

# **Hexagon Purus ASA (HPURF) Q1 2024 Earnings Call Transcript**

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**Body**

Hexagon Purus ASA (HPURF)

Q1 2024 Earnings Conference Call

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Company Participants

Mathias Meidell - Investor Relations Director

Morten Holum - Chief Executive Officer

Salman Alam - Chief Finance Officer

Conference Call Participants

Presentation

Mathias Meidell

Hi, and welcome to Hexagon Purus Q1 2024 Presentation. My name is Mathias Meidell, and I am the IR Director in Hexagon Purus. I will be moderating from the studio in Oslo and from the studio.

I'm also joined by Group CEO, Morten Holum; and Group CFO, Salman Alam. The agenda for today includes, as usual, the highlights from the quarter, a company update, the financials and the outlook. We will also end the presentation with a Q&A session. So please feel free to enter your questions via the function on your screen.

And with that, I will pass the word over to you, Morten, who will take us through the highlights of the quarter.

Morten Holum

Thank you, Mathias, and good morning to everyone joining our webcast today. It's been another great quarter for Hexagon Purus, following a long string of quarters where we have delivered according to plan, keeping us well on track towards target.

So let's go straight to the highlights. So three key highlights. Number one, we continue to deliver strong revenue growth, both on a quarterly and on an LTM basis, with all-time high Q1 revenue of NOK 407 million an all-time high LTM revenue of NOK 1.483 billion.

Number two, we continue to see demand growth across several applications. And it's great to see that we are indeed getting an increasing number of call-offs from the many long-term agreements we have signed during the past year.

And then number three, most importantly, we see that profitability is steadily improving as we grow volume and gain higher operating leverage. We continue to deliver revenue growth and improving profitability. So revenue in Q1 was NOK 407 million, which is 67% higher than Q1 last year.

On the positive side, we had a spillover effect from last quarter, as you may remember, around NOK 40 million that technically didn't meet the revenue recognition criteria in Q4. So that was recorded now in Q1. And on the other side of the equation, we were output constrained in Q1 both due to the delayed ramp-up in Kassel and due to component shortages in the supply chain. So we were not able to deliver all the planned volume to customers.

Volume wise, the positives and negatives for the quarter were more or less equal in size. So overall, the financials give a good picture of the underlying activity in the quarter. With solid growth from last year, LTM revenue continued its upward trend growing 41% to NOK 1.483 billion, as you can see in the middle chart. And on the right, we see that profitability is steadily improving with higher volume and operational scale.

And with most of our business done at solid gross margins, we expect profitability to continue improving going forward as we grow volume and gain higher utilization of the newly installed capacity.

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Double clicking on revenue growth, we see that hydrogen distribution systems continue to be a key revenue growth driver, up 38% from last year. But in Q1, Hydrogen Mobility was actually the largest contributor of revenue growth for the first time up NOK 68 million from last year.

Hydrogen Mobility will continue to be a bit lumpy, but we now start to see growth in cereal volume from existing long-term agreements. This is both in transit bus where we expect higher volumes to Solaris, Caetano and New Flyer and heavy-duty truck volumes to Nikola. So we expect mobility to play an important role as a revenue growth driver this year. The growth in the Battery Electric Mobility in Q1 was actually not related to product sales, but driven by an extraordinary payment from an OEM customer for design and engineering services to an ongoing program.

You should not expect to see any meaningful growth in that segment until late in the year when the deliveries to Hino and Daimler is planned to start. And the growth in other applications was mainly driven by a strong quarter for the Aerospace business.

The order backlog has been pretty stable over the last few quarters and was NOK 1.242 billion at the end of Q1 of which approximately 90% is for execution now in 2024. We had a book-to-bill ratio of around 0.9x in Q1, so we were almost able to replenish the entire Q1 revenue in new orders.

Looking at order composition, the book continues to be dominated by hydrogen business and mainly hydrogen infrastructure. Close to 90% of distribution system capacity in 2024 is either already in the order book or in the final stages of being sold, so we feel pretty comfortable in that area.

Hydrogen mobility is around 25% of the current order book, which consists of call-off orders from existing long-term agreements. The battery electric mobility volume to Hino and Daimler are not planned for delivery until Q4, so they will likely not enter the order book until sometime after the summer.

In total, we are comfortable with the order situation. The current line of sight, based on the order book, the expected call-offs from long-term agreements and recurring customer business, provides strong comfort in our ability to reach our 2024 revenue target. And it's important to understand that the order dynamics differ between applications, so the lead time from when we receive a purchase order to when we have to deliver is different.

