

# **Nel ASA (NLLSF) Q4 2023 Earnings Call Transcript**

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**Body**

Nel ASA. (NLLSF)

Q4 2023 Earnings Conference Call

February 28, 2024, 02:00 AM ET

Company Participants

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Kjell Christian Bjørnsen - Chief Financial Officer

Wilhelm Flinder - Head, Investor Relations

Conference Call Participants

Rajpal Kulwinder - AlphaValue

Yoann Charenton - Societe Generale

Anders Rosenlund - SEB

Erwan Kerouredan - RBC

Presentation

Operator

Good morning and welcome to NEL's Fourth Quarter and Full Year 2023 Results Presentation. My name is Håkon Volldal. I am the CEO of Nel. And with me today I have Kjell Christian Bjørnsen, our Chief Financial Officer, and Wilhelm Flinder, Head of Investor Relations.

So let's get to it. We have the following agenda items. Nel in brief, highlights from the fourth quarter and also a recap of 2023, commercial developments, strategy updates, summary, and then we open up for questions towards the end. Nel is a leading pure play hydrogen technology company with a global footprint. We were listed in 2014 on the Oslo Stock Exchange as the first hydrogen company. We have sold more than 3,500 electrolyzers to more than 80 countries since 1927. So we trace our roots back almost a century. We're also in the fueling station business and have sold more than 140 stations to 14 countries around the world. Manufacturing facilities in Norway, the U.S., and Denmark, a global network of sales and service reps, 670 employees, a preferred partner with industry leaders across various sectors, and NOK3.4 billion in cash reserves.

Then we can get started on the highlights from the fourth quarter. If you look at the financial results, we generated NOK534 million in revenues. We delivered an EBITDA of minus NOK106 million. We had NOK183 million in order intake and ended the quarter with NOK2.5 billion in order backlog and NOK3.4 billion in cash.

The key developments in the fourth quarter were the following, we received an order for a containerized PEM electrolyzer. We received a cancellation from ICC in the Netherlands on the previously announced 40-megawatt project. We received a significantly reduced fine related to the Kjørbo incident in Norway many years ago and we sold our shares in Everfuel for a total compensation of NOK117 million.

And then after the quarter, we've had some important subsequent events. We've signed a contract with Samsung and CNT for a 10-megawatt alkaline facility with a value of €5 million. We have renewed the relationship with Nikola and entered into a new framework supply agreement for a USD9 million compensation. We have decided to partner with Fortescue on its Phoenix Hydrogen Hub, in the U.S. and will receive $11 million or have received $11 million for extended warranties and an extra work related to that project.

And then in February, we communicated that the Iwatani Corporation of America has filed a lawsuit against Nel and some of our subsidiaries regarding the delivery of fueling equipment and services. And we strongly reject the allegations and will fight these allegations vigorously.

The fourth quarter financials, as I said, revenues up from NOK414 million a year ago to NOK534. EBITDA up by more than or improved by more than NOK100 million, which means the EBITDA margin improved from minus 52% to minus 20%. EBITDA also considerably up from minus NOK590 to minus NOK166. And as you can see, similar developments on pre-tax income and net income.

If you look at the year as a whole, 80% growth or close to 80% growth on the top line. And this translated into a substantial improvement in terms of EBITDA. We improved EBITDA by more than NOK300 million and delivered an EBITDA margin, which is 50 percentage points better than we had in 2022.

EBITDA was also up by more than NOK500 million. And if you look at our cash balance, it's solid. It's also up versus the end of 2022, despite significant investments during 2023. We have a solid cash position and there's no immediate need for additional equity. If you look at the year as a whole, I think it's important to highlight this. First of all, there are a few companies that grow their top line by 80%. We've added NOK800 million to our to our top line. And that means we were not a small company anymore. We've passed the NOK1 billion mark. We are at NOK1.8 billion. So it's a sizable business that we're running. And as I said, 80% up, driven by growth both in the electrolysis segment for alkaline electrolyzers, PEM electrolyzers and fueling stations. The EBITDA margin is considerable when it comes to the improvement. 50 percentage points up, NOK300 million improvement. We're still not exactly where we want to be. We want to have positive numbers, but this is a major step in the right direction for Nel.

And I think Nel is one of the best capitalized hydrogen technology companies in the world, with NOK3.4 billion in cash reserves entering 2024. So we're proud of the achievements in 2023. Still not where we want to be, but as I said, a significant step in the right direction, a significant improvement over 2022.

