

# **Energy Vault Holdings, Inc. (NRGV) Q4 2023 Earnings Call Transcript**

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**Body**

Energy Vault Holdings, Inc. (NRGV)

Q4 2023 Earnings Conference Call

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Company Participants

Bernie Colson - VP, IR

Robert Piconi - Chairman and CEO

Jan Kees van Gaalen - CFO

Conference Call Participants

Justin Clare - ROTH MKM

Joseph Osha - Guggenheim Partners

Thomas Boyes - TD Cowen

Chris Ellinghaus - Siebert Williams Shank

Noel Parks - Tuohy Brothers

Presentation

Operator

Greetings, and welcome to the Energy Vault's Fourth Quarter and Full Year 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Bernie Colson, Vice President of Investor Relations. Please go ahead.

Bernie Colson

Thank you. Hello and welcome to Energy Vault's fourth quarter and full year 2023 financial results conference call. As a reminder, Energy Vault's fourth quarter earnings press release and presentation is available now on our Investor website and we will referring to the presentation during this call. A replay of this call will be available later today on the Investor Relations' page of our website. This call is now being recorded. If you object in any way, please disconnect now.

Please note that Energy Vault's earnings release and this call contain forward-looking statements that are subject to risks and uncertainties. These forward-looking statements are only estimates and may differ materially from the actual future events or results due to a variety of factors.

We caution everyone to be guided in their own analysis of Energy Vault by referring to our 10-K filing for a list of factors that may cause our results to differ from those anticipated in any forward-looking statement. We undertake no obligation to publicly update or revise any forward-looking statements, except as required by law.

In addition, please note that we will be presenting and discussing certain non-GAAP information. Please refer to the Safe Harbor disclaimer and the non-GAAP financial measures presented in our earnings release for more details, including a reconciliation to comparable GAAP measures.

Joining me on the call today is Robert Piconi, our Chairman and Chief Executive Officer; and Jan Kees van Gaalen, our Chief Financial Officer.

At this time, I'd like to hand the call over to Robert Piconi.

Robert Piconi

Great. Thank you, Bernie and I'd like to welcome to everyone to our fourth quarter and full year 2023 earnings call. We're announcing results on our second year now as a public company, which happens to be also our second year of revenue. As you tend to do sometimes, it can be helpful to step back, zoom out, if you will, and look at how we progress these past two years as I did after our first year.

We've grown this company as a public company globally in unprecedented ways across multiple continents, multiple technologies, while serving different customer segments, public utilities, independent power players, and large industrial energy users.

The result has been the fastest-growing company in energy storage in only our first two years. We continue to monetize our long-duration gravity technology via regional license and royalty agreement that will pay long-term dividends and royalties and capped a tremendous second half of 2023, executing multiple battery energy storage projects across the U.S. market with the newly developed Energy Management Software platform that is winning rave reviews from customers and has been a key differentiator in our rapid commissioning timeframes and ability to quickly get through commissioning and site energization regardless of the underlying hardware.

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I think finally, and as a testament to our strategy of solving customer problems as an energy storage solutions provider, we began construction on a first-of-its-kind green hydrogen hybrid energy storage system to provide multi-day storage to the city of Calistoga, California for Pacific Gas & Electric, California's largest utility.

Energy Vault uniquely will own this system under a tolling agreement to PG&E as we also presented the only fully sustainable solution to replace their prior diesel generation systems historically used to secure continuous power, and it will be operational in the mid part of this year.

Those are some of the key highlights. Very proud of our progress, our delivery in our first two years, and never been more excited about what the future holds as I am now as we continue to push boundaries and innovation, while fortifying strong customer relationships that will be the basis of our future.

Clearly, we continue to operate in our sector in a very volatile capital market and despite that, the team has remained focused on the most important investor priorities, and I would say there are three of those.

First, executing for our customers and keeping the customer loyalty that are really the key to our future and really the foundation of our house that we're building here after getting through two years. Without those customers and without those future revenue streams and with those customers now uniquely as reference points for future deals and future customers, we would not have a bright future. I feel very good about that.

Second, profitable unit economics as we grow. You can imagine as a new company when you're approaching the likes of some of the largest public utilities and some of the most prominent independent power producers, you don't necessarily have the highest leverage in the contract negotiation.

Despite us having, I think, one of the most experienced team in the industry, which is what led some of these largest customers to have the confidence and faith in us to deliver for them on very critical projects, we negotiated -- they put their faith in us, and we've delivered quarter-over-quarter with profitable unit economics.

And finally, and I think this is definitely not least from an investor perspective, we have protected our balance sheet and liquidity as a company to allow us to control our destiny, to invest in growth, and eliminate any dilutive types of financing to shareholders.

I think this, and as you've seen, if our results, if you happen to read through them, which I'll highlight them here in just a minute, this has been an important aspect in particular, in Q4, where we took some proactive actions as it is clear the market has spoken on the desire for even new young companies in a very high growth and necessary market for the future of the planet must get to cash flow positive.

With that, I want to begin by covering some of the highlights from our release with some more color, and then we'll turn it over to Jan Kees, our CFO, to review detailed financials and get to questions.

