

# **ITM Power Plc (ITMPF) Q2 2024 Earnings Call Transcript**

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**Body**

ITM Power Plc (ITMPF)

Q2 2024 Results Conference Call

January 31, 2024 04:00 AM ET

Company Participants

Dennis Schulz - Chief Executive Officer

Andy Allen - Chief Financial Officer

Justin Scarborough - Head of Investor Relations

Simon Bourne - Chief Technology Officer

Presentation

Operator

Good morning, and welcome to the ITM Power plc Investor Presentation. [Operator Instructions] The company may not be in a position to answer every question received during the meeting itself. However, the company can review all questions submitted today and we'll publish responses where it's appropriate to do so.

Before we begin, we'd like to submit the following poll. I'd now like to hand you over to Dennis Schulz, CEO. Good morning.

Dennis Schulz

Good morning, ladies and gentlemen, and welcome to our capital market update. In today's presentation, we want to cover 4 topics. Our 12-month plan, ITM's new vision and value statement and update on the market and on our strategic priorities, our half year 1 financial results and our improved full year guidance. Exactly 1 year ago today, we started our 12-month plan to make ITM a stronger, more focused and more capable company. We promised to concentrate on a narrowed product portfolio for standardization and volume manufacturing.

We set out to improve capital discipline by a stringent cost reduction program in the short term and by introducing professional processes for the future. We aimed at debottlenecking fabrication and testing and investing into the automation of several manufacturing steps. And we walk the talk. Today, I am delighted to announce the successful on-time completion of our plan. It's impressive what we've achieved in just 12 months. To highlight just a few of the total more than 180 distinct improvements.

We have rationalized our portfolio, seizing the production and support of older generation technologies. We have reduced the number of product variants by 75%. We have translated the world's leading PEM technology into volume products. We launched our 20-megawatt Poseidon module to address the market for larger plants whilst reducing complexity for integrators who seek to work with our technology.

The release of our hybrid stack makes available our state-of-the-art trident technology to customers operating older generation electrolyzers, offering them a material efficiency improvement of 10%. And we have substantially enlarged our product compliance reach and pursued an asset-light market entry into the U.S. We achieved a significant cost reduction and fundamentally tightened the rigor applied to capital spend. We reduced headcount by over 30%, whilst professionalizing our engineering capabilities and processes, especially with regards to design freezes to operate in unison with other areas of the company such as procurement and manufacturing. We have also put in place a more robust quality and process management system and strengthen compliance and validation.

Our strict quality over quantity policy has driven down failure rates in production. We have visibly improved our project performance and delivery credibility, which is being acknowledged by our customers. The sale of our 50% share in our joint venture motor fuels freed up GBP 28 million of previously ring-fenced capital, which we directed back to our core business. We have also achieved the planned progress in automation of a number of manufacturing steps. This has enabled enhanced bit quality and consistency along with shortened build times and reduced manufacturing costs. We will, of course, continue to introduce automation in a controlled way after new equipment has been validated.

Over the past year, we increased our testing capacity, a previous bottleneck of ITM and expanded our facilities in Sheffield. The development of the new site will also allow us to optimize our factory layout for stack manufacturing automation and serial production. It provides increased fabrication space for higher stack volumes allowing us to grow output in line with commercial projects. This scale up also necessitates the active management of our supply chain. Throughout the year, we have announced strategic collaborations with market-leading suppliers such as [GOR, MOD and Frame] for essential materials and components of our products.

This adds to our delivery credibility, which is becoming more and more important as stack volumes grow. In October, we officially opened the all-new ITM Power Germany in Linden, north of Frankfurt. The facility will ensure that our state-of-the-art stacks are ready for quick deployment as after sales spares. This allows us to minimize response time to our customers, which in turn maximizes the value our customers can derive from the use of our products. ITM Power Germany will also be home to functions such as business development industrial IoT, and it will offer facilities for repair and maintenance as well as for training of customers and partners.

As we scale our operations, we are gearing up for an increasing degree of local content creation in the European Union. This is our state-of-the-art product portfolio today. Our market-leading 2-megawatt stack platform Trident sits at the heart of our products. It is the stack in which the electrochemical metric cabins splitting water into hydrogen and oxygen. Trident forms the basis of our 2-megawatt Neptune unit, our autonomous plug-and-play electrolyzer and of our 20-megawatt core electrolysis process module Poseidon. This offering is perfectly tailored to meet today's commercial demand.

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The new ITM is all about keeping it real. And therefore, here are some impressions of real projects. On the left, you can see how production and delivery against the 200-megawatt plant looks like in industrial reality. By the way, the world's largest PEM electrolyzer in built today. Our Trident skids are being packaged and shipped to Italy, where they are then installed into 10-megawatt standard modules by Linden engineering.

From there, these modules are then making their way to Germany to RWE site in Lingen.

