

# **Ceres Power Holdings Plc. (CPWHF) Q4 2023 Earnings Call Transcript**

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**Body**

Ceres Power Holdings Plc. (CPWHF)

Q4 2023 Earnings Conference Call

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Company Participants

Elizabeth Skerritt - Director of Investor Relations

Phil Caldwell - Chief Executive Officer

Eric Lakin - Chief Financial Officer

Conference Call Participants

Chris Lennon - UBS

Ken Rumph - Goodbody

Nick Walker - Peel Hunt

James Carmichael - Berenberg

Presentation

Operator

Ceres Power Holdings Plc Full-Year Results Investor Presentation.Throughout this recorded meeting investors online will be in listen-only mode. [Operator instructions].

Before we begin we'd like to submit the following poll and if you give that your kind attention I'm sure the company be most grateful. I'd now like to hand over to the management team from Ceres Power, Phil, Eric, Elizabeth, good morning.

Phil Caldwell

And good morning everybody and thank you for joining us for the full year results presentation. I'm joined by Eric Lakin, CFO and by Elizabeth Skerritt, Head of IR. And we just want to talk you through last year's results and also give you an update on company strategy for this year so without further ado let's move on.

So what we're facing I think now at Ceres is actually a very strong outlook for 2024. 2023 had had some challenges but actually if you look at where the company is right now we're in we're in good shape. Both on the current SOFC business and also into the acceleration of the SOEC business which was a big strategic decision we took several years ago and they're starting to actually pay dividends.

So in summary what we've achieved in the last 12 months we see progress with Bosch on the power units that they're developing backed up with €160 million of EU funding. We've got a lot of exciting progress at Doosan with the factory build in South Korea, 50-megawatt factory and actually during this presentation we'll actually give you a video insight into that factory being built which is fantastic and that's on schedule for commissioning.

Our relationship with Weichai remains very strong and we're actually developing larger power units now 75-kilowatt stationary power units so we're giving an update on Weichai. Technically there's a lot going on we've developed our next generation of stack technology, which is a larger footprint stack higher power density to really scale as we go into modular sizes of tens of kilowatts to hundreds of kilowatts to megawatts and ultimately for SOEC into hundreds of megawatts to gigawatts scale.

And to that point we're making very good progress on our first megawatt scale demonstrator which is now on site with Shell in Bangalore in India. And we ended the year with a strong cash position and a growing pipeline of commercial partners so that's where we got to at the end of 2023.

Many of you will be aware that we were progressing on a new license deal towards the end of last year that actually came in in the first few weeks of 2024 and that was with Delta electronics, a really exciting partnership for us.

Anybody that knows Taiwan and knows Delta fantastic manufacturer servicing the TMT market and what that deal meant for us is a license deal of GBP43 million for technology transfer, most notably not just for SOFC but also for SOEC so our first license in the EC space which is I think a strong validation of our strategy because it's only a few years since we actually formally started moving into the electrolysis space.

And also somebody that can again scale at pace so they're targeting initial production by the end of 2026. And so we're getting pretty good at building these factories at pace if you think about Bamberg in Germany think about Doosan in South Korea and now Delta what we are building at Ceres is a global footprint of manufacturing capability at scale.

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So, I think 2024 will be a strong year as I've said for the company and we'll give you updates throughout the year on commercial progress. But that's a brief introduction from myself what I will do now is hand you over to Eric to actually talk you through the financial performance of 2023 and then we'll come back to the business strategy after that. So, Eric?

Eric Lakin

Great thanks, Phil. Well first of all apologies for the delay in the publication of our results for the financial year 2023. As we informed the market in mid-march the auditors informed us they needed more time to complete the audit the exercise is now complete. We are now a main market listed company as a result we're designators of public interest entity. There is even more scrutiny from the auditor and the auditor regulator on our accounts.

So, it's been a very thorough process it also involved going back to historical treatment of certain revenue contracts and other items including dilapidations provision. We have made certain prior period adjustments which are explained in more detail in note one to the accounts. So, with that let's move on to the financial summary for the year.

Overall, the results are consistent with the guidance that we gave in the January trading update with revenue at the top end of the range given and of GBP22.3 million. That reflects an increase on the prior year owing to progress with our commercial partners as they move towards industrialization of stack supply and scale manufacture.

Margin improvement to 61% reflects the revenue increase. Also, the fact there's a reduction in the warranty provision and relates to the mix of revenue as well. The gross profit increase reflects the revenue increase and the margin improvement as well. And the adjusted EBITDA loss of GBP50.3 million is an increase on prior year which was GBP45.7 million and that reflects an increased planned investment particularly in SOEC but also improvement in our SOFC technology as Phil also mentioned earlier.