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Off the top, our revenue finished in the range that we've been reaffirming all year, $341.5 million, which is up over 130% year-over-year and 18% quarter-over-quarter, within our annual range due to some shifts of revenue at the end of Q4 that will take place in Q1 and in 2024, its towards the lower end of that range.

We ended the year, however, with an increased cash position of $146 million and with no debt, which is above our prior guidance of $132 million from Q3 2023 earnings and projections. This is pretty noteworthy as we have kept and funded projects in California, for example, the Calistoga project for PG&E and Texas on our balance sheet, so we can participate in these projects in the longer term, predictable and less lumpy cash flows, and revenue streams from these tolling agreements, yet we were still able to grow cash quarter-over-quarter as we began to turn some of our first projects in the second half of the year to substantial completion and final completion.

Very importantly, we also reduced our quarterly cash operating expense run rate by 25% to 30% through actions taken in Q4 2023. This should enable a 2024 reduced quarterly cash OpEx of a range of $13 million to $15 million. We expect these actions to help us accelerate our shift to cash flow positive as we exit 2024 and for full year 2025 results, which we'll be sharing more about during our announced Investor Day, which I'll be talking about shortly.

For the year on gross margin, we delivered a positive gross margin of 5.1%, while reflecting a portion of that, a lower-than-expected Q4 gross margin, due only to timing of revenue and associated gross profit recognition that shifted from Q4 into Q1 and 2024 for gravity license and also some battery projects.

As I will discuss, gross margins will improve significantly in the first quarter of 2024, benefiting from this shift from Q4, but also due to the mix of revenue with gravity and battery project timing. While this did impact Q4 for both revenue and final EBITDA and EPS, this represents only a timing shift, which will be recognized under U.S. GAAP accounting in 2024.

And finally, our commercial pipeline continues to expand with annual year-over-year growth of 24.5 gigawatt hours to a total of 52 gigawatt hours or almost 90% growth. It also expanded sequentially quarter-over-quarter by 5.8 gigawatt hours, up 13%. This shows continued market growth, continued market activity, also with significantly larger projects, two of which we are announcing as new project awards in the U.S. for gravity and a large 2.5 gigawatt hour long-duration battery project, representing an additional continental expansion with a large global IPP.

While these larger projects boards have large impacts on forecasting revenue recognition and can create more lumpy quarters and annual guidance, they are both quite transformational in size, scope, and technology adoption in both first-of-a-kind because of those attributes.

As always, we are focused on converting this growing commercial funnel into contracts that further bolster our revenue and backlog, and we remain committed to continue our track record of building profitable growth and unit economics with all new projects we choose to take on.

We want to work on the velocity through our funnel. We post every quarter, our four stages of our more near-term sales funnel that starts from submitted proposals, goes to shortlisted, goes to awarded projects, and then to final bookings. I encourage you to keep an eye on that and take a look at our latest Investor website with that update with the numbers that I just reviewed.

As you all know from our announced and executed projects so far, we focus on larger and meaningful projects with strong customers that have a funnel of projects where we are developing deep partnerships over time.

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I realize for many of you in our investor base, Energy Vault is quite a unique animal, relative to any other pure-play energy storage company, given our unique portfolio of short, long, and even ultra-long duration storage solutions. But I believe this has also enabled us to be one of the most customer-centric energy storage customers, listening to our customers and solving their problems with a broad portfolio of technology, innovation, and solutions that is unmatched in the market.

Looking forward, as we are just a few weeks away from our Q1 2024 finish, we expect revenue to be in line with our prior Q1 2023, given normal seasonality of revenue recognition and project starts with potential for upside from items that were expected in Q4 2023. We also expect stronger double-digit gross margins in Q1, again, given the shift of revenue and gross margin recognition from the prior Q4 2023.

I think very importantly, as we go to investor priorities, we expect to exit Q1 2024 with an unrestricted cash balance in a range of $125 million to $150 million. Additionally, we've reduced any remaining restricted cash on the balance sheet to less than $1 million and remain 100% debt-free.

Our performance here on cash is attributed to our focus and tight management of our business as our growth and our cash balance at the end of the year shows, and we project to keep cash levels maintained at these levels without the need for debt or any dilutive equity transactions going forward.

As we continue to look at owned projects on our balance sheet, providing predictable longer term revenue streams, we may evaluate project financing alternatives if they're attractive.

This aspect of cash management, managing our operating expense, our culture tied to innovation, and focus on customers is all ingrained in the employees of this company and as demonstrated by the proactive actions we took in Q4 to reduce our quarterly cash OpEx rate by about 30% as we entered into 2024.

We took these actions to continue to provide strong balance sheet flexibility for growth, while accelerating our move to operating cash flow positive, which we have guided for our finish in Q4 this year and for the full year of 2025.

We understand the nature of the lumpiness in our current business model and are also taking actions to adapt our product mix and business to reduce this volatility over time. We will be sharing much more detail in this regard in May formally at our first Investor Analyst Day on May 8th.

