

# **Ballard Power Systems Inc. (BLDP) Q2 2024 Earnings Call Transcript**

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**Body**

Ballard Power Systems Inc. (BLDP)

Q2 2024 Earnings Conference Call

August 12, 2024, 11:00 AM ET

Company Participants

Kate Igbalode - VP, IR

Randy MacEwen - CEO

Paul Dobson - CFO

Conference Call Participants

Rupert Merer - National Bank

Mac Whale - Cormark Securities

Aaron MacNeil - TD Cowen

Jordan Levy - Truist Securities

Saumya Jain - UBS

Kashy Harrison - Piper Sandler

Rob Brown - Lake Street Capital Markets

Ameet Thakkar - BMO Capital Markets

Craig Irwin - ROTH Capital Partners

Presentation

Operator

Thank you for standing by. This is the conference operator. Welcome to the Ballard Power Systems Second Quarter 2024 Results Conference Call. [Operator Instructions]

I would now like to turn the conference over to Kate Igbalode, Vice President, Investor Relations. Please go ahead.

Kate Igbalode

Thank you, operator, and good morning. Welcome to Ballard's second quarter financial and operating results conference call. With us on today's call are Randy MacEwen, Ballard's CEO; and Paul Dobson, Chief Financial Officer. We will be making forward-looking statements that are based on management's current expectations, beliefs and assumptions concerning future events. Actual results could be materially different. Please refer to our most recent annual information form and other public filings for our complete disclaimer and related information.

I'll now turn the call over to Randy.

Randy MacEwen

Thank you, Kate, and welcome, everyone to today's conference call.

During Q2, we made measured progress on key 2024 deliverables related to products, advanced manufacturing and markets, all in support of our long-term strategy. On products, we launched our ninth generation PEM fuel cell engine, resetting the industry standard for PEM fuel cell engine performance for heavy-duty mobility. Enabled by an innovative open architecture design and other new design advances the powerful and compact FCmove XD enables several important performance improvements as compared to our prior generation engine, including 120-kilowatt power output from our latest high-performance single stack. A 33% reduction in total park count, significantly improving reliability and reducing costs. High peak system efficiency at greater than 60%, enabling improved fuel consumption and efficient heat rejection. Wide operating temperature range up to 95 degrees C. Integrated power controller incorporates DC/DC converter, air compressor inverter and a power distribution unit, along with proprietary software controls, enabling improved engine operation and efficiency. Rapid up and down transient times with an innovative hot standby mode, enabling rapid power increase, improved manufacturability with assembly times cut by more than half and easier access to parts for faster and lower-cost field maintenance.

An additional compelling feature of our new FCmove XD is scalability based on modularity. We can offer customers efficient integration of 120-kilowatt, 240-kilowatt and 360-kilowatt solutions depending on vehicle class, use case and duty cycle. For example, two engines totaling 240 kilowatts of power output can be easily installed in the engine compartment of a typical Class 8 heavy-duty truck and enhancing standardization and offering redundancy.

With the design life of 30,000 hours plus hours of operation or over 1 million miles in truck operation at typical duty cycles. The FCmove XD engine is developed to deliver class-leading durability and low total cost of ownership. We already have initial units in the hands of some select customers and have been receiving positive feedback. There's growing market interest and we have manufacturing builds planned during the remainder of the year.

On advanced manufacturing, we're tracking to plan against Project Forge, which is our program to scale graphite bipolar plate production by approximately 10x and reduced cost of next-generation plates by up to 70%. We have developed several novel manufacturing processes that enable full automation of the bipolar plate production processes, which we expect to result in significantly reduced labor costs, improved material yield, reduced production tack times, reduce energy demand and the elimination of water consumption from plate manufacturing. We expect commissioning and optimization of our new bipolar plate production processes in Burnaby in late 2025.

And on markets, we announced a strategic technology partnership with Vertiv to demonstrate the technical feasibility and customer benefits of fuel cell back of power solutions for the fast-growing data center market. Initial validation tests at Vertiv's facility in Ohio have demonstrated successful operation of zero-emission fuel cell backup power integrated in Vertiv, UPS architecture for data centers. We're continuing to work with Vertiv to understand the market requirements, develop and optimize technical solution and engage the market.

