

# **Nel ASA (NLLSF) Q1 2024 Earnings Call Transcript**

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**Body**

Nel ASA (NLLSF)

Q1 2024 Results Conference Call

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Company Participants

Hakon Volldal - Chief Executive Officer

Robert Borin - Senior Vice President of Fueling Division

Lars Nermoen - Head of Communications

Kjell Bjornsen - Chief Financial Officer

Conference Call Participants

Christopher Leonard - UBS

Skye Landon - Redburn

Alexander Jones - BofA

Naisheng Cui - Barclays

Anders Rosenlund - SEB

Elliott Geoffrey - Danske Bank

Yoann Charenton - Sanford

Kulwinder Rajpal - AlphaValue

Presentation

Hakon Volldal

Good morning from sunny Oslo. It's Wednesday, 17th of April, and we are ready to present Nel's First Quarter 2024 Results. My name is Hakon Volldal. I am the CEO. With me today, I have our CFO, Kjell Christian Bjornsen; our Head of Communications, Lars Nermoen; and our SVP Fueling, Robert Borin.

We are going to cover Nel in brief, the highlights from the first quarter, commercial developments, we are going through a fueling presentation to give some background on fueling, as we contemplate a spin-off and separate listing of the Fueling division and summarize and do Q&A.

Now Nel is pure-play hydrogen technology company with a global footprint listed on the Oslo Stock Exchange since 2014, leading electrolyser manufacturer with more than 3,500 units delivered to more than 80 countries around the world since 1927. Also, a leading manufacturer of hydrogen fueling stations with more than 140 station modules sold or in progress to 14 countries. Manufacturing facilities in Norway, the U.S. and Denmark. Global sales network, roughly 670 employees. Preferred partnering with the industry leaders across a variety of industries and NOK 3.3 billion in cash reserves means that we are well capitalized.

So let's get to the brief, the first quarter highlights. Here are the results. Revenues of NOK 387 million. The EBITDA of minus NOK 16 million. Order intake, NOK 459 million. Order backlog at the end of the quarter, NOK 2,437 million and a cash balance of NOK 3,260 million.

When it comes to the key developments in the first quarter, we signed a 10-megawatt electrolyser contract with the Samsung C&T. We renewed our relationship with Nikola and also partnered with the Fortescue Future Industries on the 80-megawatt Phoenix Hydrogen Hub in the U.S. We announced an ambition to explore a spin-off and separate listing of our Fueling division. We received $75 million in funding for the planned Michigan facility. And Nel together with partners received USD 90 million in funding for 7, meaning several also R&D projects. After closing of the quarter, we received an additional $40 million -- $41 million in additional tax credit for manufacturing expansion in Michigan.

Group financials. If we look at the top line, it's up from NOK 341 million to NOK 387 million, helped by onetime effects from the Nikola FFI agreement. EBITDA, significant improvement, helped by the same NOK 96 million in one-off effects from the Nikola and FFI agreement, helping also then EBITDA and EBIT and pre-tax income.

We have a solid cash position, as you can see, NOK 3.3 billion, which means there is no immediate need to raise additional equity despite what is being said in the media. We are well capitalized to fund our growth. The expansion programs for Heroya and Wallingford remained on plan. Capacity utilization will, however, be adjusted to match demand.

And we can look at the details. For the first time, we separate out the Alkaline and PEM divisions. So we split the electrolyser segment into Alkaline and PEM to give you more details on how we're doing, and that means we have 3 segments. We have Alkaline Electrolyser; we have PEM Electrolyser; and we have Fueling.

Looking first then at Alkaline Electrolyser financials. We have a 20% year-on-year growth, again, helped by the Nikola FFI agreement with NOK 50 million -- NOK 118 million -- sorry, NOK 54 million in impact from that agreement. And as you can see, the EBITDA is up by NOK 118 million. And the reason we have an improvement in EBITDA above the NOK 54 million from the Nikola agreement is that we also have some provisions that we have in positive one-off effects on the bottom line.

You might argue 20% growth, it should be higher for Alkaline at least when you adjust for the one-off effects from Nikola. And the thing is, we don't recognize revenues based on production only. We don't recognize revenues based on number of electrodes produced on a daily basis. We have milestone revenue -- milestone-based revenue recognition.

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And in the first quarter, there were a few significant milestones that we reached. That means, we had limited project revenues in the first quarter. We will catch up on that in coming quarters. So that's why growth is only 20%. And EBITDA, again, positively impacted by one-off effects from Nikola and also other one -- positive one-off effects from the FFI agreement related to warranty provisions, et cetera.