While we are discussing forecast, I want to mention two projects that were awarded in Q4 that are both multi gigawatt hour and transformational and technology and territory expansion.

We were awarded in Q4 a 2.5 gigawatt hour DC long-duration battery energy storage project by a leading international IPP that also represents a territorial expansion, and we'll be sharing more details on this project at our Investor Day.

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We also announced a new development agreement with a large primary public utility in the State of Washington, using our gravity energy storage technology to address another multi-gigawatt our storage need regionally in the Northwest.

This is so exciting for us as it represents the first public utility in the U.S. with an agreement of this size and scope for gravity, which complements the previously announced gravity collaboration project with ENEL Green Power in Snyder, Texas, which is now up and out of the ground.

Most of you are aware that demand for long-duration storage remains more nascent at this stage, although Energy Vault continues to solidify its global leadership role here with various gravity and green hydrogen ultra-long duration solutions and multi-day storage solutions that are now starting deployment in large scale across three of the largest energy storage markets in the world, in the U.S., China, and Africa.

Specific to our gravity business, important to highlight our territory expansion to Southern Africa, as I just mentioned, across the 16 member SADC-member countries via a new license and royalty agreement that was executed in Q4.

In China in Rudong, we achieved state grid interconnection as planned in December of Q4 2023 for the first 25 megawatt EVx gravity storage system and achieved inverse power operation.

Also in China, there are now three additional gravity energy storage systems of 360 megawatt hour, bringing the total projects underway and announced to over 3.7 gigawatt hours.

China continues to be an amazing bed of growth and growth and focus as state-mandated for not only renewable generation projects, but also for the state-mandated energy storage. We continue to be very excited about the work with China Tianying and their active development and expansion in the market locally.

As also noted above, we have our first USA-based gravity project with a public utility with the announcement of the new development agreement in Washington and an application of our technology that's being uniquely applied to take advantage of existing topology to maximize efficiency at a reduced CapEx and thus providing strong economics without the need for any subsidies. We'll be very excited to share more on this project, given its scale, size, and application of a new technology.

Moving from gravity to our battery businesses. We delivered and progressed final commissioning on our first three battery energy storage systems totaling almost 1 gigawatt hour.

Specifically with Wellhead Electric, as previously announced and Nevada Energy, 440 megawatt hour were commissioned on schedule and in record timeframes from site mobilization to system energization. Also, the project with Jupiter Power is expected to be fully commissioned in the coming weeks here prior to the first quarter close.

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Regarding our green hydrogen, microgrid, and ultra long storage duration, we commenced construction on the largest green hydrogen project and microgrid system in the U.S. with California's largest public utility, Pacific Gas & Electric. The project is supported by a 10.5-year tolling agreement with commercial operation expected in mid-2024. This solidifies Energy Vault's global leadership role in green hydrogen technology for long-duration energy storage and specific microgrids for multi-day storage.

It's important to note here that while owning this project on our balance sheet will impact near-term revenue recognition in favor of long-term and predictable revenue streams from the tolling agreement, we believe this will also result in more predictable and less lumpy revenue streams with increased margins over time, which we believe is best for Energy Vault and our investors as we scale our business.

Very excited to share progress now as we ramped up new systems with our new software platform and energy management system, our proprietary VaultOS Energy Management Software, showing its innovation right out of the gate, enabling efficient commissioning of our first projects that were turned over in the second half of 2023 and will begin contributing SaaS-based recurring revenues in 2024.

Albeit small at the start and will always be a smaller percentage of the overall portfolio, but critical high-margin part of the portfolio and our product mix, the software portfolio continues to introduce new capabilities, which now includes two additional products that we will be reviewing in more detail at the upcoming Investor Day.

One being Vault-Manager for maximizing project, return on investments via optimizing asset performance, using enhanced performance analytics and predictive models to provide greater system reliability and visibility.

And secondly, Vault-Bidder to provide competitive dispatch, continuous revenue optimization via market participation, serving the ISO and IPP markets as well as for our own projects that we manage and operate.

Finally, I'd be remiss if I was not recognizing a great year around our project execution. This was an important proven year for us to execute on over 1.7 gigawatt hour of projects announced in our first year of revenue and as a public company in 2022 in which we demonstrated that we can deliver on our promises and complete world-class energy storage facilities on time, on budget, and at performance levels at or above expectations of our very challenging customers.

Although there are many to mention, one example. We built, commissioned, and energized the 440 megawatt hour system in Nevada Energy's Reid Gardner site about an hour outside of Las Vegas within four months of site mobilization, energizing the system on December 29th in order to meet the customers' requirement to be online prior to year-end.

I spent some time at the site with our team on site that was working with the local contractors with some of our partners and the tremendous work they did to do something that as far as we know, has never been done before at this size, at this scale, and within this timeframe.

These are the things that go unseen and unheard about these unprecedented turnaround times in project delivery and energization are the nights, weekends, holiday times dedicated by our Energy Vault team to move heaven and earth to deliver for the customer.

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I want to recognize all of our employees that make this happen every day for our customers as our first projects demonstrated, none of which were without supply chain and supplier delivery issues that needed to be managed, solved, anticipated, and resolved.