I'd like to make a few comments about our order book and also about broader market adoption. First, on the order book. Following almost $130 million total new orders in the previous two quarters, Q2 net order intake was soft at $5 million as certain customers deferred new orders. Given the stage of development of the industry, we expect continued quarter orderly lumpiness for the foreseeable future.

Second, on overall market adoption, it's important to note that while we remain confident in the long-term value proposition of hydrogen fuel cells, the time line for market adoption is clearly moving to the right. We continue to observe a slow pace of contract awards for new clean hydrogen projects. We've spoken before about the slowing effects of the inflationary and interest rate environment over the past few years that are creating challenging economics for many hydrogen projects. We're also seeing projected policy uncertainty that is slowing market adoption. As an example, there's continued uncertainty in the U.S., including the extended discussion around the 45V clean hydrogen production tax credit rules.

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The draft regulations, which were released eight months ago are still being debated by the industry. It remains unclear whether these regulations will be resolved before the U.S. presidential election. This is delaying investment in the U.S. hydrogen industry including in large-scale clean hydrogen projects. We also continue to observe policy uncertainty and related market delays in Europe and China.

Overall, we see a multiyear pushout on the availability of low-cost, low-carbon hydrogen and hydrogen refueling infrastructure, which represents a significant headwinds in our markets, including the truck vertical. Given this environment, we continue to carefully track market adoption indicators and scrutinize the pace of our investments and spending. For example, and as Paul will note, we have toggled back our 2024 CapEx spend.

With this backdrop, we want to provide a brief update on our proposed production facility in Texas, where we've been awarded U.S. funding totaling $94 million. We continue to do our work to assess the business case for this project. We're conducting a thorough analysis of the scope, timing, cost, alternatives and financial return on the proposed project. including an analysis of capital deployment timing relative to market adoption and volume timing.

We're also reviewing project permitting, conditions and documentation including with the U.S. DOE, other funding sources and related to site acquisition. This is important work and it's being done to support making a go or no-go final investment decision later in 2024. We look forward to providing an update on this later in the year.

Before I turn the call over to Paul to discuss our Q2 financials, I want to emphasize again that notwithstanding the stalling timeline for market adoption, we remain confident in the long-term direction of travel including important role at hydrogen fuel cells employee in helping decarbonize our global economy, including in the heavy-duty mobility markets as well as Ballard's long-term positioning.

We continue to focus on controllables, including customer experience, product development programs, product cost reduction initiatives, advanced manufacturing capacity planning all while maintaining a strong balance sheet for long-term sustainability.

With that, I'll now pass the call over to Paul.

Paul Dobson

Thanks, Randy.

In Q2, Ballard delivered $16 million in revenue, driven by strong growth in the bus vertical, up 84% quarter-over-quarter. Our fuel cell product sales revenue was up 48% year-over-year and made up 84% of the total revenue versus 59% in Q2 last year, once again emphasizing our shift into a commercial products company. As a reminder, from previous years, we see that Ballard's revenue is typically heavily indexed to Q4 and in 2024 is following a similar trend.

With the shift in revenue mix to Power Products and the burden of fixed production overhead costs being spread over seasonally low revenue, we saw a gross margin of negative 32% and an 11-point decrease compared to Q2 of 2023. We are still anticipating underlying gross margins will breakeven in Q4 as revenue increases and product cost reduction activities have greater impact. We reported total operating expenses of $36.2 million and cash operating costs of $30.9 million, both relatively flat compared to prior year comparables.

Capital expenditures totaled approximately $7 million in Q2. We are maintaining our guidance range for total operating expenses. However, we are reducing our guidance for capital expenditures for the year to $25 million to $40 million from $50 million to $70 million. We believe it is -- the prudent decision is to reduce our capital spending in light of market conditions and adoption rates and to take advantage of the flexibility within our capital project timelines. We have a strong balance sheet, ending the quarter with $678 million in cash and cash equivalents.

With that, I'll turn the call over to the operator for questions.

Question-and-Answer Session

Operator

[Operator Instructions] The first question today comes from Rupert Merer with National Bank. Please go ahead.