We finished the year with a very strong cash position of GBP140 million again as guided in January and the cash burn of GBP42.4 million is a significant reduction from the GBP67.3 million in the prior year.

In fact, 2022 we believe reflects a peak cash burn for the business and the cash outflow for 2023 reflects a continued discipline around cash and cost management particularly in the economic environment and in particular in the year there was a reduction in working capital of around GBP 10 million, relates to trade receivables and also inventory and also reduction in the tax debtor through in the year.

The order backlog of GBP64.2 million is a reduction from the prior year period of GBP71.1 million and that reflects the revenue recognition and the fact that we didn't actually sign a new license partner so there wasn't a significant new order intake in the year to offset the revenue recognized in the year.

Obviously that situation changes or changed in January this year with the contracting with Delta. Headcounts of 591 again it's a modest increase a much-reduced increase from prior year periods. We now believe we've got critical mass importantly across the business whether that's engineering, materials science, commercial and technicians and we would not expect any headcount growth this year.

In terms of revenue trends over the last four years and gross margin it's been again the margin development is a combination of revenue mix, actual revenue so overheads, factory cost absorption and we've got modest revenue growth in '23 but more interesting looking forward we've given guidance that we anticipate revenue in 2024 we approximately double that of 2023 and that's just based on the existing order backlog and contract signs. Obviously, any additional contracts signed entered into in the year subject to revenue recognition timing could represent upside to that guidance.

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In terms of the mix many of you will be familiar with the different revenue streams but just as a reminder and for those that are new to the business we've currently got three different revenue streams so license fees and yellow there that is a very high margin can be 100% margin which can be recognized upfront or over time depending whether it's a right to use or right to access a recognition of license fees and that can be through initial technology transfer such as what we're undergoing currently with Delta this year or it can be an ongoing sort of annual development license which we currently have with Bosch and Doosan for example.

Supply represents providing prototype hardware or components to enable our partners to develop systems and also to support their factory developments. So that's a lower margin and that's provision of our stacks and cells that come out of our CP2 facility in Redhill. Engineering services is associated with the development license I mentioned earlier and that's joint development collaboration with partners to support their activities.

Can either be preparing factories for commissioning or developing systems and we have that with multiple partners at the moment. Again, that's the lower margin business. It's an important part of getting ready for ultimately for stack production and commercial launch. The final segment we don't yet have is royalties. That's longer term. Again, that'll be high margin if not 100% margin revenue from partners and that's based on when a stack is sold commercially, we get a royalty from that or a system if we have a systems license.

So ultimately that requires a stack to be manufactured, installed into a system and sold to a third party for commercial use and that's the point at which we get royalties from that. As I've guided previously, we're not expecting any royalties this year. Anticipate it starts at some point in next year particularly from Doosan.

Crucially we've got again significant planned investment in R&D, a significant part of our overall cost base. It's important to continue to innovate, remain competitive and support our partners. So, the R&D investment overall increased 11% to GBP54 million last year.

That includes ongoing investment in fuel cells including developing and testing the next generation of fuel cells but also increasingly investment in SOEC technology that also incorporates the design and build of the one-megawatt containerized system which is now in Situ in Bangalore but also now investment in the next stack array module which is more of a commercial pilot that is a modular repeatable unit that demonstrates the ability to get to 100 megawatts plus as Phil mentioned earlier.

And the captain investment is generally water term programs. It includes investment in test and infrastructure and the capability of our pilot plant in Redhill and again the facility there has evolved to now manufacture the second-generation fuel cells Redhill for the first time in recent months. Overall, we anticipate the investments to plateau for this year so we're not expecting any material growth in operating costs or indeed CapEx or capitalized development.

And that's same for R&D. We've got sort of critical mass and we expect the current cost base to be similar this year even taking into account inflation as again we look to costs and focus on the priority programs.

In terms of cash burn you can see from this chart here it shows the last four years. This is total cash, effectively cash on cash movement, cash being the full description including cash equivalents, short-term or long-term investments and it reduced significantly last year supported by the reduction in working capital.

And we anticipate looking forward as noted here in the final bullet on an underlying basis based on adjusted EBITDA less capital investment so CapEx and capitalized development to materially reduce this year on account of revenue growth and therefore reduced EBITDA losses based on a consistent cost base.

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We will not, it's worth noting, we won't have the same benefit as we had last year of a significant reduction in working capital. That's a one-off benefit but we do expect an underlying basis to show improvement.

And with that I'll hand back over to Phil.

Phil Caldwell

Okay thank you Eric. So, what I'd like to do now is just give you an update on the business strategy going forward. And really what we're looking to do is an acceleration now of our commercial offering for the SOEC platform built on the leadership that we've established in SOFC.

