

# **ClearSign Technologies Corporation (CLIR) Q1 2024 Earnings Call Transcript**

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**Body**

ClearSign Technologies Corporation (CLIR)

Q1 2024 Earnings Conference Call

May 23, 2024 05:00 PM ET

Company Participants

Matthew Selinger - IR

Brent Hinds - CFO

Jim Deller - CEO

Presentation

Operator

Good afternoon, and welcome to the ClearSign Technologies First Quarter 2024 Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please note this event is being recorded.

And I would now like to turn the conference over to Mr. Matthew Selinger of Firm IR Group. Thank you. Please go ahead.

Matthew Selinger

Good afternoon, and thank you, operator. Welcome, everyone to the ClearSign Technologies Corporation first quarter 2024 results conference call. During this conference call, the company will make forward-looking statements. Any statement that is not a statement of historical fact is a forward-looking statement. This includes remarks about the company's projections, expectations, plans, beliefs and prospects. These statements are based on judgments and analysis as of the date of this conference call and are subject to numerous important risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

The risks and uncertainties associated with the forward-looking statements made in this conference call include, but are not limited to, whether field testing and sales of ClearSign's products will be successfully completed, whether ClearSign will be successful in expanding the market for its products, and other risks that are describing ClearSign's public periodic filings with the SEC, including the discussion in the Risk Factors section of the 2023 Annual Report on Form 10-K for the period ended December 31, 2023. Except as required by law, ClearSign assumes no responsibility to update these forward-looking statements to reflect future events or actual outcomes and does not intend to do so.

On the call with me today are Jim Deller, ClearSign's Chief Executive Officer; and Brent Hinds, ClearSign's Chief Financial Officer. At this point in the call, I would like to turn the call over to

CFO, Brent Hinds. So, Brent, please go ahead.

Brent Hinds

Thank you, Matthew. And thank you to everyone joining us here today. Before I begin, I'd like to note that our financial results on Form 10-Q were filed with the SEC on May 15. With that, I'd like to give an overview of the financials for the first quarter of 2024.

For the first quarter of 2024, the company recognized approximately $1.1 million in revenues compared to approximately $900,000 for the same comparable period in 2023. The increase over the prior year was predominantly driven by two separate performance obligations for two separate customers. One was a shipment of multiple process burners to California refinery. The other was a sign off of a CFD study. Now CFD stands for computational fluid dynamic.

Gross margin for the current quarter was 39.7%, compared to 11.9% in the same comparable quarter in 2023. The gross margin increase was primarily driven by the margin on our products shipped to California, specifically our process burners. Now recall, in the prior year comparable quarter, our margins were primarily driven by a burner performance test, which typically earned lower margins compared to product sales.

Now let's shift our focus to the income statement as a whole. Our net loss for the first quarter in 2024 was approximately $1.1 million, which is a favorable decrease of approximately $300,000 compared to the prior year comparable quarter. The decrease is directly correlated to our overall increase in gross profit and increased sales volume.

Now I'd like to change the topic to our balance sheet, but more specifically, cash. Our net cash used in operations for the quarter ended March 31, 2024, was approximately $1 million, compared to approximately $500,000 for the same comparable quarter in 2023. The difference is driven by customer collections in the current year quarter. Now for clarity, our customers are current on their payment schedules. It's just the natural lumpiness in our customer billings that's what caused the difference.

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The cash balances at March 31, 2024 was approximately $46.6 million. And please note, our recent equity offerings are not included in our March 31, 2024 cash balance. The net cash raised in our recent equity offerings amounts to approximately $8.7 million including the overallotment option that was exercised in full on May 10. If you are interested in learning more about our recent equity offerings2.

With that, I'd like to turn the call over to our CEO, Jim Deller. Jim?

Jim Deller

Thank you, Brent, for the financial overview. As always, I'd like to thank everyone for joining us on the call today and for your interest in ClearSign. Before I start, I'd like to welcome David Maley, a newest addition to the ClearSign Board of Directors. David joined us just days after our last call one month ago. David is a seasoned investment executive with broad experience, specializing in microcap business, finance and compliance. I welcome David to the Board at this exciting time for the company and look forward to working with him in collaboration with the other directors.

On the call today, I will review our business segments starting with our process burners and then move on to boiler burners. I have some comments relating to our sensing partnership with Narion Corporation. I will then discuss the outlook for the rest of the year. I'll also note that our last call was not that long ago back on April 24. And I do suggest that anyone not familiar with our last 2023 year end call also refer back to what was presented then.