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Rupert Merer

Hello. Good morning, everyone. Maybe if I could start the questions on your product, your ninth generation of PEM fuel cell. You told us a little about the performance improvements, Randy. How does this compare to the competition? And what do you do next? How much better can you get from here?

Randy MacEwen

Morning, Rupert. Thanks for the question. I think when you look at the competitive dynamics, there's certainly a lot of investment going on from some of the players that are introducing products or planning to introduce products. When we look at things like durability, the 30,000-plus hours of durability, we think that is a major competitive advantage at Ballard. When we look at power density, whether that's measured by volumetric or gravimetric power density, we're seeing that this FCmove XD actually has the highest power density industry for the heavy-duty applications.

And then I think when we look at the architecture and the part counts, we continue to reduce the part counts, we think that, that's critically important. I think some of the other things, too, is just the integration of DCDC and software and the air compressor inverter. All these things are bringing together a solution that's easier for customers to integrate and easier for customers to package in service.

So I think overall, we feel very, very happy about not just the improvement this represents on our prior generation, but where it stands in the competitive marketplace.

Rupert Merer

So if you look at the plan you laid out a few years ago on your technology plan and cost reduction, how far along are you now? How much further do you have to go on that path?

Randy MacEwen

Yes. It's a great question. We highlighted kind of two aspects of that plan. One we called 3x3, which was looking at a 70% cost reduction for our stacks. And then on top of that, also looking at about a 70% cost reduction on balance of plant components.

And certainly, the work that we've done on MEA over the last number of years, the work that we just described today on next-generation bipolar plates and the enabling of lower-cost plate production, which is after MEA is the second most important cost into the stack.

And then the work we've done on developing engines and the supply chain to reduce balance of plant components. There's a lot of work that I would say, over the past three years, we've seen not just the in-house designs, but strong collaboration with, I would characterize it as a maturing supply chain for a new balance of plant components.

So I think we've made significant progress. We're probably about two-thirds of the way through perhaps more than that overall, and we expect to see over the next 18 to 24 months kind of completion of these important projects, particularly with the bipolar plate project completing by the end of next year.

Rupert Merer

Great Rand. I'll leave it there and get back in the queue. Thank you.

Randy MacEwen

Yes. Super. Thank you.

Operator

The next question comes from Mac Whale with Cormark Securities. Please go ahead.

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Mac Whale

Hi. Good morning. Randy, I'm wondering like how should we think about that transition on the introduction of the next gen? Like would your customers be flipped over to that product within a year? Or how do we think about that?

Randy MacEwen

Yes, great question, Mac. I would say it really is different for different customers. So some customers that have already integrated products into their platform. And have been enjoying success with those products may want to keep those products for a certain period of time. And then other customers may want to move over to products fairly quickly. What I'm seeing with newer customers is that they are looking to adopt the latest technology.

And also, I would say this engine is specifically designed to be attractive for the truck market. And that's where we have seen -- if I kind of characterize the markets we typically look at bus truck, rail, marine and stationery, the bus market, we have products that are mature and proven in the field. We had an extraordinary first half of the year actually on the bus market with growth up over 120% for delivery of fuel cell engines and revenue associated with the bus market.

So the bus market has products there. This engine designed for the truck market, though, I would say the truck market has been slower to adopt, but we have -- introducing this new product should be helpful in terms of kind of catalyzing that.

Just going back, I did want to highlight as well, the same bus, rail and stationary the three markets where we continue to be kind of pleased with the progress there with truck and marine being the two markets that I say are going much lower than expected.

Mac Whale

Okay. And when we look at the backlog, how does it work with the new -- when you're introducing a new generation. Do the orders in the backlog reflect old products? Or is there an option in those to convert over to a newer generation. Like how do we think about looking at the backlog in a period where you're introducing a new generation.

Randy MacEwen

Yes. The lion's share, almost all of the backlog relates to existing products that customers are working with. There'll be a small amount in our order book that relates to new orders for those -- for the XD. However, I would say you'd see more XD filling out the backlog and order book as we move to the end of the year and into mid-next year.