And don't forget what we've now got is production supply chains globally for the same core technology for FC which we're now able to very rapidly deploy onto EC. So that's quite a compelling offering in the market. And there's really three things that were focused on, the commercial acceleration, licensing the technology which requires maintaining technology leadership and execution at pace.

On the commercial acceleration, we can talk a little bit more about this, but we think we have a very compelling business case for this technology across green hydrogen, particularly for industrial decarbonisation in the sectors such as green steel, green ammonia and synthetic fuels and future fuels. And commercially, we're engaging across the full hydrogen value chain to drive demand for that technology. So that means we engage with end users like Shell.

We also engage with, you know, manufacturing partners like the ones we have and new ones like Delta. And that's really building out that commercial ecosystems. That's been a big focus for the company over the past 12 months.

On the technology leadership, as we've mentioned, the second-generation stacks now been released and is being starting to be produced in our facilities in CP2 and Redhill. And we've developed that in collaboration with industrial partners such as Bosch. We're also spending a lot of time on the electrolyzer module side.

Actually, what we will show is the first megawatt scale demonstrated with Shell. But we realise that our target really is hundreds of megawatts to gigawatts of deployment. So already we're developing larger modularised systems in that five-to-10-megawatt kind of range that can then be scaled to hundreds of megawatts and gigawatts stage deployment.

And then execution at pace. When we think about execution at Ceres, we think not just about what we're doing within our facilities here in the UK, but we think about what's happening with our partners. We work in collaboration very much with a global focus. So, our partnerships in Germany, Korea and Taiwan are now scaling production. And that's really the fundamental bedrock for the company.

To support that, it's not just about the core cell technology. We're also able to now offer factory blueprints. So how do we actually enable people to go to market faster? And you see, as we do these factory builds, they're actually getting shorter. So, the delta timeline is shorter again, probably than what we've seen previously.

But that's building on, A, the benefits of the licensure model and the supply chains that we've built out. And also, the fact that we're getting pretty good at this in terms of what we've learned at Redhill, what we've done in Germany and Korea, we can now apply it to new partners as they come on.

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So, execution at pace is a key pillar for us. And as you may be aware, one of the unique features of solid oxide is it is a truly reversible technology. So that means all the investments we've made on the power system side, we still take that through the fuel cell side in terms of distributed power, data centres, some of the applications like maritime.

But now when you run that in reverse, we open up these huge new markets, Green Steel, Green Ammonia, Future Fuels. And that's without a significant investment in core technology that is basically capitalizing on the core attributes of the technology and the investments we've already made.

And hence that's one of the reasons why to prosecute this market, we're not expecting to have to significantly grow our cost base at all. As Eric said, we're now at a critical mass. But what we see here is commercial upside from what we've already established.

In terms of the technology advantage, a very quick reminder of why this technology is unique. It's based on ferritic steels, which basically means it's a low-cost solid oxide technology. We use very common ceramic rare earth materials such as Ceria, that's where the company got its name from.

And our operating temperature is very appealing when you come to actually building out balance of systems and even balance of plants for hydrogen. In terms of costs, Ceria costs a thousandth of the cost of platinum, 70,000 of iridium. In fact, for electrolysis, we don't even need iridium or some of the PGM kind of materials.

And therefore fundamentally, we have a next generation technology that is very, very competitive versus anything else that's out in the solid oxide space, addressing these huge market opportunities.

And when we talk about delivery, we have a mature stack design based on years and years of development and testing, etc. at Ceres, first of all for fuel cell, but now for electrolysis. Combine that also with the supply chain and the manufacturing capability to very high standards.

I think when you look at the partnerships that we develop at Ceres, we don't come up with partnerships every week, but when we do actually sign new license deals, the quality of the partners that we sign are world-class people who demand very high standards in terms of performance, quality, supply chain. And that's why we're very confident in our ability to build out the scale for this company.

And then obviously moving into the markets for electrolysis, we're able to actually develop the system approach just as we've done on the fuel cell side as well. And going back to partner scaling globally, what you can start to see is the footprint establishing. So obviously Bosch is a key partner for us in Germany, Doosan in South Korea, now Delta in Taiwan, and also Weichai in China.

Weichai remains a very important partner for us. At the turn of the year, we made it clear, we don't now expect the three-way joint venture between ourselves, Bosch and Weichai necessarily to be executed in the way it was originally planned. However, I do expect that we'll be able to move forwards both with our partners, Bosch separately and Weichai, and also with Weichai, I expect that we'll have more to say commercially in terms of how that partnership progresses.

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So, all of our partnerships remain very strong. And really this modular scaling approach is starting to pay off. So, with Doosan, you may have seen that developing, first of all, we developed 10-kilowatt systems that's been scaled to 60 kilowatts and now 600 kilowatts. Those kinds of systems are required for commercial scale deployment and some of their applications, such as in shipping, et cetera.

