

# **Fusion Fuel Green PLC (HTOO) Q4 2023 Earnings Call Transcript**

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**Body**

Fusion Fuel Green PLC (HTOO)

Q4 2023 Earnings Conference Call

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Company Participants

Ben Schwarz - Head of IR

Gavin Jones - CFO and CAO

Frederico Figueira de Chaves - CEO

Conference Call Participants

Presentation

Ben Schwarz

Hello, everyone. Welcome to Fusion Fuel Green's Fourth Quarter 2023 Investor Update. My name is Ben Schwarz, and I'm Head of Investor Relations at Fusion Fuel.

I'd first like to remind everyone that some of the information provided during the conference call may contain statements of future expectations and other forward-looking statements. These expectations are based on management's current views and assumptions and involve known and unknown risks and uncertainties. It's possible that our actual results and financial condition may differ from the anticipated results and financial condition indicated in these forward-looking statements.

For a discussion of some of these risks and important factors that could affect Fusion Fuel's future results see the risk factors in the company's latest Annual Report on Form 20-F filed with the SEC. Fusion Fuel assumes no obligation to update or revise any forward-looking information provided during the conference call and should not be liable for any action taken in reliance upon such information. Okay. With that out of the way, thank you all for joining us today. In terms of our agenda for the next hour, kick things off with an overview of Fusion Fuel with some thoughts on the hydrogen market and industry dynamics.

Frederico and Gavin will then review highlights from 2023, fourth quarter results on the commercial updates, including the exciting announcement of our recent IPCEI designation earlier this year before wrapping up with a discussion of our 2024 priorities. We'll then open up the floor for facilitated Q&A. As in our previous quarterly calls, questions could be entered in the chat box in the webcast platform at any point during the next hour. You can also submit your questions directly to the Investor Relations mailbox at ir@fusion -fuel.eu.

So let's begin with a refresher on Fusion Fuel, our value proposition and positioning in the green hydrogen market. So our mission is to unlock the transition through the design and development of innovative green hydrogen solutions.

At the heart of everything we do is our proprietary HEVO micro-electrolyzer technology, which employs a simplified and modularized architecture that creates multiple sources of advantage for us, including high throughput and industrialized production and a scalable building block approach, enabling us to play competitively in small to mid-scale projects, a segment of the market where we're seeing considerable demand today.

We've built a robust European pipeline of actionable near-term green hydrogen projects with diverse avenues for monetizing value creation along the development cycle highlighted by the recent designation of our HEVO-Portugal Project as an Important Projects of Common European Interest. More on that later.

We have a differentiated and complementary business model that positions us as one of the few green hydrogen players that can credibly deliver truly end-to-end solutions, supporting clients throughout their green hydrogen journey.

And finally, we're well positioned to take advantage of a significant growth plan as the market develops with an extensive long-term project pipeline and a world-class production facility located in Portugal as we mentioned for 500 megawatts of annualized production.

On the next slide; so a couple of observations on the green hydrogen market to help ground today's discussion. It should come as you know a great surprise that 2023 was a difficult year in the green hydrogen space. What was expected to be an inflection point turned out to be, in many ways, a step back as we saw a deceleration of commercial activity.

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There are multi factors that drove this dynamic, some of which we've touched on previously, including technological immaturity, regulatory uncertainty, persistent cost premium for green molecules and a lack of access to project financing among others. One of the downstream impacts of the delay in market development is that it has extended the timeline to profitability for many market participants, prompting greater attention from investors on capital discipline and triggering a shift in strategy towards more sustainable balanced growth.

We did see -- start to see some signs of life in the fourth quarter, which we'll discuss a little bit later, capped by the announcement of the Hy2Infra IPCEI program last month, which has the potential to catalyze the European green hydrogen market and address a longstanding infrastructure bottleneck.

It's not unreasonable to expect some of these more structural headwinds to persist into 2024, but these challenges also present an opportunity for differentiation. As Frederico and Gavin will explain over the course of the next half hour, we believe Fusion Fuel is well positioned to overcome these challenges and capitalize on the emerging opportunities we see in front of us.

So with that, I'll now introduce Gavin Jones, CFO of Fusion Fuel, to share some highlights from the fourth quarter of 2023.

Gavin Jones

Thank you, Ben. Good afternoon or morning to all of you who have joined our fourth quarter investor update call. I'm joining today from our offices at Ireland.

During the fourth quarter, we received two separate purchase orders for a combined €4.2 million of revenue. These projects will serve as customers in Portugal, and will include the supply of our HEVO-Chain products along with bonds of plant equipment and EPC services and will each represent a 1.25-megawatt system. In addition, we entered into a securities purchase agreement with Belike Nominees, a Macquarie Group Company.