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Let's look at the two divisions. And this is an overview of how the electrolyzer division has developed. If you go back to 2018, we had NOK300 million in revenues. And now we are at NOK1.4 billion. Then there is the EBITDA development. And as you can see in the bottom part of this chart, the more we sold, the more money we lost, except in 2023. Then we turned it around.

Now we show that the business actually scales. All the investments we have made into infrastructure, building the organization, means that now we're starting to reap the rewards. It's starting to pay off. If we continue to drive revenues, we will also improve EBITDA. To give you some more insights into our two different operations, 91% growth in the electrolyzer division and NOK145 million improvement EBITDA. And look at the margins.

In our alkaline division, we had an EBITDA margin of minus 3%, so close to break even. In the PEM division, which is a bit more immature, not that scale yet, we had a margin of minus 24%, which means even if we only have one line at Herøya, not fully utilized, we're close to break even. In a year where the project portfolio was not amazing, we're still delivering on some of the legacy projects with a scope involving third party deliveries with low margins, where execution is difficult and where conditions are not fantastic because we signed contracts with no pass through on the commodity price increases, etcetera.

So if we compare what we have done in 2023 to what we will do in the coming years when it comes to scope, intrinsic margins on the products that we sell and the execution model, there is room for improvement. If we were to do the same revenue in 2024, but with the current backlog of projects, the margins would look much better. So 2023 is not a fantastic year in terms of this is the max of what we can do. It represents a big step in the right direction that we have more fuel on the tank. We can still improve. And as we write here, 2023 was impacted by legacy scope, legacy projects with wider scope than what Nel is now accepting. So this will improve further as we move on.

The business model is proven with clear scale effects. If you look at fueling, also similar development, although the top line is more flattish over the past few years, the EBITDA development has not been positive. We've gone from minus NOK75 million in 2018 to minus NOK350 million in 2022.

And in 2023, we actually improved the bottom line by NOK150 million, partially driven by the 41% growth from 2022. But more importantly, because we have better margins on the equipment that we've sold and the services we provide and reduced warranty and quality costs, a leaner organization with fewer employees and etcetera. So I think the combination of higher top line and improved margins and cost control contributed to this. What you can see is that the NOK300 million improvement is almost equally distributed between electrolyzer and fueling. They both improved by NOK150 million. And that's a significant improvement.

The fueling division is now set up for growth with further development and commercialization of the high capacity concept. I'll revert to that a bit later and also to the structural announcement we made earlier this morning.

In sum, then, we are quite happy with the financial development of Nel in 2023. Top line is good. Bottom line is improving and we have a solid cash reserve. If there's one thing we would have liked to show, which is or that would be different, it's the order intake in the quarter. We have been on a downward trend. It's been pointed out by numerous people that we will lack sort of the next big order. And we agree. Order intake was NOK183 million. No, no sizable contract signed. And if we look at the first quarter, we're already above, so far into the first quarter, we were above the Q4. So at least we have reversed the trend in the first quarter. But we're waiting for the larger orders to materialize. While we wait for those larger orders, we will reduce the order backlog because we continue to deliver on contracts that have been signed.

Having said that, we have NOK2.5 billion in order backlog. So more than or close to 1.5 times trailing 12 months revenues. We have we have a solid backlog we can use to deliver on while we wait for orders to come in. But we need more orders. One thing that we might not commented on in detail previously is that if we look at the backlog, the NOK2.5 billion and the electrolyzer portion of that, which is a tad above NOK2 billion, it's mostly related to stacks. And when we sell a stack plus balance of stack system, we sell a stack and the balance of stack. The balance of stack is the gas separation unit plus. But it's mostly related to the gas separation units, which you can see on this picture.

If you buy a stack from Nel, and that's typically what customers have done, they have placed an order for stacks. They need to place follow up orders on the gas separation system. It's very hard to source this or almost impossible to source it from other sources than Nel. So about 400 megawatts of current backlog is related to stack only purchase orders. That means Nel will also deliver balance of stack equipment not included in the order backlog for these orders. Assuming that the balance of stack orders will then be placed with Nel, that will add roughly half NOK1.5 billion to the order backlog. So that's intrinsic in the order backlog, could shade it and add NOK500 million in needed follow on orders. However, we haven't done that because the orders have not been placed yet. Customers typically buy stacks first and then the balance of stack equipment and the exact timing of order intake depends on the maturity of the individual projects. They would like to secure the electrolyzers first and then move on to the balance of stack equipment and then further down the road to balance of plant as they mature their projects.