For hydrogen distribution systems, we typically see purchase orders six to nine months ahead of delivery. This is the main reason why this has dominated the order book until now, besides it being the largest business at the moment. For bus and truck, the lead time is shorter, three to four months for bus, six to ten weeks for truck.

So mobility orders are typically call-offs from multi-year agreements or frame agreements, so we have less order visibility on those. But we do have close visibility on those. But we do have close and frequent dialogues with these customers and have insight into what their forecasts look like, so we have a pretty good sense of what they plan to order and when they plan to order it.

Overall, we're comfortable with the outlook for the business portfolio we have built during the past few years. I've said frequently that I don't really consider demand to be the constraint toward us meeting our revenue targets. It's more likely to depend on execution, succeeding in scaling up capacity and securing components from the supply chain, and then get sufficient volume off the production lines.

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We have built a strong customer portfolio across key applications that are now starting to yield meaningful volume. This gives comfort that we can achieve our targets. And don't forget, there's significant growth potential on top of our existing portfolio. The commercial activity is still increasing across applications, both the near-term on-road mobility applications and the emerging off-road mobility applications, such as rail, maritime and aviation.

The latter will take some years, but we're involved in projects in all of them, and we don't need to see mass adoption in any of these segments to gain meaningful volume at the size company we are at the moment. As we announced before, the trucks we are building for Hino, they will not be sold under the Hino brand. The truck is based off a Hino chassis and will be sold exclusively through Hino dealers, but it will be branded separately under a brand developed and owned by us. And that brand is Tern. So this truck will be officially unveiled at the ACT Expo show in Las Vegas on the 20th of May. So we're super excited about that. ACT Expo is the largest alternative energy truck expedition in North America, and we'll be holding a press conference together with our partners Hino, Panasonic and Dana.

We've started to release some teasers in social media. So if you're interested, please go to TernTrucks.com and follow the Tern Trucks account on LinkedIn, X or Instagram. We're approaching the end of our investment and capacity expansion program. So the global manufacturing footprint is now almost completed. The Dallas facility is the only one where we have yet to take occupancy. The tenant improvements are in process there, and we'll start to move equipment into the building in June.

And I want to give you a quick status on where we stand with the different facilities. The battery module assembly line in Kelowna is now operational. We continue to produce battery modules and packs in Q1, and the first battery systems have been shipped to Ontario where we're putting them on test and validation trucks that we can do further live on-road testing for the customer programs with Hino and Daimler.

We'll continue to add some equipment in Kelowna now in Q2 to fully complete the line and achieve the desired level of line integration and automation. So we're ramping up for the larger volumes that are needed in the second half of the year as the truck build will commence.

The battery systems from Kelowna will later be shipped to Dallas for truck installation once the site has been prepared and here's the picture of the building located a few miles east of Dallas. So I mentioned we're currently busy with the tenant improvements to tailor the building interior to our specific needs and will start to move in equipment in June, preparing for an official opening sometime later in Q3.

As we mentioned in the last quarterly presentation, the ramp-up of the new Kassel facility has taken more time than expected due to delays in equipment deliveries and final acceptance testing that led to somewhat reduced output in Q1. But we're on a good trajectory now and are currently meeting all customer volume request. So overall, we expect to be caught up and back on track by the end of the second quarter.

This is a picture inside the new distribution system assembly hall in Weeze, you can see several modules being built in the different installation base. So high activity in this area now to meet customer demands, the scale-up is going well with increased capacity to support continued strong customer demand, so we're on track there. Still early days, we're only in the initial ramp-up phase, so the monthly assembly capacity will continue to increase towards the end of the year, but we're tracking to plan.

And this is a picture from the inside of the cylinder manufacturing plant in China where construction is now completed and the majority of the equipment has been installed. And as you can see, the very first cylinders have also been produced. So we will now go through the official commissioning and factory approval stage and will subsequently apply for product approval and licensing for the Chinese market.

Depending on the timing for final approval, we're also exploring opportunities to manufacture cylinder volumes for international markets during the license approval period. Europe included, while we wait for cylinders to be approved for the local Chinese market.

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So that was a short run-through of where we stand on the facility side. Outside of the pictures I just showed, the Ontario site in California has been operational for a while and the team there is currently building the test and validation trucks for the Hino and Daimler programs. The Westminster site has also been operational for more than a year and looking good. And we're also operational in Ålesund where we are currently building the first large hydrogen systems for maritime vessels scheduled for delivery and installation later this year.

So in general, considering the scale of the challenge that we have taken on bringing on seven new facilities on three continents simultaneously, all within an 18-month timeframe, I consider us to be largely on track. In the grand scheme of things there have been few hiccups and delays and almost no cost overruns. So I'm very happy with the work that the Hexagon Purus teams around the world have done to pull this off. It's been a tremendous effort and it's an impressive achievement so hats off to the teams.

