

# **Hexagon Purus ASA (HPURF) Q4 2023 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

February 13, 2024 Tuesday

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**Length:** 7945 words

**Byline:** SA Transcripts

**Body**

Hexagon Purus ASA (HPURF)

Q4 2023 Earnings Conference Call

February13, 2023, 02:30 AM ET

Company Participants

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Salman Alam - Chief Finance Officer

Eli Turander - Global Communication Director

Conference Call Participants

Helene Brondbo - DNB Markets

Elliot Jones - Nordea Markets

Alex Sanchez - Kendra Scott

Presentation

Eli Turander

Hi, and welcome to Hexagon Purus's Q4 2023 presentation. My name is Eli Turander, and I'm the Global Communication 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, Salam Alam. The agenda for today includes, as usual, highlights from the quarter, a company update, the financials and the outlook. We will end the presentation with a Q&A session, so please feel free to answer your questions via the function on your screen.

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

Morten Holum

Thanks, Elie, and good morning to everyone joining us this morning. We have put another good quarter and another good year behind us and I look forward to sharing the highlights from Q4 and for full year 2023 with you today.

Before getting into the meat of the presentation, I would like to take a step back and put the year we've just put behind us into context and highlight a few key points. As a reminder to everyone, we're in the process of executing a strategy and the business plan that we laid down back in 2020. So first, the key prerequisite for any business to develop and thrive is to succeed with customers, and since we went public in 2020, we have secured many contracts that have turned into recurring orders, and we've signed several long-term agreements with key customers that gives comfort on future earnings visibility. Second, we're in the process of finalizing a major capacity expansion program that gives us the required capacity to deliver on our revenue targets for 2025. We've transferred the company from the Euronext Growth Platform onto the main list Of the Oslo Stock Exchange. As one of very few companies that were listed back in 2021 on Euronext Growth when the industry was a peak hype, underlining the strong substance and solidity of our business and during these years, we have built a solid investor base of several high-quality investors. In addition to the company, we were carved out from Hexagon Composites, we've deepened our strategic partnership with Mitsui who's also contributed financially and in the latest capital round, we were able to add Hy24 as a new strategic partner. Hy24 is the first investment house fully dedicated to scaling up the hydrogen economy and we were the first investment in our newly established hydrogen equipment fund.

So in the grander scheme of things, despite the significant deterioration in the capital market sentiment for clean tech and renewable shares, we have so far been able to secure the necessary capital to execute our business plan.

So highlights from Q4. Number 1, we experienced a quarter, the first one in a long time where we did not achieve year-over-year revenue growth. This is not due to lower demand, but rather due to delayed ramp up of the new Kassel facility and the revenue recognition technicality. I'll come back to that in a minute. Even with the lower than planned Q4, full year 2023 ended at NOK 1.32 billion which is approximately 40% higher than 2022 and number 2, we experienced continued strong demand and solid order intake in the hydrogen distribution area. And 3, we opened our new facility in Weeze in January, which will give us a significant increase in capacity for hydrogen distribution modules. That's going to be really helpful since we've been operating at full capacity in this area for the past two years.

Revenue for the fourth quarter was 2% lower than Q4 last year, which puts a minor dent into our perfect record of continued LTM revenue growth. There are two main reasons for this. The first one is more of a technicality. We had NOK 40 million of revenue in our infrastructure business, modules that were finalized and shipped during Q4, but that technically didn't meet the revenue recognition requirement. So, without this adjustment, we would have posted a record high revenue in one quarter, now in Q4. This is unfortunate, but not a big issue since the revenue is now recorded in Q1 2024.

The second reason is the delayed ramp up of the new Kassel facility. As mentioned before, the manufacturing equipment came in several months late, which has delayed the commercial start up and put us behind the ramp up curve. So, the lower than planned revenue was not driven by lower demand, but lower output and this will also somewhat impact the output in Q1 this year. But although this is disappointing in the short run, I don't consider it harmful in the long run. We have sufficient demand and we have more than enough capacity available on this new production line once it's up and running to make up for the lost volume later in the year. So we don't expect this to have a negative impact on full year 2024.

Our order book for 2024 stood at NOK 1.3 billion at year end, so we're entering the year with a book of firm orders that's more or less equal to the total revenue for 2023. That bodes well for 2024 since there is lots of planned business with customers and call offs from long term agreements, which have yet to hit the order book. And as I've stated several times before, I don't expect demand to be the constraint for achieving our revenue targets. It's more likely going to be a matter of execution and ramp up of new capacity rather than demand. So overall, despite lower than planned revenue in Q4, I'm satisfied with the full year performance. We have taken several important steps That will enable a profitable growth trajectory ahead and the demand side for 2024 is also looking good.