It should be noted though that for the past 4 quarters, the Alkaline business is almost breakeven on EBITDA level despite using one line only and not to default capacity. So I think the business model for alkaline is proven with clear scale effects. What we need now are more orders when the orders come, this will scale and you will see profitability. So the Alkaline business is actually in good shape to scale up with the -- with positive contribution.

If we turn to the PEM business, the PEM business is less mature than the Alkaline business, and you can see that from the results, revenues a bit more up and down. We had NOK 52 million in revenues in the first quarter compared to NOK 77 million 1 year ago. That's down 33% and it's due to phasing, again of project revenues and few milestones being reached in the quarter.

We had a decline of NOK 20 million on the EBITDA line from NOK 23 million a year ago to minus NOK 43 million this quarter, and this is amid reduced revenues. Again, a business that needs to scale further. And in order to achieve that, we need more manufacturing capacity to allow customers to place bigger orders with Nel.

So first, we need the capacity, then the orders will come. It's difficult to justify placing large orders unless you have the capacity or ability to deliver those orders within a reasonable time frame. And that's why the expansion in Wallingford is important, and it remains on track. The expansion will add capacity, but it will also bring down the cost of -- the unit cost of stacks produced, as we not only automate and scale up the different steps, but we also introduced new ways of producing the different components of the PEM stacks.

Fueling had a 45% year-on-year revenue growth, again, helped by the renegotiated Nikola supply agreement, NOK 42 million from -- in one-off -- positive one-off effects from that on the Fueling side. EBITDA improved by NOK 10 million. And the positive one-off effects from the Nikola supply agreement were partly offset by inventory adjustments for discontinued products and also some further provisions.

If you look at order intake and backlog, we reversed the trend on the order intake side. In the first quarter of 2024, we booked NOK 459 million in new orders, and that's in line with what we did a year ago, 2% down, and it's above what we have reported in the previous 3 quarters. That means the order backlog was fairly stable. It's down 13% year-on-year, but quarter-on-quarter, it remained flat.

The order intake came mostly from Alkaline Electrolysers and also some on the PEM side with less on the Fueling side. And you can see also the backlog is predominantly on the Alkaline side with PEM at NOK 400 million and Fueling NOK 300 million.

Commercial developments in the quarter. This was according to our knowledge, the largest announced project that was awarded in the electrolyser industry in -- during the first quarter of '24. So total, we have calculated of 36 megawatts were awarded to all the different electrolyser OEMs. And this was the largest project, the only project of 10 megawatts or above awarded in the quarter.

It was awarded to Nel from Samsung C&T. Order value, EUR 5 million. It will be built in South Korea. And this will be the first off-grid green hydrogen production project for Samsung C&T. They will do the EPC work themselves. And it's also important to notice that they have a significant pipeline of electrolyser projects. So this is a customer that could potentially become important to Nel over time.

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We renewed our relationship with Nikola. As you have seen with positive one-off effects for both the Alkaline business and the Fueling business. The old supply agreement from 2018 was canceled, and we will enter into a new supply agreement for 110 stacks, and that is approximately 275 megawatts of electrolyser capacity.

It's not a firm order yet, and it's not included in the backlog. We will include it in the backlog when we receive firm purchase orders. The new supply agreement is aligned with our preferred scope of supply on electrolyser projects, meaning stack plus balance of stack. And as a consequence of renegotiating the original supply agreement, Nel received $9 million in compensation.

Another important project linked to the previous agreement with Nikola is that Fortescue Future Industries has acquired the Phoenix Hydrogen Hub project from Nikola. They've taken over the project, which means they've also taken over the 80-megawatt of electrolyser stacks that Nel has already delivered to Nikola. In order to operate these stacks, you need additional equipment, and we have signed a contract with Fortescue for balance of stack equipment, i.e., the gas separation equipment you need and also updated warranties and guarantees for the stacks that we delivered previously to Nikola.

The contract has a value of $11 million, and the project will be built in Phoenix, Arizona, United States. Please note that the project has already taken a final investment decision, and this will become one of North America's largest electrolyser systems. The biggest electrolyser plant in Europe are 20 to 40 megawatts. This is 80 megawatts. So it's a sizable step in increasing the size of hydrogen production plants.

The first quarter was the quarter of big announcements when it comes to public funding. And as you might know, we have announced our plan to build an electrolyser plant in Michigan in the Detroit area. And to support our progress there, we on 13th of March were awarded $50 million from the Department of Energy with a $25 million maxim grant from the State of Michigan to accelerate the building of that plant.