Mac Whale

Okay. And just lastly on that, does that mean as we see the order book, let's say, over the next couple of years evolve on a kilowatt basis, like presumably, you're passing some of the cost savings in pricing over. So the equivalent dollar value in revenue and backlog going forward would actually represent a different number of kilowatts. Is that fair?

Randy MacEwen

Yes, for sure. The cost per kilowatt sold to a customer is certainly reducing. We've seen that already reducing over the last few years. The challenge for us, and I think why we're investing so much in product development and advanced manufacturing is to make sure that we're reducing our costs faster than the erosion of selling price, so we see margin expansion.

Mac Whale

Okay. And just if I may, on the last question I had was on the CapEx guidance shift. Was there any -- in the previous guidance, was there any spend on the Texas facility contemplated in that number?

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Paul Dobson

Yes. Mac, it's Paul here. Yes, yes, there was some which we've -- as we mentioned, we've dialed that back to a rather de minimis amount this year. We do expect we're going to have an FID decision later this year -- and even if we go forward with it, I still expect the CapEx for that facility to be relatively modest this year, just given the timing of that. So more to come on that later.

Mac Whale

Okay. Thanks. That's all for me. Thanks.

Randy MacEwen

Thanks Mac.

Operator

The next question comes from Aaron MacNeil with TD Cowen. Please go ahead.

Aaron MacNeil

Good morning. Thanks for taking my questions. I just wanted to dig in a bit more to the booking deferrals. I guess can you speak to the magnitude of those potential orders that were maybe close but deferred? Like are they sort of bigger Siemens or Solaris type bookings or are they more smaller dollar orders?

Randy MacEwen

Yes, Aaron. Good morning. And thanks for the question. There are - I would just characterize kind of three significant orders that we've been working on through the year and are - have been pushed into the second half of the year, hopefully. But, don't want to quantify them, but they're, they're quite material for us.

Aaron MacNeil

Okay. And then switching to - I guess, same line of thinking is the reduced capital spending. I can appreciate that the priority is still cost reduction initiatives, but how could we expect, R&D spending to trend into 2025? Like, do you think we'll see a reduction there, like we've seen on the capital side?

Paul Dobson

Yes, I think, Aaron, with the current environment and the push-out we discussed earlier, we are carefully tracking, those market adoption indicators and trying to pace our investment. So, yes, we're scrutinizing our investments. And I think you probably expect to see some reduction in 2025.

Aaron MacNeil

Okay. Thanks. I'll turn it back.

Randy MacEwen

Yes. Thanks, Aaron.

Operator

The next question comes from Jordan Levy with Truist Securities. Please go ahead.

Jordan Levy

Good morning, all. Thanks for all the details. I just wanted to start on the margin front. Now, you may have mentioned this, but could you just talk to kind of, we know where gross margins came in for the quarter, but - change in that relative to where contribution margins came in of the products themselves? And then, kind of along those lines, too, any change in kind of the timeline with this slowdown in market activity on the gross margin break-even side of things?

Paul Dobson

Yes, again, Paul here. So just on the gross margin in the quarter, just minus 32%, it was four points higher than Q1, but 11 points lower than Q2 of last year. So with that 11-point difference quarter on year-on-year, most of that was in - the contribution margin. So both the power products, we had the deferral of certain orders to future quarters, at higher margins.

We did have strategic pricing for some key customers. The product mix and cost as well influenced that. So the contribution margin was lower. Also, we had lower revenues in our technology solutions business as well - and lower margins on the active customers.

Offsetting that though, or partially offsetting that I should say, the provisions that we had, particularly on inventory, inventory write-downs versus last year, for the older generation products, we did a lot of that clean up last year, and so that represented an improvement. And - so net that so contribution margins down into quarter, partially offset by better on provisions.

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In the quarter, we were down by 11 points. So we look at the full year, we are forecasting an improvement in the gross margin overall versus last year, and it could be in the range of five to 10 points, depending on the final revenue figures. We are expecting, as I mentioned in the comments, Q4 to be positive gross margin. What we're seeing on the contribution margin side of things, we are seeing improvements on the power products.