Looking further into revenue, the main growth driver in 2023 was hydrogen infrastructure which is driven by the growing demand for industrial hydrogen. Our distribution modules are the most cost effective and competitive solutions on the market to transport gaseous hydrogen. So, we expect this to continue to grow for years to come. More on that in a minute.

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The mobility area is less mature than the infrastructure area at the moment. On road mobility grew slightly in 2023, driven by heavy duty truck and transit bus. It would have been higher in 2023 without the delayed ramp up of Kassel, which shifted the volume into 2024, but there we are. And for rail, we completed a customer program last year and have not had a similar program this year. So that explains the reduction there. I expect the volume for several of the mobility applications will continue to be lumpy until serial volumes start kicking in. Overall, then the main growth engine continues to be hydrogen infrastructure, which I expect to continue also in 2024 and we also expect mobility to grow in 2024, mainly heavy-duty truck and transit.

In December, we announced and subsequently raised NOK 1 billion in a convertible bond. This was supported by our existing strategic shareholders and partners, Mitsui and Hexagon Composites and we were also able to add Hy24 as a strategic partner, which we're very excited about. Hy24 is the world's largest clean hydrogen pure play private equity investor backed by Ardian and FiveT Hydrogen. They made an initial investment out of their newly established Clean Hydrogen Equipment Fund. Besides the immediate capital contribution, Hy24 has solid expertise and a wide partner network in the broader hydrogen space, which I'm confident that we will benefit from in the coming years. Overall, I'm very pleased to have the backing of these three strategic partners, which subscribed for the vast majority of the convertible bond. Having the support from these partners has enabled us to raise capital in what has been and currently is, a quite challenging capital markets for companies like us.

Now back to infrastructure. As you saw earlier in the presentation, this is our growth engine at the moment. It's driven mainly by industrial demand for hydrogen sold by large industrial gas companies that use our modules to transport hydrogen gas to its customers. This demand is not dependent on new green hydrogen capacity coming into the market. This is large existing demand, demand that's here and now. However, on top of that, the new green hydrogen segment is also growing and on the back of that, we see hydrogen going to new places, to new industries that are replacing fossil energy sources with clean hydrogen and we also see customers positioning themselves to serve the growing network of hydrogen refueling stations which is in the early stage of being established. For us, infrastructure is already a profitable area where we have a strong portfolio of existing customers, both incumbent industrial gas players and emerging green hydrogen producers and given the growth in demand for hydrogen and the competitiveness of our technology, we expect to see continued growth in demand for our modules and this is profitable growth.

Hydrogen has traditionally been transported using steel tube trailers. Our technology is using type 4 high-pressure composite cylinders instead of type 1 steel cylinders, which has several disadvantages. We can make larger modules. We can store hydrogen at much higher pressure with less weight, all of which increase the storage capacity and our type 4 based modules can carry three times the amount of hydrogen than what you can carry with a steel tube trailer and in the distribution business, it's all about payload. Higher payload drives down the unit cost in a way that more than offsets the higher cost of our technology, making this a product that's in the money for our customers. The total cost of ownership for a type 4 module is superior to that of a steel tube trailer, almost regardless of consumption and travel distance and it's really quite simple, triple capacity can mean running one trip instead of three. Lower OpEx more than offsets the higher Capex for our modules and this is why the industrial gas companies are now increasingly shifting to type 4 based modules and why the emerging green hydrogen players are starting with this technology right off the bat and this is why we are seeing such a high growth in demand for our modules, and to serve this growing demand, we are significantly increasing our capacity in this area. We've been operating at full capacity in the infrastructure business for a while now, but the new expansion Weeze in is now completed. We had the grand opening there in the second half of January and with this, we're more than doubling the assembly capacity for distribution modules. This business is already operating at high single digit EBITDA margins and we expect that the new capacity will give us additional benefits in terms of higher operating leverage and additional supply chain efficiencies. So this will be a key driver for revenue growth and improved profitability for us in 2024 and as such, also be a good contribution towards achieving the breakeven target for the group overall. And we keep picking up business on the mobility side. We were recently selected by New Flyer, the largest transit bus manufacturer in North America for the fourth consecutive year to deliver hydrogen storage cylinders for their fuel cell powered bus platform, we're very happy to have New Flyer as one of our recurring customers, which is a good demonstration of the quality and competitiveness of our technology.