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But this is sort of an upside that we haven't sort of communicated probably enough around. Then when we look at the pipeline, we mentioned this before, but I think it's important to realize that what actually translates into firm purchase orders are based on development of prospects or leads in the market. We have a long list of opportunities amounting to tens of gigawatts, fairly equally distributed between Europe, the U.S. and Asia. But we tend to hone in on the top 20 sales leads that we have going for us. These sales leads are active. They represent an average size of 450 megawatts. So there's the average of the 20 sales or prospects, close to 500 megawatts. And the median size is 200, meaning that there are some outliers that are really, really big projects.

And two examples that we are working on, we normally don't comment on feed studies and announce a letter of intentions or MOUs. But just to give you an example or a couple of examples so that you can understand what we're talking about when we talk about prospects. One of the prospects is an ongoing paid feed study with Samsung Engineering for a gigawatt system in Asia. Another opportunity included in the top 20 sales category is an ongoing paid feed study with an undisclosed customer for a multi gigawatt system in the U.S. These are paid studies where customers spend, the customer spends millions of dollars on Nel in doing these feed studies to plan it and they're investing into the projects. That's the first phase. And then, you work on the contract and you hope that the purchase order will be placed.

The top 20 pipeline has an overweight of large industrial companies, serious companies with deep pockets that have the financial ability to do the projects. We're also working with the quality project developers. So there's a good mix between different customer categories and also, as I said, a good geographical spread across Europe, U.S. and Asia. And that's important because we see that these markets have different incentive mechanisms and they have different things going for them. There are different drivers in the different markets. So it's important not to have 100% exposure only to Europe or only to the U.S. We try to balance it out between the different continents.

And as I said, we believe we have a high quality sales pipeline that will lead to orders being placed. We are confident we will land big orders and reverse the trend. And that's sort of the missing thing. We need to tick off a couple of large sales orders in order to restore faith in the business case. We remain confident based on what we see. We believe in our products. We believe in the projects, but we also acknowledge that it takes more time than we expected. We said that we were confident six months ago. We remain confident, but we see that the timeline from when a customer starts to talk about placing order for electrolyzer equipment until it actually happens, that period is longer than it was back in 2022.

And it's due to the fact that money is not as available as it was a year ago. It's more expensive to run projects and customers want to qualify their business case properly before they invest. They don't want to jump the gun. It's also a matter of fact that subsidies are delayed. Very few companies, I think we can count them on one hand or maybe two hands globally, have received money from these incentive campaigns that have been announced. Very few companies in Europe have received anything from the IPSAI [ph] funding. Very few companies have received anything from the hydrogen auction. It's money will be paid out in November, maybe that's when firm agreements will be signed. But the money that has been announced through all these EU incentive programs has not been paid out to our customers. They haven't seen anything in their bank accounts yet. And it's the same in the U.S. with Aira [ph]. No company has received anything so far.

So this money needs to be put to work in order to make our customers place orders. And that will happen. But it takes more time than we expected. What we have seen in the first quarter so far is that we have received a 10-megawatt order from Samsung. It's a project in South Korea. And this is a client for first off-grid green hydrogen production project. It's with Samsung C&T that will do the EPC work internally. So our scope is stack and balance of stack. And Samsung C&T also has significant pipeline of electrolyzer projects. But this is the first to sort of de-risk the next project. So this is a customer that we hopefully can grow together with over time.

We renewed our relationship with Nikola. We cancelled the old supply agreement from 2018. It had a scope that we were not happy with. And also Nikola has different needs today than they had back in 2018. We will enter into a new supply agreement for roughly 110 stacks. That's 275 megawatts. It's not a firm order yet and it's not included in the order backlog. It's aligned with Nel's preferred scope, not balance of plant but stack and gas separation system and control system only, balance of stack. And as a compensation for reducing the scope and changing some other conditions, we have received $9 million from Nikola. We have the money already.