With Bosch, there's a lot of activity on the piloting of these systems in various different locations and different applications. And if you go on Bosch's SOFC website, you'll see highlighted some of those applications like data centers, like hospitals, et cetera. And that's really from tens of kilowatts to hundreds of kilowatts kind of deployment.

And as I mentioned with Weichai, we're scaling that to 75 kilowatts. And again, that enables us to get towards megawatt scale of power generation. So that's all on the fuel cell side of the business. Obviously, you can now add to that Delta as well, and they'll be developing, again, systems of a similar kind of modularity to this.

I'd like to just take a few seconds to show you the factory build in South Korea, because very often people are familiar with Ceres and they've got an idea of what we do here in Horsham and here in Redhill. But this is actually a video of the factory, the 50-megawatt SOFC factory, which could also be deployed into EC, the same in South Korea.

So again, this is a greenfield site, very impressive in terms of the build out of this. And also, there is land around this site as well for future expansion as well. We've got teams there right now, supporting first commissioning of stacks coming off these lines. And we expect that to become fully commissioned in the second half of this year.

And then as Eric says, that ties in with product development and then we'd expect royalties from this in the second half, probably of 2025. But again, what we're laying here is very solid foundations for scale for this company. And again, in the future, we'll be able to show you similar kind of build outs, if you like, as we sign more partners.

So that's really, I think, for anybody that's at some point may be able to see this, you have single piece, very impressive, state of the art, highly automated factory, using localized Asian supply chain, bringing in more supply chain partners than originally we've done so far in Europe. And I think this is a great example of how we're scaling the business globally.

And that brings us onto the new partnership with Delta, which is a dual license for both power generation and for electrolysis for green hydrogen. It's a big endorsement, as I mentioned earlier, of the strategy to invest in electrolysis. And you saw from the cash profile that Eric talked about earlier, we have been in an investment mode over the past few years.

That was very deliberate because we raised significant capital to move into EC. We've been deploying that. I would say that deployment phase is largely over in terms of the peak cash investment we've made. But what's important now is we're starting to see the commercial partnership starting to form as well.

So, for me, I am absolutely delighted with the progress that we've made on electrolysis because we've laid out the strategy, we've developed the technology and now we're actually signing world-class partnerships in this When you go to somewhere like Taiwan, these guys are based directly off opposite TSMC.

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You know the manufacturing capability the ambition is huge and they're not just a Taiwanese company. They have operations in India in Thailand all across Southeast Asia So very exciting partnership with Delta.

Moving on to a little bit of a focus on the electrolyzer side of the business Why are we so convinced of the electrolysis offering from Ceres? Well building on all those foundations, building on the manufacturing, building on the supply chain, we have a very compelling commercial proposition here, which is just because of the way solid oxide works we offer a about a 25% or more high increase in efficiency for green hydrogen.

So what that means is about a 25% reduction in CapEx and a 25% reduction in OpEx particularly where you can combine it with heat and that's for the industrial decarbonization applications particularly green steel, green ammonia and synthetic fuels and that's why some of our first partners like Shell are very interested in this.

It tends to be the industrial decarbonization side of things and there's some numbers here just indicative, so if you're best in class low temperature alkali or PEM is about 50 kilowatt hours per kilo, we only need 37 kilowatt hours of electricity to produce a kilo kilogram of hydrogen. So on a million tons a year of hydrogen basis instead of six gigawatts you need less than five of electrolyzer capacity instead of 12 gigawatts of upstream renewables you need less than nine and from your electricity cost you're saving about 25% a year.

So it is a big shift in terms of the current technology that's out there and actually the potential of solid oxide and I think you can see this right across the industry now solid oxide is now getting to a stage of maturity where a lot of companies are now seriously considering they need solid oxide in their portfolio and because of our licensing model and our technology leadership a natural place to come for that technology is Ceres.

This is all about scale. We've been working with AtkinsRéalis formerly SNC-Lavalin over the past year or so and we've been conducting front-end engineering design for multi-megawatt modularized systems that can scale into 100 megawatt building blocks and then into gigawatts.

And really, you know, it's quite a compelling combination because we're able to offer factory blueprints. So, how do you build, you know gigafactories and also how do you actually deploy this in chemical plants at that scale.

That's a big part of what we're doing now, and we are also developing Modules, which are a larger a larger scale module. So building on the factory, the technology team is very focused on scaling the module size which can then go into the hundred megawatt kind of building blocks into Hydrogen plant for these end applications that we see before us.

And I will probably give technology update on that probably towards the middle of the year, but progress on that is very very Impressive I would say. So just to give an outlook and a focus for the year ahead. You know start with the end point. I'm very confident. We're going to at least double revenues this year and we will update guidance as and when we sign new commercial partnerships.