After the end of the fourth quarter, we received notification of the European Commission's acceptance of our HEVO-Portugal Project as an Important Project of Common European Interest. Frederico will cover what this IPCEI stamp means for Fusion Fuel later in his presentation.

We raised net proceeds of €5.9 million through our ATM facility during February, with the lion's share of this being raised on February 16 when we witnessed unprecedented trading volume following the IPCEI award. And finally, last week, we were awarded a separate grant from the European Commission as part of the H2tALENT consortium.

The total value of this award is just above €1 million. We will now move on to the financial results for the fourth quarter. Please note that all values discussed are in euros unless stated otherwise. We recognized €1.6 million in revenue during the fourth quarter.

This represents the revenue related with our manufacturing and supply of a hydrogen production system to CSIC. As a reminder, CSIC is the largest public research institution in Spain and this project is based in Zaragoza. This contract has three phases. And during 2023, we completed Phase I and Phase II with Phase III scheduled for completion during the first half of 2024.

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In addition to the revenues recorded, we had €0.6 million of inflows that did not meet the revenue recognition requirements and instead these amounts will be recognized as revenue during 2024. As you may remember from our second quarter investor presentation, we booked our provision against components within our inventory that were manufactured to legacy design.

During the fourth quarter, we recorded a net increase of €6.4 million to this impairment provision and recorded a separate impairment charge of €3.3 million relating to one of our development projects. These significant impairments are for specific components included in the legacy HEVO solar bracket.

When we carried out the reviews of the inventory components during the second half of 2023, we fully expect to utilize these components for sales to a third party. As recently as last week, it became apparent that selling these components will not be a short-term solution as negotiations with prospective buyers have stalled.

When coupled with the changes in regulation and licensing that saw us give up on the HEVO solar project and that make installing HEVO solar units significantly more complicated -- management has decided to impair the full value until such a time that we have further certainty on our ability to sell or scrap these materials.

Some of these components were capitalized within noncurrent assets with the remainder recorded within inventory. We have several of our people dedicated to recovering as much as possible from the legacy inventory that has been impaired during 2023. Since we first started to scrap these legacy components, we've been able to recognize inflows of €0.6 million, which have been received between August 2023 and February 2024. We fully expect these recent impairments to close the chapter on the write-downs related to HEVO solar, and we look forward to fully turning the page to HEVO Chain. In our investor letter, we alluded to a feeling of before and after.

The impairment of legacy materials is another step forward and towards the next stage of our life cycle as a company. Our operating costs decreased for the fourth consecutive quarter. We saw a reduction to our personnel-related costs when compared to the third quarter. This was mainly due to the allocation of a grant inflow against qualifying personnel costs.

In addition, we recorded further adoptions to legal, travel and consulting fees. The pretax loss for the quarter amounted to €12.3 million, which was mostly driven by noncash items relating to impairment charges of €9.7 million; share-based compensation expense of €0.6 million and a fair value loss associated with our warrants of €0.4 million.

Both the noncurrent assets and inventory balances on the balance sheet are shown net of impairment charges. The further decrease to inventory is down to the revenue recognized. Until we recognize this revenue, the equipment used related to these contracts were recognized as part of inventory. Other notable movements during the quarter include a reduction of €1.5 million in onerous provisions as we utilize some of the provision that was recorded in 2022 for the above-mentioned inventory impairments and grant inflows of €2.6 million, which were received during the fourth quarter.

Our bank balance was just over €1 million on December 31. Since then, we have received €5.9 million through our ATM facility. Both our capital position and use of the ATM facility have been common themes during our investor update over the last 12 months.

Most recently, in our December meeting, I commented that it was our intention to cease activity with the ATM as soon as possible. This was and continued to be our position until the IPCEI award. Around that time, management were considering various short-term financing options that would provide us with a longer runway to a more strategic capital raise.

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On foot of the IPCEI announcement and the consequent trading volumes and share price spike we acted fast and utilized the ATM. Based on the options that we had in front of us, the ATM has achieved its way of raising capital in the short term.

We also didn't have to consider some of the bells and whistles such as warrant coverage, market discounts, interest coupons and lockup periods that would have caused greater dilution to our shareholders and also could have impacted our ability to do a more strategic raise. This was an important milestone for the company given the challenges faced in raising capital.

We have significant grant amends expected for 2024, which will mostly be to reimburse for spend related to R&D, our production facility and engineering services for our projects. Due to the strengthening of our balance sheet in February and as we are now receiving customer inflows regularly, we are satisfied that the operational inflows, coupled with the drawdowns from an acquired facility will provide sufficient runway to enable us to execute a more strategic capital raise.