So those are the main points from Q4. And with that, I will hand the word over to our CFO, Salman who will take you through the financials. Salman?

Salman Alam

Thank you, Morten. Good morning, everyone. I will start off with this picture today. As mentioned last quarter Q1 2024 marks the first quarter of segment reporting for us. So we split our business into two main parts, first part being the hydrogen mobility and infrastructure part, which we abbreviate as HMI. This is our hydrogen cylinder and systems business in Europe and North America and also includes our Industrial Gas business in Europe and our Aerospace business in North America.

The second segment on the right hand side is the Battery Systems and Vehicle Integration business in North America. So this is a business unit that will start to deliver on the Hino and Daimler contracts later this year.

The China joint venture, our maritime activities and also corporate is reported under other and eliminations as you will see in the financial statements. We'll come back to the financial details at the segment level, but will start -- started off as at the group level as usual.

Revenue wise, the first quarter was a record quarter for us. We delivered all-time high quarterly revenue of NOK407 million, this is 67% growth compared to the same period last year and is mainly driven by our Hydrogen Infrastructure and Hydrogen Mobility business.

We also had strong contribution from our Aerospace business in North America, which provides storage solutions to privately held space exploration companies in the US. In our Battery Systems and Vehicle Integration business, we received an extraordinary payment of approximately NOK17 million from an OEM customer related to an ongoing customer program.

Total operating expenses ended at NOK504 million in the first quarter, up from NOK356 million in the same quarter last year. Our cost of materials ratio was 54% in the quarter, compared to 64% in the same quarter last year and 59% for the full year of 2023.

The cost of materials ratio in the quarter was better than expected, mainly due to the extraordinary OEM customer payments which didn't have any costs associated to it in the quarter combined with an overall favorable product mix.

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Payroll-related expenses was NOK191 million in the quarter up from NOK139 million in the same quarter last year, but decreased in relative terms compared to revenue year-over-year.

The organizational buildup of the company has been important and it's continued in the first quarter and it will help us deliver on the customer commitments that we have for this year and beyond.

We're now actually counting close to 700 colleagues across three continents, which compares to around 200 employees when we went public back in December 2020, so we've had the quite the growth since then.

Subtracting total operating expenses from total revenue, EBITDA ended at minus NOK97 million in the first quarter of 2024 which is equal to an EBITDA margin of minus 24%.

This is a significant improvement compared to the EBITDA margin we saw in the same quarter last year, which was minus 46%. And it's consistent with our expectations of overall improved profitability in 2024, as scale and operating leverage increases.

Moving below the EBITDA line, depreciation at NOK44 million in the quarter compared to NOK28 million in the same quarter of last year. Generally the increase in the depreciation is caused by a higher balance of depreciable assets due to our capacity expansion program.

Of the NOK44 million about NOK28 million relates to depreciation of property, Plant and Equipment as well as amortization of intangibles and about NOK16 million relates to the right-of-use assets depreciation. The resulting EBIT for the quarter was minus NOK141 million versus minus NOK140 million in the same quarter last year.

Losses from investments in associates which reflects our minority shareholdings in Cryoshelter and the systems joint venture company in China ended at minus NOK2 million which is largely the same as last year.

Finance income in the first quarter was NOK36 million, compared to NOK10 million in the same quarter last year. Approximately NOK30 million of the finance income relates to FX fluctuations and approximately NOK6 million relates to interest income on bank deposits.

Finance costs in the quarter was NOK60 million where NOK41 million is related to non-cash interest on the two convertible bonds that we now have outstanding and another NOK10 million of the NOK60 million is related to interest on lease liabilities and other interest bearing debt and the remainder relates to foreign exchange fluctuations.

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At the group level we are not yet in a taxable position and tax expense in the quarter was minus NOK2 million versus minus NOK1 million in the same quarter last year. Therefore loss after-tax ended at minus NOK165 million versus minus NOK154 million in the same quarter last year.

Moving onto the segments, we'll start off with the hydrogen mobility and infrastructure segment. This is the business unit that manufactures hydrogen cylinders hydrogen systems for the storage of hydrogen onboard either off-road or on-road vehicles or for infrastructure purposes such as the distribution of hydrogen from the point of production to the point of consumption.

It also includes our industrial gas business in Europe and aerospace business in the US. The main driver of growth for this business has been hydrogen infrastructure solutions and in particular the sale of hydrogen distribution modules to industrial gas companies such as Air Liquide and Linde and Lhyfe.