So we're not going to give that guidance here today. But I think already with what we have in front of us. We know we're on for a strong 2024 and I actually think that we will have more to say on commercial partnerships this year. Bosch do sell and Delta are all progressing towards scale and that's really the foundations of the company.

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We're continuing to grow the relationship with Weichai and expect to have more to say about that this year. Our demonstrator programs for green hydrogen are on track. The electrolyzers now on site in Bangalore in India and we're moving forwards with Bosch and Linde on other demonstrations as we develop these modular approach. We started well with the Delta deal and that that's one of a number of opportunities that we're now seeing for the electrolysis side.

I've talked about the relationship with AtkinsRealis on how do we scale this. And we are engaged right across the value chain for hydrogen as a building block for gigawatt scale plants. And I think we're looking forward to a very strong 2024 after what was something of a challenge in 2023. But I think that the foundations that we laid last year and the commercial progress that we expect will see us have a good 2024.

So with that, I think we can hand over to the questions.

Question-and-Answer Session

Operator

Phil, Eric, thank you very much indeed. Elizabeth, you can see you've got a number of questions from investors online to thank you to everybody for engagement. But before we perhaps turn to those, if I could hand the mic to anyone that has a question in the room?

Chris Lennon

Hi, Chris Lennon from Credit Suisse. Sorry, UBS still on autopilot on that stuff. Looking at the potential opportunities you've just spoken about there, Phil, and commentary maybe you gave in January saying that you're confident of another deal. On the Electrolyzer side, those new opportunities or partner potential opportunities, how many are brand new customers potentially into the technology or how many are maybe expansions from partnerships you already have?

Phil Caldwell

I don't really want to give too much forecast on this because I think in the current markets we're not really rewarded for forecasting. It's kind of used as a bit of a, okay, have you hit that or not. But what I would say is in electrolysis, obviously it opens up the market to new entrants such as we've seen with Delta.

It also makes sense that if you have invested several hundred million into a facility and a supply chain that can make solid oxide cells, and let's call them cells from [indiscernible], then you would want to be able to capitalize on that investment and deploy that. So we're working on both fronts basically. New partnerships and also our existing partners are of course very important to us. So that's also an opportunity for us as well.

Chris Lennon

And a second question, but there's been a lot of interest in the market around data centers recently, I just wondered if you guys were seeing any momentum on that side of the market looking at commentary from Bloom Energy, speaking a lot about the potential for greenfield data centers and using solid oxide fuel cells for that market.

Phil Caldwell

Yes, on that particular one, that's why I think the Delta relationship is a really interesting one because they are already servicing that part of the market. They have relationships with the big data center and TMT kind of customers globally. And I think that's a big part of their strategy, their product strategies. They see that data center market as key.

And I think it depends on where you are in the world as well. I mean, what we're seeing on the fuel cell side is probably our biggest demand for growth is probably in the Asian market. And I think that's why we're starting to see some of these partnerships forming as well. So yes, to answer your question, I think there's still a big market opportunity there. And I think that it depends on our partners focus, but I think with Delta, that's a big part of their strategy.

Ken Rump

Hi, three questions. The first one was in your kind of commercial review, you talked about Asia being perhaps the sort of key area for potential new interest and mentioned China and India. So I wanted to say, is China is all about Weichai or potentially it's other things? And is there anything to say about sort of the subsidy and kind of support regime in other Asian markets that's relevant?

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And the second couple of questions are more for Eric. We're used to perhaps modeling the gross margin based on that mix of the different kinds of revenues. Actually, the columns for '22 and '23 look pretty much identical. And yet the gross margin went up just sort of, which is welcome obviously, but some explanation on that. And actually the other one was just on returns on cash because we've got used to them not being any. So I need to have a think about, what you earn on the cash deposits, thanks. I'm sorry, Ken Rump from Goodbody, if I didn't say that at the beginning.

Phil Caldwell

Okay, so if we talk a little bit about the first question about Asia, our relationship with Weichai is focused on fuel cell. And obviously they're a very important strategic partner for us, so that's our near term focus. That doesn't exclude other partnerships in the future, but that's not something I'm really in a position to give any updates on at this point, to be quite honest.

You mentioned India, we're seeing big subsidies in regions like India. I actually expect China will probably also, probably in the next five year plan, go big on some of these areas as well, like green hydrogen. We're seeing subsidies in, you've already have it in South Korea, you're seeing it in places like Japan, even Taiwan.