On the €20 million Macquarie facility, we are working closely with Macquarie to ensure that all remaining conditions that were set at the time of entering the securities purchase agreement have been met so that we were able to draw down the first tranche of $1.15 million before the end of the first quarter of 2024. This is in line with the expectations communicated back in our December update. We filed a notice for an Extraordinary General Meeting of the company's shareholders, which will take place on March 20.

Under Irish law, the company must have authority from its shareholders to issue any securities. The company's shareholders previously authorized the company to issue securities of up to 20% of the ordinary shares of the company during any calendar year, which is equivalent to 2.9 million shares.

The company has determined that it will be in its best interest to seek approval from shareholders to provide the company with authority to issue securities above and beyond this 5% cap. The reason we are making this request now is that while February's ATM sales have meaningfully expanded our runway, we no longer have ample room to maneuver what's remaining under the 20% threshold.

We do believe that uncertainty around our capital position is the greatest concern of the market and that resolving the capital constraints will remedy our long-standing valuation disconnect relative to our peers. As we have noted in previous updates, we have been exploring multiple options to further solidify our capital position, which may entail selling securities more than this cap. A priority of ours is to exit cash burn by the end of 2025, and to lead this, we will need to reinforce our balance sheet.

A strengthened balance sheet should not only provide comfort to our teams, investors and shareholders that the company is sufficiently equipped to achieve its goals and targets, but also provides our customers with further assurances that the warranties that are being offered as part of our technology contracts can be fulfilled. It is imperative that the company can move quickly and decisively in the event of a prospective capital raise for strategic partnership. To be fully clear, we are not looking to issue 100 million shares as has been inferred both through direct and indirect communications with some stakeholders.

We didn't want to mislead anyone by putting a specific number in the notice when we currently have no basis to support. As noted in our investor letter, management and the Board are amongst the largest holders of Fusion Fuel's securities, and we are sensitive to this dilutive impact any significant financing would have on existing shareholders and are therefore fully motivated and aligned to ensure that any equity offering we consider creates meaningful long-term value for the company and its shareholders.

We are maintaining our revenue guidance for 2024. Of the €34 million forecasted, €7.3 million of this has been contracted to-date. The remainder will be made up from the sales that are currently in negotiation.

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Some of these negotiations are linked to our Sines portfolio and the IPCEI progress has significantly broadened the client discussions around those projects. This means that the negotiations are taking longer but are also more significant for the company. We have not included further equipment sales from our pipeline, which significantly exceeds the amount left to execute for 2024.

Given our experience with delivering projects, delays will happen, so we are allowing some room so that further conversion of our pipeline will offset some possible delays. As a reminder, the timing of revenue recognition for each contract could be different. In some cases, revenue was recognized over the delivery phase of the project and in other cases it's at a point in time, usually when the full project has been delivered and client acceptance has been received.

For that reason, our €34 million target will not be recognized on a linear basis or spread evenly over each quarter. From an outflow perspective, we are forecasting SG&A cost of between €14 million and €16 million and CapEx of between €8 million and €10 million for 2024. Right now, we have a lower cost base when compared to our competitors and we are working to reduce this further without diluting the quality of our product and ancillary services.

As can be shown on this slide, our costs reduced in 2023 and with a lower cost base, we fully expect to see further benefits during 2024. Our goal continues to be reaching cash flow self-sufficiency and as noted earlier, we expect this to happen during 2025 if we can execute our business plan. Before I pass you over to Frederico, I would just like to reiterate our commitment to our shareholders that we will continue to manage the company in a cost effective manner and migrate from the legacy products and projects that will not create value in the near term.

Frederico, the floor is yours.

Frederico Figueira de Chaves

Thank you, Gavin, and good afternoon or good morning to you all.

I'm pleased to share with you today the latest news from the numerous activities we have going on. Firstly, and I'd be remiss if I didn't start with such an important piece of news. We were informed that our Sines project portfolio, which we submitted in 2020 for IPCEI consideration, finally received its approval. This is a major milestone for us, having worked in the background on this project for nearly four years now. For many courses, we've been quiet on the IPCEI and the Sines front, given the uncertainty and also its potential to significantly distort any figures we would publish.

We made that mistake in our early years and decided to be substantially more cautious on how we communicate around this project going forward. At the same time, we put substantial effort into building a business that was not solely dependent on this large project and the IPCEI decision, something that, given the long lead times on these megaprojects, was a very prudent thing to do. And I'm very pleased to note that today we have a business that counts the IPCEI project as a boost to our plans rather than the foundation to them.