Just to our employees, I'm happy to be on this call today to stand upon your shoulders on this quarterly report to talk about these results. I do not take it lightly, as you know, it is a pleasure to be here and support you in what you're doing every day.

These customer satisfaction areas and testimonials are proving to be some of our best sales tools as we are well-positioned now for the next level of success, both within these customers that we've executed for, as well as new customers that observe our performance.

We look forward to providing more detail on our Investor Day and Analyst Day that is scheduled for May 8th, 2024, in New York City. We've received a lot of feedback from the investor base about getting in front of you in more detail about our strategy, about the evolution of our portfolio, and also about a view into where we're going as a company in achieving the vision that we set out at the beginning.

The event's going to include new product and customer announcements, portfolio updates, and financial guidance. It will include customers and partners that will be speaking -- customers and partners that have experience with us in delivery, but also new technology and new partners that we're working with and expanding our growth across the globe. I look forward to seeing any of you that can attend at that session.

I'd like to now turn it over to Jan Kees, who will share some financial details for the quarter. Jan Kees?

Jan Kees van Gaalen

Yes. Thank you, Rob. Good afternoon everybody. Let's talk about revenue. Financial results are highlighted by our full year 2023 revenue of more than $340 million, 134% higher than in 2022. This revenue reflects the successful execution across our project portfolio in the United States under a build, commission, and transfer model.

Next, going into gross margin. Our gross margin was 5.1% for the full year of 2023, temporarily impacted by the unfavorable timing of a few items. First, we delivered a significant amount of hardware in the second half of the year that didn't have any margin associated with it due to the POC accounting rules under GAAP. The value-add margin on that hardware will be recognized in the first half of 2024. And second, a high-margin licensing transaction shifted out from the fourth quarter of 2023 to 2024.

Adjusted EBITDA. During 2023, our net loss amounted to $98.4 million, reflecting the points I previously mentioned and for the quarter, net loss amounted to $22.2 million.

For the year ending December 31st, 2023, our adjusted EBITDA was negative $62.1 million and for the fourth quarter, adjusted EBITDA declined $3.6 million year-over-year to negative $14.8 million, reflecting a shift in timing of both battery and gravity revenue and gross profit from Q4 2023 to Q1 2024.

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The key non-cash items added back in the fourth quarter were $8.6 million of stock-based compensation expense and $2 million in net interest income. We do remain laser-focused on optimizing our cost structure to realize profitability as soon as possible as the business continues to scale up and we remain very encouraged with our progress towards positive adjusted EBITDA.

Cash. As of December 31st, 2023, we had $145.6 million in cash, cash equivalents, and restricted cash, leaving us well-positioned to continue our growth strategy and execute on our projects.

Our primary uses of cash are cash operating expenses and working capital needs associated with equipment purchases for our energy storage projects. As the projects achieve milestones and ultimately begin to generate revenue and gross margin, some of that cash will return to our balance sheet.

In addition to this strong cash position, as of today, we have reduced the restricted portion of our cash significantly from $35.6 million to -- that we had at the end of December 2023. Restricted cash is now down to less than $1 million as of today. Please keep in mind that we maintain a bonding capacity in excess of $1 billion to facilitate additional growth projects as we desire.

Thank you. And with that, I'll hand the call back to Rob.

Robert Piconi

Great. Thank you, Jan Kees. Look, in closing here, before getting to questions, I want to first thank again all of our employees that, in only our second year as a public company delivered with quality, with velocity, and profitability across all of our projects.

Model behaviors define our culture and customer focus, innovation, delivery, all underscored by our core values and humility, collaboration, problem-solving, and leading as an organization to deliver a more sustainable world for our future.

A few critical milestones upcoming this year. Full operation of multiple gravity energy storage systems in China, which will generate future royalty streams and help China curtail its current increasing greenhouse gas emissions, which are larger than the next six to seven countries combined.

Delivering commissioning of the first and largest green hydrogen energy storage system in California, to serve as a critical replacement of diesel generation for the residents of Calistoga, California sustainably.

And then territory expansions for our entire storage portfolio from Southern Africa to new starts in Europe, Australia, and the Middle East. A few things to keep an eye on there, priorities this year. We'll begin updates on all those areas at our upcoming Investor Day.

And then financially, very clear as you've heard as a theme on this call, setting ourselves up in 2024 as a profitable growth platform, while achieving cash flow positive as we exit and for full year 2025.

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As you have seen in our results and forecast, we have a strong balance sheet with no debt, strong OpEx management in place, and thus the flexibility to continue to invest in growth.

This is enabling us to invest and own projects with longer term and more predictable and higher-margin cash flows as the case in Calistoga, for example, with PG&E with a long-term tolling agreement.

While this business model will result in less recognized revenue in the near-term on projects that we would otherwise build commission and transfer under an EPC model. As previously discussed, we believe this can be in the best long-term interest of our shareholders and thus Energy Vault, while helping to buffer the quarterly impact of larger projects that are being awarded on a global basis.