We have strong positions with both North American and European transit bus OEMs and there is strong commercial momentum in the transit area, the likely next hydrogen mobility application to reach commercial maturity. So this will be another key driver for revenue growth in 2024 following strong order intake in recent months.

On the heavy-duty side, this is a bit further away from mass adoption but the logic for hydrogen in this segment is strong, and several OEMs are preparing their platforms for deployment in the second half of the decade. One of those is Ford who has awarded us a contract to develop a fuel storage system for their F-MAX hydrogen and electric heavy-duty truck. Ford is part of a larger European project, decarbonize long-haul heavy-duty trucking and this development contract positions us well for more business in the heavy-duty truck space in the future, and as we've experienced before, being involved in the development of a vehicle platform increases the likelihood of being successful when that platform later goes into serial production.

So despite mass adoption being a few years away, I'm really excited about the heavy duty truck segment. Nikola started delivering their Class-8 fuel cell electric truck to customers in the U.S. last year, so things are now finally starting to move.

Following the carve out from Hexagon Composites in 2020 and the significant success we've had with customers since then, it's been a priority for us to secure sufficient capacity to deliver on our 2025 targets. So we embarked on a major capacity expansion program in 2022 and we spent the majority of last year doing most of the heavy lifting. With the lion's share of our investment program now behind us, the establishment of our global manufacturing footprint is almost finalized. The construction work is completed and most of the facilities will be in ramp up mode through the course of this year and when we get to the end of 2024, we expect to have most of the processes dialed in for a significant increase in productivity and output in 2025. Building out this footprint with several sites under construction simultaneously has been a significant effort for the organization. I'm truly impressed with the Hexagon Purus team who has managed to pull this off without major negative surprises on cost or timing and in parallel with managing a business that has grown significantly in many different areas. This makes me extremely proud and it makes me confident that we will also manage to successfully deliver on the ramp up and the operational execution phase that we are now entering.

Those were the main points from Q4 and with that, I will hand the word over to our CFO, Salman Alam, who will take you through the financials. Salman?

Salman Alam

All right. Thank you, Morten and good morning, everyone. I think as usual we'll start off with the profit and loss statement. Revenue wise, as Morten already mentioned Q4 was a strong quarter, ending with revenue of about NOK 366 million. It's slightly lower than the revenue we generated in the same quarter last year, which was a very strong quarter. The main reason for the year-over-year decline, was the push out of about NOK 40 million in revenue from Q4 into Q1, due to technicalities related to revenue recognition. Those units are built and are ready. So that revenue will be - will now be recognized in the first quarter. Our full year revenue, climbed well above the NOK 1 billion mark ending at NOK 1.320 billion, which is up 37% from 2023 - or 2022, sorry.

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Total operating expenses ended at NOK 494 million in the fourth quarter, up from NOK 481 million in the same quarter last year. Our cost of materials ratio was 56% in the quarter, bringing the full year cost of materials ratio to 59% compared to the 61% we saw for the full year of 2022.

We added quite a few people to our organization during the fourth quarter of 2023. This is to really to deliver on the customer equipment's that we have, which has increased our expenses related to payroll. The increase in other operating expenses compared to the same quarter last year is mainly related to engineering and technical development related to facility ramp ups, as well as upgrades to our ERP architecture at our different sites.

Subtracting total operating expenses from total revenue, EBITDA in the fourth quarter, was minus NOK 129 million and full year EBITDA ended at minus NOPK 445 million exactly in line with our guidance for the year. The full year EBITDA margin ended at minus 34%, which is up from minus 42%, for the full year of 2022 and minus 54% for the full year in 2023 - 2021. So despite the full year revenue being somewhat weaker in 2023, it's encouraging to see that higher volume and scale is driving relative improvement in our EBITDA margin and we expect this trend to continue going forward.

Depreciation ended at NOK 52 million in the quarter compared to NOK 25 million in the same quarter last year. Of the NOK 52 about NOK 38 relates to depreciation of property, plant and equipment, plus amortization of intangibles, and about NOK 15 million relates to the right-of-use depreciation. The increase is primarily driven by our larger base of property, plant and equipment and right-of-use assets given our ongoing capacity expansion program.

Our new vehicle integration facility in Dallas, Texas, which will be used to integrate trucks for Hino and Daimler program was recognized also on the balance sheet this quarter.

EBIT for the quarter end at minus NOK 181 million versus minus NOK 134 million in the same quarter last year.

Losses from investments and associate, which reflects our minority shareholdings in Cryoshelter and systems joint venture company in China ended at minus NOK 5 million in the quarter versus minus NOK 7 million in the same quarter last year.