On the right, you see our Cube and Trident equipment installed on customer side for our 24-megawatt project in Norway, being the world's first green hydrogen for green ammonia plant. The new IDM also needed a refreshed vision and more targeted values, putting in towards what we are striving for. From today, this sets the new bar for ITM with safety at the heart of everything we do, innovation in our DNA, superior technology, precision manufacturing, integrity and respect.

We deliver the world's best electrolyzers, scale our operations profitably to meet the rising demand, grow our global footprint and reach challenge ourselves to become better than yesterday every day. To help customers decarbonize the operations, drive sustainable change within industry, government and society, accelerate the world's transition to net 0 and increased shareholder value.

Let's take a look at the long-term rationale for hydrogen. The pathway to net 0 is a challenge that is unparalleled in scale and complexity, but also an unparalleled opportunity. Today, there's broad consensus that in hydrogen is a key enabler for the energy transition. This relates to grid balancing and to the decarbonization, particularly of hard to bat sectors, which account for circa 30% of global emissions, such as steel heavy-duty transport, chemicals, shipping and aviation.

By 2050, it is estimated that hydrogen and derivatives will meet a sizable share of the energy demand equating to approximately 15% to 20% of the energy mix. With 90% of global electricity expansion expected to be renewables in the next 5 years, for example. This would require 613 million tons of annual clean hydrogen production with two thirds of this number expected to be green hydrogen. To put this into perspective, today, the world is producing just 0.7 million tonnes of clean hydrogen each year. Five terawatt of electrolyzer capacity are required by 2050, meaning an average of around 160 gigawatts of electrolyzers installed per year.

With a few gigawatts in the short term, followed by an exponential acceleration thereafter. To be fair, I'm personally not a big fan of long-term predictions, but in this case, does it really matter whether you or I believe in it being 400 million, 600 million or 800 million tons by 2050. In any case, this will become a massive market. which is also demonstrated by the early and significant investments into infrastructure around transport and storage by governments all around the world. Targeted funding programs and alliances between nations aim to stimulate and kickstart across border hydrogen economy.

The European Union and the U.S. foresee more than GBP 700 billion of investments into their markets alone by 2050. As such, the outlook for green hydrogen remains excellent.

Let's take a quick look at the U.K. market, which has been lagging behind the European Union for quite a while, but which is an organic traction. The U.K. government's hydrogen allocation round short have mechanism to kickstart the green hydrogen economy in the U.K. has the ambition of 1 gigawatt of electrolyzer capacity in operation or in construction by 2025 and 5 gigawatt by 2030.

The first of in total 7 plant allocation rounds concluded project selection at the end of 2023, providing GBP 90 million of CapEx funding and an impressive GBP 2 billion of future revenue support for 125-megawatt output across 11 projects. [Hart] 2, the second round, earmarks up to 875 megawatts half 3 and half 4 up to 750-megawatt each and so on. I think it goes without saying that ITM being the only commercial electrolyzer manufacturer in the U.K. is obviously best positioned to supply into these projects.

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This is maximizing the economic benefit we can derive from taxpayer money. We, ITM, are committed to grow the U.K. hydrogen economy and to create hundreds of jobs in the country.

It was certainly no coincidence, but an acknowledgment of our great economic potential that Jeremy Hunt, [Center of the checker] those ITMs premises for his public announcement in November last year. From our factory, he launched the Green Industries growth accelerator, short Giga scheme foreseeing GBP 960 million of funding for the manufacturing of clean energy technologies, including electrolyzers.

In the short term, the electrolyzer market is still immature though, with lots of noise, but only few OEMs and technologies credible for commercial deployment. A year ago, I predicted our competitors to experience issues while ITM chose to proactively slow down to firm up our foundation. As competitors are now indeed facing challenges, we have emerged stronger than ever.

As a side effect of many OEMs now falling short on their promises to customers in real-world projects, customers will continue to require assurance uncertainty around product readiness, technology and delivery performance, all of which are areas in which ITM is now regarded an industry leader. This is being acknowledged by existing and new customers alike.

We have been seeing the number and size of project inquiries increasing significantly. At the same time, peak energy prices, cost of capital and inflation are not helping FIDs right now.

A normalization of these macroeconomic effects will unlock many FIDs, whilst government incentive programs can stimulate market growth and we, of course, welcome that, overly complex schemes or delays in approvals can also slow down project decisions. The good news is that while many projects are developing slower than originally expected, ITM made it on almost every credible project OEM shortlist. And we are not losing projects, which we take seriously.

In summary, the long-term trajectory for green hydrogen remains excellent and unchanged. In the near term, industry scale-up will be incremental, though. momentum will only accelerate over time, but then exponentially. This dynamic market development requires us to get the balance right, implying a need for readiness and flexibility whilst managing cash commitments carefully. Our strategic priorities have to underpin the theme of readiness, flexibility and cash discipline.