So I think regionally, there's a lot of national policies that are starting to prime the pump, if you like, for interest. So I think at the moment, when we look at these markets, say India, it's very much focused on low cost solutions. So right now, low cost Chinese electrolyzers, and the market for that is AlkLive in India. But I think in the future, because of the economic benefits of this, you'll start to see EC also come forwards. And that technology really hasn't been commercialized yet in any of those regions. So I think near term, we have a focus on Weichai but on existing partners, but beyond that, we see upside in terms of new partnerships.

Eric Lakin

Okay, great. So in terms of the margin development, I mean, there's three things that affect gross margin. One is the mix, as you pointed out. Two is the absolute amount of revenue, which impacts the absorption of factory overheads and third is sort of other. The improvement from '22 to '23 was really the second two categories, so in absolute terms, revenue increased by GBP2.5 million. So even with the same mix, you're going to have an improved absorption of factory costs, which improves margin.

And the other category, actually the warranty provision in the year reduced by around 600K, which has also actually had a meaningful increase in the percentage of gross margin. And the reason for that reduction is we've got better infill data. We've got a sort of maturing estate with partners and we're seeing good robustness and quality. And therefore it's allowed us to release some of the prior warranty provision in the year.

In terms of the returns on cash, Yes, it's a good question. We had actually -- the market returns have much improved. We ensure that we're getting the balance of whilst maintaining rigor in our investment counterparty quality. So we're not investing in any money market funds or deposits unless they've got very high investment grades, but also getting suitable returns.

And actually the finance income on a P&L basis more than doubled in the year or approximately doubled in the year; so from GBP2.8 million in '22 to about GBP7 million pounds in '23. So the average interest rate we're getting currently is about 5% across the different funds and bank deposits. And at the moment we're expecting similar returns at the moment and going forward, obviously difficult to predict and some of the yield curves are coming down a little bit, but obviously the balance is declining. So the finance income this year will be somewhat less than that, but still around GBP5 million.

Nick Walker

Thanks, Nick Walker from Peel Hunt. Two questions. The first one is more of a bit of a sort of size, scope and perceptional question. Second one is going to relate to competitiveness, vis-a-vis other solid oxide electrolyzer companies in the market. Obviously when the share price started to fall, obviously market related also granted, but it was sort of as the opportunity for the Weichai, Bosch deal seemed to sort of evaporate; obviously got delayed over a number of months, perhaps over a year or so.

And then you announced obviously the Weichai, sorry, the Delta deal, we saw a big spike momentarily in the share price. So from a sort of markets perceptional point of view, do you think that the opportunity set that you have now with Delta, given obviously it's a SOEC and FC and obviously their breadth globally is enormous in terms of customer base, etc, is equivalent to what the Weichai Bosch opportunity in China might have been.

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So in terms of the market's view of sort of China, Weichai, being a leading player, switching from obviously combustion to interfuel cells with Bosch, obviously a very established company in China itself for many, many years, having worked with Weichai for a long time as well. That obviously perceived as a huge opportunity, China going to be the biggest market for sure for hydrogen globally, long-term.

Do you think that the market thinks that the Delta opportunity is as big and therefore in terms of the share price performance and sort of, perception of that opportunity is equivalent or not? That's the first question. So is it in reality actually, I guess it's a question, but also in perception wise.

The second question is, you mentioned on the EC side, key opportunities that you see ahead of you, green steel, ammonia, green fuels, aviation, etc, etc. I'm interested for you to sort of explain a bit more about whether your commercial customers and potential customers in the future have a fundamentally solid appreciation of your competitiveness, given that you're kind of an intermediate fuel cell technology, as you outlined there earlier, relative to people like Bloom, Sunfire, Elcogen.

And there's quite a few others, obviously, in the solid oxide fuel cells, I'm sorry, electrolyzer space now? And therefore, your competitive position in going forward as you access or enter into partnerships, who can access those green steel, green ammonia markets in the future?

Phil Caldwell

Okay. To answer the first question, I would say that the market doesn't recognize the value of the Delta deal clearly, because I don't think we've seen, I think it's frustrating from a share price performance over the past year of 2023, despite what the company's done, there's obviously macro environments and also some disappointments around the China JV.

I think though, where there's probably an over-bearish sentiment there is, the fact that we couldn't get over the line, let's face it, probably was a bit of a mega deal with two -- two very large organizations, doesn't mean that our opportunity in China has evaporated. And I think that's what the disappointing thing for me is, I think the market thinks that that's gone away and it hasn't.

So I think that we will progress with our partners in a different way. So I don't think it's a like for like substitution. I also don't think yet that people appreciate the value of these additional partnerships as we form them. But I think that hopefully, as we start to see maybe interest rates fall and an appetite increasing for these kind of technology businesses, which have future cash flows, I think the foundational piece of these world-class partnerships that we're building and are additive, hopefully we'll get its reward.