Today, we want to clarify what the project is and what it means for the company. Firstly, the IPCEI includes three phases, the first two of which have already been awarded grants totaling €32 million from Portugal's Resilience and Recovery Plan. We have announced these awards in recent years and we have already received inflows from these €32 million. The third and last phase is substantially larger for a total of 530 megawatts and is expected to take nearly to the end of the decade to execute.

With its three phases we expect this portfolio to be a driver of long-term value for Fusion Fuel. Being designated an important project of common European interest means that the company can now enter into bilateral agreements on funding plans with local governments beyond the existing grant programs, and we can also enter into discussions with the European Investment Bank for possible financing solutions and support. Financing large green hydrogen projects today is not possible without this type of support, given the early stage of the industry.

Therefore, having these options is of immense value for any project investor. It quite simply makes a project of this dimension viable, which makes it incredibly valuable. The project foresees the production of green hydrogen to make green ammonia in Portugal with the eventual shipping of a significant part of this production to northern Europe. It is a truly ambitious project, enabling the avoidance of around 650,000 tonnes of CO2 in the process and producing more than 300,000 tonnes of green ammonia.

This project is led by Fusion Fuel, but will be executed with several partners. It's simply not possible to execute a project of this size by ourselves, and a key consideration of the IPCEI conditions is the engagement of several partners across multiple countries and it has substantial spillover benefits to the local economies.

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As noted, we expect this to be a significant contributor to our business over its long lifetime. However, we will only provide guidance on the expected amounts or parts to be implemented by Fusion Fuel once we have gone through the various negotiations with partners, governments and financing players.

This will still take many months to see through and we will look to update you as we have more information. In the meantime, we continue to relentlessly execute on our 2024 and 2025 activities. Last quarter I provided some information regarding our engineering capabilities and the benefits it brings to our business and relationships. Today, I would like to drive this point further. As outlined in the slide, we offer engineering advisory services for one, two and three studies, procurement services for balance of plant equipment.

This is everything a plant needs beyond the electrolyzer and in Iberia we do construction planning and supervision and plant legalization. This full suite offering positions Fusion Fuel as a true partner and advisor for clients, many of which are not CASP operators or developers, and require the close support to bring a project to reality.

Already in 2024, in the €34 million revenue guidance Gavin mentioned, we expect €2 million to be from pure engineering services alone and around €10 million to come from the procurement and supply of balance of plant equipment for plants that we are designing for and with clients.

This allows us to capture a significantly larger share of the wallet of the total spend on each hydrogen plant. The electrolyzer can at times be less than 50% of the overall plant cost, so being able to deliver the remaining equipment and services can be a large contributor to our top line although we recognize that the equipment provision has lower margin, but also lower warranty and product related risks. With each plant we deliver and design, our expertise grows and further pulls us ahead in the early stage industry. It allows us to be a trusted partner and allows us to capture repeat business with clients.

It's important to note that to-date, every client we have has the potential for repeat business and for nearly all of the clients we're dealing with we are already designing and submitting proposals for follow-on plants. To share some of the latest information regarding the HEVO Chain offering, one note that this is a truly customizable and modular solution where we are producing cubes of various sizes as well as containerized solutions for larger projects. I will pause here and just interact with the question that I've seen coming up. We haven't in the past provided the data sheet openly on our website as we effectively design the projects to the customized scope for the client.

So this is something that we do and we engage within the client because given that it's such a modular solution, we truly tailor each project delivery to the client's needs. The HEVO Chain, which began its commercialization in mid-2023, has already started full production at our Benavente facility and we continue to see strong interest in the solution and we are delivering proposals and project designs on nearly a weekly basis at this point. We will be delivering the remaining cubes during this month to our first HEVO Chain installation at our client site.

This project includes full plant delivery and allows us to see client bookings to the tune of 3x the electrolyzer value with the provision of other equipment and services. This is a very interesting project where we are delivering a system that permits the use of hydrogen into their industrial furnace and allows them to change the fuel mix they currently use and significantly reduce their carbon footprint. The savings generated from the carbon reductions and the changing of the fuel mix are enough to offset the cost of the plant without needing grant support.

This shows us that the HEVO Chain solution is for certain cases, economically viable, even without grants at this early stage in the industry. To finish, I'll briefly cover on the strategic priorities we have laid out for the year. In 2024 we plan to deliver and install six to seven full HEVO Chain systems to southern European clients.

Of these, five are expected to be full plant deliveries. In addition, we will already be working on the engineering and preparatory work for certain projects to be delivered in 2025. These projects range from 300 kilowatt as the one I just mentioned before, all the way to 5 megawatt in size and we expect to also start work on the 10 megawatt seen as one project this year.