The business unit has production facilities in Kassel and Weeze in Germany as well as Westminster in Maryland in the US. The business units made up about 95% of the revenue in the first quarter of 2024 and it houses more than 550 of our employees. The business unit is led by Executive Vice President, Michael Kleschinski, who's based in Kassel Germany. Michael has been with the company and our predecessor companies for more than 18 years and is a leading industry expert on type four high-pressure hydrogen storage solutions.

Looking at the financials for the segments, in the first quarter the segment's reported revenue of NOK388 million, up 66% compared to the same period last year. The largest revenue component was hydrogen infrastructure solutions, which made up 54% of the revenue in the quarter and showed 38% growth year-over-year. The largest absolute growth however came from the hydrogen mobility application space, which made up 26% of revenue and grew 213% year-over-year.

Increase deliveries to our transit bus customers such as Solaris and Caetano, combined with increase in deliveries to the Nikola were the main growth drivers. The other segment which includes the industrial gas business and aerospace mainly also grew and strongly by 61% year-over-year.

Moving to the right-hand side of the page. EBITDA for the segment in the quarter was minus NOK16 million, which equals an EBITDA margin of minus 4%. This compares to an EBITDA margin of minus 15% in the same period last year and represents a significant improvement in profitability, driven by operating leverage as scale increases and we also had the positive product mix effect. It is definitely encouraging to see this profitability trend and we remain confident in our ambitions of reaching EBITDA breakeven for the overall hydrogen mobility and infrastructure business during 2024.

Moving on to the battery systems and vehicle integration segment, which we abbreviate as BVI. This is a business unit that engages in battery systems production and complete vehicle integration of battery electric and fuel cell electric vehicles for the North American market. We also have a complete suite of proprietary key components required for electrification of heavy-duty trucking and many of these components are IP-protected.

Size and maturity wise, this is a business that is earlier stage than our hydrogen business and makes up about 5% of group revenue and houses about 15% of our employees currently. However, significant growth is expected for this business unit going forward as we prepare for start of steel production on the Daimler and Hino programs towards the end of this year.

The business unit is led by our Executive Vice President, Todd Sloan, who is based in Kelowna Canada. Todd is an industry innovator with more than 20 years of experience in the clean mobility industry. As mentioned earlier today, revenue in the quarter for the BVI business unit was primarily influenced by the extraordinary payments of NOK17 million we received from one of our OEM customers. We aren't expecting any significant revenue recognition for this business unit, until we have start to see your production on the Hino and Daimler programs in the fourth quarter of this year.

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EBITDA wise, the quarter ended at minus NOK25 million, up from minus NOK32 million in the same period last year. The extraordinary payment that was received from the OEM customer didn't have any costs associated to it. And therefore the contribution towards EBITDA of this payment was high. Preparations for start production of both the Kelowna and Dallas facility combined with continued investments in organizational scale-up we'll continue to impact EBITDA for this business unit in 2024.

Zooming back out again to the group level and moving on to our balance sheet, total assets at quarter end was approximately NOK 4.8 billion, which is a meaningful increase compared to the size of the balance sheet last quarter. On the asset side, the main meaningful changes can be seen in property, plant and equipment and right-of-use assets connected to our capacity expansion program.

Net working capital also increased in the quarter, which is a reflection of the continuous growth we've had and also the growth expectations we have for 2024. The level of inventory in work in progress and finished goods were higher than normal in the quarter as certain supply chain challenges impacted customer shipments in the quarter, as Morten mentioned in his opening remarks. Our cash position at the end of the first quarter stood at NOK 965 million.

Looking at the equity and liabilities side of the balance sheet, the main increase are related to the convertible bond that was issued in February as well as the increase in lease liabilities driven by our capacity expansion program. The convertible bonds are recognized as compound financial instruments, according to IFRS and carries debt component and an equity component due to the convertible nature of the bonds. The equity ratio at the end of the first quarter was 43%.

Moving on to the cash flow statement, which reflects the movements in the balance sheet and P&L. Our operating cash flow in the quarter was minus NOK 211 million. Operating losses makes up the bulk of the NOK 167 million and increase in working capital was NOK 109 million. The main item on the cash flow from investing in the first quarter was NOK 130 million we invested in property, plant and equipment related to our ongoing capacity expansion program.

As mentioned last quarter, we had some delays with some of our equipment suppliers, which is delayed final acceptance testing and therefore, also delayed the disbursement of funds to our suppliers. We expect the second quarter of 2024 to catch more of the spillover results in 2023 and also, so far in 2024, leading to an increase in CapEx in the second quarter this year compared to the first quarter. Finally, net cash flow from financing was NOK 985 million in the quarter driven by the issuance of the convertible bond that we mentioned.

