

# **Hyliion Holdings Corp. (HYLN) Q1 2024 Earnings Call Transcript**

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**Body**

Hyliion Holdings Corp. (HYLN)

Q1 2024 Earnings Conference Call

May 1, 2024, 11:00 am ET

Company Participants

Greg Standley - CAO

Thomas Healy - CEO

Jon Panzer - CFO

Conference Call Participants

Presentation

Operator

Thank you for standing by. My name is Marvalu and I will be your conference operator today. At this time, I would like to welcome everyone to the Hyliion Holdings First Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions].

Thank you. I would now like to turn the call over to Greg Standley, Chief Accounting Officer. Please go ahead.

Greg Standley

Thank you, and good morning, everyone. Welcome to Hyliion Holdings first quarter 2024 earnings conference call. On the call today are Thomas Healy, our Chief Executive Officer; and Jon Panzer, our Chief Financial Officer.

A slide presentation accompanies this conference call and is available on Hyliion Investor Relations website at investors.hyliion.com.

Please note that during today's call, we will make certain forward-looking statements regarding the company's business outlook. Forward-looking statements are predictions, projections and other statements about anticipated events that are based on current expectations and assumptions, as such, are subject to risks and uncertainties.

Many factors could cause actual results to differ materially from forward-looking statements made on this call. For more information on both factors that may cause the company's results to differ materially from such forward-looking statements, please refer to our presentation and press release as well as our filings with the Securities and Exchange Commission. You are cautioned not to put undue reliance on forward-looking statements, and we undertake no duty to update this information unless required by applicable law.

Thank you. And now, I will turn the call over to Thomas.

Thomas Healy

Hello, and welcome to Hyliion's first quarter 2024 earnings call. On today's call, I am joined by our Chief Financial Officer, Jon Panzer.

Over this past quarter, we have been primarily focused on and have made great progress towards our shift to the KARNO generator. I am pleased to share that we were able to achieve some critical milestones over the past few months that keep us on track with our previously shared timeline. We also remain on track with our previously communicated guidance of $40 million to $50 million of capital spend this year. This past quarter, we expanded our customer base and continued to build a backlog of orders for the KARNO generator. I'll cover this in more detail on today's call as well as share highlights around the product development, target markets, and an update on our operational plans.

I'd like to start the call off discussing our customer interest in growing order backlog. This week, we are pleased to announce that we have executed a non-binding LOI with H2 Energy for the adoption of up to 10 KARNO generator that can produce approximately 2 megawatts in aggregate. H2 Energy, a subsidiary of Victory Clean Energy is a producer of green hydrogen. They plan to deploy their first 5 units in the second half of 2025 to provide power to one of their production sites. They also plan to utilize the excess heat from the KARNO generator, offering combined heat and power solutions to improve the efficiencies of their manufacturing process. Upon successful deployment of these first 5 units, H2 Energy has the option for an additional 5 KARNO generators that could produce another megawatt of power.

I'd now like to spend a few minutes talking about the market landscape that we are addressing with the KARNO generator. As we are engaging in customer discussions, we've identified four target markets that will be first for adoption.

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The first is EV charging, which includes both stationary and mobile chargers. With EV charging, we are often addressing the need for more power than is currently available at the desired timeline by the utility.

The second market is utilizing waste gas from locations such as landfills, digesters, and oil and gas sites. In this market, we are using gas that otherwise would have been flared or wasted to produce electricity as the byproduct.

The third and also broadest category is prime power. This includes commercial buildings, industrial applications, microgrids and data centers. In these applications, the customer interest is often focused on being able to produce electricity at a lower cost than they can source it from the utility.

Lastly, our fourth bucket is mobility applications such as marine. With marine applications, the unique performance of the KARNO generator, including its high efficiency, low noise and low maintenance is a significant advantage over incumbent engines. I am pleased to share that we have ongoing discussions with interested companies in all of these target market opportunities.

In the presentation accompanying this call, we have included a slide that highlights that in addition to H2 Energy and the previously announced LOIs, we have also executed additional customer LOIs or adoption agreements across other markets.

We have identified anticipated customers for all of the units we plan to ship this year and are now creating a backlog for 2025. At this time, some customers have asked that we do not disclose our planned deployment until we have the units in their operations. However, you can see that we have secured agreements for over half of our initial target markets.

I'd now like to transition to recapping our KARNO showcase event that we hosted in early April at our Cincinnati, Ohio R&D facility. Attendees included customers, business partners and other stakeholders. At the event, we were able to explain how the KARNO generator works, show additive manufacturing machines actively printing our production intent parts, demonstrate the KARNO reactor operating on hydrogen, and lastly, showcase the generator running on the DINO. We had a great turnout for the event and appreciate all those who attended. We have since posted some videos from the event on our YouTube channel as well as presentations on our website for those who are interested.

In addition to making great progress with customers this past quarter, we have also secured a partnership that I'd like to highlight. Hyliion is partnering with BayoTech, a leading producer of hydrogen production hubs in highly efficient high-pressure transport trailers and storage units aiming to ensure a reliable hydrogen supply chain for our customers. With the KARNO generators ability to operate on hydrogen, we saw this as a natural collaboration where we can jointly offer customers a combined hydrogen and electricity producing solution. This partnership will allow Hyliion and BayoTech to introduce each company's innovative products to each other's customers.

I'd now like to cover a few updates on our timing plans as well as our production roadmap. We remain on track with the timing plans that we have previously communicated. This includes beginning to ship units to customers later this year and starting to scale and ramp production next year. As we shared on our last earnings call, we expect to deploy units to generate in the low-double-digit millions of dollars' worth of revenue next year. We continued validation of the KARNO generator technology, have been printing additive parts and are starting to test the components of the beta KARNO generator.