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One of our priorities for this year and already mentioned by Gavin but infer most of what was last year as well continues to be the strengthening of our balance sheet. We are laser-focused on reaching cash flow breakeven and we need to be properly capitalized to reach this milestone. A stronger capital position allows the company to have confidence in front of clients to close midsize project sales and to be able to provide credible warranty backup. In addition, now that we are booking revenues, we believe this is the last step to addressing the significant valuation disconnect to our peers.

The Macquarie facility provides the company with a strategic line to be able to tap into as it needs capital and as opportunities arise where we see significant value but would be additional to our base plan. We have been in longstanding discussions with several capital and strategic partners that can bring additional value to the company. The Macquarie facility is a great complement to these potential capital sources and we believe the combined effect will generate substantial shareholder value. With the facilities at hand and the recent ATM raise, we continue to be able to pursue the value add capital strengthening activities that we launched quite some time ago.

We have been cautious to do the right deal for the company, as Gavin mentioned before, and we will continue to do so. As we've noted, broadening the targets addressable market for us is important. With a HEVO Chain, we have a great solution to do just that. We not only want to sell to northern European markets, but in 2024 we also plan to certify the solution for use in North America and in Australia. We are already delivering multiple proposals and plant designs for both these regions and so ensuring that the solution is duly certified for local regulations will be part of our 2024 activities.

As part of our focus to reach cash flow breakeven, we will continue to push cost reduction efforts to add to the significant savings already achieved. In addition, we will continue to make adjustments to our resource allocation and investments to ensure they are aligned with our strategy.

In such a fast moving industry, we are bound to make adjustments and we see the reassessment of our spend and investment as an ongoing priority task for our Executive Committee. In the past, we made the costly mistake of building inventory for projects that were in advanced stages but could be cancelled or impacted by regulatory changes.

This is an example of a resource allocation mistake that we will not be making again. We will not be providing working capital advances to projects or clients, and we will ensure that the capital deployed is aligned with our short and mid-term revenue targets. Lastly, on strategic partnerships; partnerships are a key part of our value creation, and they range from commercial partnerships with developers and system integrators such as the ones we've already mentioned in the past for Spain, Italy and North America, all the way to partnerships with a technology angle such as the ones we've mentioned before with Fraunhofer and with Toshiba.

But adding to these, we are building close relationships with suppliers of balance of plant equipment such as power components and compressor solutions. Our IPCEI project really brings a completely new scope to the partnerships that are possible. Given its size, the type of counterparts that we are dealing with are of a very large dimension and have the capacity to have a broad and long lasting impact on the company. Therefore, we're also taking our time on these relationships to ensure that we're able to find the right partner and right fit for Fusion Fuel.

These discussions started several months ago and we expect them to continue throughout 2024, and so we look forward to providing you with more news during the year on the partnership front. I want to close by noting that it has been a very eventful few months of the company. It would not be an understatement to note that it very much feels that we have reached a before and after moment with the closing of the HEVO Solar legacy, the ATM raise, Macquarie facility, combined with the IPCEI approval.

We are now fully focused on delivering on what we have mentioned here today and what has been in work for quite some time, including many client projects that have begun to move forward once again. We're excited by the opportunities that lie ahead and the move forward that we see in the overall hydrogen market in the last year.

Now with that, we'll open up to some Q&A.

Question-and-Answer Session

A - Ben Schwarz

Great thanks, Frederico. So, speaking with a couple questions from analysts, beginning with Erwan Kerouredan from Royal Bank of Canada, who asks whether the company has reviewed and adjusted its U.S. ambitions as a result of the 45V guidance update of the Inflation Reduction Act? As I sit here in the U.S., I'll take that one, but we'll invite Frederico or Gavin to chime in if they'd like. I think that guidance is certainly more stringent than the market expected.

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Important to note that it remains kind of still in the definition phase and we have to see certainly what will happen following the current U.S. election cycle. The proposed additionality and time correlation rules mirror those laid out in the European Renewable Energy Directive Delegated Acts, which I think were implemented and adopted last year at some point early last year. So we're very familiar with operating within those constraints. The U.S. and North America more broadly remain a near-term priority for us, and we continue to engage in commercial discussions with counterparts in that all important geography.

Questions from Jeff Grampp at Alliance Global Partners. This one's for Gavin. Gavin, can you discuss gross margin expectations for 2024?

Gavin Jones

Sure. Thanks, Ben, and thanks, Jeff, for the question. So, for 2024, we expect our gross margins to be in the region of 15% for projects that will include our HEVO Chain product, along with balance of plant equipment and EPC services. The three core elements of these projects all have different margins, but in combination, a margin of approximately 15% is forecasted. As we look ahead to 2025, we expect this average to increase closer to the 20% mark, particularly as we increase the production volumes within our Benavente facility.