I'll now turn to the developments in our process burner line. Yesterday, we announced the final source test results for the second heater from the two heater order at Kern Energy, who until now we have not been able to name. As I've stated previously, these are our two most significant processes of retrofits to date.

They are the two largest and also have fuel gas that varies significantly and with a hydrogen content ranging from 0% to 80% of the fuel's volume. These heaters are side by side, one fitted with eight burners, which is completed first and included in our press release on January 17, announcing the successful third-party performance test. And the second heater, which is fitted with five burners, was retrofitted in late March and was tested in April. On the last call, we noted that we were waiting for the official report from that source test. That has now been received and the successful performance of our burners confirmed.

A few days after our last call, on April 30, we received and announced two additional purchase orders from the same customer. These orders were for the detailed engineering of burners to be installed in two more heaters in the Kern Energy Refinery. As we have discussed before, it is quite common for projects to be released in phases with initial engineering being the first. These two heaters are smaller than the previous two, one with a single burner and the other with three.

But nonetheless, they will provide revenue and valuable references for ClearSign, especially in the refining industry.

It is encouraging to receive repeat orders for our technology. Kern Energy has been an early customer of ClearSign and has ongoing experience with the operation and performance of ClearSign's burner technology. Kern Energy prioritizes their clean air and clean fuel initiatives and actively seek technologies that go beyond established emissions limits and to further reduce their environmental footprint. We believe that the increasing inclusion of ClearSign's technology into their refinery is evidence of and a significant step towards these objectives.

Beyond this, we have the 20 burner order for Los Angeles Refiner in production. As we previously stated, the final witness testing of these burners went as planned. These burners are now being fabricated by our partners, Zeeco, and are scheduled to be shipped to our client in Los Angeles area of California late in third quarter this year. When up and running, these will be another two heaters, this time with 8 and 12 burners, which will provide an additional and very significant reference for us, especially given their location in the large refining hub in the Los Angeles area.

Shipping these burners will enable us to recognize revenue from the production phase of this project. This past month has included significant activity from a sales perspective. On the last call I mentioned, we have end user refiners request that the engineering companies working for them contact ClearSign to include us in the evaluation of solutions for their projects and the support of those inquiries has continued through this past month and is ongoing. New inquiries include some interest from Europe also which is encouraging and a development we are pleased to support.

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On our previous call, I mentioned the development of a product line developed for an enhancement of our current boiler burner technology that has enabled an efficient and effective ultra-low NOx solution for a particular type of horizontally fired process heater, which is widely used in the midstream that is the fuel processing storage and transfer industry. This new product line has been the subject of multiple different customer engagements in the past few weeks.

As with the refining process burners, many of these opportunities have been brought to us by third party engineering companies seeking the best solutions for their clients. This is a distinct difference and a significant development from only a short time ago, when most of the opportunities will limit to those resulting directly from our own outreach. We are still doing that, but the addition of inquiries from clients where they need reaching out to us is significant.

On the last call, we noted that we're about to install the first commercial version of our Department of Energy funded hydrogen burner development project into a test furnace on the site of our partner Zeeco. Since that update, we have run that burner and I'm happy to report that the results exceeded our expectations, especially for the first version of new burner.

Some of you may have seen our post on LinkedIn showing a photograph of the flame and some of the initial results with NOx numbers at four parts per million with 100% hydrogen fuel. Due to the results we have already achieved, we anticipate that we will be able to accelerate the commercial availability of this new burner design. This new technology has gained significant interest amongst our customer base with whom we have been able to discuss the program.

A particular interest to clients we have talked to is a prospect of being able to upgrade our current burner technology to a future 100% hydrogen capable burner, while maintaining the same emissions profile.

Turning to boiler burners, we or our partner Rogue have a steady cadence of customer inquiries to quote and pursue and accordingly a growing sales funnel. Key opportunities since our last call cover a wide range of industries from high-tech production facilities to education facilities to food and beverage producers and industrial production. We also have in production the first in a series of four burners for induced processing company in Central California. We also have a large 1,200 horsepower boiler banner for recycling company in Central California. This boiler is on that customer site and is scheduled to start up in the next few weeks. This is especially meaningful because it will be our first burner in the largest size range requiring a 2.5parts per million NOx guarantee. We anticipate that this will provide a very meaningful reference in the industry and a powerful demonstration of the capabilities of our ClearSign Core technology.

A few words regarding our China operations, we have a lot of topics to cover in the full year-end and fourth quarter call last month. Now that the need to prioritize, we did not give an update on operations in China because there's not a lot to report. A project there has had some delays, particularly an urgent need on the part of Shuangliang to provide a boiler to one of their customers that resulted in our test boiler being needed and shipped to that customer.