And they need to take into account the complex environment we are operating in today as just explained, ranging from a massive long-term opportunity, just waiting to be captured dynamically, but at different speed developing markets. macroeconomic slowing down the acceleration in the near term, with demand not falling away though, but piling up against the unchanged need to decarbonize. This will cause an exponential growth thereafter.

We have therefore defined the following 3 priorities.

First, we will remain at the forefront of technology, product and delivery credibility. We are confident that today, we have the most advanced PEM technology in the market. In order to further widen the gap to competition, we will, of course, keep evolving our technology and products. And we will selectively extend our portfolio to address the emerging needs of the market.

We will be prepared for rapid stack volume scaling, and we further evolve process and manufacturing engineering, procurement services and all other parts of the company. We know, of course, that shaping a successful and resilient business is an ongoing journey.

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Second, we will scale our operations whilst retaining flexibility and conserving cash. This can go hand-in-hand. We will deepen the level of automation, and we will grow capacity in line with commercial projects. Given the EPC time scales of large-scale projects, we can indeed maintain rapid scaling capability even for gigawatt scale endeavors. In an environment with lots of noise, not only on the OEM side, but also on the project side, it is critical to identify and focus on the credible opportunities in the market.

And then capturing a significant market share through superior product and large-scale delivery performance. Third, we will grow our global footprint and reach while staying adaptable. This requires us to ensure an appropriate setup in all attractive offtake regions. We want to be best positioned and best prepared for a rapid demand uptick wherever it occurs. This critical adaptability as opposed to overcommitting and becoming static can be achieved by pursuing an asset-light product and service first approach. This will also include further expanding our regional product compliance.

ITM is an ambitious company. The market for green hydrogen will be huge, and ITM will become the market leader for PEM electrolyzers. our 12-month plan has transformed ITM into a credible delivery organization. The recently announced paid 100-megawatt capacity reservation from Shell Germany as a repeat customer is yet another testament to this.

We will continue to remain agile and adaptable, which will turn out to be a key differentiator considering the development time lines for large-scale projects. Over the last couple of months, I was more than once asked whether ITM is somehow losing out on selling compared to others.

Well, to answer that question, let us take a look at some market data. This may also give you some more context on what I mean when I'm speaking of noise versus industrial reality. The numbers on this slide were compiled based on publicly available information relating to the PEM market over the last 12 months.

Of course, it always depends a little bit on where exactly you are drawing the line in terms of vagueness. But -- in this time frame, more than 3 gigawatts of MOUs or other vague forms of collaboration were announced globally in the PEM space. Especially for larger projects, it's not uncommon in the industry to perform a so-called FEED study. Such feeds are proceeding a refined investment decision. Over the last 12 months, 437-megawatt of FEED studies were announced.

As experience shows, not every feed leads to a positive FID for the full project.

Speaking of full projects, 873 megawatts were awarded. Compared to all the noise in the market, this number appears small, but it actually isn't. In reality, this is a steep increase compared to the previous years. A closer look at the awarded or I would also call them the real projects, reveals that 70% by megawatts are being built in Europe. Europe today being by far the most important single market.

The U.S., whilst having great potential following the government's IRA funding scheme contributes together with Canada only 28%. Rest of World, including Australia, 2%. ITM has just started to bid into more world regions. In 2023, though we were basically only bidding into Europe. And there, we have achieved a 33% market share.

The other 67% are CMS Energy, Plug Power, Cummins, Neon, the PEM side, HTec and [Allogene]. As you see in reality, beyond all the noise and shaky announcements out there, ITM is doing quite well on market share. But of course, we have to acknowledge that the market is still young and remains volatile to individual large projects, which can change this picture overnight. Normally, I wouldn't show you snapshots of volatile numbers. But if I'm being asked why the ITM is falling behind on sales, the short answer is no.

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When I joined ITM a bit more than a year ago, this was our global reach from a product compliance perspective, limiting the regions in which we could do sales. Throughout the year, we worked very hard to expand our reach to unlock new world regions offering new opportunities. We have achieved massive progress. Today, our global reach looks like this. This was enabled by the intentional design of our Trident stack platform, which offers unparalleled compliance flexibility.

We can deliver the same stack into all highlighted world regions. This unlocks obvious volume manufacturing advantages, including a consistent supply chain approach.

As the next step, currently in the making, we will add compliance for Australia where our stack is expected to achieve compliance with our design changes as well. With the vast renewable energy potential, the country is emerging as an important market for domestic green hydrogen generation and for export to various world regions. I already mentioned the future evolution and selective expansion of our product portfolio. Just to emphasize it once again, our portfolio today is market-leading and perfectly suited to meet today's commercial demand.

It consists of our 2-megawatt Trident stack platform, offering the highest current density, highest levelized conversion efficiency and lowest precious metals loading on the market worldwide.