So with that, I'd like to pass it over to Morten to walk us through the outlook.

Morten Holum

All right. Thank you, Salman. So, as I also mentioned in the Q4 presentation, we are executing a master plan that we put together back in 2020, with three distinct franchises to enable NOK 4 billion to NOK 5 billion in revenue at a profitable level. I think this is quite essential to understand in order to properly assess our performance and have the right expectations on the forward trajectory. So I thought it made sense to repeat the message in this quarter.

So the first chapter was to secure demand, gaining comfort that there would be a market for our products. We needed to validate that our technology was competitive and that it would gain customer approval. Once that was done, we turned the page to chapter two, which was to build sufficient production capacity and secure supply chain, solid enough to support the targeted revenue level, and also to build an organization that could deliver on the rapid scale up.

The third and final chapter was to execute on the scale-up phase and secure profitability with solid gross margins more or less across the board. Chapter three is all about scaling up production to gain operating leverage and driving operational efficiency. This will enable us to ride down the cost curve and secure profitability with high capital efficiency. So that was the plan and here we are at the start of chapter three and still on track.

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Our financial targets for 2024 and 2025 remain unchanged. For this year, we target to grow revenue by at least 50% and achieve a significant year-over-year improvement in EBITDA margin. And for 2025, we target NOK 4 billion to NOK 5 billion in revenue and to reach breakeven before we get to the end of that year.

During our Q4 presentation, we gave some perspectives on what the pathway towards the 2025 targets look like and why we remain confident in our ability to get there. So today, I want to zoom in on 2024 and give some details on why we are confident on meeting our full year target of at least 50% revenue growth. So the current order book on top of Q1 revenue takes us above NOK 1.5 billion, so close to 80% of the target. So we have roughly 20% to go or a gap of NOK 450 million to cover.

This is not a large number with nine months left to go in the year, considering that a sizable chunk of expected business has not yet entered the order book. And with a two to three-month order horizon on average for call offs in the mobility business and with the background of knowing what our transit and heavy duty truck customers have asked us to plan for, I feel quite confident that we'll have sufficient demand. And that's actually a quite reasonable expectation.

And to repeat again, I'm not really worried about the demand side of things. I don't think this will be a constraint for 2024. The constraint is more likely going to be a combination of the supply chain and our ability to get enough product out the door to customers. But then looking at where we are in the overall scale-up trajectory and where the supply chain is at the moment, I'm growing increasingly confident about our ability to properly execute.

So our priorities for this year are clear. We're focused on one, ramping up the business as rapidly as we can to maximize utilization of the newly installed capacity. And number two, drive operational improvements in our manufacturing processes and in the supply chain to drive down product cost; and three, minimize further capital spend beyond what is needed to complete the existing investment program.

That should result in a meaningful improvement in profitability as we move towards year-end. We have the products and the technology. We have the customers. We have the competence. And now we also have the manufacturing capacity. So it's all about execution, and we're well underway with a good first quarter delivered and a solid revenue outlook for the rest of the year.

So that concludes our presentation for today, and we'll now open it up for Q&A. Mathias?

Question-and-Answer Session

A - Mathias Meidell

Thank you, Morten and Salman. I guess we could just jump straight into it. There's been several questions on cash and funding situation. I guess this will be a catch-all question on that topic. We'll take one from [indiscernible]. Is the balance sheet strong enough to bridge you all the way to cash breakeven operations? If not, when will you need to raise additional capital?

Morten Holum

You want to take that?

Salman Alam

Yes. So I think generally, as we've raised money back in December, the second convertible bond, as you know. What we said back then was that, that takes us through the majority or takes us into 2025. And then we are continuously taking measures to make that cash last as long as we can. But we also have significant growth in the business.

We are completing the capacity expansion program that we've been running. And so there are obviously cash needs that the business has. We are in close dialogue with our investors and with the Board. And this is obviously-- funding is a priority that we have in the management team going forward as well.

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Mathias Meidell

Thank you, Salman. And then slightly in the same alley, when can shareholders expect a positive cash flow? This question is from Niels Colman [ph].

Salman Alam

Yes. So I think in the first instance, we are aiming for EBITDA breakeven in 2025. That's the first aim. Cash flow breakeven will follow from that. And I think the priority now really is to have 2024, a step in the right direction from a profitability perspective to have striking distance to EBITDA breakeven in 2025. I think the first quarter was a significant step in the right direction, and we expect that to continue this year. And then cash flow breakeven will follow sometime after EBITDA breakeven in 2025.