We look forward to seeing many of you that could join us in New York at our Investor and Analyst Day on May 8th. We will be speaking again on May 7th at our Q1's earnings announcement. We have a lot of new and exciting developments to share that will help provide context on the next 12 months to 24 months given the magnitude of the project awards we've announced here today as well as our ongoing growth of the business.

With that, operator, we're now ready for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]

And our first question will come from the line of Justin Clare with ROTH MKM. Please proceed.

Justin Clare

Yes, hi. Thanks for taking our questions here. So, I guess, first off, I just wanted to see if you could talk a little bit more about the revenue that had shifted from Q4 into Q1. If you can provide a little bit of more detail on what led to the shift. It sounds like the projects just moved out slightly here?

And then maybe if you could just speak to how much additional battery revenue and then royalty or licensing revenue shifted? And then is that all going to be in Q1 or mix of Q1 and Q2?

Robert Piconi

Sure. Hey Justin, good to hear you. Yes, we had a combination of, as Jan Kees mentioned, there was the hardware deliveries we took that led to the implementations and towards substantial completion and in some cases, final completion of some of the battery projects, there's a portion of that that has double-digit margins that just due to POC accounting is shifting into Q1, okay?

The other thing, as you know, we announced a new gravity energy storage license agreement and that also shifted in revenue recognition that will be shifting into 2024. Our expectation is that some of that will be recognized in Q1 and then throughout 2024 as we progress.

So, those were the two, I think, main items that are just timing related. Even on, I think, the gravity portion alone, had we recognized that, we would have exceeded the adjusted EBITDA EPS numbers as well. But that's the color I'd say on those -- on the two areas that have shifted.

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And in terms of the amount that shifted, I can share with you that it's a double-digit million amount at this point. And as I said in the comments, we'll be providing clarity around both 2024 and into 2025 with the updated information that we're going to have regarding our -- some of these larger project awards and as well as our Investor Day in the context of some of the new product announcements that I referenced on the release here.

Justin Clare

Got it. Okay, I appreciate that. And then I was wondering if you could maybe just speak to the visibility that you have into battery projects for 2024 beyond. After you complete the NV Energy project, the Jupiter Project, those are fully operational. Just what's next in the pipeline?

And then are there key projects that need to reach NTP before you could see awards get converted into the backlog and then you can start moving forward on projects?

Robert Piconi

Sure. Great question. We have a few projects between awards and bookings that are -- essentially have notice-to-proceed dates, some of which are known and in other cases, are being finalized.

Some of this has to do with some of the supply chain timelines that are not for our scope, but around things like transformers, for example, in the market, which I know as you're probably aware, have some longer lead-times, breakers is another item.

We also have a set of projects that we can choose to own on our balance sheet that have attractive double-digit IRRs. And so we're working on some of those relative to what I mentioned about potentially continuing to own, not necessarily all but part of those projects that has an impact on rev rec as well.

So, as you can see from the growth in the funnel itself, we have a lot of those sitting in that awarded category where we're finalizing the actual starts and therefore, will be critical to the 2024 rev rec number. So, we're -- we'll be in a better position to give an update on that at our Investor Day just after our Q1 earnings on May 8th.

Justin Clare

Got it. Okay. And then just one more on your gravity solution. I was wondering what's the latest on the Rudong project? Is that expected to be fully operational and in use in the near-term here?

And then any sense for the timing on when you could provide performance metrics? Would that likely be at the Analyst Day? Could we see something sooner? And then any sense for what might be shared at that time?

Robert Piconi

Sure. Yes, we -- as I mentioned, we were state grid interconnected in December, and they are actively commissioning that system, especially now as things are warming up there in Rudong. Our CTO was just at the site two and a half weeks ago and we're expecting per their guidance to have in the second half of this month. So, in the coming weeks, some initial performance data.

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By the time we get to our Investor Day, we should have a good set of metrics for you on performance data of that system as well as, I think, as we announced before, there's a second system that's up out of the ground. We don't expect anything on that system because it will be nearing its completion toward the second half of 2024 and into the first quarter of 2025.

So, I would expect more significant updates, potentially even some videos of all the operations of that system by the Investor Day. But as we get performance data, more than likely, we will be doing probably some announcement dependent on the robustness of the data and some of the timeframes on having accurate data in terms of the actual operation of the systems and the slices.

Justin Clare

Okay. Got it. Thank you.

Robert Piconi

All right. Thanks Justin.

Operator

Our next question comes from the line of Joseph Osha with Guggenheim Partners. Please proceed.

Joseph Osha

Yes, hey everybody. Thanks for the detail. Yes. Just to follow up a little bit on Justin's question. I believe I heard during your prepared comments, Rob, that you said full operation of these other systems following on Rudong this year or did I mishear that? I just wanted to make sure I understand what the expectations are for these other systems that are breaking ground?

Robert Piconi

Well, we have, as I mentioned, one system that's up out of the ground. I think we actually put that in our announcement. We did an update announcement during the quarter. That's up about five floors right now and Rudong remains the focus in terms of getting full operational performance data as they have the state grid interconnection.

They're going through Joe, the homologation process. They're now -- they've demonstrated inverse operations. These are all local announcements they've made publicly. They're a public company, China Tianying there.