So year-on-year, as cost reductions come through and as volume grows, we are seeing contribution margin for power products going up. But again, that's offset, being offset by lower contribution margin from technology solutions, which will have a lower impact over time, but we are still seeing it, we're going to see it this year. Again, also for the full year, we took a large write-down at inventory last year.

And Q4 - for inventory, we're not expecting that to repeat. And that combined with the contribution margin will mean our gross margins will be slightly improved on last year, five to 10 points, as I mentioned. Also I should mention on our fixed overheads, slightly lower, so not a big impact or change on the gross margin percentage.

As Randy just mentioned, though, on all of our spending, we are continuing to scrutinize that quite heavily, of spending across the board and could see reduction in some of our overheads going into next year, which will help gross margin as well.

Jordan Levy

Thanks for that, Paul. And then maybe just an update around the Texas facility. I know you guys haven't made a go or no go decision there. But I think, when you guys were thinking through the initial investment there that came after a decision to forego for their CapEx investment in the China market. So, I guess I'm just curious. I know you all are very low-versed, and have done a lot of work into the European market as well. So when you're looking at the decision there and then, kind of as part of that, any potential alternatives you might look to, what does that look like, or does it sort of just become a when is the right time to make this move sort of decision?

Paul Dobson

Yes, so good question, Jordan. I think one of the challenges, quite frankly, is that the funding that we've secured in the U.S. is very significant, kind of in the range of $94 million of total funding, including from the DOE and some of the 48C credits. And when you look at that in aggregate, it's a significant amount of capital that's kind of almost, a once-in-a-lifetime top of opportunity for funding.

The challenge is that overall investment cycle, is coming earlier than the market adoption. And so that's really what we're wrestling with, is making sure that we're trying to pace the timing of our own investments at Ballard, to make sure that when we're bringing production online, we have demand for that product. Now, we don't have an order book clearly for that type of volume that we're talking about for a three-gigawatt facility in Texas at this time.

So we're continuing to see, make sure we have as much time as possible to see the market adoption indicators, before we pull trigger on capital. So that's the challenge in a nutshell.

Jordan Levy

Thanks so much. Appreciate it.

Operator

The next question comes from Saumya Jain with UBS. Please go ahead.

Saumya Jain

Hi, do you guys have any updates on the Solaris order? And I guess, how's the timeline for supply-looking? And if you have any more orders or anything from New Flyer as well?

Randy MacEwen

Yes, Somya, thanks for the question. I think it's important to highlight, again, that the bus market is growing quite well for us and up 84% in the quarter, and over 120% year-to-date, almost $20 million of revenue for us in the first half of the year. I do want to highlight as well in the U.S. market you mentioned New Flyer, we're pretty encouraged with the fact that we've got some low - or no-emission grant program that's been out there with the Federal Transit Administration in the U.S.

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It is now up significantly. So awards this year have been awarded are approaching $300 million, it's about 150% higher over last year. So that's kind of an encouraging indicator to support bus program growth into next year, as those low-no funds get deployed. So that's critically important. New Flyer typically orders later in the year, for the following year.

So, we expect to see some opportunities there in the second half of the year for the order book for 2025. And then Solaris, we've been executing as the numbers show against Solaris, and other bus customers in the first half of the year. We also signed an order for 70 modules, or engines for a right bus that we commented on earlier this year. So overall, I would say we've had some additional orders from Solaris, since that large order that we mentioned, but it's been pretty incremental as compared to that large order.

Saumya Jain

Got it. Thank you. And so I guess, how do you see Ballard playing out in the U.S. rail market as well, more specifically?

Randy MacEwen

Yes, that's a great question. The rail market, we're seeing opportunities both in passenger rail. And we see some opportunities developing there that we're working against, as well as for freight locomotives. And we're working on that as well. So both those markets, we have significant opportunities that we're trying to advance in the second half of the year. And I believe the freight locomotive market, will be a hydrogen market.

The question is just the timing of that. And so, we think when you look at that application, heavy trains, long routes, you're talking about very high power requirements, 1.2 to two megawatts of power for some of these line haul locomotives. This is the only way, in my opinion, for them to decarbonize is, to go with hydrogen. So we're excited about both those markets.