Financing, common finance costs almost equalized each other, in the fourth quarter with net financial items coming in at about NOK 1 million. On the finance income side, beyond foreign exchange currency fluctuations, we recognized about NOK 10 million related to interest income on bank deposits. During the quarter, Norwegian Hydrogen, which we own about 13% of, and which is recognized as an equity investment at fair value in our accounts, the capital raise from the Australian company Fortescue, valuing the regional hydrogen at NOK 750 million. Consequently, we recognize a revaluation gain of NOK 18 million on the finance income line in our P& L.

Finance costs in the quarter was NOK 39 million, and beyond FX about NOK 21 million was recognized as non-cash interest on the March 2023 convertible bond. Another NOK 9 million was related to interest on lease liabilities and other interest-bearing debt. At the group level, we are not in a taxable position and tax expense in the quarter was negative NOK 2 million versus approximately in the same quarter last year. Loss after tax end at minus NOK 185 million versus minus NOK 122 million in the same quarter of last year.

Moving on to revenue split by end use application. As Morten mentioned, the trend we've seen so far this year, and in 2023 with regards to hydrogen infrastructure really continued in the fourth quarter. 56% of the revenue in the fourth quarter and 58% of the full year revenue came from our suite of hydrogen infrastructure solutions. Hydrogen infrastructure customers in the quarter included blue chip industrial gas companies like Air Liquide and Linde and green hydrogen producers such as Lhyfe.

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We see that there is a growing need to transport hydrogen and our type 4 distribution modules are significantly more cost effective than existing hydrogen transportation solutions. This is evident by our customer dialogues and our recent commercial wins. Our order book and commercial pipeline continues to be solid, which bodes well for further contract wins within the hydrogen infrastructure.

In the mobility segment, we saw growth in deliveries to heavy duty vehicles and transit bus applications. Both of these segments are expected to grow strongly in 2024. In fact, more than 15% of our current order backlog consists of firm purchase orders for delivery of hydrogen storage systems to fuel cell electric bus OEMs such as Solaris, Caetano and New Flyer. We also expect further call offs in 2024 for our long-term agreement with Nikola contributing positively to revenue from the mobility segment.

The contribution from the other application segment mainly consisting of our profitable aerospace and industrial gas business and our maritime activities was lower in relative terms in the fourth quarter compared to the fourth quarter of last year. Although activities in this vertical, remains high and we are in active customer dialogues for development programs and long-term agreements for onboard hydrogen storage for space flights, commercial aviation and maritime applications.

Moving on to the balance sheet. Total assets at the quarter end was close to NOK 3.8 billion. On the asset side, the main meaningful change can be seen in property, plant and equipment and right-of-use assets, connected with our ongoing capacity expansion program. As expected, and communicated earlier this year, our working capital position was more or less flat from Q3 to Q4, which reflects the growth we've seen throughout 2023 and the continued high growth we're expecting for 2024. Our cash position at the end of the third quarter stood at NOK 307 million. This does not include the NOK 1 billion in gross proceeds that we raised from the convertible bond offering that was announced in December. That bond was issued in February and therefore proceeds were also received in February and we'll find its way into our accounts when we report our Q1 2024 figures in May.

Looking at the equity and liability side of the balance sheet, the main increase is related to lease liabilities driven by our capacity expansion program. Of note, the new vehicle integration facility in Dallas, Texas was recognized on the balance sheet during the quarter. The equity ratio at the end of fourth quarter of 2023 was 51%.

Moving on to the cash flow, which reflects the movements in balance sheet and P&L, our operating cash flow in the quarter was minus NOK 138 million. Operating losses makes up the bulk of this at minus NOK 187 million. Our net working capital position was more or less flat compared to Q3 and rose by about NOK 7 million, reflecting the expectations of continued growth in 2024. The main item under cash flow from investing in the fourth quarter was the NOK 105 million we invested in property, plant and equipment related to our ongoing capacity expansion program. This is lower than expected due to delays with some of our equipment suppliers. Taking the spill over into account and looking at Capex spend in 2022 and 2023, we have spent about 70% of the planned Capex program that we announced back in April 2022. The remaining 30% will be taken this year in 2024, and primarily relates to completing all facility construction and taking delivery of the final production equipment. On top of this, in 2024, we expect to spend about NOK 20 million intent improvements, vehicle integration equipment and product development to prepare our new Dallas, Texas facility for start of production on the Hino and Daimler contracts, towards the end of the year.