So long answer, but near term, we saw a spike in the share price, but it dissipated with just the headwinds, I think that we see before us. And I think the future in terms of the market for China and Asia remains unchanged. And I also think that we'll be able to prosecute that market anyway. So I think that's what I would say there.

In terms of the second question about our positioning versus competition, I think there's two aspects to our positioning versus competition. One is, as I mentioned in the presentation, we think that we have a big advantage on technology. We're a third generation technology, we are lower temperature and not using some of these hard to source rare earth materials as our competitors do.

And also from ease of manufacture and the ease of system design and cost, et cetera, all of that is favorable to the Ceres technology. That's on a pure technology-to-technology play. Actually, probably one of our biggest advantages, competitively is our ability to achieve local -- enable localization of manufacturing.

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So right now, if you are in the hydrogen value chain, you have a choice, which is, do you want to buy from a European or an American type supplier? And when you're running big national policies and you're actually wanting to secure value in region, you [technical difficulty] to localize and capture some of that value yourselves in the supply chain.

The only company right now in this space that offers that ability is Ceres. So if you want to actually, not have to import Western technology, but actually be able to manufacture it yourselves, that's where we have a very compelling offer. And I think that is a differentiator that our partners really are looking for. So, I think, first of all, we win on technology, but also we win on our business model as well.

James Carmichael

Thanks, hi, James Carmichael from Barenberg. Just one quick one, just on the Bosch and Linde agreement on EC. I guess originally that was sort of a two-year agreement, announced just over a year ago, but at the same time it's maybe evolved from the original one megawatt demonstrator into the five megawatt module; so just wondering if the timeline is still valid. When should we sort of start to think about potential outcomes, products, whatever it might be from that agreement?

Phil Caldwell

Yes, I think what we can say on that is given the strategic nature of our relationship with Bosch and also what we've already done with the demonstration from Shell, we always wanted to set up that relationship with Bosch and Linde, as an early evaluation and a more collaborative development point, rather than, Shell is more of an end-user. So very much interested in the economics of the technology and wanted to pull that technology.

Whereas with Bosch and Linde, they're more involved in the value chain itself side of things, so going from proof of technology at a megawatt scale, what we're now developing, as I mentioned, is larger modules. And really we want to have a closer involvement with our strategic partners on that. So that's why the relationship with Bosch and Linde may be somewhat different from some of the end user relationships.

In terms of timeframe, etc, it's not dissimilar, but what we're doing is actually -- we're not going to -- our intention is not to just repeat what we've done on this first megawatt scale demonstrator. It's actually to jump to the next generation of that, because that's from our maximum learning and value creation, that makes sense for [indiscernible]. We don't want to just repeat what we've done several times over on megawatt scale when we already have plans for the scale up of those modules.

Operator

Any more questions from the room at all? If not, maybe Elizabeth, oh, sorry.

James Carmichael

Sorry, can I just add a follow-up on the cash burn being at its peak in 2022 and coming down from here, which is obviously encouraging to hear, but on R&D, is there any sort of top threshold where actually that's, you're hitting a peak in R&D? Obviously the SOEC is going on right now. Should we anticipate that once we do get those larger modules, actually R&D could potentially come down in terms of intensity, helping that cash burn outlook?

Phil Caldwell

Potentially yes, next year. So as I mentioned earlier, we expect overall operating costs including R&D to be at a similar level this year to last year, and that's with the ongoing investment, particularly in SOEC and the stack array module we talked about, which is a project that takes over from the one megawatt demonstrator, which was a significant component previously.

And obviously a lot of the development that's ongoing, but in terms of large one-off projects, that's an example, it tails-off next year. So I anticipate R&D has effectively reached its plateau and actually could, with all this cautious giving guidance over a year out, but it could come down next year.

Operator

Thank you. Elizabeth, I don't know if there's anything online there that you've seen from…

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Elizabeth Skerritt

Yes, we've had quite a lot of questions online. So we'll come to a few now, but we'll definitely answer all of them in the aftermath if we don't get to yours. If I could come to Eric first, we've had a question around the engineering services element of our revenue streams and the utilization of engineers. So the question is, as the business grows, how does this change? Is there potential better margin from this revenue stream? And do we use subcontracted engineers?

Eric Lakin

So, -- yes, the margin for engineering services, we don't disclose specifically, but it's not bad. It's fairly healthy and we have -- it's important we get -- that we have coverage of our engineering team and utilization of that team. So it's very much scaled to the market and partner needs. These are very specialist areas. And involve understanding, scale-up manufacture, the build out of factories and supporting system development.

So this is very much an area that we have in-house engineering teams rather than third parties. That's an important part of our model. It's also a lot of IP involved. There are some situations where we use third parties. One example would be that Phil mentioned earlier around using Atkins and others to help with the development design of modules and systems where we utilize expertise outside. But in terms of engineering services for partners, that's very much an in-house exercise.