I think we're going to see important market indicators here over the next six to 12 months that show both those markets in North America, both for freight as well as for passenger showing next stage of development and demonstration and commercialization.

Saumya Jain

Got it. Thank you.

Randy MacEwen

Thank you.

Operator

The next question comes from Kashy Harrison with Piper Sandler. Please go ahead.

Kashy Harrison

Good morning. Thank you for taking my questions. So the first one on the deferred orders, apologies if I missed this, but what are your customers telling you is the driver behind the deferment of orders? Is it the U.S. elections or is it something else?

Randy MacEwen

Yes, in these cases, these opportunities we're describing, they're not dependent at all on the U.S. election. So it's more about the customer timing for finalizing funding, finalizing program timing, making sure that their access to hydrogen is secure. So mostly those are the variables, but they're all fairly well in hand on these three opportunities that we're discussing.

Kashy Harrison

Got it. And then on the slower market adoption, so let's say, just for - let's just say theoretically, the 45V rules were finalized today, and it's much easier to qualify for the credit. How long do you think it would take, for your business to see that benefit roll through in orders and revenues? What does that lag look like?

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Randy MacEwen

Yes, so it's a good question. I think we can kind of look to the European hydrogen bank program as an illustrative example of the timing that might happen, because it's very similar. So in Europe, they have a $2.2 billion hydrogen bank program, and the first auction was announced in April of this year with seven projects, about €720 million funding. And those seven projects are in Spain, Portugal, Norway, and Finland.

They're supposed to be signed, by the end of November. But project developers are required to actually enter production within five years. Many of them are kind of indicating they're expecting production within three years, but the program allows for five years. So the way I would think about it is, if we had clarity in the U.S. market, I would think about three to five years as a time line.

Before you'd actually see hydrogen production coming online, at scale for offtake opportunities. I think perhaps more importantly, though, is having the visibility, having the clarity on the policies, knowing that capital is going to be there to support hydrogen project development, and the build-out of hydrogen infrastructure. To me, that's enough for customers to then, start planning their next stage of deployment at larger scale.

Because some of these deployments, they'll lead three, five years of planning. So, I don't think the - I don't think you're going to see anything happen in the next two to three years, even if from a scale perspective that would be triggered by the passing of the regulations. And by the way, how those regulations get resolved is also important.

So the current concepts of adding additionality and regionality and time matching, how those get resolved will not only impact perhaps the timing, but will also impact the scale of that timing through 2030.

Kashy Harrison

Got it. And then that's all super helpful color there. And then I guess, maybe that's a good segue into my question on the FID decision in Texas later this year. Do you have a - can you give us a sense of timing? Is this a December, November, October decision - and then, what indicators specifically are you and your team looking at, to help you make the decision one way or another?

Randy MacEwen

Yes. We certainly will be making that decision in Q4. There's some timing pressures from different stakeholders. So it's a complicated answer given that we're in sensitive discussions with different stakeholders at this time. So all I can say, is we're really trying to make sure that we can have as much runway as possible before decisions on actually spending on facilities, and spending on equipment have to be triggered. And so, the timing between contract and actual capital deployment, and the off ramps are all things that we're considering.

Kashy Harrison

Got it. Appreciate the color. Thank you.

Operator

The next question comes from Rob Brown with Lake Street Capital Markets. Please go ahead.

Rob Brown

Good morning.

Randy MacEwen

Good morning, Rob.

Rob Brown

Just following up on the sort of the cross currents in the truck market. What are some of the things that sort of need to happen for you to see that market moving forward? Is it really the government support things? Or is it getting closer to the timeline and some of the clean truck stuff in California, just a sense of where the truck market at and how you see it playing out over the next total 18 months?

Randy MacEwen

Yes. Good question, Rob. I think - there's one thing that is pretty clear to me is that there's a lot of end market interest in zero-emission solutions. So that - there's been really no change there. I'd say the ESG pendulum has swung back a little bit, but most of the large fleet operators that we've been talking with, as end users are very committed to go to zero emission on their fleet.

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So there's no change there. I do think that the vehicle OEMs are struggling with investing across a different basket of technologies. So it's not just cleaner diesel fuel cells, in some cases, hydro internal combustion engine, in some cases and then, of course, battery electric, autonomy and ADAS features. So there's a lot of investment being made. And so, allocating capital to the highest priority is, I think, a challenge for the OEMs.