Mathias Meidell

Yeah. Thanks, Salman. And then a question from Evan Steepage [ph]. Can you give us some reasons why we as shareholders should invest more money in Hexagon Purus when we only have lost money the past three years? Are you confident that this will change? And can you improve shareholder value? Morten.

Morten Holum

Yes. So we are focused on building shareholder value so that's what we're doing. And as I just mentioned at the end of the presentation we are on a journey which has the company scaling up quite significantly. We have pretty good track record in terms of our technology and our products increasingly with the customers. The reason that we are not generating cash at the moment is that we are in the middle of a large scale-up program investing in new capacity and then building an organization around to deliver that.

We're pretty comfortable that once we are operating at scale this will be a very healthy and profitable business. We see good signal so that. We have pretty good gross margins at the moment. And so the reason we are not profitable is that we are carrying costs for people in our facility before we have gotten enough volume to pay for that. So it's quite simple. And as we went through also in the last quarter going through the pathway from where we are today until profitability in 2025, we're pretty confident on executing that plan and so far we are on track.

Mathias Meidell

Thank you, Morten. And then a question for you Salman. I think you partly answered it in the presentation, but can you quantify the exceptional payment from -- in BVI and its impact on cost of materials/margin. And also is the 60% a reasonable estimate for ongoing average cost of materials. This question is from Thomas Martin.

Salman Alam

Yeah, Hi, Thomas. So the extraordinary payment I think as mentioned was NOK 17 million in the quarter. And generally I think the short answer to your question about the materials cost for the full year and the remainder of the year at around 60% is a fair assumption.

Mathias Meidell

Yeah and then a follow up question from Thomas here. You're not close to 90% of this year's production capacity for hydrogen distribution modules has either already been sold to customers or are in the final stages of being sold? I am unclear how much of this is in the current backlog presumably already been sold is in the backlog and in the final stages provides good visibility on your future backlog additions. Can you help us understand this breakdown? Lot of questions.

Salman Alam

Yeah, no, that's right Thomas. So as you know our backlog is only firm purchase orders which we've already received from a customer. It doesn't include any sort of hopes or LTAs or LOIs that we have which we haven't yet received any call of some. So of the 90% about 85% is booked in the backlog and then we have 15% to go and we're very close to signing the remaining 5% of those and then we have good visibility to also sign the remaining 10% for execution this year.

I think on top of that within the infrastructure business you have also in the industrial gas business which usually have much shorter lead time from order to delivery. So you also have that revenue which comes in addition and then we also have some stationary storage initiatives on the hydrogen side which comes in addition. So plenty of potential revenue opportunities for this.

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Mathias Meidell

Thank you, Salman. And then a three-part question from Morten here. So the first is when do you expect the first revenue from China? What can one expect from China revenue from a volume standpoint? And to what percentage of your total revenue do you expect China revenues to grow?

Morten Holum

Yeah, so China is per now the largest hydrogen market. There is -- the majority of hydrogen trucks for example being put on the road they're being put on the road in China. So we think that is a market that is larger and will grow faster than both the European and the North American markets in the early years. And so we have now as I showed completed the construction most of the equipment is in and we're now going into the to the certification phase which is a bit different in China, right? Because you have to qualify the product based on it being produced on the ground in China. You cannot start the certification process until you've actually produced the product on site.

So that the process will now go through and it's not 100% clear to us how long that will take. So but I expect that we will start to get the first revenues from the Chinese equipment sometime late this year. I think that as I also mentioned we have the opportunity that we're now entertaining to see if we can use the Chinese capacity also for our international sales in which case we could start a little bit sooner.

Mathias Meidell

Thanks Morten. And then a question to you Salman from Martin as well. This is a two-part, so what will be your revenue breakdown in the long run? What percentage do you expect for HMI and BVI, and also which of the segments do you expect to be more profitable in the long run, i.e. better gross margins?

Salman Alam

Yeah, so I think obviously I mean as we saw this quarter 95% of our revenue was driven by the hydrogen business unit, 5% by BVI. I think as we get started with production BVI towards the end of the year, the revenue contribution from our business unit will significantly increase. I think if you look at 2025, we are probably the ratio will probably be 70/30 is our expectations, may be somewhere between 70/30, 80/20. And then I think long-term it obviously depends on the growth that we see in the BVI business versus the hydrogen business.

I think in terms of profitability, we are generally not in the business we are in the business of only doing a profitable business, a gross margin wise most of our business is profitable and that's really the intention also for the future. I think if you look at the different segments, BVI is still in the initial phase. So that will take -- as that scales up as volume increases, the profitability of that business unit is also increase. And I think the underlying profitability that we're seeing in the hydrogen business is already satisfactory. And as scale increases you'll get more operational leverage, which will continue to drive the profitability also in that segment.