Elizabeth Skerritt

Great, and there's a question that's come through from Sky Landon at Redburn. He says, it sounds like Doosan will likely recognize royalty revenues in 2025. When do you expect Bosch to start recognizing, or when do we expect to start recognizing royalty revenues from Bosch rather?

Eric Lakin

So, Yes, we've already guided that whilst there's very good progress with having the Bosch manufacturing facility for stacks moving towards commissioning and industrialization, there's a parallel activity which involves system developments, including meeting market specs and certification and development commercially. So that's taking longer. So it's not really in our gift to give a forecast exactly when the first commercial sale would be of a system that generates royalty for us, but we are not expecting to be material in 2025 in terms of Bosch.

Elizabeth Skerritt

Thanks, Eric. And if I could come to you, Phil. Question here just asking from a partnership strategy perspective, could you provide a bit of color on the sort of regional strategy, how you see that evolving?

Phil Caldwell

So what we've been doing is building out the commercial focus regionally. So we have commercial teams now, obviously here in UK and Europe, we're building a footprint in the US and already we have team in South Korea, hiring in Taiwan, and obviously we have a team in China. We tend to have coverage, where the market focus is.

India as well, I didn't mention, we've now got a team on the ground in India and the regional focus is very much based upon the market opportunities that we see. All of those markets, I think, have a combination of a couple of things, very active policy regimes, very supportive, potentially for green hydrogen, particularly for the industrial de-carbonization side of things.

And the other thing, as I mentioned, that's quite compelling with Ceres is, we're particularly attractive, I think, where there's ambition in regions to actually localize manufacturing and supply chain. So right now, I think our most active region, I'm going to say Asia, but that's a very broad area covering several of those markets that we talked about.

And also, obviously, we have strong partnerships in Europe already with Bosch and we would like to have established partners in the US. In terms of numbers of partners, what we're really trying to do is create partnerships with the strongest partners we can have, because we also expect partners not just to act in one territory, we actually think that most of our partners want to be global.

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A good example of that is Delta, who obviously have operations globally or across Asia. People like Bosch and Doosan have operations, obviously, multinationally in China, US, et cetera. So our commercial focus is having localized teams developing the in-region commercial activity. But then once we actually establish these partners, we expect them to also be operating quite globally as well.

Elizabeth Skerritt

Yes, absolutely. And another question, just to follow on from that, can you speak to the opportunity that you see in future fuels, which geographies and partnerships will be targeted?

Phil Caldwell

I think that what we're seeing is, that's quite a big question. Green hydrogen is not the solution for de-carbonization, it's not a silver bullet. And it's going to take some time before we really move away from fossil fuels. So a lot of companies are looking at alternatives, synthetic fuels, e-methanol, methanation to change the supply of gas in the systems, etc.

So we're focused on that with the end users, because again, solid oxide in that particular application is quite compelling because of the opportunity for thermal integration. And if you think about how we're going to de-carbonize heavy transportation, like shipping, like aviation, you're going to need these e-fuels, these synthetic fuels in the future. So that's obviously something that we're seeing as a pull in the market for this technology.

Elizabeth Skerritt

Yes, absolutely. And we've had quite a lot of questions around this topic. So as Phil mentioned, we will be doing a couple of sessions in the summer just to go into a bit more detail with our programmes on Atkins and with Shell. But perhaps just to close out, Phil, on that, somebody asks sort of how quickly can we prosecute on this next phase of the five to 10 megawatt sort of SOE system? And what do you think that's going to mean in terms of the overall strategy around green hydrogen?

Phil Caldwell

Yes, so we're moving quite rapidly on that because the core stack technology is built upon the foundations we've already talked about. So we tend to do major stack releases every one or two years. The next stack release will be electrolysis focused, but based upon the same footprint and also the same manufacturing that we have at Redhill. So from a stack development side, we can move quite rapidly on that.

But then what we are putting effort into now is actually the modularisation of that. So what we're calling stack array modules. And again, I think we will give a technology update on this because I think there's quite a lot to cover on this. But because of the modularity of this technology, we're not talking about a big leap in technology developments. You're actually talking about how do you deploy these modules in bigger arrays that can then be modularised into plants.

So our intention on that is developing those stack arrays modules, I think designs by the end of this year and deployment by the end of next year. So it's on a fairly fast track on our technology development plans.

Operator

Phil, Eric, Elizabeth, thank you once again for updating investors this morning. I'll please ask investors not to close the session as we're now automatically redirect you for the opportunity to provide your feedback in order that the company can better understand your views and expectations. We should all [Technical difficulty].

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