Related to this is a decision to partner with Fortescue which acquired the Phoenix Hydrogen Hub project from Nikola. That's an 80-megawatt electrolyzer system. Stacks have already been produced and delivered. And we have now updated the warranties and guarantees for already delivered stacks with a value of roughly $11 million. Again, the money has been collected. Fortescue has taken over this project and we are very happy to see that this project will now actually happen. The project took FID in 2023 and will become one of North America's largest electrolyzer systems. So this project is moving ahead with Nel electrolyzers and we're happy to see that our products are actually deployed in the market because unless they're deployed, we achieve nothing when it comes to reducing carbon emissions.

Then we cover the commercial developments and we will turn to a strategy update. And we're going to start with the electrolyzer division. To recap what we said roughly a year ago in the fourth quarter of 2022 presentation, our overall ambition is to capture more than 20% of the market outside China. And we want to do that by targeting large scale projects and rapidly scaling manufacturing capacity in line with market demand. So the keyword here is bigger. Then we want to offer the best technology at the competitive and market enabling price. The keyword here is better.

Finally, we have to adapt our business model and scope of supply to create required execution focus. Keyword here is focused. What have we done in 2023? Well, let's start with the first point, bigger. We have more than doubled our production output, actual output from Herøya in Norway in 2023, driven by yield improvements and line optimizations.

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As I said, we were close to breakeven EBITDA margins on the alkaline division, even though line one is not 100% utilized. There's still room to improve output from the first line. We're building line two. But just to put it into perspective, we don't need four lines running at full speed to make money on Herøya. We have proven that we can do it with less than 100% capacity utilization on one line with the current margins that we delivered.

Expansion in Norway is on track and budget. We will have one gigawatt of run rate and new production capacity from the second quarter this year. The robotic line and the chemical line are already in place. We have started to run commissioning on the system. It's an upgrade of the first line. It's based on the same sort of production setup with some improvements to further improve nameplate capacity and also yield.

Our U.S. expansion is also on track and budget. We will go up to 500 megawatts production capacity from 2025. Equipment is arriving as we speak every week now. We see new modules and equipment that will help us automate and increase capacity on the PEM side so that we're ready to deliver on large scale PEM orders. And this equipment is not limited to a certain version of our current stack design. It's made to enable cost savings in parallel with achieving higher scale. So it's not just about automation. It's also about using new manufacturing techniques to get the cost of the product significantly down. We also received $50 million in support for a new giga factory in Michigan, United States.

Now that project is currently on hold. We have that as an opportunity. If demand comes, but it doesn't make sense to expand the facility unless we have demand to back it. We're also waiting for the Department of Energy to come out and say whether they will support our application for grants related to the factory in Michigan. And if they pay out subsidies to Nel to build that factory, that will also trigger additional incentives from the state of Michigan. So the total package could be much higher than $50 million.

But again, it's an option we have if demand comes and we expect it to come. But we will not allocate a lot of capital to this project unless we have an attractive total subsidy package in place and there is demand to back it. Better is important. You can be big, but you also need to be good. And in 2023, we got bigger and I think we also got better. First of all, product cost was reduced and efficiency increased on our atmospheric alkaline electrolyzers. We brought the cost of the electrodes down and we also improved the power consumption of our system. And that benefits our customers.

We are happy with the margins that we have on projects that we sell. We go pass savings on to our customers to enable more business cases to happen. Then second, our next generation pressurized alkaline solution was progressed according to plan with testing full size cell stacks in Norway with very promising results on, for instance, power consumption, which is extremely important. It depends on the case, but it could be anything from 50% to 80% of the total cost of hydrogen, the energy consumption. So energy efficiency is extremely important and we are very happy with the first results from not just lab scale testing and single cell testing, but multiple cells put into normal operation.

Feasibility of our super aggressive and next generation PEM stack targets was verified in collaboration with GM. We aim to significantly and I mean significantly bring down the cost of the current PEM platform and also improve energy efficiency. So the two products we are pursuing for next generation applications are really being pushed forward at speed and with very promising results.

Finally, focused all contracts signed after summer of 2022 are now aligned with Nel's preferred scope of supply, and that stack plus balance of stack. The stack that you see on the picture plus the gas separation system. And of course, that does not constitute a full system for the customer. And that means we need partnership agreements with other companies to help the customer put in place a complete turnkey solution. And this is why we have partnered with leading EPC companies in 2023 to ensure global delivery capabilities of balance of plant equipment and drive standardization. We have now strategic partnerships in Asia, in Europe and in North America with reputable, solid EPC companies that can help Nel deliver world leading systems to our customers.