A new boiler for us to use in a burner certification process is in production and we look forward to being able to reinstall our burner and resume our preparation for certification. We expect our general sales and promotional activities to continue in parallel with our burner certification process.

At this phase of ClearSign's commercial development, now that we have proven technology, our reference installations operating in customer sites. Our priority is developing sales. A big part of this is getting engaged with customers who have projects either now or in the future that will benefit from the capabilities of ClearSign's technology.

As you would expect, we have many initiatives ongoing to this end. Of particular note, since our last call, we have engaged our first third-party sales consultant. This consultant is based in the Houston area, but brings valuable connections nationwide in addition to the industrialized Gulf Coast area of Texas and Louisiana. He also has connections with many environmental consulting companies working in our field and local and federal environmental regulators.

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In this industry, a typical sales agent or manufacturers representative, we'll have a small portfolio of clients who provide products or services in a similar industry or to a customer group, and they will specialize in our target market. This enables them to develop extensive contacts and relationships, and as a result of the multiple products or services that they represent to keep them in frequent contact with their customer base.

In our case, in addition to this, our sales consultant is engaged with many consulting firms, who get involved when end users are planning and permitting environmental projects or have new requirements to accomplish. He's also engaged with local regulators, which we anticipate will help provide information related to future client needs and regulatory drivers.

In a similar market-related topic, we have been watching the development of air regulations in Texas, which are driven by the increase in severity of nonattainment within the national ambient air quality standards for Ozone in the Greater Houston, Dallas and San Antonio regions. While the changes to these regions nonattainment status were identified before the COVID years, not much progress was made until recently when the Governor of the State of Texas accepted these findings at the end of 2023.

As a result, the state regulators are now working with the federal EPA to develop a mutually acceptable plan to improve air quality in these regions. While these developments are still at the high level planning stage between the state of Texas and the Federal EPA, detailed revisions to air quality regulations are expected to follow. These will provide the mechanism to achieve the to-be-agreed air quality improvement plan.

We believe this is an important development for two reasons: First, we believe that future and new clean air regulations in Texas will create demand for our products, especially because of the Gulf Coast region of Texas has the highest concentration of refining and petrochemical industry in the United States; and secondly, our experience suggests that just the anticipation of NOx reduction requirements for the region will initiate studies and planning by and on behalf of the industries in the effective areas. We, of course, expect that the resulting evaluation of possible solutions by our customers will result in increased opportunities for ClearSign.

It is also worthy of note that just the anticipation of NOx reduction requirements in the future. In addition to the initiative of decarbonization is creating an increased interest in ClearSign Technologies. One indication of this was the measured attention and engagement attracted by our simple LinkedIn Post showing ClearSign's new 100% hydrogen bonus, which is significantly higher than the attention and engagement with respect to any other subjects posted by ClearSign this year.

I want to also give a quick update on some developments by our partner, Narion Corporation. While we do talk mostly about our burner technology, ClearSign does have unique sensor technology and we have partnered Narion to develop that technology into commercial applications in markets outside ClearSign's expertise. Eddie Kwon, the owner and CEO of Narion recently gave a presentation at the KAUST at the King Abdullah University of Science and Technology in Saudi Arabia, the Aerospace Propulsion and Energy Systems conference.

His presentation was about the implementation of sensors to increase efficiency and safety of aircraft. One exciting capability of our sensing technology that Narion is developing is the ability to measure the flammability or propensity to ignite or burn off a gas mixture.

A second is the ability to measure the presence of a flame and at very high speeds, enabling the detection of a flame front and the rate of which it travels. The former has extensive applications in the transport sector. Particularly aircraft, both commercial and military.

The second has received great interest from entities involved in rotating detonation engines, a technology with significant military applications. If you're not ready in doing so, I encourage you to pay attention to Narion. They have some very exciting technology development projects and collaboration opportunities.

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In closing, it has just been four weeks since our last call, and I encourage anyone who is not aware of what we said then to refer back to that call also as the information here is especially relevant given the short time period between these two calls.

We believe that our business is in a good position. We've now had two consecutive quarters with revenues above $1 million, and we have more orders in both process and boiler product lines to start up and others that are shipping in the coming quarters. These initial installations are helping establish our technology in the industry. As an example, I was at the American petroleum industry spring refining and Equipment Standards meeting in St. Louis earlier this week. This is a conference where subject matter experts from across the industry gathered to review and update the API equipment design and operating guidelines.

From my conversations with our conference, it was evident that our operating installations have a major influence on how ClearSign is perceived and the openness of our potential customers to consider ClearSign solutions. This is resulting in customers approaching us to discuss projects and possible new business opportunities.