Finally, net cash flow from financing was minus NOK 18 million in the quarter, of which NOK 17 million relates to repayment of lease liabilities and the remaining NOK 1 million is interest and other interest-bearing debt. Remember that the interest on the March 2023 convertible bond is non cash, so it does not show up in the cash flow statement.

To roundoff the finance section, we wanted to mention that from Q1, 2024 reporting intend to introduce segment reporting to increase the fidelity of financial information that we provide externally. We have two main business areas that have differing levels of maturity and profitability profiles. Our hydrogen storage business on the one end that manufacturers hydrogen cylinders and systems for hydrogen infrastructure mobility applications today makes up the vast majority of our revenue, and it's already running at strong gross margins and it's actually expected to be EBITDA breakeven in 2024. The battery systems and vehicle integration business is in ramp up mode and any significant revenue from this business unit is not expected until towards the end of 2024, with profitability to follow subsequently. To quantitatively highlight these differences, we intend to introduce segment reporting with two main reporting segments. The hydrogen mobility and infrastructure segment, abbreviated HMI. This segment will then contain our hydrogen cylinder systems business in Europe and North America. The other segment will be the battery systems and vehicle integration business, abbreviated BVI and will contain our battery systems and vehicle integration business in North America.

With that, I think I'll pass it over back to Morten to take us through the outlook.

Morten Holum

All right. Thank you, Salman. So we're now turning the page onto a new chapter. The master plan that we put together back in 2020 had three distinct phases that would ensure that we could reach NOK 4-5 billion in revenue and deliver that profitably. The first chapter was to secure demand. We needed to have sufficient comfort that there was a market for our offering. This meant that we needed to validate the technology that it was solid, that we were competitive and that the technology met the approval of customers. Once we've gotten sufficient comfort on that, we turn the page to chapter 2, which was to build capacity. This meant executing an investment program to build out sufficient production capacity to support the revenue target, to set up the supply chain and secure access to necessary materials and components and to scale up the organization, recruiting the competence and capacity needed to deliver on the scale up. And with this phase now more or less completed, we are turning the page over to the third and final chapter of our 5-year plan, the scale up phase where we secure profitability. This means scaling up volume to drive operating leverage, drive operating efficiencies and in the end, secure profits with high capital efficiency. This is the phase we will now go through from now until the end of 2025.

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Our 2025 targets remain unchanged. We target NOK 4-5 billion in revenue and to achieve breakeven in 2025. For this year, 2024, we target to grow revenue by at least 50% and we target a significant year-over-year improvement in EBITDA margin. We see 2024 as an important step on the way to 2025, which is the end of the line for the 5-year plan, we went to market with in 2020. It doesn't stop there, of course. On the contrary, we see a market that becomes increasingly attractive after 2025 when more mobility and infrastructure applications will reach maturity, and we believe that by then, with a proven business model, we will have a strong and very competitive platform that will put us in pole position to capture the most attractive growth opportunities in the second half of the decade, but right now we have laser focus on reaching our 2025 targets.

We get a lot of questions on how we are going to manage to reach our 2025 targets and I meet a lot of skepticism towards our ability to reach NOK 4-5 billion in revenue in two years' time, particularly since we only delivered north of NOK 1.3 billion in revenue for 2023. That seems like a pretty big leap and the growth in the order book does not seem to support it, and fair enough, this is a big leap yet we remain confident in our ability to get there. So we put together a few pages to detail and explain why our confidence remains high and how we believe that we're going to get there.

So looking at 2024, hydrogen infrastructure will be the main growth driver following the expansion of the Weeze facility where we doubled the distribution module capacity. We won't get the full effect of that in 2024 but we will in 2025, and then in 2024, we will have higher volume in the heavy-duty truck and transit bus areas where we will deliver to several OEM agreements this year and around 15% of the 2024 order backlog is related to transit bus OEMs. And finally, we will start delivering on the Hino and Daimler programs at the tail end of the year, albeit in relatively small volumes right from the start, but then in 2025, we will have the first year of full capacity utilization in Weeze and Kassel following the ramp up, which will enable us to deliver more product into a market where we are not currently able to fully satisfy demand.

We still expect modest additional growth in the heavy-duty truck and transit bus space, but the big leap is the scale up and the delivery to the Hino and Daimler programs, which has significantly higher volume in 2025 than in 2024.

Our backlog coverage remains high, although it may not appear so from a pure number's perspective. However, it's important to note that the order backlog dynamics in the infrastructure and the mobility segments are different. On the infrastructure side, where capacity has been constrained, customers have put in orders early to secure build slots. So there, we typically get firm purchase orders up to 9 months ahead of delivery. However, in the mobility space, OEMs will usually put in firm purchase orders 6 to 12 weeks ahead of delivery. That's a typical call off order from a long-term agreement, and that means that as mobility becomes a larger part of our business, the backlog coverage will decrease, but it's not a sign of lower customer demand. It's rather a normal dynamic driven by the higher share of revenue coming from mobility.