And we've also standardized our solutions. We have enhanced the design and system documentation and we have improved installation and commissioning routines. Everything related to improving our part of this and making sure it runs as smoothly as possible on site. And when we help customers install these large-scale facilities, I think we can we can tick off both bigger, better and focused on the electrolyzer side of the business.

If we then talk about fueling, our overall ambition is to capture 15% of the high capacity market for hydrogen refueling stations outside China. We want to do that by offering a station concept that is tailored to the needs of heavy-duty vehicles. It has to become bigger. We're moving away from the light duty vehicle market to the heavy-duty vehicle market. We want to capitalize on insights derived from the light duty market to standardize products and de-risk the high capacity fueling business case. We meet also on the fueling side. We need to become better and we need to adapt our make versus buy plans to create required execution focus.

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Again, the keyword is focused. What have we done on the bigger side of things? We have started the development of a high capacity station for heavy duty transportation. It was initiated in 2023 after a long period of concept development. We're now really getting into the swing of things when it comes to developing the right modules and doing the real work of piecing this together. Very positive market customer feedback on our design and also the targeted performance metrics. Product is expected to be commercialized in 2025.

As I said, it's a combination of existing and new modules. So it's not like we invent everything from scratch. We're taking the parts from the light duty markets that can be used and that we're happy with and combining that with new modules needed to deliver on the heavy-duty vehicle aspect.

Better increased uptime for station modules installed in the field, despite more fillings. Major improvement in uptimes for Nel stations across the field and a significant reduction in warranty quality cost per station during the year across all key product platforms. We've seen a significant drop in warranty and cost of quality during the year. So an amazing performance by the team to get this under control, systematically working through the major cost drivers. And again, the impact to our bottom line is one thing. Another thing is that it sets us up for better deliveries and more profitable solutions, both for Nel and our customers going forward.

Focused. All products have been phased out, existing products further standardized. We have made a decision to develop compression, cooling and control system in-house and source remaining parts externally. And we have also signed a development agreement with a world leading company for a key high capacity module, not the station itself, but the module going into the full concept that we will source from a reputable company and not develop it on our own.

And then there's one thing as we go through this and talk about being focused. I think it's fair to ask if you want to be focused, then why are you both in electrolyzer and fueling? It's a fair question, and that's why we have been pondering for over a year. And we have now decided to explore a spin off and separate listing of the fueling division. There are today. Few synergies between the electrolyzer and fueling divisions. There are few similarities between the products. The design is different. The production approach is different. Customers are different, even where there is an overlap in terms of the brand name. There are different parts of the customer organization that source these two different solutions because we're talking about two different applications. One to generate hydrogen or produce hydrogen and the other to fill it for consumption in vehicles.

So with reference to the fourth quarter 2022 report, Nel has for some time considered strategic actions for its fueling division. And we believe that creating two independent companies targeting leadership within their respective segments of the hydrogen value chain is more beneficial than keeping both divisions inside Nel under the Nel umbrella. Having two separate entities will create sharper focus and increase execution speed for both divisions. And it also allows both entities to explore respective strategic agendas.

No compromises have to be made. The contemplated transaction structure is a dividend in kind to Nel ASA shareholders during 2024, which means if you're a shareholder in Nel, you will become owner in both Nel, the pure electrolyzer company and the new fueling company at the time of the split. You receive a share in the new fueling code that you can decide whether you want to keep or trade as your decision.

Decision to spin off and separately list the fueling division has not yet been finally concluded and no assurances can currently be given that it will be concluded or completed. But we believe in this direction from an industrial perspective. It makes sense to allow both entities to pursue their own platforms. And to elaborate a little bit on the fueling business, then the new potential fueling company will be a pure play hydrogen fueling technology company with close to 250 employees.

It will be headquartered in Herning, Denmark, and listed on the Oslo Stock Exchange. It will receive full attention from a new and dedicated board, a management team and the organization. And it will have a strategy focusing on harvesting its current position in the low capacity segment while pursuing market leadership in the developing high capacity market. It will give the company improved strategic flexibility to pursue both organic, i.e. the high capacity case and structural business opportunities where they do see that as fitting.