So, what I would expect is -- what I just outlined to Justin, is initial performance data coming out in the coming weeks and months that, again, as we get things third-party validated, we will be sharing that.

And then on the other projects that we've announced, one's up and out of the ground and there's two others that have broken ground. The one that's up out of the ground, they might be able to get started on commissioning in Q4. The others will be 2025 in terms of operation commissioning as well of those systems.

Joseph Osha

Okay. Thank you. The next question, we haven't heard much about Snyder, Texas for a while, I'm wondering what the story is there?

Robert Piconi

Yes. Our collaboration with ENEL remains, and we're up out of the ground in Snyder. So, we'll get -- I imagine we can get pictures of the site and where we are there. We actually have a key customer, an international customer that's there at the site with the team as well.

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The other thing Joe, I'll share with you, we haven't announced this publicly yet, but we are, and in the interest of ENEL utilizing that site to also demonstrate other applications of our gravity technology. So, Joe, we're going to be sharing more about that at our Investor Day. But there's no change in the collaboration agreement we have with ENEL and enforcing what we're sharing with them on our progress in building up that site.

What I'll anticipate to you, as I just mentioned, is we're going to be sharing what we're doing within other applications of gravity technology at that site and in line with our discussions with ENEL.

Joseph Osha

Okay. So, I guess just to -- because this is a site that is going to be easier for some of us to get to any sense as to when we might be able to roll up on that site and see it work?

Robert Piconi

Sure. I would say Q3 would be a good time to get to the site and we might have some surprises for you there when you come.

Joseph Osha

Okay. And then my last question and I'm trying to keep track of all this stuff, I apologize. You made reference on your Q2 call and your Q2 press release to a project award with a major Southeast Asian sustainable energy company for two energy storage products totaling 500 megawatts to be booked in the second half of 2023. I'm trying to understand whether that is in your -- because that's a good chunk of business, right, whether that's showing up in your 2024 backlog?

Robert Piconi

Yes, that project is still in our awarded column. So, it's not in a booking column. It's in our awarded because that project is just awaiting final development, and there's a local study that was done on that continent in that country for that project. So, it still remains in our funnel. It remains in the awarded category.

And we're looking at trying to convert that within 2024. That may be a project also, maybe one of the ones that we might look to help develop in line with some other comments, Joe, I've made about us looking at maintaining some equity ownership in some of the projects as they get developed through these tolling agreements.

But there's active work going on in the project, the studies that have to be done. It's a country where the grid operates a little bit differently, has some special requirements and studies that have to be performed, and those studies are underway, funded, and ongoing.

Joseph Osha

Okay. And then finally, my last, last, last, last question. I do apologize. I'm trying to understand in a little bit more detail what your role is on this PG&E project. I assume they're not your electrolyzers. Are you integrating using Plug's electrolyzers? Are they your batteries or UDPC? I'm just trying to understand a little bit more what your role is in this project?

Robert Piconi

Sure, I'll explain it. It's -- essentially, we designed this microgrid and the energy storage system with a combination of a hydrogen fuel tank. So, to be clear, we aren't making the green hydrogen, we're procuring it.

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We designed and sized a hydrogen fuel tank. We announced this. We worked with Chart on that.

We also, as part of the design, worked with Plug on their fuel cells, so not the electrolyzers, but with the fuel cells themselves. So, we architected the number of fuel cells combining with that with the hydrogen tank.

We also architected in one of our B-VAULTs. So, to address the grid forming and black start capabilities that PG&E wanted. So, we architected and designed this entire system, brought some pieces to the table, and then have our Energy Management Systems that's orchestrating the -- essentially the discharge and charging, charging in terms of the small amount. There's a single container of our B-VAULT with lithium-ion, combined with the green hydrogen and the fuel cell aspect.

And that is the project that we're building. We are the owner and the EPC. So, there's a separate company, we own it, and we have a 10 and a half year tolling agreement with Pacific -- with PG&E. So, our role is -- also the role of asset. So, we're managing the asset as well. Is that clear?

Joseph Osha

I just heard you say that's a black start capabilities facility. I assume that's part of -- why that's part of the attraction of this to PG&E.

Robert Piconi

Yes, for black start. Yes. Well, black start is a portion required as this is a microgrid backup system. So, to be clear, the use case here is something that's not going to be discharged frequently, probably four to five times a year.

PG&E can probably speak better to that, but it's designed so that in the fire season, you'll know, Joe, because I think you're up in that area. You'll remember that Calistoga was hit pretty hard and they had to shut down the grid. And so this microgrid can work standalone. It actually is also interconnected.

But the design of this is to be discharged during events of what they call PSPS, any power shutdown or safety shutdown event, this thing will kick in. They don't need diesel generation anymore and the lithium-ion helps them with some specific services and even ancillary power, by the way, that they can use daily. Does that make sense?

Joseph Osha

Okay. Thank you. I understand that much better now. I appreciate it. Thank you.

Robert Piconi

Yes, no problem.

