full-stack capabilities for the smart TV. So we're also confident to control to continue that competitiveness. And, also, in the past several years, we've made major investments in developing the fundamental technologies for the core EV products, including our chips, operating systems, intelligent chassis, and also 900-volt high voltage architecture. As the foundation is already laid for the future product and technology platform, the follow-up iterations won't be as costly as developing the foundation and also the fundamental as the future iterations will also get more efficient in utilizing limited R&D; resources. And also regarding the AI technology and its applications, like the smart driving and also our AI companion, Nomi, as well as the internal management and efficiency tools, we will continue our R&D; intensity and efforts, but we'll achieve that in a more efficient way. And in terms of using algorithms and data, we actually have identified some good practices and approaches that can be more efficient than simply putting up investments or resources for the sake of achieving a high computing power or data performance. So we have identified some approaches with higher return on the investment. Actually, in the AI industry, the success of the deep sick has also proven that you don't need to make costly investments into developing a good large language model performance. So it's the same practice for us. Not to mention that we can also leverage our collective artificial intelligence equipped on all the vehicles and also our data close loop with that to achieve a same level of computing performance, we actually need to use that much computing power as our competitors or other peers are doing. So overall speaking, in terms of the R&D;, we have been putting more focus on the return on investment evaluation as well as doing a

better priority for our R&D; activity.

Xing Chang: Yes. Thank you. I get it. Thank you.

Operator: Thank you. Your next question comes from the line of Yuqian Ding with HSBC. Please go ahead.

Yuqian Ding: Thanks, team. I got two questions. First one is, could you share the cost benefit when we hit the volume threshold? The current run rate is half a million now. And it's only gonna get higher next year. What benefit can we get, let's say, and all the critical components that have high weight in the bomb structure?

William Li: Thank you for the question. As mentioned, when the source volume reaches a certain level of scale, we will actually see how the economy of scale is contributing to the improvement in the financial performance, and it's mainly contributed where it's mainly from two perspectives. The first is regarding stronger bargaining power along the chain. This can also help improve the vehicle cost structure as you already see in our Q3 and Q4 vehicle margin guidance. And for the next, we don't have a clear picture regarding how much it will be contributed by the economy of scale from the supply side. Yet, as mentioned by William, our margin target for next year is 20%. That will actually partially be driven by the economy of scale on the supply side. And the second is regarding the improvement in manufacturing efficiency and cost optimization. Driven by the manufacturing as we improve our sales volume, the overall amortized manufacturing cost per unit will be gradually optimized. That will also contribute to the improvement in the cost structure of our products.

Yuqian Ding: Thank you, Stanley. The second question is regarding next year's new model. Could you help us to put in context the potential higher scale and also the mixed impact? We talked about the bigger vehicle has better margin. But we also talked about the Amo L90 still 15 to 20%. So L80, will be below, 90 in terms of the pricing. Presumably. Will there be dilution or joint on those scale outweigh? That?

William Li: Thank you for the question. As mentioned, the three new large SUV models that we're going to introduce next year, they are all positioned at the higher end of the price spectrum of their respective segment. We haven't finalized the prices for these new models yet. Yet we already expect more significant margin contribution by these three models. Not to mention that these three large models are fully synergized with the current audio ES8 and L90 from the cost structure. So this year and next year for the cost structure for the cost optimization and the cost-saving opportunities, that we've identified on the ES8 and L90 can also be carried over to these three new models. So with five large models combined, we expect them to contribute to the good product as a good product performance as well as on the margin levels. Overall speaking, achieving 20% of equal margin.

Yuqian Ding: Thank you.

Operator: Thank you. As there are no further questions, now I'd like to turn the call back over to the company for closing remarks.

Rui Chen: Thank you again for joining us today. If you have any further questions, please feel free to contact our Investor Relations team through the contact information on the website. This concludes the conference call. You may now disconnect your line. Thank you.