And the remaining Nel, ASA, will be a leaner, 100% focused electrolysis technology company with 425 something employees, uniquely positioned as a market leader in the only two commercially proven technologies. We have products proven in the field for decades. We have competitive pricing. We have bankable performance and strategic partners for full scope offering funding and knowledge to launch next generation products with groundbreaking performance, offering significantly lower levelized cost of hydrogen. We believe in this split from an industrial perspective, from a financial perspective, and that it will be beneficial to shareholders to decide whether they want to invest in electrolysis or fueling. And we don't have to make that decision for you. You can you can do as you please.

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So to recap them, fourth quarter 2023 in review, we had a 30% revenue increase in the fourth quarter, 80% growth for the full year. Very pleased with that. NOK87 million NOK EBITDA improvement in the fourth quarter compared to 2022 and NOK300 million improvement for the full year. NOK3.4 billion in cash reserves entering 2024 and no need near term need to raise additional cash. The financial part of 2023 we're happy with.

On the operational side, production output more than doubled. That's a fantastic achievement by our team in Herøya. Capacity expansion is on track to reach 1.5 gigawatt by the end of 2024. And we have achieved substantial cost and efficiency improvements on current offerings and made solid progress on next generation payment pressurized alkaline stacks. All contracts signs in summer 2022 now aligned with our preferred stack and balance of stack scope, which signals margin expansion compared to 2022 and 2023 and new global strategic EPC partners signed up.

With that, we open up for questions, Wilhelm, and I will be joined on stage by Kjell Christian Bjørnsen, our CFO.

Question-and-Answer Session

Operator

Thank you, Håkon. [Operator Instructions] So I think we can start off with Rajpal Kulwinder who is the first in line. Your microphone has been activated from your end. Please go ahead.

Rajpal Kulwinder

Yes, good morning, everyone. Thank you for taking my question. So my one question would be mostly on margins. And I'm not trying to get any numbers from you, but just trying to understand where do we go in terms of margins within the alkaline division from here? Do you still have some legacy projects that you might execute in 2024 and maybe beyond?

And then within the PEM, obviously good to see that the GM project collaboration is paying off. But then what more do we need within the PEM division to bring the profitability up? Is it a matter of scale? Is it a matter of maybe product cost or any other moving parts here would be helpful? Thank you.

Håkon Volldal

Yes, I think on if you start with the alkaline division, as I said, 2023 was close to break even. There are two ways of improving that margin, which we expect we will do. And one is to have intrinsically better margins on what we sell and that we have achieved since summer of 2022, when we have a stack balance of stack scope and we have passed through mechanisms on commodity pricing. We didn't have that in the past because commodity prices were quite stable. So, we're hurting from the fact that nickel has become more expensive. Steel has become more expensive. You have inflation, etcetera.

So if you look at 2023, it's a combination of good, solid contracts signed in 2022 and a portfolio of legacy projects that we expected we would conclude in 2023. But there are still there is still work remaining on some of those projects that will impact 2024. But to a lesser extent than what you see in 2023 and from, I would say, 2025 and onwards, I would be very surprised to see a significant impact from the legacy projects. So, we expect margin expansion in 2024 based on just the portfolio composition and assuming we can continue to sign orders with the same sort of base margins as we do today, further expansion in 2025.

If you look at PEM, it's a little behind alkaline in terms of maturity and that also is reflected in the margins. We need more volume, that's for sure. Whereas we have reached sort of a level on the alkaline side where really, volume doesn't drive margins to the same extent as it did in the past. It will help. It's always beneficial with more volume, but it's not the key driver. We can see that on the PEM side, volume will definitely help margins. But it's also a matter of product design.

I think PEM is today, no matter where you source it from, more expensive than alkaline, which means it's difficult to charge the same margin on your projects for a PEM project as they do on alkaline. And [Indiscernible] I think you pointed it out on PEM, we need scale and we need to progress cost savings on the product so that these savings can be captured partially by Nel and partially by our customers.

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Rajpal Kulwinder

Thank you very much.

Operator

Okay. Next question comes from Yoann Charenton. Please go ahead.

Yoann Charenton

Good morning, everyone. Yoann Charenton from Societe Generale. Thank you for the update this morning. I have a sort of wide-ranging question, which is about the current views that you have on supply demand, electrolyzer market balance. Are you experiencing any competition from Asian low-cost equipment suppliers in Europe? And do you feel that European institutions have started to respond to your call for favouring made in Europe equipment?