For balance, it was also apparent that while our progress is noticed and influential with those who are familiar with it, there's a portion of our industry that is not familiar with ClearSign. We're not aware of the progress we have made over the last five years, and this is something we will continue to address.

As I stated on our last call, again, here today, our top priority at this time is growing our sales. We now have technology developed and first installations of operational and client sites in all our major product lines. These provide valuable references for prospective customers. This is critical as our customers do look for the experience of others operating our technology to validate what we offer. We do not yet have enough installations or run time of those installations to be considered fully mainstream in the industry, so every new installation and start-up is especially valuable for us.

We do also have some other significant wins including the two best available control technology determinations that we received earlier this year based on the South Coast Air Quality Management District review of our process burner installations.

Our goal is to leverage these determinations to increase awareness and acceptance of ClearSign in the market to ultimately increase the number of customers and projects that we get to engage in and generally build confidence, that we offer the most economical and efficient solution for our customers.

Earlier, I mentioned the engagement of a third party sales consultant and is also part of this prioritization. Additionally, as a goal is the constant development of our technology and product lines, we continue to focus on the development of our technology. In the past four weeks, the progress in our hydrogen burner project and the interest that we have already received in the industry has been significant. Also, we have made significant progress in the ongoing development of our new horizontally fired process burner product line, building on what was discussed in more detail in our last call.

Looking forward, noteworthy items on our horizon will be the anticipated start-up of our 1200 horsepower, 2.5 BPM NOx guaranteed boiler burner for the recycling company in California. Which will be a very significant reference for us, and our partner road combustion in California border. And also in the boiler burner product line, the shipping of the first boiler burner in a series of four a few fruit and vegetable multi juice processing company in California.

We also have some significant technology projects underway, including our hydrogen burner project, which has shown great and early promise and was provisioned to our horizontal core strafe burner as used in horizontally five process heaters and potentially to enhance our boiler burner product line. We anticipate that both of these technology projects will result in products with enhanced performance and reduced production costs, and that will be less unique in the appearance as perceived by our customers. All of these we expect to enhance the growth of the ClearSign business.

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And with that, I'd like to open up the call for questions. Please, operator?

Question-and-Answer Session

Operator

[Operator Instructions]

Matthew Selinger

Great. Operator, I'm going to -- I'm not seeing any questions. I'm going to go and read a couple that we received from e-mail earlier.

Jim, you mentioned in your comments, the sensor technology in the area in particular, could you kind of give us an overview of where that project is at? And what it might look like for a commercial project -- excuse me, product for the company?

Jim Deller

Yes, certainly. Yes, we said that and I appreciate that question. I think it makes sense to take a step back initially. At Narion and to explain how we engage with them. So we has ClearSign, we have a unique sensing technology that we have promoted and developed as a flame sensor for use in burners and especially burner pilots. But we're also aware that it has applications outside of our core strengths as ClearSign and it makes sense to work with someone who has expertise in other areas to develop the technology for them. .

Eddie Kwon the owner and CEO of Narion has expertise in the aviation industry and very good connections in field and research that support that. The relationship with Narion is that they are basically -- with us, they are developing technologies that use the ClearSign sensor. They're working with partners and industries and also research organizations to develop that technology. And at the point they have a commercial offering we will work out a licensing arrangement with Narion for the sale of those products or the ongoing licensing of those products.

Back to the time line question basically, you'd appreciate developing technologies for industries like aircraft is a long-term process. There's a lot of vetting the path to development has many hurdles to pass. So it is a -- it's a long-term prospect. What's interesting to ClearSign is that whilst we understand that this is a longer-range product development path, the potential market is absolutely vast. If you think of the aviation, the commercial jets, the industrial jets or military applications and Eddie is working on a lot of other projects as well. So this is a -- it's not a technology that we're going to be seeing revenue in the next 24 months. We need to be clear about that. But the interest is that the work that Eddie is doing is self-funded or funded through grants. It's not funded by ClearSign, and it is a potential path for ClearSign to have a licensing interest in some highly valuable products into an extremely big market at some time in the future.

Matthew Selinger

Great. Here's another question, Jim. In terms of projects in queue -- we -- there's been a bunch of projects announced. Could you kind of walk us through what was left in queue?

And then secondly, beyond that, what it looks like potentially kind of going forward, it's almost like a backlog currently? And then if you could talk about kind of the pipeline, so a two phase question.

Jim Deller

Yes, I can. And obviously, when we get to the -- looking at future orders, we need to be careful, they're not one until they're one. So I'm not able to give specific numbers or timing. But let me fill in that question the best that I can. .