This technology sits at the heart of our 2-megawatt plug-and-play container unit, Neptune and our 20-megawatt module Poseidon. To defend our pole position, we will incrementally evolve our Trident stack platform. We will keep introducing design improvements in a controlled manner via formal product releases.

Right now, we are manufacturing Trident Mark IV and will soon progress to Mark V. The same applies to our Neptune container, of which we are currently producing Mark I soon to be succeeded by Mark 2. Poseidon, which is being realized with project-specific integrators will be subject to continuous improvement with every project executed. Let's move on to future portfolio additions, which are currently under development. We have started working on a larger capacity plug-and-play electrolyzer unit to even better address midsized projects.

And even more important, now officially under development is [ Kronos]. Kronos will be our game-changing next-generation higher-capacity future tech stack platform. Sadly, for competition reasons, I can't disclose more today. We will, of course, keep you informed about the progress on both portfolio additions as we are nearing official product launch.

This concludes my part of the presentation. Over to you, Andy, for our financial results and for our full year guidance

Andy Allen

Many thanks, Dennis, and good morning, all. Thank you for joining us. My first slide shows the summary half year financial results for the period ending 31st of October 2023. The revenue for the period was GBP 8.9 million, which marks more than a fourfold increase compared to the GBP 2 million for the same period the year before. Our revenue was driven predominantly by product sales being cube deliveries into Germany and a number of Neptune contracts.

The GBP 8.9 million recognized constitutes an increase compared to our December trading update value of GBP 7.5 million as we concluded a commercial agreement with a customer, which was still under negotiation in December. The losses have improved significantly year-on-year with a gross loss of GBP 8.2 million versus a gross loss of GBP 45 million a year ago. This improvement has been realized through the better management of in-flight contracts with provisions made in the period primarily relating to work with existing customers to use the projects in the field to trial new stacks, being the fastest route to us getting validation on those products.

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In terms of EBITDA, we lost GBP 21 million in the period compared to GBP 54 million the year before. A significant improvement and driven by tighter cost control, particularly after the restructure that was performed in March and April '23 as part of our 12-month plan. The administrative expenses presented in the income statement are net of cost recoveries and have increased period-on-period due to a lower level of cost recovery on project spend, which has been tight to control to avoid previous overspend. And on product development, where we have narrowed the focus on our core products. These costs will be further absorbed as product volume increases in the future.

Our like-for-like overhead cost is, however, lower even though we've been driving skills and capability within the organization over the last 12 months and uplifting the standard that will enable us to be ready for future income generation. There remains a need to stay vigilant to on costs that are not resolved through volume, and we are now scrutinizing these routinely as a business to keep improving our financial performance. It is our aim to become a profitable company.

Let's take a closer look at cash flow in the period. Our opening balance was around GBP 283 million and our closing balance GBP 254 million, a movement of a little less than GBP 29 million. In terms of what contributed to that, the adjusted EBITDA accounts for an outflow of GBP 21 million. We have then had an increase in inventories in the period of GBP 18 million, and I'll come back to that figure. We've then made improvements to working capital of nearly GBP 12 million, namely around getting improved payment terms with suppliers and better chasing outstanding balances from customers.

Beyond that, we have continued to invest in factory automation as we set out to do and are on course to complete our capacity uplift having had to invest less money than previously expected.

The cash utilized in CapEx was predominantly around expanding our testing facility, so putting our money into the next-in-line bottlenecks to free up our factory. In contrast to previous periods, we have spent less money at GBP 1.3 million on new product development, but rather as set out in a 12-month plan a year ago, we have used our time consolidating the existing more narrowed and targeted product portfolio. The final balance relates to interest received, which was GBP 6.7 million in the period. If we turn the spotlight back to inventory, ITM has a significant balance, which has also increased by GBP 18 million in the period.

This increase is driven by 3 factors: The first is delays to customer collection of certain units, so ITM have moved from a position of being almost always on the critical path to starting to exceed the site time lines that customers and integration partners have, resulting in more finished products at ITM Power waiting for collection.

The second driver is that we have selectively brought in products, especially precious metals to control downside risk in volatile markets. What has improved, though, is the processing of our stock, the inventory has largely been processed into finished subsystems and products with the raw materials balance evolving reducing from GBP 36 million at our interim results a year ago to around GBP 9 million in the first half of this year.

The stock balance requires careful focus and remains an opportunity for ITM to further improve our working capital. My final slide shows the evolution of our guidance for the current financial year. And I am pleased to be able to report an improving position with regards to the guidance for our full year financials. Whilst our revenue guidance remains unchanged in terms of EBITDA losses, we have previously guided to a range of between GBP 45 million and GBP 55 million. As year-end is approaching, we are narrowing the guidance to the better end of the range with guidance of GBP 45 million to GBP 50 million.