Then on April 4th, we were awarded $41 million in tax credits through the Qualifying Advanced Energy Project Tax Credit, 48C program, also a Department of Energy initiative. That means, if we include also the benefit package that we negotiated with the State of Michigan, back in 2023, we have accumulated close to $170 million in support and roughly half of that amount will be cash incentives. The other half are -- those are tax credits and reduced fees on different items.

In this plant 4-gigawatt facility, we will manufacture our next-generation technologies. So it's not only about getting the financial support to build it and the market demand to support it, but it's also about making the technologies ready for mass production. Final investment decision has not yet been taken. Of course, we're not going to move ahead unless there is market demand.

And when it comes to the U.S., it's important to ensure that the regulations when it comes to how much support or incentives will our customers receive when they produce hydrogen, that has to be clarified. And we're still waiting for the final regulations on that for the Inflation Reduction Act through the Treasury Department that will come out later.

In addition to the support for our Michigan facility, we also apply for funding of R&D projects. And in the first quarter, Nel together with several partners were granted $90 million in support from the U.S. Department of Energy. And we're talking about 7 R&D projects. We are the leading partner on one of the projects, and we're contributing on others. And the project we are spearheading is related to low-cost, clean AEM electrolysis.

AEM is a technology that you could very, I think simplistically say, is a PEM stack operating in an alkaline environment. And the purpose is to take advantage of the small footprint of the PEM stack. And the fact that in an alkaline environment, you can use cheaper materials than you can do in the normal PEM environment. So you get the cost benefits of the alkaline operation, and you get size benefit and the differential pressure on the PEM side.

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This is a technology that is seen as, say a third-generation technology. And a lot of companies have come out and say that they work on AEM. Nel has worked on this technology for more than a decade. And we continue to work on it to qualify it, even though we don't think it's suitable yet for large-scale projects. It is a very interesting technology for the future. We will undertake roughly 10% of the work under the 7 R&D programs, and then you can calculate our share of the $90 million in direct R&D funding and support. But the U.S. is a good place to be these days for doing both R&D work on electrolysers and potentially building new electrolyser plants and facilities.

Then I'm done for a while, and I will welcome Robert Borin, our Senior Vice President of Fueling to give some details on our Fueling operation. In our previous quarterly report, we announced the ambition to explore a separate listing and potential spin-off of the Fueling division. And Robert is here to give you a presentation on what the Fueling division is doing and what they're up to. So welcome, Robert. The floor is yours.

Robert Borin

Thank you very much for that, Hakon, and good morning to you all. My name is Robert Borin. And this morning, I will walk you through our approach to what I believe is one of the most interesting areas in hydrogen. I'm, of course, talking about the area, where I spend my every day, which is hydrogen mobility. I will walk you through why I believe that hydrogen fueling is a great market opportunity, not necessarily in the 2 different -- it's an opportunity that is not laying too far out in the future and why I believe that Nel is in a great position to take a leading role in this market with the next-generation products already on the way.

As I just said, my name is Robert Borin, and I'm currently heading Nel's Fueling business. I'm also excited to take on the role as CEO for the new fueling company after a potential spin out. I have been in this position for the last 3 years. And before that, I have a past in the wind business, where I was both in Siemens and in Vestas.

My last position before joining Nel was as member of the executive management team in Mitsubishi Vestas Offshore, where I was responsible for the operations. Marcus Halland is not in the presentation today, but having a past in KPMG and Align and 6 years in Nel in various positions in the finance. He is our absolute preferred candidate for the CFO position for the new fueling company to come. And together, Marcus and I are very excited to take on this next chapter in the history of our company.

I would like to start out by giving you a quick refresher on how our hydrogen mobility business looks like today. In short, we develop, and we deliver hydrogen fueling solutions for the mobility market, and we have been doing so for the last 20 years plus. Since the start, we have sold in the vicinity of 140-plus systems, and the market split between those systems are roughly 50-50 between the U.S. and the European Union with an additional 50 stations or so in Korea. Most of these stations have been manufactured on our location in Herning, which is, by the way, one of the world's largest hydrogen manufacturing facilities for hydrogen fueling stations.

We have service hubs on 3 different continents with locations in key markets, both in the U.S. and Europe and, of course, also in Korea. These stations have been produced, installed and sold by most of our -- or some of our plus 250 employees. And last year, we had a revenue of roughly EUR 32 million.

In the hydrogen value chain, our products in the fueling business are placed somewhere in the sweet spot between production of hydrogen and consumption of hydrogen. This means that our equipment is able to take hydrogen from a source, compress it, cool it and put it in either a vehicle for consumption or in a trailer for transportation. We believe that also trailer filling alongside with high capacity fueling or heavy-duty fueling will be a big business area for us in the coming few years.