Mathias Meidell

And then a follow-up on from Martin as well on the market itself Morten, do you expect to expand your BVI segment to Europe or Asia or mostly -- or will it mostly be for North America, if you will expand your BVI business due to your operation or will you build factories in these regions or will you serve them from North America.

Morten Holum

Yeah, I think I will say that this is pretty hypothetical at the moment. So we have our focused now on completing the expansion that we're in the middle of, and then making sure that we roll profits off of that asset base before we start thinking about expanding anywhere else.

Would we have the possibility to later expand that business to other markets? Certainly. Will there be a lot more opportunity in North America even for that business? Yes for sure. And so I think we'll continue to assess those opportunities, but right now it's complete what we're doing, make sure that we get it profitable and then we can start to think about what we do next.

Mathias Meidell

Yeah. Thanks Morten. And then a question from [indiscernible]. Sir, can you please shed some light on the recruitment process/status of key personnel for the new facilities in Weeze and Kassel including facility manager and production manager for hydrogen systems?

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Morten Holum

Yeah so recruiting in general right has been something that we have had a lot of respect for because it's not easy to scale up as quickly as we do. We have in general found it a relatively straightforward to attract people into our business. And so, there are lots of people that want to belong to this journey and what we're doing. And so we have in general not have any issues finding qualified people and finding qualified people that fit our culture and our way of operating. And that is regardless of where we are whether it is Germany, the US, Canada or Norway. So I think I'll leave it at that.

Mathias Meidell

Thanks Morten. And a question from Martin to you Salman, have you reached your maximum CapEx spend by now and will it begin to shrink in Q2 and the following quarters?

Salman Alam

Yes, I think on CapEx also in line with what we said last quarter and what I just said on this call, if we take a step back, we have a NOK 1 billion CapEx program that we've been running for the past few years, about 70% of that was taken in '22 and '23, which leaves about 30% for this year. On top of that, we have the new Dallas facility that we are doing tenant improvements to and also installing production equipment to get that ready for the Hino and Daimler trucks for the end of this year. And so, I think this year we'll also be we'll have CapEx -- will have significant CapEx in it. And then I think, we will see that probably from a yearly perspective, we expect to see the peak of CapEx in the next quarter and then for it to taper down as we approach the second half of the year. But that is still subject to us taking obviously delivery of all the final equipment and doing the final acceptance testing. So there maybe shifts there, but that's the expectation right now.

Mathias Meidell

Yeah. And then another question from Martin here on the facility dynamics. When you have reached maximum capacity decision for all your factories, what will be your corresponding maximum revenue output per year with this capacity?

Salman Alam

So I think in terms of revenue capacity, we have the ambition for next year is to have NOK 4 billion to NOK 5 billion in revenue. Our -- the production footprint that we have installed and that we are installing is sufficient to meet that revenue ambition. And then exactly how much revenue capacity have does depend on the product mix, it depends on the customer, depends on the pricing towards that customer obviously. So it's a -- you can pinpoint that in different ways, but we have enough production capacity to fulfill our ambition for revenue next year.

Mathias Meidell

Thanks Salman. And then a question from Thomas Martin, maybe for you, Morten. Can you describe the dynamics around the new HD truck product launch, how much visibility today do you have on order intake for the new Hino and Daimler trucks. Our Hino and Daimler currently taking new orders or does the order intake comments post the production launch in the context of the Hino launch coming soon?

Morten Holum

Yeah so in general, the order visibility is a pretty short I would say on the truck side compared to what we see on hydrogen distribution, as we just talked about. So, what we will now do is we unveiled the Hino truck now in May and then for Q4, we're going to build the first trucks.

And then visibility into 2025 is not something we have on a firm basis what we have our discussions that we have with the customer on what they are planning to do in the end where precisely that ends up is too early to tell. What we know is that there is a pool in the market for precisely the sort of niche products that we are putting into market.

So, I think both Hino and Daimler for their respective programs are pretty optimistic about volumes and so. But I mean we know that we're going to be manufacturing volumes this year to get the first trucks out to dealers and then we will see.

Salman Alam

Yes, I think Morten I'll just to add to that Martin and Thomas, I think start a production in Q4, I don't think we're really expecting any significant orders until the third quarter. So, probably be the timing is fairly short lead-time from order but obviously we're getting everything prepared so that we can deliver on short notice.

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And I think your broader question you had about sort of the OEM timelines. I think that varies depending on where we are in the world. So, I think in the west usually see long development cycles where the OEMs work several years in the development and prototype stage before they're ready for similar production.