This includes the planned ramp-up of validation of new products, which is expected to increase our utilities cost and the cost of R&D consumables.

The most significant change is our guidance for the full year CapEx. We had previously committed to increase our capacity within our factory in Sheffield and in doing so, increasing the level of automation while spending between GBP 35 million and GBP 45 million. This figure also included product development. I can report that we are on course to achieve all of our automation and capacity targets for this financial year at much reduced spend. Our new full year guidance will be between GBP 15 million and GBP 25 million spent on CapEx.

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It is important to note that we have managed the business to a lower spend profile here. Our residual CapEx plans, which in the following financial year include the fit-out of the site next door to us remain unchanged. This concludes our presentation. And I'm happy to open for questions.

Question-and-Answer Session

Operator

Thank you very much indeed for your presentation. [Operator Instructions] Due to a number of attendees today, the company may not be in a position to answer every question it receives; however, we'll be able to review all questions and publish responses where it's appropriate to do.

So I'd now like to hand you over to Justin Scarborough of ITM Power to host the Q&A session. Justin. As you can see, we've received a number of throughout today's meeting and presubmitted, -- if I could just ask you to read out the questions where appropriate to do so, and I'll pick up from you at the end.

Justin Scarborough

Thank you, Paul, and good morning, everybody. The first question is for Simon Bourne. Do you have any updates on the collaboration with Gore?

Simon Bourne

Sure. So the collaboration with GOR is a very important one for ITM. And in many ways, it represents a collaboration between 2 market leaders. For those that aren't familiar, Gore are the supplier of choice of proton exchange membranes into the fuel cell industry. And through the collaboration, we're able to benefit from a tremendous amount of technology carryover from their experience and also with a supplier that can scale alongside us.

And in return, Gore benefit from the world-class testing facilities that we've established Investment Park. So it really is a synergistic relationship. Dennis mentioned in the presentation that we'll continue to bring technology improvements to our existing stack platform. And Gore will be very much a part of that work and also supporting us through the development phase of the Cronos stack.

Justin Scarborough

The next question is for Andy. Does ITM have any plans to list on the main market?

Andy Allen

Yes. Thanks, Justin. We do keep our listing under review. But I think it's fair to say that AIM is the right place for ITM at the moment. So the answer is no plans at the current time.

Justin Scarborough

The next question that's come in is, could you please explain why for the current financial year is meaningfully lower than initially expected and are some of these expenses postponed over the following 2 years.

Andy Allen

Yes, that's for me again. So I think we did a lot of work on how we need to look at factory layouts and the machines of automated processes where the bottleneck to get a certain capacity. We've achieved that. We've also tested suppliers very carefully as we've gone out. So this is a real saving.

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There are expansion CapEx plans in FY '25 and beyond, but that is not a deferral. It's the next step in our automation road map.

Justin Scarborough

The next question. In the past, ITM has mentioned about stop having stopped taking orders and focused on enhancing production qualities. Now with the 12-month plan completed, how should we think about revenue growth in the near term?

Andy Allen

Well, we're very active now in the market and see a number of sales opportunities growing. I guess when we look at revenue in the short term, in the accounts at the year-end, we say what our pipeline is in one of the revenue notes. That at April '23 was about GBP 90 million, and we're expecting that to fall over the next financial years. There is space within the factory for us to take new orders. If you look at in the next 1 to 2 years, that's going to be dominated by Neptune orders for the revenue recognition.

A Trident now will be at least 12, 18 months away from revenue recognition and likely the financial year after, but we can certainly take more orders.

Justin Scarborough

You mentioned the next set of strategic priorities, especially around technologies and expansions. I wondered if there are any key milestones that you're hoping to achieve for Dennis.

Dennis Schulz

I think that was basically laid out in our presentation today, what we want to achieve in terms of strategic themes and no particular milestones I would want to add to what we just presented.

Justin Scarborough

Another question for Dennis. Are you involved in projects that were successful in the U.K. HAR 1? And are you involved in projects and bidding into HAR 2?

Dennis Schulz

Yes, indeed, we are. So on Horn contract selection, as I said in the presentation, took place end of last year. And we are now waiting for final investment decisions on some of these projects. I think for some, we are well positioned. And HAR 2, which is the large round.

We are currently in a lot of negotiations and ongoing positive discussions for projects. It's a bit earlier to judge because contract selection hasn't taken place by the government. But I think we are very well positioned for both.

Justin Scarborough

Another question for you, Dennis. Are you seeing inquiries from the U.S. following the clean hydrogen production credit rules or have the stalled the market temporarily?

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Dennis Schulz

I mean, as you saw on the market share slide with the bubble graphs, the U.S. is picking up, but it's taking a bit of time compared to Europe. And most of the real projects happening are still in Europe, which is the U.S. and the U.K. increasingly.