If we are zooming in even further, we -- our scope of supply ranges from supply panels and basically a supply panelist, where you connect a trailer coming to dump of hydrogen or you can connect an electrolyser or you can connect any kind of source at the connection panel or the supply panel. Then we, of course, also supply hydrogen storage and the main event, which is the fueling station. And then we have a number of different dispensers that you can connect to this. If we look at our business from a services point of view, we are delivering services that are ranging all the way from installation and commissioning to operations and data monitoring and so on. So we are doing the full value chain.

If we are comparing hydrogen mobility to other sources of energy for transportation, such as fossil fuels or batteries, there are many advantages with fueling. Some of the more obvious ones are, of course, the total lack of emissions from the outlet if you compare it to fossil fuels and the comparably long driving ranges if you compare it to batteries.

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But some of the less obvious advantages, especially when we are talking about high-capacity filling and heavy-duty vehicles that are, of course, the fast filling times, if we start out with that. So we can transfer energy comparable to 1 megawatt hour battery in -- with a vicinity of 10 minutes. And yes, and then, to put that in perspective, 1 megawatt hour battery would be corresponding to roughly 10 as less. If you will do this with the best charging technologies of today, it will take well above 5 to 6 hours.

If we look at the grid connection, our fueling stations can actually be placed fairly remote, and that is because we or the coming high capacity fueling station will require less than 1 megawatt of grid connection. If you compare that to a comparable charging station that would require more in the vicinity of 10-megawatt grid connection.

And just to put that in a little bit of perspective as well, the city of Herning, where we have our production facilities located is a city of roughly 50,000 people and has a base load of around 11 megawatts. So it goes without saying that a high capacity fueling station is the better alternative when it comes to connecting or grid connections.

If we look at the hydrogen market of today, hydrogen is, of course, already a significant market with close to 90 mega ton hydrogen produced on a yearly basis. This is today mainly dominated by industrial use. Hydrogen has the potential to play an important role in the transition from fossil-based fuels to more renewable and green energies. And this is why the market is believed and forecasted to grow a factor of 3 in the coming decades. And it's also believed that hydrogen mobility and especially high capacity and heavy-duty transport will be one of the major drivers for this growth.

Obviously, a driver for growth is in any kind of industry is the supporting regulatory framework and the funding landscape, and there has been many initiatives in the last 5 years to 10 years that has been backing hydrogen mobility. But there's one specific event I would like to point out from last year, summer last year that is -- that I believe is a game changer. And that is that the so-called AFIR or the Alternative Fuels Infrastructure Regulation was put into legislation.

What AFIR says is that along the so-called TEN-T, which is the trans-European transport network, basically all the major highways throughout Europe. Along the TEN-T, every 200-kilometer one fueling station or one high capacity fueling station needs to be built on each side of the road. This actually equates to in the vicinity of somewhere between 650 to 700 stations. All in all, that has to be built before 2030. However, if we take a conservative look at the time lines in the market, we believe that this will lead to minimum 400 stations being built before 2030. And we are, of course, in the sweet spot for delivering equipment to these 400 stations. And this is only Europe alone.

If we look at the United States, the funding landscape has already been put in place, where in the vicinity of $2.5 billion has been put on the table for funding around hydrogen infrastructure. And however, the legislative landscape is not fully put in place yet, but we expect that to come with a similar regulation like AFIR also in the U.S. in the coming year or years here. So -- but the important part is that the funding has already put in place.

It goes without saying that we believe that we have what it takes to meet the demands of AFIR and the market growth in the coming years. Hydrogen mobility is a young market. And we have -- but we have been there from the beginning, collecting experiences the last 20 years to make sure that we are learning and moving forward in this market. Our current technologies and patents are protected worldwide. And our team of R&D professionals is more than 60 people strong. So it goes without saying that both from a competence point of view and capacity point of view, as an organization, we have what it takes to meet these demands.

And speaking about capacity, from a capacity point of view, we are well positioned in our current facilities in Herning for the next coming years. This is, by the way, also one of the world's largest hydrogen mobility production facilities. So limited investments are needed for adapting to the new type of products that we will be supplying going forward. And at this facility, we have everything from design and testing to production and service. So the full value chain under the same roof, which is a great advantage. Currently, yes, as I said, this is one of the largest facilities for production in the world.