Håkon Volldal

The answer is we don't see a lot of competition from China yet. We see some situations where you have Chinese suppliers bidding on projects. And then we also see indirect competition from China, meaning that you have European companies with production in China bringing that technology into Europe. I wouldn't say it's widespread, but it's visible. We expect the European Union to make changes to its second hydrogen bank auction.

The first auction was €800 million last year. 123 projects applied for funding. That tells you about, it's not a dead market. There are 123 companies that submitted an application to receive money from the hydrogen bank. The next round will be NOK2.2 billion, almost three times the size. And I think there might be some non-price criteria involved in that auction, because if you want to spend EU taxpayer money on hydrogen, I think there's also desire to make sure that that subsidy is benefiting Europeans, that you actually create jobs for Europeans and not just spend it to subsidize equipment produced somewhere else. We don't know yet, but my personal opinion is that we will see non-price criteria in upcoming EU tenders that will favor European manufacturers.

Yoann Charenton

Thank you. That's very clear.

Operator

Next question comes from Sky London [ph]. Please go ahead.

Unidentified Analyst

You mentioned that you've got 20 leads with an average size of 450 megawatts. Can you comment on when you expect these leads to reach an order or contract effective date? And do you expect to see this order flow in 2024?

And then I guess just kind of linked to this, you mentioned that you aim to capture more than 20% of market share outside of China. Perhaps you could elaborate on the rationale behind this figure. Why 20% and what's driving that? Thank you.

Håkon Volldal

If you look at the top 20 leads, they most of them have a timeline that says FID should be taken in 2024, which means they should translate into purchase orders for electrolyzers in 2024. Then again, we don't control that timeline. What I can say is that the top 20 prospects are in different stages. Some projects have completed feed and we're waiting for a yes or no on the purchase order. Some projects are in feed development and they're awaiting technical feasibility statements, cost estimates in order to then take FID or place the purchase orders. And other projects are less mature and need more time both to go start the feed study and then maybe conclude financing before they're able to place a purchase order.

So I would say it's a mix. But all these top 20 leads have a tentative timeline that should, if everything goes according to plan, all of them should mature in 2024 and could result in a purchase order in 2024 or first part of 2025. So, a lot of them were just waiting for the project to take the decision on whether they will buy electrolyzers or not. And that's why we also remain confident that these are not long-term opportunities in 2025 and 2026. These are fairly short to mid-term opportunities.

The second part was related to market share. Market share. Why 20%? It's not that 20% is the magic number, but if you look at equipment businesses in various industries, the top three players typically capture most of the profits. And to be a top three player, you need around 20% of the markets. And this is sort of guiding our ambition long-term that we want to have 20%. In today's environment, it will vary a lot in some quarters. We've had a higher market share in 20% and in other quarters we've had a very low market share and it will fluctuate because the demand is not evenly distributed. And there are few orders and they differ in size.

But I think long-term, as we look at accumulated market share, Nel has the ambition to be a top player. And that means we need to aim for around 20% of the markets. Are we unsuccessful with 17%? Absolutely not. But 20% is a nice round figure that signals that we want to be a top player and make profit in this industry.

Unidentified Analyst

Thanks.

Operator

Next question comes from Constantin [ph] Hess. Please go ahead.

Unidentified Analyst

Hi there. Sorry, I was muted. Good morning. Thanks very much for taking my question. Couple, just one would be in the first sentence on your outlook. You mentioned that external internal analysis supports a view that multiple gigawatts will reach final investment decision before 2025. I guess you partially answered that with the previous question. So this is basically a conclusion based on whatever these projects currently expect in terms of FID. Or is that driven by a bit more confidence by the conversations that you're having with this potential customer?

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And the second question is just a quick outlook on cash. You mentioned that you don't need any cash raises over the short term. So I just want to understand, is there a specific cash question that you don't want to go below? Thanks.

Håkon Volldal

I will start and then maybe Christian will do the cash part, as you safeguard our bank accounts. I think it's a bit hard to base your strategy on external predictions about the hydrogen market. You can, I mean, there are lots of good sources out there. You can look at the International Energy Agency. You can look at the Hydrogen Council, Hydrogen Europe, BNF [ph], analyst reports on hydrogen. And I think all of them point to the fact that, there should be demand for gigawatts over the coming years.