We are engaged in some discussions for the U.S., but I would say in January, projects are more progressed in Europe state than in the U.S.

Justin Scarborough

I think this is probably a good question for Andy. What are you seeing in terms of product bill of material costs currently?

Andy Allen

Yes. This is a good question there. So I guess there's 2 dynamics is the improvements that we're doing internally. And then there's also the impact of the wider markets and inflation in particular. And the improvements we do internally are both design-led, but also simpler stuff like getting better procurement terms, et cetera, et cetera.

So those two are in many ways, balancing out right now. We're not seeing cost increases in the factory. Where we have seen cost increases is on site, and we've spoken about that before. Importantly, we can sell at a competitive margin and be really competitive in the market. So our bill of materials, even now it isn't some involve.

Dennis Schulz

Maybe adding to that, if you know, there were some recent news about some of our competitors increasing prices and we will not face a safe situation. We do not have to increase prices right now.

Justin Scarborough

The next question, the combination of Dennis and Andy. Given you could get some big orders in the gigawatt scale, will you need more cash to deliver these orders?

Dennis Schulz

Yes. So I mean, in principle, projects we signed have a cash positive or, I would say, minimum cash in neutral payment term scheme, which means that normally, you are being paid cash before you spend cash on a project. Of course, this does not relate to all materials. Some of them are bought in bulk volumes, but in instant I think it's not a cash question when it comes to gigawatt projects.

Some customers will certainly need some additional confidence regarding our balance sheet, especially when projects become super large, several gigawatts for which we will then look at bank guarantees.

Andy Allen

I think that's exactly right. So it will require careful profiling of any payment terms to make sure that we are not causing an undue risk to ITM Power, but we are set up in the factory to take those kind of orders.

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Justin Scarborough

Next question for Simon. You've delivered reduced failure rates in production. Are you seeing different dominant failure modes, or is this just an overall decrease in all things?

Simon Bourne

Well, perhaps two things to pick out there, really. I mean, one is that you're absolutely right, a decrease in value rate. And the second thing is to say that there are no surprises in what we see in terms of our stack pass rates. For those that perhaps listen to the last update, we talked in some detail about the processes we've been through, particularly around some of the design reviews and the FMEA processes and also the quality-first approach that we've instilled in the factory. And so what we are seeing now is that all of those issues are under control.

Failure rates are low. We monitor very carefully, and we have stack product that is fit for a volume manufacturer. Of course, we don't sit back and wait. We continue to work and we continue to iterate and we'll be bringing future improvements to the stack platform in a controlled provision in due course.

Justin Scarborough

I suppose a wider question for Dennis. Your aim is to become a profitable company. What kind of annual volume delivery does that ambition assume? And what kind of time line to profitability are you targeting?

Dennis Schulz

I am always not a big fan of promising, something which is a bit out still. I mean I think the trend, which you see in our financials is a good trend. I think we are definitely heading into the right direction. And I think we are also not speaking about a 5-year horizon or anything like that. At the same time, I would not want to commit a date at this point because it's heavily dependent on new orders, obviously, and about the macroeconomic effects, which we discussed.

Other than that, we normally do not disclose volumes and also not volumes, volume price correlation or cost correlation because this would give our competitors the chance to analyze our price structure and adjust their bidding tactics accordingly.

Justin Scarborough

I love one to you, Dennis. Apologies. Could you give an update on the relationship with Linde, please?

Dennis Schulz

Yes. I mean I think the -- I'm not sure if I gave an update last time, but the Linde relationship is developing very positively. There was certainly at the point when I joined ITM in the first half of the year, it was a bit stressed, given the obvious delivery performance issues ITM had a year ago. We are now back in a territory where ITM is no longer on the critical path for most projects. And if I look out to the factory, and we just have a window from our meeting room here.

In the factory, there's a lot of units waiting to be collected, to be picked up. So we are in many projects ahead of our delivery schedule, which is helpful, obviously, for the relationship. Now it's about winning some additional orders together in the market, which we are very actively pursuing right now with incredible customers.

Justin Scarborough

The next question. Could you give us an update as to the status of the 100-megawatt contract with Shell to be deployed in Germany?

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Dennis Schulz

The refined to project. I think it's relating to this one. I mean we signed a capacity reservation deal, which is basically Shell, shares signing up for a certain amount of the contract value in exchange for a capacity reservation slot and previously, we also ordered some material against that. Having said that, we are waiting for a final investment decision by Shell. So I guess the question would have to be directed to Shell a little bit.

The recent news, I think 2 or 3 days ago, there were some news from Shell relating to the Baselink refinery, and these were positive for our project.

Justin Scarborough

Given it's the anniversary of the interim results a year ago today, a question for Dennis. What is your take on your first year at ITM? Was it harder as you imagine? And are you satisfied with the progress that the company has made. It was busy?