We have a strong order book for 2024, roughly equal in size to the revenue achieved in 2023. That's a solid order book to start the year with, but the majority of it consists of infrastructure orders. The order book statistic is still valuable though, but as the mix shifts more towards OEM business driven off of long-term agreements, the order book statistic will become less predictive as revenue visibility tool compared to previous years. So how do we get from where we are today to breakeven in 2025? Well, right now we already have two mature businesses that generate positive EBITDA margins, the infrastructure business in Weeze and the hydrogen cylinder business in Westminster in North America. And with significant additional capacity coming online in Weeze, this business will continue to grow profitably in the next two years, and the new cylinder facility in Kassel is also expected to contribute strongly towards profitability once that is ramped up. And then we have the battery systems and vehicle integration business which is not generating any meaningful revenue at the moment. Yet we are carrying significant costs in Kelowna and Dallas to prepare the facilities for the Hino and Daimler program deliveries. So naturally, this is an EBITDA negative business at the moment. However, we will generate significant revenue in 2025 as we deliver to those programs.

Looking at it in a slightly different way. The hydrogen business in Europe and North America where we generate the majority of our revenue today, we have strong profitability and expect to see further margin accretion as the Kassel and Weeze expansions ramp up, which we expect to happen by the end of 2024. This will be profitable already in 2024. Then we have the battery systems and vehicle integration business in North America, which is not generating again any meaningful revenue now and this is EBITDA negative. That will start generating revenue in Q4 this year but then have a full year of revenue in 2025 and we also have the China JV where the factory approval and cylinder certification process is currently underway. So this is also all costs and no revenue at this point. However, in 2025, this will also start to generate revenue. And if we look at it from a P& L perspective, we are generating positive gross margins in 2023. So the business that we do is good business. However, we carry significant indirect cost and SG&A for which there is limited revenue at the moment.

Moving towards 2025, we will start generating revenue from our facilities under construction and we will see two main effects. One is that we get higher operating leverage from scale effects, much higher utilization of the fixed cost base and the second is that we get efficiency effects from a more effective manufacturing setup and the better portfolio mix. This will improve the contribution margin and the gross margin and it will significantly improve the SG&A utilization and this is why we are so confident that we will achieve breakeven in 2025, and please remember 2025 is not the end stage for us, it's just the first significant milestone on the way. As we improve further in the years ahead, we're confident that we can bring this business to stable double digit EBITDA margins.

We are now laser focused on getting to profitability with minimal capital spend. The priorities in our playbook for the coming two years is to maximize capacity utilization of the footprint we're now building, drive operational excellence in our manufacturing processes and minimize capital spend beyond what is necessary to complete the remaining parts of the current expansion program.

So we got industry leading technology. We're well set up with customer agreements. We've got large new capacity coming online, we've got a good execution track record and solid backing from strategic partners. Our plan is sound and solid and we have so far executed well according to that plan. My confidence in our ability to reach our 2025 targets remain high.

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So that concludes our presentation for today and we will now open it up for Q&A. Eli?

Question-and-Answer Session

Q - Eli Turander

Okay. The first question is from Helene Brondbo for Salman. What will you do to optimize your working capital position after the high binding in 2023? and how much do you think you can release slash avoid, to build further up from your measures?

Salman Alam

Thank you. I think generally, working capital was a big investment item for us in 2022 and 2023 to facilitate the growth that we've - that we've been seeing. The growth will continue. So we will also continue to invest in working capital because we need that to continue to grow the top line as significantly as we as we need to. I think if you look at the main components of working capital, inventory accounts receivable, accounts payables, I think what we'll obviously look to do is to be mindful of inventory management and have strong focus on managing that in a prudent way. And the two other levers is obviously to have good terms with our customers, good terms with our suppliers and optimize that position. I think going forward, we're, we will invest in working capital, but we will try to optimize our working capital investments as much as we can.

Eli Turander

Thank you. And another question from Helena. Could you provide some more color on your Capex expectations related to your 2025 targets? And it would be particularly good to get more details on the plan Capex for the vehicle integration facility in Dallas.