So regarding walking from now forward, we have just a couple of weeks ago, we announced the receipt of an engineering order for burners going into Kern Energy for two additional heaters on that site. So bear mind, this is a repeat order there ready have two heaters now working with ClearSign Technology and now they're rolling out the next two.

While it is an engineering order that it's quite normal to release orders in that way. And for those who progress to the full testing and manufacture and supply of burners for that project. We have the very large 2.5 BPM NOx boiler burner starting up in the next few weeks, adding California. That's going to be a big milestone for us.

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And we have -- on the boiler side, where we're talking about that, we also have the first of four boiler burners going out for the juice processor processing company in California. On the new technology that I've talked about, the horizontally fired process heater, we do have significant interest in that. This is on the sales side. So I cannot go into details, but we're really encouraged by the engagement we have. And I really believe there's going to be a significant product line for us going forward based on the interest that we have.

I talked about the two current orders that we have recently received on the process burn, we do have some significant interest. I mentioned we also have interest for a project out in Europe. Again, I cautioned on this is a sales interest. It's by no means an order that we have. So at this point, we can't say if we're going to win it or not. But the -- at this point, the interest is certainly significant rather than just a casual inquiry. And we also have some other engagements on that same front here domestically, which we believe are very exciting.

Matthew Selinger

Great. Last question. And you did touch on this in some of your prepared remarks, but could you give maybe an overview of kind of the commercialization of the hydrogen project/burner? And then what is SoCalGas, is there still their involvement in that?

Jim Deller

Certainly, -- so if anyone is not aware, we have a $2 million Department of Energy, SBA SBIR Grant that is funding the development of a hydrogen burner. We had a Phase 1 grant initially, under which we prove the technology and demonstrated that the burner concept worked. This later ground is to take that and develop it into a full range of commercial burners. .

We're in the early stages of that second phase of work. We have designed and manufactured the first version of our commercial burner and install that in the test furnace at Zeeco. The results of that were very pleasing to the extent that as it is, I believe the version of the burner is actually a usable burner and can actually be a good solution for some of our customers to date. We are continuing to work on that burner there's further refinements that we envision and things that we've learned about this burner both from the fire testing and from the computational modeling that we're carrying out internally, we believe we have a path to make it much less in cost to reduce the size of the burner in the client's furnace and to actually improve the operation of that burner further.

But even when I talked about the schedule for that burner, given what we've seen today, I think it's a good solution, as I said for opportunities and the main reason for that is the big project of introducing hydrogen to plants, if you like is really a very big chicken in their conundrum, right? Our clients do not have hydrogen as a fuel gas to burn today, yet they cannot introduce hydrogen as a fuel gas until they have the technology to burn it.

So what we have here is a burner that will run well in the current conditions our clients have with the fuels that they're currently working with and is ready and able to burn hydrogen when the hydrogen is introduced. So it's a way to bridge that gap, which is why I'm really seeing a big interest for that burner today and why I believe we can actually accelerate the deployment of this technology given that market need.

And the other valuable attribute that I believe we've developed, it is not only a very flexible burner, but we've developed it in such a way that a client that has our current burden technology will be able to upgrade the burners that they have to a new 100% hydrogen capable burner technology by changing out some components.

What is important is that a big part of the time it takes to install banners in the field is the time to hit the shut down and all the rework to mount new burners in the field. If you can switch a burners function by just changing out some of the key components, but to keep the connection points and all of the installation that's connected to the burner in place, it allows you to make that upgrade in a much more efficient manner.

Matthew Selinger

Did you mention SoCalGas' involvement?

Jim Deller

Yes. Thank you, Matt. The -- going back to -- SoCalGas. I mentioned the Department of Energy Grant. That grant is for the development of that technology or that product line the interest of SoCalGas and their commitment was to sponsor the deployment of that resulting technology into their client base in Southern California, they're part of the Los Angeles Link or Angeles Link, hydrogen hub. So as part of deploying the hub, they need their clients to be able to burn hydrogen to get our technology installed always getting those first installations is the hardest. So having a basically a sponsorship behind those installations to accelerate the adoption or the first adopters of this new technology into their client base is extremely valuable for us and that is the basis of the commitment from SoCalGas.

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Matthew Selinger

Great. Operator, I'm seeing no more questions.

Operator

Thank you. There are no further questions over the phone. I would like to turn the conference back over to Mr. Jim Deller for any closing remarks.

Jim Deller

Thank you, operator, and thank you, everyone for your interest and taking the time to participate today. We look forward to updating you regarding our developments and speaking with you on our next call.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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