And given the time line for adoption of hydrogen, I think this is just sequenced a little bit later than some of the other investments. So there aren't a number of OEMs that have, fuel cell ready trucks at this time. We've talked about what we call our dual lane strategy where we're working with some of the large OEMs for long-term market adoption as well as these scrappier upfitters that are launching products earlier.

As an illustrative example, we have a partner called Wisdom Motor's that is developing fuel cell trucks, and buses for a number of markets outside of China. And they've seen quite a bit of progress in their product offering, as well as market engagement and demonstration projects, including in Australia, the Middle East and Europe. So, I would say those two pathways are running in parallel.

And they're taking longer than we'd like. And we are trying to focus again on those, even with trucks on those applications where you can have centralized depot refueling, or point-to-point refueling. So you have the lower barrier to entry, on the hydrogen fueling infrastructure.

Rob Brown

Okay. Thanks for the color. I'll turn it over.

Randy MacEwen

Thanks, Rob.

Operator

The next question comes from Ameet Thakkar with BMO Capital Markets. Please go ahead.

Ameet Thakkar

Hi, good morning, guys. Thanks for taking my question. Randy, I think you kind of kind of mentioned the 45V credit a couple of times here today. I was just wondering the Section 48E guidelines, for that were released at the end of May. They appeared pretty stringent to us, and I think to some of your fuel cell peers. Is that an investment credit that your U.S.-based customers have availed themselves, of much in the past? And kind of given that it goes in effect in 2025, do you anticipate any pull forward in demand in the U.S. at least to kind of get ahead of that? Thanks.

Randy MacEwen

Yes. I haven't seen that where we've seen a pull forward, and I haven't seen that there's high reliance on this credit for our market applications. When you look at our market applications, the U.S. market for us right now is very heavily dominated by the transit bus market, which isn't subject to that credit. You're typically talking about low-no and other federal funding to support transit operators.

Ameet Thakkar

Great. And then you talked about some of the - I guess, kind of some of the challenges for adoption on the mobility front. I was just wondering, do you have any updates on kind of how your stationary power product, is kind of seeing maybe some more receptivity, kind of given some of the I guess, questions around power supply here going forward, whether it's on a backup basis, et cetera?

Randy MacEwen

Yes. It's a great question. And we're seeing basically two opportunities, I would say, in stationary power that are compelling. One is where you have either off-grid, or grids that aren't reliable and you're seeing a number of applications, things like filming, filming applications or event applications, where standby power or backup power, primary power in any of those cases are required for, I'll call it, a relatively short period of time for an event.

So, we're seeing that construction, for example, is another type of market. The one that to me is really quite interesting, of course, is the data center market. And here, we're not talking about primary power and renewable energy is the clear enabler for data centers in terms of time to market. But as you look past primary power, you start looking at backup power.

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It's very clear that the customers or end users are looking for zero-emission solutions throughout their kind of critical infrastructure. And our announcement with our strategic technology partnership with Vertiv, I think there are kind of four important points there to highlight. One is this large and fast-growing market, not just for the primary power for data centers as a result of Gen AI and the compute power increase.

But also for required backup power. The second is having a partner in that market, who is a market leader and we're very fortunate to be working with Vertiv, who is very well positioned in the data center market. The third is, really kind of validating the value proposition. And I think there are five key points on the value proposition here, as we look at fuel cells for backup power, the UPS architecture.

The first is that you're talking about having kind of single supply, very complex power infrastructure from one supplier. And so Vertiv is basically doing all the systems integration for all of the critical infrastructure for backup power. Second is not just zero emissions, but also low noise. And when you put those two together compared to diesel generators, you're seeing this is becoming increasingly important for permitting.

Third is kind of low maintenance. We think that hydrogen fuel cells will offer a cost advantage here in the long run against diesel generator backup solutions for maintenance. And then also extended backup, so having UPS for days, not for hours. And so, there with a fuel cell engine, your only limit really is your fuel storage capacity. And the last is really the ability to optimize your footprint to have megawatt scale applications in a tight configuration, which we can accomplish with fuel cells and you can't accomplish with batteries.