And of course, again, to meet the requirements of AFIR and other regulations that are coming right now. one of the major things that we are working on right now is, of course, the high capacity fueling station. And it's important to point out that this will be one of the first real high capacity fueling stations that will be put into the market. It will have a capacity of -- in the vicinity of 4,000 kilos per day, corresponding to 260 kilos per hour. It's roughly 4 trucks per hour, and that's what you can do on a normal diesel station as well. And this is important because from a commercial point of view, you really need to be at diesel parity when it comes to fueling trucks like this.

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And looking at the specs of the station, we can connect up to 6 dispensers, which is also an important facility or important feature, so that we can -- depending on what you want to fill on these fueling stations, we can connect either high-capacity dispensers or LDV dispensers. Important is also that this station will be compliant with a newly defined standard for high-capacity filling in Europe and the U.S., which is the SAE J2601-5. So that's super important that we are compliant in that. So this capacity of the new high-capacity fueling station is not -- does not only meet the demand of AFIR and TEN-T rollout, but it's also what we believe is putting us in the sweet spot for high-pressure gaseous delivery, which is around 4,000 kilos per day.

So to summarize, in 2023, we started the development of the high capacity fueling stations. Since the beginning, we have capitalized on our learnings from the LDV market. And we are taking all of that and putting it into the case for high capacity to derisk the business case and to make sure that this is a successful launch. The next generation of product is expected to be commercialized in 2025. And our ambition is to grab a fairly modest 15% of the market, as a starting point here, but that's where we are today.

So with that, I would like to say thank you for listening this morning and hand back over to Hakon again. Oh, sorry.

Hakon Volldal

Thank you, Robert. Then the only thing left for me before we go to Q&A is to summarize the main takeaways from the quarter. And I think the positive EBITDA in the Alkaline Electrolyser segment, even adjusting for the one-off effects, you can see from the details we've now provided on this segment specifically that we are very close to be breakeven over a long period of time, and that's also using less than 1 full line at Heroya. So the argument that we need gigawatts and gigawatts of production capacity to get to black figures in the Alkaline division is not really true. We've proven that over many quarters that we're getting very close. We need -- we need more orders, but when we get them, this business scales well.

We reversed the negative trends on the order intake side. We're back on track with NOK 459 million in order intake. That's the highest quarterly order intake since a year ago. We have maintained our cash position, NOK 3.3 billion, no near-term need to raise additional cash. We received a lot of government support in the U.S. for funding the planned electrolyser facility in Michigan, and we've now accumulated $170 million in support. And that, of course, comes on top of the cash reserves that we have.

And as Robert just explained, we continue to explore a spin-off and separate listing of our Fueling division. We believe that the fueling business will have a higher likelihood of being successful in the market on its own and that it's beneficial to the electrolyser business that we can focus on that also. So 2 separate entities that can explore their own strategies and plans without trying to create synergies between 2 businesses that are not really there.

Then I would like to invite my colleagues up on stage, so we can get going with the Q&A.

Question-and-Answer Session

A - Lars Nermoen

Yes. Good morning, everyone. My name is Lars Nermoen. I'm Head of Communications in Nel, and I will guide you through this Q&A sessions. For the ones that want to ask questions, please use the raise hand function and we will call out the name and activate the microphone to the one next in line. And then you also have to remember to activate the microphone on your end. Note that we will keep the camera disabled for the most calling in and at least keep a maximum of one question per person due to time constraints. If we have more time, you can always come back in line. You can also send us an e-mail to ir@nelhydrogen.com if we don't have time to answer all the questions.

So as a reminder, from previous quarterly presentations, we will not comment on outlook specific targets, detailed terms and conditions on contracts, as well as questions on specific markets. We will also appreciate if modeling questions are taken offline. So the first one on my list is Leonard Chris. Your microphone has been activated.

Christopher Leonard

Hi, guys. Chris Leonard from UBS. Maybe I'll just ask a couple of questions.

Lars Nermoen

Yes. Please go ahead, Chris.

Christopher Leonard

Can you hear me?

Lars Nermoen

Yes. We can hear you.

Christopher Leonard

Yes. Chris Leonard from UBS. Maybe just to ask on the commentary from U.S. Treasury speaking about the finalization of legislation there for the 45B tax credits. Is there any view from your side on timing of when you expect this to be finalized because in your report, you're also speaking about still have ambitions to win large orders in the coming periods. Does that also relate to the U.S. market? Is that achievable this year?

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Hakon Volldal

I don't think we have unique insights into the timing of when these regulations will be finalized. We have provided our perspectives and share that with the treasury, but we have no idea when the final regulations will come out. And as we don't know that, it's also hard to predict when the large-scale orders in the U.S. will be placed. Some projects will proceed regardless of the regulations, but positive regulations and clarity on the regulations will, of course, help. So we are eagerly awaiting as many others, these final regulations to come out.