Dennis Schulz

It was a lot of work. And to be fair, it didn't come with many surprises because, as I said, when I joined ITM, I did know the company quite well when I joined so there was not much to uncover or anything super negative. It was still a lot of work, which we did over the last year, and you saw on the first slide in our presentation, the many things we achieved as part of our 12-month plan. That was certainly a lot of long evenings. The whole team, the whole ITM Power team was very active in supporting that.

The headcount reduction we did was -- is one of the things you normally don't want to do as the first thing when you join a company, there's not a lot of fun, neither for me or for the broader team and definitely also not for the employees. I think we have emerged much stronger than even we had expected after 1 year. I think we were a bit ahead of plan in terms of our schedule. And when I look at ITM today, we are in a completely different position. It's a completely different company than a year ago.

And if you ask me for my personal opinion on that, it makes me a bit proud, I have to say, because I also invested a lot of time myself. But we cannot stop here, we cannot rest. It's an ongoing journey now to share a resilient business. And I think we are on a great trajectory. I don't know if somebody wants to say something

Andy Allen

[Indiscernible], you've not lost any hairs. It has been a really positive 12 months, a significant amount of heavy shifting and a real change internally within the company you feel that daily. So yes, we recognize there's more to do, but very positive 12 months.

Simon Bourne

What the two gentlemen might right, have said a big effort for the wider team. And being in the company every day, you can see it and feel it, and it's difficult to communicate that in a session like this, but it really is palpable in the place now. And I think the future is bright.

Justin Scarborough

I'll point this question, Andy, first of all, to give Dennis a slight break. Could you elaborate on what you mean exactly by an asset-light strategy?

Andy Allen

Yes, absolutely. I think it's fair to say that we see different markets emerging at different pieces. And what we need to do is make sure that we do not commit wholly in 1 direction when actually opportunities will arise in different areas. So 1 example of that is getting boots on the ground in terms of business development first in a market. Once we have progress with that, something that looks like German aftersales hub might be an intermediary step before significant capital deployment.

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So it's about remaining flexible whilst getting to operate in further markets.

Justin Scarborough

Thank you Andy.

Dennis Schulz

And maybe adding something to that. I mean a lot of our competitors were very loud about announcing big factories all over the world, right, from Australia to the U.S. 5 gigawatt there. And I think nothing has been built so far. Also there, right.

I mean, for me, it's always about creating an anchor demand first. So starting with some projects. And this you can do asset-light if you have a compliant product which we have. I mean you saw our world map with the highlighted world regions where it was very obvious that we have now enlarged our product compliance reach significantly. This means we can deliver into these countries from the U.K. from our current factory and we will do so. And of course, once we create a certain anchor demand, which is then outstripping what we can supply from the U.K., we can then think about building a factory. But then again, over committing too early in anticipation of a market, which is a lot of noise, but hasn't picked up yet like the U.S.

Do I doubt that the U.S. will come No. Is it today? Also no. So it would be too early for us to announce a big factory in the U.S. at this point. But yes, I mean, we are certainly looking at all world regions, and we are reevaluating this on a daily basis basically.

Justin Scarborough

he next question, again, initially towards Andy. It was mentioned that 1 of the reasons that working capital is improved as ITM is getting ahead of customers needing deliveries. Does this imply that some projects are running slower than expected in terms of execution?

Andy Allen

There's quite a lot to unpack there. We don't particularly comment on specific projects, but equally, there are points where ITM are not on a critical path anymore for a certain site work. I think it's your revenue tends towards the very end of a contract delivery program, but the payment milestones happen throughout. So even with no delay, the working capital is managed throughout the life of the contract. The full revenue is recognized. So it's a mix of us managing that more carefully, which has improved the working capital position.

Justin Scarborough

A question, I think, for Simon. Given ITM Power's focus on PEM electrolyzers, how do you view the evolving competitive landscape with the emergence of SOEC and other alternative electrolyzer technologies and what strategies does ITM Power have in place to maintain its competitive edge and market share in the face of these advancements?

Simon Bourne

Okay. I mean, obviously, we continue to look left and right the different technologies in the space. And I firmly believe that technology has the greatest suite of advantages to address the challenges and opportunities that are before us. We have spoken at some length before about key metrics that we use to describe our technology. So current density, highest available efficiency at levelized current density is the highest available and we've also got the lowest reported loading of precious metals.

So I feel that we are in a leading position with respect to the technology, and we are working with the best people available to ensure that we stay ahead.

Over many years, we've built up a lot of capability and test equipment so that we are able to perform a tremendous amount of testing of the core technology in a variety of different scenarios over a long period of time. And that adds to the confidence that we have. We're not complacent. We're continuing to develop. But my firm belief is that PEM is the technology that offers the most opportunity and is commercial now.