Ben Schwarz

Thanks, Gavin. Stick with you but Frederico can join in. What are the main risks you see to hitting our 2024 guidance, and what potential mitigants are there do you have in place to address those?

Gavin Jones

Sure. So again, as we said on many times over the last 12 months, and even on this call, the biggest risk is time and how long it takes from tender stage to sign contracts and then execution. So that's probably our biggest risk at the minute. As both I and Frederico mentioned earlier, with the IPCEI process, there's a lot more interest in our projects. We have a larger potential client base for those now. So that brings with us more negotiations, more discussions, and that just ekes out the timeline a bit more.

But I think in that scenario, we need to be patient because the conversations are probably a bit more positive now on the foot of the IPCEI announcement. What are we doing to kind of navigate those potential delays? We have a strong project pipeline. I think we've been quite prudent in our guidance in terms of not including a proportion of the potential contracts that we could, or discussions that we could convert into contracts. So like optimistically looking at it as we convert the pipeline to contracts that will look to realign if there's any delays on the project side of the revenue guidance.

Ben Schwarz

Great, thanks. You mentioned the IPCEI project. This was also asked by one of the audience members, what are the next steps or milestones to keep an eye out for with respect to the IPCEI project?

Frederico Figueira de Chaves

So happy to take that. Again, apologies for technical difficulties with the camera here. I think I just did everyone a favor for having to avoid seeing me while we were talking about slides. So it's a great question to note with the IPCEI, there's many fronts that need to work in parallel now. So we have to move forward with the negotiations with our partners.

As you can imagine, for a project that kicked off nearly four years ago, there's been substantial amount of changes there and evolution of the relationship we have with the partners as well as we now need to begin the discussions with the Portuguese government on the financial sort of support as well as with the EIB.

This is going to take several months to clarify, and we will be working on those in parallel. But I don't expect us to be able to give concrete guidance on what the IPCEI will mean for us in detail for at least one or two courses. Again, I want to note that this is a project, especially the large parts of the project, the bit that's still in the definition process, the Sines Green, that will be only sort of kickoff, really in 2026. So for us, the next steps will really be firming up the partnerships.

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And that includes the partnerships on a technology front, includes partners on the ammonia front, the offtake side, as well as the financing side. So all of those discussions will be very intense and we'll start now. I would just note and to manage expectations, all IPCEI projects, including the ones that were announced a few years ago, take quite a while to take shape.

So I want to highlight that this will be a significant driver of long-term value for us. We already see it with the interactions we're having with clients. It has a large amount of positive spillover effect onto our other projects and the credibility our other projects have. But it will not be the driver of our 2024 and 2025 success.

Ben Schwarz

Thanks Frederico. You're jumping around a bit. You mentioned the green ammonia partner for that project. There was a question on the estimated production cost for green ammonia to be sold in Northern European markets. Perhaps you can provide some clarification on how that figures into the broader ecosystem of the HEVO Portugal project.

Frederico Figueira de Chaves

So as part of the IPCEI, we have two sort of main roles. One is the overall project developer or project lead, but also the hydrogen component of the project. We always had right from the beginning, a partner for the ammonia front. So this is a longstanding partnership with a partner who has a long standing ammonia project already, green ammonia project.

So to note, this is not a Fusion Fuel endeavor. This is with our partner. And we hope to be able to disclose that in one of our future quarterly updates. But the green ammonia being produced there is competitive also backed by the fact that the green hydrogen production in the Sines region with very cheap renewable energy is a very competitive raw material for that production.

Ben Schwarz

Thanks. Let's cover off on Jeff Grampp's final question. In the past, we've discussed efficiency and cost improvements to subsequent generations of the HEVO technology. Does that remain an ongoing program or are efforts more focused now on commercialization of the existing generation?

Frederico Figueira de Chaves

It's both, Ben, and good question. To note we do have what we believe is a pathway to reduce the stack cost by a further third. So a substantial cost reduction. However, we do plan to be fully committed to the commercialization of the current version of the HEVO Chain, as in order to achieve those cost savings, there's still some R&D work to do. So we have a competitive product today that we think is relevant for the markets of today and for the coming years. And we have a path to substantially sort of reduce those costs. So we are actively working on both fronts.

Ben Schwarz

Great, thanks. There's a question here about the fees paid to the banks for selling shares in the market. I'll just quickly cover off on this. If I recall correctly, I think the placement agent fee for the ATM facility is 3% or so, which is considerably cheaper than fees that would be paid to investment bankers in a conventional equity offering. So I think that's just perhaps a misunderstanding. Question about the cost of production of green hydrogen at the Evora project. Frederico, perhaps you can comment on that.