Lars Nermoen

Thank you, Chris. And the next one on my list is Landon Skye. I have activated your microphone. Please go ahead.

Skye Landon

Skye Landon from Redburn Atlantic here. I believe this is the first time that you've split out the Alkaline and PEM business. I would be interested to get a little bit of color around why now? And related to this, how should we think about the development of Alkaline Electrolyser EBITDA for the rest of 2024 following your strong 1Q results? Do you expect this to be positive going forward?

Hakon Volldal

So segment in any company is an ongoing discussion, and we have had that discussion internally over some time. We see that now with the growth we've had and the revenues over the last year, it made sense to give the split. We have been giving small drops of this in the past. We're commenting on order intake or revenue growth on a subsegment level in the commentaries, but it's basically down to the size that these segments have now reached and the fact that it gives additional useful information for U.S. analysts.

When it comes to the outlook, we don't comment on the outlook on a quarterly basis. But as -- has been said earlier, the business model on the Alkaline side is now proven. It's down to how much we produce in the factory and actually ship to customers. And there, we have given great detail about our backlog in the annual report as well. So I guess, that's the short answer to your question.

Lars Nermoen

Yes. The next question is coming from Alex Jones.

Alexander Jones

Alex Jones from Bank of America. You mentioned on the U.S. plant that it doesn't just depend on market demand, but also your new technologies being ready. Could you give us a bit of an update on both pressurized alkaline and the sort of next-generation PEM on where you are and when you might expect that side of the plant to be ready to go?

Hakon Volldal

Yes. We are progressing according to plan. We -- on the pressurized alkaline side, we believe we have a fairly unique and game-changing concept. We are testing full-sized electrodes at Notodden in our test facility. The plan is to then build full-scale stacks and also the first pilot facility. I think the first pilot facility we target to build next year. And to remind you that the building block that we've commented on in the past, pressurized alkaline building block 1 module is 25 megawatt. And that means, it takes a little bit of time to build that.

It's -- to put it in perspective, it's the same size as the largest electrolyser plant in operation in Europe today. So that will be built, I think, next year to qualify the complete concept. But we are progressing. Test results are very promising and positive. We are looking into manufacturing concepts for that. And that means -- what we do in Michigan will probably be pressurized alkaline and the next-generation PEM stacks that we develop together with GM. Also, that project is progressing well. We are in the candy shop together with GM looking at all their results over the past decade and trying to figure out the optimal way of putting that together in an electrolyser context.

So I'd say both development projects are on track. I would probably assume that we will do testing up until end of 2025 and that the first commercial products then we're in the '26 type of time frame. Without being too specific, there are uncertainties linked to R&D development projects, but I would assume second-generation technologies would be available '26 and onwards.

Lars Nermoen

Thank you. The next one on my list is Naisheng Cui.

Naisheng Cui

Naisheng Cui from Barclays. Congrats for the good results. Two questions, if I may, please. The first one is on revenue. I understand there's a lack of major milestones on the Alkaline Electrolyser project. I just wonder if you can provide a bit more color on that. Is that because of delay? What's your plan on that going forward?

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And my second question is on your view for some of your peers because I know some of your peers from the oil majors, they closed some of their hydrogen fueling station in California and in Europe in the last month or 2. And I just wonder what's your view on that?

Hakon Volldal

So if I should take the first one on revenue recognition, that's down to the contract structure. So for example, we may have a milestone saying we deliver a certain number of stacks. And at a certain time line that is agreed with the customer. And then, we have to wait until we have that amount of stacks, and then that we reach that specific date. So it's really nothing major about it. It's just that our company and this is back again to why we don't give guidance. Our company is still so dependent on a limited set of contracts that individual milestones on the individual contracts will lead to fluctuations between quarters. That's just something that you need to and get used to unfortunately. We live with it. It's a noise in the modeling.

When it comes to the closing of fueling stations, that's really not our peers, but maybe Robert could do that.

Robert Borin

Yes. Absolutely. If we look at the specific closings of stations, both in Europe and in the U.S., it's very clear to see that these stations are light duty stations with fairly low capacities. And the market is, as we speak right now, very much focused on transitioning from light-duty and personal car filling to high capacity and heavy-duty vehicle filling. So that is also what we see and the intel that we have from our customers.

Hakon Volldal

And then just to be clear on the -- just to be clear on the value chain positioning, we produce the stations, we don't own and operate them. So what you're talking about would be current and potential customers that are -- that are closing down stations.