Bernie Colson

And we have about 15 minutes left, and we still have a list of people to get through. So, if you can limit your questions, please to one and a follow-up, that would be great.

Operator

And the next question will come from the line of Thomas Boyes with TD Cowen. Please proceed.

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Thomas Boyes

Appreciate you taking the questions. Maybe the first is, is the royalty structure for the gravity deal in South Africa similar to the one in China, where it's like 5% royalty on the projects and then about 90% gross margin? Just trying to get a sense of how that is situated.

Robert Piconi

Yes, it is.

Thomas Boyes

Thank you. And then the other question was just obviously, great to see the progress in China. I know in the EVS system in Texas is going to or slated to use wind blades and the block construction, which I assume, is still on the table. I was just wondering if you're seeing that type of demand for solutions in China? Are they also looking to use waste materials and block construction, something on the--?

Robert Piconi

Yes. Correct. In fact, just to -- yes, just to share with you on what CNTY or China Tianying plans are, they are a waste remediation and environmental service company. So, meaning they do a lot of the standard waste management and have an incinerator and they are using that incinerated ash as part of their brick production.

As a part of our license with gravity, we are collaborating around other forms of waste materials like coal ash, for example, and even the wind blade -- their shredded fiberglass, wind blade that they can use there as well. As you know, there's massive wind deployments in China, and about every 10 years, those blades suffer what's called fatigue and the blades have to be replaced. So, that is a large opportunity for them.

There are in China as well, the similar types of, let's say, reuse subsidies there and China Tianying is a player, let's say, in that market. So, they are required, in some cases, through their core business to utilize it, but specifically for the energy, that was one of the synergies that we have and that they have with our technology in working with them.

Thomas Boyes

Excellent. Appreciate. I'll jump back in queue.

Robert Piconi

Okay. Thank you.

Operator

Our next question comes from the line of Chris Ellinghaus with Siebert Williams Shank. Please proceed.

Chris Ellinghaus

Hey everybody. How are you?

Robert Piconi

Hey Chris, how are you doing?

Chris Ellinghaus

Rob or whoever wants to talk about this, but the efforts that you undertook in the fourth quarter to sort of conserve your cash run rate, what sort of line items did you address in terms of reducing costs?

Robert Piconi

Great question Chris. We focus in two areas, basically the controllable OpEx. So, that's everything from our internal IT costs, internal infrastructure, things like -- also our travel, all the things that are really controllable in that sense, but also things that are related to our infrastructure.

I mean, as an example, we're consolidating some things in Snyder, Texas as a facility since we actually own that site now and consolidating some infrastructure. For example, as we're winding down the R&D facility that had our EVx and still has our EVx system there where we're finalizing some testing.

With the buildup now of Snyder, we're going to be doing things there. We had some other things that were somewhat discretionary. We had other projects. Some of them were IT-related.

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There were some R&D things also that we made some choices based on priorities that we saw in the market, which, as you know, in this market, in terms of looking at different storage duration and different technology mediums, we're -- given our expertise across multiple domains, we invest and invest -- and I'd say a strong way in R&D and future energy storage technology. So, there was some optimization, I'd say, around that. So, anything that was sort of controllable we addressed.

And we also addressed a bit on our -- given the business model and gravity where we're essentially continuing to license the technology that means -- what does that mean? We don't have to open up offices in places like what we announced for the SADC, the 16-member countries in Southern Africa, or in China, in places because we don't have to spend that and we don't have to staff up or keep a certain level of engineering team to go build things directly. They're built by other local EPC companies with our technical support and guidance, but they're basically executing our partners in the regions.

Because of that, we did adapt a bit, both our functional and engineering model to that model. And I'll translate that because they weren't easy decisions, but we did optimize and make decisions around some headcount level that were related to the expansion of our business model.

We proactively did that just looking at, as you do, as things evolve in the market and looking at where our direct management is required on projects. In particular, these complex projects where we're integrating our own equipment, potentially other's equipment, and doing some new things that does require a little more hands on areas. We are accelerating some investments in some of the software capabilities. I mentioned that today.

So, it was a combination of those things in terms of controllable OpEx and some headcount related that it was just essentially an optimization of our -- of matching our infrastructure costs to our business model.

And then secondarily, Chris, I'd say that it's clear, given the market volatility in our sector. And amazing to me -- honestly, that with everything we've delivered in only our first two years and with the revenue growth we've done and positive unit economics and making the adjustments we just made, it's amazing to me where our stock continues to trade. So, it is clear, investors have spoken on the desire to see accelerated road map to cash flow positive.

So, with that also as a backdrop, we wanted to take actions in Q4 to enter 2024 at a lower cash OpEx rate to enable us to essentially accelerate that timeframe into cash flow positive. And we're going to be sharing much more on that and by region and some new products and things and providing color on some of the announcements we made today on May 8th.

Chris Ellinghaus

Okay. Thanks. That helps. I assume that you'll sort of give us some kind of regional overview of where development stands in say, domestically or on gravity storage projects in general at the Investor Day. Is that sort of where you're headed along with some detailed guidance?

Robert Piconi

Yes, correct. Both of those and some other things, too. We have some new product announcements to make tied to some new customer announcements. So, we'll -- but yes, correct, absolutely those two.