Frederico Figueira de Chaves

So as you note, we have two Evora projects. The Evora project that we have that is live is a small one. That project there for us, it is an extension of our R&D facility. So for example, we currently have installed there our sort of HEVO Chain units because in order to test several of the cubes in a sort of connected series, that is the site that we do it at. So the cost of hydrogen there is always a bit of a moving target because we are constantly sort of updating the technology there.

It is an extension of our R&D facility to note. This is the only plant that we currently have plans to own and operate and we have changed the purpose rather from being a pure commercial purpose to actually being sort of an R&D facility for sort of large scale testing. So it's a non-answer because the question keeps changing because it is directly related to our R&D CapEx as we continue to deploy sort of new technology to the site.

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Ben Schwarz

Thanks Frederico. A couple questions in the chat box around the status of the Bakersfield project in California.

Frederico Figueira de Chaves

Sure. So the Bakersfield project, like any large project, has a very extended time period. Again, similar to the IPCEI we've made a deliberate decision to not be updating on these large projects. For those of you who've followed us for some time, you will have heard of other large projects in other locations that we are still sort of working on in the background. If and when there is meaningful news, we will bring it up. There's always a big risk that these projects have a sort of binary outcome.

They could die at any moment. What we will note and we've noted before that in 2024 and 2025, we are really focused on delivering for small and medium sized projects. To that end, we are actively engaged in offers both in Australia and in the North American market. So both the U.S. and Canada offering projects in the 10 megawatt and under space where we believe the execution of those will be much earlier than something for the size of Bakersfield or the IPCEIs or these sort of mega projects.

Ben Schwarz

Thanks Frederico. Sticking with you, what is the company most excited about with respect to the strategic partnership process we've alluded to at length and what are the timeline expectations, if any, that shareholders should have on meaningful progress on that front?

Frederico Figueira de Chaves

I think the most exciting part of it has really been the IPCEI effect or the halo effect from the IPCEI, where in all sort of partnership discussions there has been a sort of sense of urgency from the part of the counterpart in order to accelerate the discussions. So in the past we had the most urgency in looking to move the discussions forward. Now there is a new sense of competition in order to lock down the opportunity. And so for us, the most exciting thing has sort of seen that shift where our partners' engagement levels has gone through the roof in these discussions.

Now, more concretely, this is number of different partnership possibilities. These are partnerships to do general sort of project development and project financing on project portfolios as a whole, not specifically to Sines, as a sort of strategic direction where it could be a potential investment in the company and as well as in projects which is of course would be the ideal solution for the company, but also of course partnerships specifically for something as big as the IPCEI portfolio.

Ben Schwarz

Thanks Frederico. What's the demand and I guess feedback that we're seeing from the market for the HEVO Chain solution? And do you see any commercial momentum that could help the company grow out of its current cash constraint?

Frederico Figueira de Chaves

Sure, the interest is very large. It's significant. As I mentioned during my update, it feels like we are doing proposals and designs for new plants and projects nearly on a weekly basis. So there is a lot of demand in addition to the very exciting sort of development where people we're delivering projects to have multiple projects in the pipeline. So as we noted, we have sold two projects to the same client, but just as recently as this week, we were asked proposal for a third project for that same client.

The client where we are delivering the 300 kilowatt system has tens of plants where such a system could also be employed. So the momentum that we're seeing probably in the last six months or so has been a completely sort of new thing for us, I'd say not only for our technology and this was really with the launch of the commercialization of HEVO Chain mid of last year, but we believe that this is a general increase in the market momentum for hydrogen.

A lot of projects have been relatively dormant and we are now seeing some of those dormant projects sort of re-emerge and start to have life again to move into the implementation phase. So substantial demand for projects for engineering support for HEVO Chain itself and its keeping both our commercial team and our engineering team very busy.

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Ben Schwarz

I think we should get Gavin involved a little bit here. A question on the current runway in light of the proceeds of the February's ATM activity.

Gavin Jones

Sure. Thanks, Ben. I was feeling a bit left out there. So in terms of the runway following the February activity, our priority now very much is to operationalize Macquarie, get that facility up and running, draw down Tranche 1. Once we can operationalize that, we should have greater flexibility in accessing the facility as needed going forward.

As I noted in my update earlier on, we anticipate cash inflows from client contracts and grant agreements throughout 2024, most of which will be received monthly. In terms of runway, I think given the stage of discussions with various counterparts regarding financing solutions, strategic partnerships, it's probably not appropriate for me to discuss specifics right now, but hopefully we'll have some updates between now and our next quarterly update.