Lars Nermoen

[indiscernible] in line is Anders Rosenlund. Your microphone has been activated.

Anders Rosenlund

I have a question on the Fortescue part of the Nikola announcement earlier this year. You said $11 million from Fortescue. Has those $11 million being included in the order intake in Q1 in alkaline, and also was roughly 50% of those $11 million revenue recognized during Q1?

Hakon Volldal

So we don't go into details on the individual contracts. However, what we said when we announced the deal is that the Fortescue took over the existing purchase order with Nikola, where there was remaining revenue to be recognized. So net effect from start of quarter to end of quarter on backlog on that part would be limited. There's been a few million dollars revenue recognized in the quarter, mainly related to what has already been delivered to Nikola. We had some provisions for warranty and other things. And now with a delay, and a new time line, we see that we will not be needing that and where the new customer has paid for an extended warranty.

Anders Rosenlund

If I may, my question is really, would the results have been roughly [ $150 million weakest ] if it hadn't been for this change order with Nikola.

Kjell Bjornsen

If you look at the Nikola in isolation, the $9 million is clearly singled out as a one-off event. When it comes to the Fortescue change order, there is correct that there is a few million dollars of positive impact on that project in this quarter. However...

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Hakon Volldal

[indiscernible] whole business. It's like -- it's additional equipment like any new contract. So there's nothing magic about it. It could have been another contract.

Kjell Bjornsen

And we do not single out when we have corresponding negative effects of this on other projects as well. So yes, it stands a bit out since it's one order in 1 quarter. But there's positives and negatives on almost every project in almost every quarter.

Lars Nermoen

Next question is from Elliott Geoffrey.

Elliott Geoffrey

Just a quick question on the U.S. subsidies you've received. Is there like an expiration date on the tax credits or any of the subsidies with regards to when you need to announce it for the -- on the Michigan facility. Any color on that would be great.

Hakon Volldal

Yes. There are -- I mean, they're not -- they don't last forever. Of course, when politicians grant subsidies to companies like Nel, they want to see us take action, but they also realize that it's not always straightforward to move on. So there were some requirements to take certain actions that don't necessarily imply a lot of CapEx for Nel. We need to specify what kind of location are we looking at. We need to commit to certain other activities.

And you typically have, let's say, 2 years to 3 years before you need to make the heavy investments and that means we have time, So they will -- these subsidies will not expire immediately. It's not like if we don't do anything in '24, we will lose all of it. But we need to show that we are actively working on the project, and we need to make probably some capital commitments during '25 if we want to keep the subsidies.

Lars Nermoen

The next one in line is from Yoann Charenton. I have opened up your microphone.

Yoann Charenton

Hopefully, you can hear me. Yoann Charenton from Bernstein. I have 2 questions, if I may. The first one is about trade receivables. How long can you hold trade receivables past due before this triggers a potential cash payments under compensation mechanism that might be linked to letter of credits or the financial instrument that you have in place? So that's the first question.

The second question is just having a look at your annual report, you show that roughly 80% of your backlog at the end of last year will lead to performance obligations in 2024. Given that you are not saying that capacity utilization at your electrolyser factories will be adjusted, are you still expecting 80% of the backlog to lead to performance obligation in 2024?

Hakon Volldal

Yes. So let me handle both of those. So first of all, when it comes to the receivables, if there had been a way of collecting them easily, then we would have collected them and/or pulled on bank guarantees or other things. So there's one project in particular that's been with us for a while, where we have given detail and continue to give detail. We would, of course, have loved that project to go on.

Just as a reminder, we have received a meaningful amount of cash from the customer. We are working closely with the customers to help the customer fund the project and move ahead with the project. And we have security over the equipment that has been delivered and control over that. So if the project doesn't move ahead, our balance sheet would be intact.

When it comes to the performance obligations or the expected revenue, we are not by what we are saying now, commenting on an expectation that will delay the backlog. We will continue to deliver the backlog in line with what has been agreed with customers. What we are saying is that when we are now during quarter 2 getting up to a gigawatt run rate factory, yes, capacity at Heroya. And later in the year, 500 megawatt in Wallingford will not be producing flat out to stock. We will -- when we are looking at how to utilize that capacity, we will be looking at what we have in the backlog and what we have of likely wins. So there may be some working capital buildup, but we would rather save the capital then tie it down in inventory.

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Lars Nermoen

Next is Sean McLoughlin. Sean, have you activated your microphone. Okay. Then I think we have to move on to the next one, which is Rajpal Kulwinder.