So, I think there's a lot of advantages that fuel cells can offer. We're validating these value propositions, and working to make sure we have the optimized solution for what I think could be a very game-changing market opportunity for Ballard, and with a very strong partner that's investing in this solution with Vertiv.

Ameet Thakkar

Great. Thanks, guys.

Randy MacEwen

Thank you.

Operator

Next question comes from Craig Irwin with ROTH Capital Partners. Please go ahead.

Craig Irwin

Hi. Good morning, and thanks for taking my question. So Randy, can you maybe comment a little bit about the pricing environment? Is there much that's changed in the last quarter or last year? Are customers actually price-sensitive? Or do they tend to move more on functionality and quality?

Randy MacEwen

Yes. Great question, Craig. I would say we haven't seen any change in the last quarter. Certainly, over the last year, we've certainly seen some downward pressure, but it's mostly where we're seeing customers who are looking at now larger scale programs and wanting to look at their cost points there. I still think in kind of the demonstration of earlier-stage projects, it's more about safety, reliability, durability, making sure that when they deploy their first box, or they deploy their first truck or their first train.

They've got Ballard technology that they know, is going to deliver on promise. So, I don't think pricing is the e-driver in the smaller orders in the demonstration market, but as you move to higher volume orders as we saw earlier this year, for example, with Solaris for 1,000 fuel cell buses, pricing becomes very important.

Craig Irwin

Thank you for that. So my second question is about positive gross margins in the fourth quarter. Can you maybe unpack the risk there for us - are we looking at the greatest risk maybe being around business mix? Or are there timing issues? Or is there any price sensitivity in the fourth quarter? I mean, what should we see as sort of a, the biggest risk to reaching positive gross margins this year?

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Randy MacEwen

Yes. So maybe I'll just make a quick comment, Craig, and then turn it over to Paul. From my perspective, one of the most significant risks on a period of time, Q4 revenue is - Q4 gross margin really relates to the revenue and you get sufficient revenue to cover your fixed overhead costs beyond contribution margin.

And that's what we're forecasting for Q4. We still need additional orders in order to make that revenue happen for Q4. And Q4 could be 50%, 60% of our revenue for the full year. So there's some risk there. I'll let Paul add some additional color as well.

Paul Dobson

Yes. No, I think that captures it. So it's - we've got a good line of sight on what has been booked in the margins that we expect to earn on those and of course, our costs and are working towards that. There is still some that is unbooked, but have got good line of sight on where those bookings could come from. I suppose the other risk is to if there is additional deferrals by customers if they want to push orders or deliveries, I should say, into the next quarter.

We're not seeing a significant amount of that for Q4 at this point. But that certainly could be a risk as well. So as I mentioned also in the prior comments, and another question, we're not expecting the same level of provisioning on our inventory. So our inventory management now is much sharper. And as we build up inventory in anticipation of deliveries, we'll see inventories come down.

And are quite confident that we won't have the same sort of write-offs, anywhere near the level that we had last year. We did a lot of that cleanup work, which will have a big contribution to gross margin as well. So at this point, we are looking forward to positive gross margins in the quarter, everything else equal.

Craig Irwin

Okay. Just a point of clarification, though. Randy, you mentioned it could be as much as 50% to 60% of deliveries this year. Do you need the fourth quarter to have that level of revenue contribution? Or is positive gross margin achievable at lower levels?

Randy MacEwen

Yes. I think right now, when you look at Q1, Q2, Q3 revenue run rates, they're not sufficient at current contribution margins to drive to a gross margin with our fixed overhead cost structure. So you do need to have sufficient revenue. So I think that's one of the challenges that we have is still is that the fixed overhead cost structure has been invested in, we need to scale the revenue and get a more consistent revenue across the fourth quarters going forward.

Craig Irwin

Fantastic. Thanks again for taking my questions.

Randy MacEwen

Yes. Thanks, Craig.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over for any closing remarks.

Randy MacEwen

Yes. Thank you for joining us today. Paul, Kate and I look forward to speaking with you next quarter.

Operator

This brings to a close today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.

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