Salman Alam

Yeah. So I think we mentioned, something on that during the presentation as well. So, we see that about - given some of the spillovers we had from 2023 into 2024, we have about 30% of the NOK 1 billion Capex program remaining, this year. That's to complete all the facility construction, take delivery of all the final production equipment. On top of that, we're planning to invest about NOK 20 million in the vehicle integration facility in Dallas. That's to bring it up to speed to deliver on the first phase of the Hino and Daimler programs. So we'll look to spend that in 2024 to be ready for starter production towards the end of the year.

Eli Turander

And a few questions related to China. When will the factory in China go in to production? And, how much impact will the China factory have on the communicated revenue for 2024 and 2025?

Morten Holum

Yeah. So we're in the middle right now of receiving the equipment. So we had late equipment deliveries to Kassel as I talked about. So that same pieces of equipment is also being installed in China. So some of that equipment is also coming late. We are now about to put all of these pieces together, we will spend the majority of this year, I think to validate and get factory approval and to get cylinder certification. So I don't expect a lot of revenue from the China facility this year. Next year we have made careful assumptions as to what we expect out of China and in the 2025 targets as we just showed on the screen, there isn't a lot of China volume in, so this is definitely an upside to - to the forecast that we have put up there.

Eli Turander

And how much money did you already spend on the China JV and factory?

Salman Alam

Yes, maybe I can answer that. I think we've, generally, what we can say on the on the Capex, progress in China is that it's on track with what we had assumed back in 2022, when we launched the program. There will be, more investments taken in China this year and partly also some investments in 2025 as part of the capacity expansion program, but mainly this year. And so generally, we are on track with what we had envisaged for China.

Eli Turander

Thank you. And a question from Elliot Jones. Could you please give some color on your addressable market for existing hydrogen today i.e. tons of h2 being transported. And also, how this existing hydrogen market will develop over time.?

Salman Alam

Yeah, so I think we, a few years back, we put addressable market numbers out there following a deep market study that we did. If you compare that - those numbers to what we're seeing today, I think you see that the infrastructure part of the business is growing a lot quicker than what we foresaw. The mobility business, is, of course, developing slower. So that's been the shift over the past years in this segment. And then when you look at the addressable market for hydrogen distribution is actually several things going on at the same time. If you start with the current market that's already there, the main part of it is that we now have a technology that's better than the incumbent technology. So we're kind of growing into a market that's already there. Then you have industries that are starting to utilize hydrogen, either gray hydrogen or green hydrogen to replace fossil fuel sources. Some are starting with gray, waiting for green so that it's easy to slot in once they get green molecules available. And of course, the third piece of growth is all of the new green hydrogen players and a lot of that related to industry, but some also related to the build out of stations. We're in the process of doing some work now on the expectations for the years ahead. So I don't have any specific figures that I can share at this point, but we will come back to this at a later time.

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Eli Turander

And a question for you Morten. Can the maritime or aerospace business get bigger than the vehicle mobility business in the future and can you elaborate a little bit more on these three segments and possible growth rates?

Morten Holum

Yeah. So It's early stage, right, but if you look at the aerospace business and particularly the space business, it's not - there are limits to how many spacecraft you can send up into space, but that's a good business. It's growing. There's a lot more commercial space activity going on and that's a very solid and profitable business. It will remain, you know, a niche business for all practical purposes. Then you have just, you know, airplanes type thing where we see that there are programs ongoing for the more short-haul type, up to 20, 30-seater planes and so forth, which is a possibility and there are people that believe in that and that work on these sorts of programs, likely not the transcontinental type routes, but the smaller type of aircraft. It's hard to tell how big that market could be. We certainly we'll know more about this as we get further out in time, but now it's very difficult to assess how big that could be.

When you look at mobility, we think that there are some segments within mobility which will dominate when it comes to hydrogen use. So particularly those applications where batteries don't work very well. Things that carry a lot of weight over long distances and that need more or less continuous operation. So I think in heavy duty trucking, part of the transit bus segment, those are typical mobility segments where I think hydrogen will make a lot of sense as the first type of applications to scale up. Later on you can see it being used when you have refueling stations, all over the place and that's been - that's been build up, you could foresee that it's being used in more Applications simply because of the ease of fueling. But that - that is further out in time. So we don't spend a lot of time on that now.