Kulwinder Rajpal

So I just wanted to get your thoughts on the order development. Obviously, it's encouraging to see that orders are growing quarter-over-quarter, and as you said that the order intake level has been the highest in the last 1 year. So what are you seeing in your interactions with the customers? Are they still delaying decisions mostly because of higher interest rates? Or now since we see that the interest rates might stick around for a while, so they are just going to go ahead with the FIDs?

Robert Borin

I think there are -- there are a handful of projects that will proceed regardless of what happens on the political level when it comes to support, but we also see that due to high interest rates and due to projects becoming more expensive than probably customers expected a while back, they would like to take advantage of any public funding they could get. And that means in the EU 120-plus projects applied for funding through the hydrogen bank, that money is supposed to be handed out at the end of April, not handed out, but they are supposed to announce the winners of that auction at the end of April, start of May. That clarity will help certain projects, where Nel is involved progress, and that could -- that could help us book additional orders.

In the U.S., as I said, we wait for the clarifications on the tax -- production tax credits. It's not crystal clear what will happen. And companies, our customers are not keen on moving on unless they have more visibility on the business case. So I think there's a lot of talk about billions of dollars or euros being handed out to hydrogen developers. That's not true. It hasn't happened yet. I mean, not a single euro almost has been paid out or a dollar. So our customers are waiting for that cash. And until they have that cash, they're not willing to go ahead and place it for a purchase order with Nel or any other for that sake. And I think that's what you see in the market. It's not only Nel. This is not Nel specific. This is sector-specific, industry specific.

And I'm hopeful that with the announcement of the hydrogen bank results and also the ambition to launch the second round of funding through the hydrogen bank in Europe with a higher total amount to be handed out and also clarity on the Department of Energy hubs and the industrial projects for several billion dollars and the tax -- production tax credits, there are numerous projects, where Nel is actively involved that will take FID in '24.

But the -- the frustrating part is that we don't fully control it, right? It's not only up to us. The only thing we can do is to position Nel as the best supplier of electrolysers, get our costs down, the efficiency up. We do that every single day, but we need a little bit of help and push from the market in order to move forward.

Kulwinder Rajpal

That's helpful. And just a little...

Lars Nermoen

Sorry. I am -- it was not on purpose, sorry. Sorry, you're on back again. Yes.

Kulwinder Rajpal

Just a little follow-up. So I wanted to understand about the EBITDA in alkaline, particularly. Obviously, the Nikola one-off is clear, but you mentioned there was another one-off. So what was that?

Hakon Volldal

So the comment, again, that was made when we announced the renegotiated agreement with Nikola and the handing over of that project from Nikola to Fortescue is that we also had some provisions. And for example, warranty provisions related to what has already been delivered to Nikola, where now with a delayed or extended time line, we could release some of those. Again, in the broader context, on every project, we have some positives and some negatives every quarter. So we haven't singled those out or adjusted for them, as we wouldn't adjust for negative effects of a similar kind on other projects.

Kjell Bjornsen

We don't have an adjusted EBITDA. We have an EBITDA figure. And that is comprised of how we perform on multiple projects. And in any reporting period, there are setbacks, where we spend more money, more hours. There are also positives, where we don't spend as much money as we planned. And in this quarter, we were able to release some of the provisions that if we had booked this 100% in line with what actually happened, previous quarterly results would have been stronger, and this one would be a bit weaker. But overall, it evens out.

And I think the trend you can see on the alkaline side is quite stable. The past 5 quarters are underlying in -- on the same level. It's slightly negative, but not massively negative like a lot of people think. It's close to breakeven. It doesn't take a miracle to get that business into positive EBITDA -- EBITDA. And bear in mind, it's one line at Heroya, not being fully utilized during '23.

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Lars Nermoen

Thank you, all. We are running out of time. So we need to wrap up. So I'll leave the word finally to Hakon for some final remarks.

Hakon Volldal

No, I think we're happy with the results in the first quarter. We do recognize that there are positive one-offs. But I think as a reminder, both internally and externally, it's possible to celebrate positive one-offs because we are usually grilled on negative one-offs. So when we have these positive one-offs, it's not because they accidentally happen. It's also due to hard work by people and clever negotiations and good contracts being landed. So I think we should appreciate the strong results in the first quarter.

We do recognize that we need to get more orders, fill the factories. And when we do that, the results will also improve significantly. So we -- we continue to do what we can, and that is to make our products better and our positioning better. And I think we do that successfully, and that we need some more help from the market in terms of orders.

So with that, thank you for watching our first quarter results and see you again in a few months, I guess.

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