Chris Ellinghaus

And if I can give a little sub follow-up on that. Will you have at the Investor Day, the ability to give us a little more color on this Washington state customer?

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Robert Piconi

Yes, we're planning to -- on that. It's a -- we're really excited about it because of the nature of the application of the gravity technology, and that's tied to, Chris, one of the new product announcements that we're going to be making. So, we will be adding more color.

One thing to share on these. Some customers as they're -- as we're developing projects with them, okay, they have to go acquire land. So, it's -- we're -- they're very sensitive about sharing and naming themselves until they've acquired it so as not to drive up pricing on that land.

And any time you speak about gravity, you aren't talking about 10 acres, okay? You're talking about large plots of land and things. So, because of that, we -- our customers will require we hold confidential their name until such time as they've acquired the land. Does that make sense to you?

Chris Ellinghaus

Yes, sure. Absolutely. I'm going to dig into that one myself, but I'm looking forward to the Investor Day. Thanks for the details.

Robert Piconi

Thank you, Chris. Appreciate it.

Operator

Our next question comes from the line of Noel Parks with Tuohy Brothers. Please proceed.

Noel Parks

Hi. I just had a couple quick ones. One of them is, with the storage market, it does seem that the last year in particular, we've seen like a greater investor awareness specifically, of the role of intermittent power sources, solar wind, or the destabilizing effect on the grid. And I just wonder, as a driver of business to you, has that sort of ascended in importance? Is it about the same?

Robert Piconi

Yes, I'd say that continues to be -- I mean, it continues to widen what we're seeing in terms of what used to be a massive one to two-hour market that shifted to a two to four-hour market. So, the longer duration, meaning it was more intermittencies there. And quite frankly, the severity of the weather patterns are driving some of that.

So, we're -- that's going to continue over time. I would say, as you know, we've seen a tremendous drop in lithium-ion prices. And even then, therefore, the ability for lithium-ion to be utilized, definitely at four hours, and depending on where pricing goes or any other new technologies that come, I think there'll be additional flexibility there.

But definitely, this aspect of addressing intermittency as more renewables come on the grid and thus the need for storage. We haven't seen any slowdown necessarily there. We are continuing to see, I think, a strong market in shorter duration tech, combined with very interestingly, needs that are in this eight to 12-hour range for some specific applications. And as you know, we can serve those things pretty broadly.

Noel Parks

Great. Thanks. And last month, when you disclosed the South African license deal, I believe it was $20 million over 10 years. It was helpful to see that modification. Could you just take a stab at maybe how many similar deals like that you can envision over the next year or two? Are we talking about a handful, dozens, many dozens?

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Robert Piconi

Yes. No, it's not dozens, it's sub-10 because if you think about where do we do those types of deals, we're going to do them in places where we can find very credible, reliable large partners, ideally in markets that are experiencing growth, meaning where there is a defined market need. So, look at South Africa, I think the things are fairly well.

[Indiscernible] there about what they call load shedding, which in California, we sort of call rolling blackouts. And so there is an absolute need for the storage there and in places where we prefer not to go set up shop.

I mean we're more of a technology provider, I'd say, overall, although we have the ability to asset manage as we're doing now in Calistoga. So, I'd say that there would be definitely something if you look at over the next few years. There's other locations that can be interesting for that model.

And in particular, I'd say, for gravity, where you're a -- if you think about it, that is all a local construction project, can be done mostly locally. Some places don't have the power electronics or they aren't making the big multi-megawatt motors. So, those may have to come in. But otherwise, because of the nature of -- it's a building and a construction project, it lends itself to these types of business models.

And I think it's -- from an investor perspective, it's interesting because there's typically licenses that are paid upfront or in some cases, they're paid in cash over time and then there's the royalties tied to volume.

And I know it can be frustrating when you're new and you just do them and the timing of those royalties, understanding when are they going to come as systems get built and turned over.

And specifically with gravity, obviously, we're talking about systems that take 12 months to 18 months to build. So, -- but those are coming. They are at quite a significant royalty percentage. I mean on revenue, 5% is, I'd say, towards the higher end of what you see in royalty agreements.

So, it's something that we're going to be providing some indicators on in terms of when we expect those to kick in on some of the initial agreements going forward.

Noel Parks

Great. Thanks a lot.

Robert Piconi

All right. Thank you.

Operator

Thank you. There are no further questions at this time. I'd like to turn the call back to Robert Piconi for closing remarks.

Robert Piconi

Just to thank everyone for joining and their time and again to thank the employees of Energy Vault and what we achieved in 2023 and what we're looking forward to here in 2024 and 2025.

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So, just to thank the employees of the company and those of you that have joined and have been supporters of Energy Vault, we thank you for that, all the investors there. And we look forward to hopefully seeing some of you post our Q1 earnings, May 7th, we'll be speaking again then and potentially in person on May 8th in New York. Thank you very much.

Operator

This concludes today's conference. You may now disconnect your lines. Enjoy the rest of your day.

**Load-Date:** March 13, 2024

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