Justin Scarborough

A question for Dennis. Could you give some insights in terms of which market segments you believe will be the first to see a scale up in volume requirements?

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Dennis Schulz

As like in customer groups?

Justin Scarborough

Yes.

Dennis Schulz

I mean, in principle, I can repeat what I said last time when a similar question was asked. And we, of course, are happy to say to anyone who wants an electrode either. We see the most active players right now being utility companies, power electricity companies who are proactively investing into doing something with the excess energy they create from with power or solar power, which they cannot feed into the grid directly. I think the next big thing is either small mobility applications or refineries. We also see an increase in green steel discussions, which could lead to very large projects.

I think these are the current main groups of customers.

Justin Scarborough

And on positive time. We've got one further question, which is more of a general question about the U.S. Do ITM have any particular view about a potential change in presidency in America.

Dennis Schulz

I think it's always best to stay away from politics when it comes to businesses. I mean, everybody is aware. I think that the two parties in the U.S. have a different view on green programs. It's very difficult to estimate who's winning an election, of course, and it's not on us to judge.

It will be interesting for the U.S. And maybe 1 other reason why I would not commit a factory in the U.S. as we stand here today.

Justin Scarborough

Another question has come in, which are direct towards Simon. Looking forward, say, 5 to 10 years, do you see any issues in the availability and price of precious metals?

Simon Bourne

That's a good question. We have -- it's an area we've spent a lot of effort on thrifting of precious metals. As I've mentioned, we've got the lowest reported loading precious metals in the market today. And over the last 10 years, we've already reduced our precious metal loading by over 80%. So that's a journey that we continue having developed the core technology around catalyst in-house, we are very well placed to continue to make improvements in that regard.

So we've got a number of initiatives, first of all, thrifting the amount of precious metal that is used in the stack. And the second is about effective recovery at the end of life and regaining value or material through effective recycling processes. And the third is around reuse. So it is something that we need to keep a close watch on. But I believe we are very well placed now, and we're very well placed to continue to extend our lead.

Unidentified Company Representative

Would it be worthwhile to comment a little bit more on why we think it's good to have that in-house the CCM capabilities?

Simon Bourne

Sure. And I mean, I always felt very strongly that the key processes and key technology needed to be in-house. -- so that you are in more control and so that you can continue to make improvements. So we do make our own catalyst inks in-house, we deposit them on to the membrane ourselves. And by having that capability and all the testing facilities we have, we're able to have explore a number of parallel tracks to make very rapid progress to reduce precious metals.

So it's very much under our control. And I think ITM is quite different in that regard to the rest of the electrolyzer community.

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Justin Scarborough

Final question at the moment for Dennis. Some of your competitors are still highlighting supply chain issues in the electrolyzer space. Is it still a dominant issue for PEM and ITM supply chain?

Dennis Schulz

When I joined a year ago, it was also a problem for ITM, and I think I highlighted that in the first capital market update, I gave. This was 1 of the reasons why we significantly strengthened procurement and why we also integrated heavily with some key suppliers, like we discussed about Gore, for example, [indiscernible]. I mean if you want to scale an operation by a factor of hundreds or thousands, right? It's obviously important to also scale together with your suppliers and to anticipate any kind of bottlenecks you could encounter.

And we have done that very deliberately over the last 12 months to focus on our supply chain and to work with suppliers and to reevaluate which parts of the supply chain, we should also bring in-house and what we should leave with suppliers and where we need to go broader in terms of supply base.

But especially the announced collaborations have helped us to unlock bodies, and this is no longer a problem for IBM. This was by the way when I said our competitors would face issues. This was one of the reasons why I said that. because it was very apparent that most of the electrolyzer companies did not focus on growing supply chain and integrating with supply chain while it's going on volumes. And I think this is something which we have done right over the last 12 months to focus on that.

Justin Scarborough

I have another question for Andy, which I suppose in part is related to working capital and inventories. If existing customers do not accept delivery of the inventory you have built can that inventory be resold to other customers?

Andy Allen

That's a good question. I mean, -- in principle, yes. We are a company that builds a standard product. So there is no or very limited bespoking for specific projects. That is not something we are entertaining right now. Understanding that this is still a new technology being deployed for the first time in many cases with customers. We're really trying to get collaborative long-term relationship with customers rather than just separate for a short win.

Justin Scarborough

I think I'll now hand back to Paul because that is the last of the questions and the last of time that we have.

Operator

Thank you very much, indeed, Justin. Of course, the company can't review all questions submitted today. And we published those responses on the Investor Meet Company platform. Dennis, Andy and Simon, thank you very much indeed for updating investors today. Can I please ask investors not to close the session should be automatically redirected to provide your feedback in order the management team can better understand your views and

expectations.

This may take a few moments to complete and it's greatly valued by the company. On behalf of the management team of ITM Power plc, I would like to thank you for attending today's presentation, and good morning to you all.

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