The beta units are intended to be our production design that we'll be shipping to customers later this year. We remain on track for completing our beta component design and development this quarter as we previously shared. We are at a stage today where the major components of the beta generator have been designed and released. The additive manufacturing parts are being produced and subsystems of the generator are being tested.

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In the third quarter, we expect to begin testing the beta generator on the DINO and preparing it for field deployments. At this time, we are pleased with the development of the generator as it's going well, and we expect to begin customer deliveries in just a couple of quarters.

With regard to current production and production planning, we have additive printer machines in Ohio that have begun printing components for the beta generators, as I mentioned earlier. Our plan is that Ohio will be an R&D facility and Austin will be a manufacturing and assembly facility.

We recently just received our first set of printers in Austin, and we are currently working to commission these machines and anticipate increasing our production capacity by the end of 2024. As we progress into 2025 and 2026, our plan is to continue to deploy additional additive machines in our Austin headquarters. Our facility is 120,000 square feet, which gives us ample space for printing capacity for the years ahead.

I'd now like to hand the call over to Jon to cover some financial updates from the quarter.

Jon Panzer

Thank you, Thomas, and good morning, everyone.

Operating expenses for the first quarter were $19 million compared to $31.9 million in the first quarter of 2023. The decrease in expenses is entirely related to the shutdown of our powertrain business, partly offset by an increase in KARNO spending this year. In the first quarter, we recorded $4.4 million of exit and termination expenses related to the shutdown of powertrain. This includes payments made for trucks and other powertrain components received in the quarter, net of expected asset sale recoveries, the write-down of certain assets to fair market value and severance costs. Exit and termination expenses were partly offset by powertrain asset sale proceeds of $600,000 that we realized during the quarter.

Excluding all powertrain-related expenses in the first quarter, expenses for KARNO research and development and SG&A were $14.6 million. With the close of the first quarter, we expect that powertrain shutdown expenses will be minimal and that most of our future expenses will be related directly to our KARNO generator business.

Interest income for the first quarter was $3.4 million and was approximately flat compared to 2023 due to higher interest rates being approximately offset by a lower investment balance compared to last year.

Our total net loss for the first quarter was $15.6 million compared to $28.8 million in the first quarter of 2023, with the decrease again being entirely related to the shutdown of our powertrain business.

During the first quarter, we repurchased 8.7 million shares of stock for $11.3 million as part of the $20 million share repurchase program we announced late in 2023. The average purchase price per share was $1.30. Going forward, we expect our share repurchases will be more opportunistic targeting a greater rate of share purchases if our stock price is lower and a slower rate when it strengthens.

Turning to our cash position. We closed out 2023 with $299 million of cash and investments on our balance sheet, including restricted cash designated for the payment of powertrain assets received in 2024. We ended the first quarter with $264 million of cash and investments indicating cash expenditures of $35 million during the quarter. Breaking down our uses of cash, in addition to the $11.3 million spent on share repurchases, we spent approximately $10.5 million on powertrain shutdown activities. This includes expenses we incurred and paid during the first quarter as well as powertrain expenses that were accrued in 2023, but paid in 2024. We received $600,000 from asset sales in the quarter that were also related to our former powertrain business. The remaining $14.1 million of cash used in the quarter was related to KARNO expenses and capital expenditures.

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Looking ahead for the remainder of this year, we anticipate that powertrain-related operating expenses will be negligible and that cash payments will be in the low-single-digit millions of dollars. Furthermore, we will continue powertrain asset sales throughout the year. We maintain our earlier projection that total powertrain cash expenditures and asset sale proceeds will be approximately equal when measured from the beginning of this year, although certain asset sales may extend into 2025.

We expect that total cash expenditures for our KARNO generator business in 2024 will be on the high end of our earlier estimate of $40 million to $50 million. This higher estimate reflects a more rapid ramp-up in additive printer growth investments that Thomas referenced earlier. As a reminder, our cash forecast includes operating expenses, capital spending, and interest income but excludes cash spent for share repurchases, cash expenditures for powertrain shutdown activities and asset sale proceeds.

We expect to begin deploying KARNO generator units to customers in late 2024. While these are expected to be paid deployments, the timing of the payments remains uncertain due to the varying nature of the initial deployment agreements, certification and permitting of the generators as well as operating performance criteria.

We are maintaining our 2025 guidance that we expect to ramp up KARNO generator deliveries and revenue with total sales in the low-double-digit millions of dollars and gross margin that is approximately break-even to slightly negative. Beyond 2025, we don't yet have an estimate for volume, revenue or gross margin.

Finally, we expect that the capital we have on hand today will be sufficient for the foreseeable future, including commercialization of KARNO generator sales.

Now, I'll turn the call back over to Thomas.

Thomas Healy

Thank you, Jon.

Before transitioning over to Q&A, I'd like to share a quick recap of the quarter. As you heard today, we've made significant progress in both the development of the generator as well as growing our customer pipeline. We are confident in the interest we have secured so far and believe we have great partners in place to deploy these early adopter units. The next couple of quarters will be focused on continuing to grow backlog for 2025 as we get ready to ship our initial units.

I'd now like to open the call for Q&A.

Question-and-Answer Session

Operator

There are no questions at this time. I will now turn the conference back over to Thomas Healy, Chief Executive Officer.

Thomas Healy

Thank you, everyone, for joining our Q1 2024 earnings call.

As you heard on today's call, we made a lot of progress both on the customer front as well as on the development of the KARNO generator. And the organization at this time is really focused on the major milestone of this year of getting units out into customers' hands as we approach the next couple of quarters here.

So thank you all for joining and we look forward to sharing another update next quarter.

Operator

This concludes today's conference call. You may now disconnect.

**Load-Date:** May 1, 2024

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