Ben Schwarz

Thanks, Gavin. Back to Frederico. This is our final question, so if anybody else has additional questions, please do get them in. The refueling station in Madrid for Exolum, is that currently operational and what, if any, feedback has the company received from that client?

Frederico Figueira de Chaves

So, yes, it is operational to-note. I don't have the exact numbers or the number of buses is refueling. As noted, this is a plant that we have delivered to Exolum. So although we do know that it is producing hydrogen and it is refueling, buses believe on a daily basis. So the plant is operational as sort of contracted with the client for the first two years of that plant, we will be in very much a sort of handholding approach with them.

So we have a team that is in constant contact and spends quite a bit of time in the field with the client. As with any sort of, I'd say, electrolyzer deployment today, it had its teething issues. This is where actually we noted the advantage of our modular solution. So to note, a lot of the electrolyzer systems, when they have any sort of issue, it's a sort of binary outcome. The plant shuts down or it is live. In our case, with a modular solution it allows us to actually switch off parts of the plant, address any problems that emerge and the plant can keep operating.

So from the client side, for whatever teething issues that there have been, the production of hydrogen has been able to continue and produce. And again, it is currently one of our most attractive sort of selling points is this sort of modularity of the solution and the availability that this solution gives. As I say, every project has had its teething issues.

We're sort of happy to say that our solution is able to minimize the pain that was caused and the plant has continued to operate and continue to deliver hydrogen and to allow the hydrogen refueling station to operate. So we are happy with that and with how that is going on with our partner Exolum.

Ben Schwarz

Thanks, Frederico. One more question here, which is a very good and important one, with the proposed increase in the number of issuable securities which we voted on by shareholders at the EGM later this month, is management's expectation that those additional shares will be, I guess, drawn down in one transaction or over a period of time to maximize value, as the share price hopefully appreciates.

Frederico Figueira de Chaves

So, Gavin, I'll take part of that and then if you feel need, just jump in. I'll note the request we're making here from management and from the Board's perspective is to give us the flexibility to make the right deal with the capital partner and strategic partners that emerge as probably can be understandable for a small company of our size. People are reluctant to put significant effort and legal costs and so on into a process if there is doubt that management or the board can get it through.

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So in order to ensure that we're able to continue and execute on discussions without them reaching a sort of critical element or critical bottleneck point, we need to have the flexibility to be able to make the right deal for the company. We noted that in the letter and I'll speak for the full Board in this pack, we are very, very conscious of the dilution impact that any sort of transactional capital raise can have on shareholders. However, we want to make sure that we are able to do the best for the company and for shareholders.

Now, we believe that the sort of capital concerns in the past of which have been substantially alleviated with the ATM and the Macquarie facility. But those concerns kept the company from being valued in our eyes fairly to our competitors. So we believe that any addressing of that issue will actually unlock significantly shareholder value. So that's the first problem. Now it depends on the counterpart concretely to the question. So there are counterparts, as with the Macquarie piece, and this is one of the reasons why we do like the Macquarie facility.

The dilution varies tranche by tranche. So it allows us to address some of that valuation gap or in our eyes, mispricing and doesn't have a one off hit on dilution for broad shareholders. That said, for example, if we have a strategic partner which is bringing long-term value to the clients, brings long-term value to projects and additional sort of revenue to projects and to the company, but wants to do a one off transaction that might be in the best interest for us all because project revenue, sales revenues combined with a capital influx would have substantial shareholder value. So the type of transaction will depend on the partners.

And we're having discussions with several types of partners, of potential partners here, and the reason why we are being vague in our request is we need the flexibility to pursue the right deal for the company and for the shareholders.

I would lastly note that we have been in the capital raise efforts for what feels like nearly a year and a half now. We have been offered several term sheets which I would say would be value destructive for the company, and we have done our best to avoid those managing very tight budget, managing our cash flow as best we can to make sure that we are not pushed into that.

I would say that the management board has been very, very focused on making sure that we pursue a deal that creates substantial value to the shareholders and to the company. We are pursuing those discussions, and we have been in those discussions and negotiations, and now we need the ability to execute those as they mature.

Ben Schwarz

Terrific. Okay, thank you, Frederico. So, in the absence of any additional questions, I think we'll call it for our fourth quarter investor update. Thanks to everyone who joined and asked questions. If you have additional questions or you'd like to speak with myself or with management, feel free to reach out to me and the IR team at ir@fusion -fuel.eu, and we look forward to seeing you all again at our next update.

Frederico Figueira de Chaves

Thank you all.

Gavin Jones

Thank you all.

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