Maritime is very interesting because you have a lot of energy use on board and maritime is a pretty broad area in terms of what you need to cover. It's much broader than mobility, but we have been looking at what technologies is suitable for which kind of vessels, and you have some of the real short haul is utilizing batteries at the moment and that has taken a lot of the – the really short haul type traffic. When you move when batteries no longer work either because you can't get enough energy stored on the vessel or because you don't have time to charge it, then hydrogen takes over for a number of applicable vessel classes. So you talk, you know, short haul passenger traffic, point-to-point merchant vessels along the coast, service vessels for oil and gas, for aquaculture, for offshore wind, and things like inland river transport, which there's a lot of that in Europe. We see those areas or those vessels as perfect for gaseous hydrogen. It's not the ocean-going deep-sea type vessels. It's more that class in the middle and that could become a very big market, and in terms of the number of kilos you need to store on board, it's sizable. So, but I think we - it's too early now to say what 2030 or 2035 will look like. We see that there are interesting things going on. We will deliver two hydrogen fuel systems for maritime vessels this year and so we take that as it comes and we're well set up to accelerate in the maritime area should that turn out to be a very large opportunity for us because we're really taking technology we are using on the ground today on road, modifying it and adapting it to the maritime environment. So well positioned.

Eli Turander

Thank you. And just a few more clarification questions on China. What's the revenue capacity of China facility at full utilization? And how much will you invested in the China factory in total by the end of 2024.

Salman Alam

Yeah. So I think generally the way to think about, the revenue capacity, out of the China facility, is that the production equipment we're installing in China from hydrogen cylinder production perspective is actually very similar to what we're installing in in Germany, as well Kassel. So the output is expected to be similar. And then, it depends on what kind of price you apply. You know, the Chinese market is for now not a – type-4 isn't very prevalent in the Chinese market. So I think that dynamic remains to be seen. But in terms of units and volumes, we expect a similar capacity to what we're installing in Germany. Then in terms of investments, I think going back to April 2022 during our Capital Markets Day where we showed how much the different sites was expected to contribute to that NOK 1 billion in Capex, I think China was about 30%. So I think once everything is done and dusted in China, I don't think we're too far off that approximately NOK 300 million mark in China.

Eli Turander

Okay. And Elliot Jones asked, could you provide further Capex guidance beyond 2024.

Salman Alam

I think when you look - when thinking about Capex beyond 2024, it does depend on how fast you want to go. We have we have certain commitments that we that we need to need to tend to. But I think as Morten mentioned as well during the presentation today, there is an ambition for us to focus on maximizing capacity utilization, operational excellence and also to minimize capital spend in the next years. So I think the Capex outlook beyond 2024 really does depend on how aggressive we are in pursuing, the growth opportunities that are out there. But as mentioned, we do want to be restrictive on that.

Morten Holum

I think just maybe as an additional comment. Right? if given what we see happening on the demand side, I think, had we had a capital environment like we had back in 2021, we would have already now started to prepare a next investment wave for hydrogen cylinders. We are not doing that, because we are in the capital environment, we're in and that means that right now, our focus is to demonstrate that we get to profitability with the capacity that we have. And it means that after we have finalized this investment program, which for you know, will be finalized this year, there aren't any major Capex items that we expect to tender for extra growth in 2026 and 2027 for now.

Eli Turander

Thank you. Another question from Elliot. When will the Hino and Daimler first deliveries be and at what volume?

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Salman Alam

Yeah. So I think the ramp up of the - 2024 will be a ramp up year for Hino and Daimler. So, we are currently ramping up the battery module line in Kelowna in Canada. Starting to produce battery modules there for test and validation purposes. The Dallas facility is currently being, we've gone through a process now over the past couple of months where we scoped out the requirements for that building and what exactly do we need to install in terms of improvements, in terms of equipment, that process has now started, and we intend to finish those improvements by the third quarter of this year. So I think we will probably be looking at our first deliveries on those programs towards the very end of Q3 or the beginning of beginning of Q4. The volumes in 2024 - as said, it's ramp up here, starting late in the year. So the volumes are limited in 2024 but then we expect the full year of production in in 2025.

Eli Turander

Okay. One last question from Alex Sanchez. Are you seeing competitors with similar technology as yours coming in the market and what you're doing to stay ahead of the competition?

Morten Holum

Yeah, so we have competitors naturally in this market and there are many that want to compete for the customers. I think that this healthy, we need competition and the market - any market that's going to thrive needs healthy competition. We are so far considering to be quite a bit ahead of the pack, in terms of technology, but there are large companies, large tier 1 players, a couple of French ones, FORVIA, Plastic Omnium, they are also investing significantly into this, and they will be good competitors, I expect, in this market. We're confident in what we're doing. We're confident that 60 years of track record that we have in this business, our vast knowledge, in not just the technology, but in the manufacturing of it, that we will be able to stay ahead of the curve.

Eli Turander

Thank you, Morten and Salman. That wraps up the questions for today. 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 from Oslo.

**Load-Date:** February 13, 2024

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