I think if you take a look at China for example in Asia, the development cycles are much shorter and it's quicker iterations and more frequent iterations. I think the dialogues we're having with customers now on the heavy-duty mobility side, which there are several of with leading global OEMs for development programs, that those the larger holdings in the serial volumes are still out still a few years out from where we are today.

Mathias Meidell

Thanks and then a follow-up on this topic from Anders Rosenlund. How will the launch of the tern trucks impacted development the working capital how does it work?

Salman Alam

So, they generally maybe there's probably other question on working capital as well as maybe we can take working capital in one in one go. But I think generally in work working capital increase in the first quarter was NOK109 million. One that's driven by the growth we've seen in the business in the most recent quarters and also the growth we delivered in the first quarter.

The second is we have a BVI business unit so to unleash your question about how the tern trucks will impact working capital. We have a BVI business unit, which is coming out of the prototype stage with no significant revenue and moving into serial production. And that obviously takes a total working capital but I think we'll see more influence of that as we progress through the year and get closer to SOP in the fourth quarter.

And then I think the third effect which we wanted to mention is some of the supply chain related challenges we've had has had an impact on when we've been able to ship product to the customer.

So, some products have been sitting a bit longer than expected on the balance sheet in the very late stages of work in progress or as finished goods because they've been waiting for the final upgrades and final changes before they can be shipped out.

So, I think those are the effects such that you're seeing come through in the working capital this quarter. And then for the year as a whole, I think we should still expect working capital buildup due to the growth and due to especially the BVI business unit ramping up towards the end of the year.

Mathias Meidell

Thanks, Salman. And then, a question that also is coming from several people. So this could be covered by this answer. So you project 2024 revenue bigger than NOK2 billion or more than NOK2 billion and 2025 revenue in the range of NOK4 billion to NOK5 billion. What makes you confident, that you will grow your revenue by around or more than 100% in 2025 compared to 2024?

Morten Holum

So I think we -- as we have demonstrated the underlying growth in -- for our products is there. So we are on a general trend, that's increasing. We have now in 2024, we'll have a lot more capacity in place, that capacity is not there from January 1, is something that we are ramping up through this year. So, we're going to have a lot more capacity on our hands in 2025 compared to 2024.

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So -- and the large jump really in 2025, if you take in all the base business, you take the hydrogen distribution business, you take the hydrogen mobility business. All of that has the underlying growth in it, but the big jump in 2025, it's of course the battery electric programs where we start from zero, we'll have a little bit in Q4 this year. But then next year, we'll have a full year of delivering two large truck programs. So, it's not really that where -- it's a step change suddenly, we have a new capacity and a new program to deliver to which is a sizable program. So we're comfortable from the operations point of view, that we'll be able to do this and we're also comfortable on the demand side as, I mentioned before. Thanks.

Mathias Meidell

Then a question from Elliot Jones to you Salman. I think you partly answered, a similar question, what is the current revenue capacity of the battery side of the business, and do you anticipate any further CapEx additions required on the battery side?

Salman Alam

Yeah, I think with the current plans we have, we don't foresee any large investments beyond what we're already doing on the battery capacity slide for 2024 and 2025. I think in terms of revenue capacity, we have capacity of about 1,300 battery systems, per year. And then it depends on the pricing you apply to that, but it's a significant part of the NOK4 billion to NOK5 billion, but still the majority of it is hydrogen. And I think you should also remember that the -- one aspect is obviously, the battery system. But when we recognize our revenue now for a Daimler and Hino programs, it's really the revenue or it's really the truck that we're selling right. So it's a lot more revenue content than just the battery system. It's all the ancillary modules, it's all the other electrification components its the software, et cetera. So that's the battery system is just one part of the revenue that you'll see flow through the P&L.

Mathias Meidell

Thanks. And then the last question here, if it doesn't pop in anymore I know you don't really want to comment on share price. But when I take your revenue expectations for 2024, you're below one in your market cap over revenue ratio, how do you see this ratio? This question is from Martin.

Salman Alam

Yeah, I don't think that's really -- ratio that we follow very closely. And I don't think we feel it reflects or would be a good indicator of the underlying value of the company. I think as Morten alluded to earlier as well, we are very much focused on executing the plan that we have laid out and which we've I think successfully been delivering up until now. And then for us, it's about staying focused on our plan continue to deliver operationally commercially, and then we believe the share price will follow long term.

Mathias Meidell

Thanks Morten and Salman that was a good round of Q&A. So this wraps up, then the questions we have received from the audience. So on behalf of Hexagon Purus, I would like to thank you all for spending time with us this morning and we look forward to seeing you soon again. Thank you very much.

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