But we need a bit more tangible evidence than just an Excel prediction. And so we base this statement on the fact that if we summarize the top 20 prospects that we have deep conversations with and that we feel represent, trustworthy partners and customers with realistic plans and solid business cases, if we summarize that, we do get to, 9, 10 gigawatts just by looking at the top 10, 20 prospects. If you look at the complete pipeline of opportunities, as I said, we're talking about tens of gigawatts. But I think, when we say this, it's predominantly driven by the fact that the top 20 hot leads that will materialize in the short term, add up to several gigawatts.

Kjell Christian Bjørnsen

And then when it comes to the cash position, we've been very clear for quite some time that we have wanted to have a strong cash position to be able to weather any storm in the financial markets where there might be a bit of uncertainty from time to time and where we could do the things that are correct for the company, regardless of how that all evolves. What we have now is enough to take us through all the investments we have currently committed, and those investments will allow us a much higher revenue potential than what we currently have. Further expansion beyond that will, of course, drive more need for capital, but that will then be linked to new order intake. So it's a very manageable situation. So we have a long runway from that perspective. And especially if you compare to the rest of the industry, we have a very, very comfortable position on the cash side.

Unidentified Analyst

Understood. So you currently don't see a gap necessarily coming up. And just quickly on the cash question, you mentioned you want to have a strong cash position. Can you put a number on that? Is there a specific number that you don't want to go below?

Kjell Christian Bjørnsen

No, I wouldn't want to comment on that specifically. Thanks.

Operator

Great. There's still a significant number of questions here. So if you can keep both questions and also answers short, sweet so we can squeeze in as much as possible. Next question comes from James Carmichael. Please go ahead. Please activate the microphone on your end as well. All right. Then we'll jump to the next one. Next in line, Elliot [ph] Joffre. You're next in line. Your microphone is now activated.

Unidentified Analyst

Morning guys. Thank you very much for taking the question. The quick question on, I suppose, cash flow. Is there any way you can kind of help us understand if you could be seeing a reversal of these networking capital movements that we've been we've been seeing in recent times going forward, maybe in Q1 or Q2 of this year?

Kjell Christian Bjørnsen

Yes, so, well, of course, we have had a buildup of working capital tied to a large extent to one project. We've commented extensively on that. And of course, that's a project where we are in close connection with the customer and hope and plan to collect that sooner rather than later. But again, that depends on progress on the customer side with their financing. So I think that would in isolation, help the situation quite a lot.

Unidentified Analyst

Thank you.

Operator

Next question in line comes from Anders Rosenlund. Please go ahead.

Anders Rosenlund

Yes, thank you. I took a while to unmute, but in December 2022, you announced the 600 million purchase order with execution in 2024. Is this order still fully reflected in your stated revenue backlog figure?

Kjell Christian Bjørnsen

Yes. And that project is progressing when it comes to our deliveries and all invoices are paid on time. So no issues when it comes to progress on debts and milestone payments.

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Anders Rosenlund

Have you started delivering fuel stacks?

Kjell Christian Bjørnsen

Cell stacks?

Håkon Volldal

Yes, cell stacks, not fuel cells, but electrolysis cell stacks. This is a big part of our 2024 backlog.

Anders Rosenlund

But have you started delivering cell stacks?

Håkon Volldal

We will be delivering during current year.

Anders Rosenlund

But you haven't delivered any cell stacks yet?

Kjell Christian Bjørnsen

We started production and it's being paid for.

Anders Rosenlund

Yes, but you haven't delivered anything?

Håkon Volldal

Not shipped to site yet.

Operator

I'll try to loop in James Carmichael again. Your microphone is now activated. Please go ahead. Okay, then we will jump to the next in line. We have Anastasia Shalaeva [ph]. Your microphone is activated. Please go ahead.

Unidentified Analyst

Congratulations with good results. Could you please advise? You mentioned that from 2022, the orders that you take were only stocks plus balance of stack. But you also mentioned that your customers order balance of plants as well, which is delivered by EPC contracts. Am I correct that starting from the current and next year, the revenue that you generate comes only from stack and balance of stacks and you don't get any revenue from balance of plant as it is the revenue of your EPC contracts?

Håkon Volldal

As I said, we expected all the legacy projects with a full scope offering to be completed during 2023. That is not the case. Not because Nel is not able to deliver, but there are delays on when these projects will be completed. And that means we drag with us some of the projects with the balance of plant scope into 2024. But I would say as a share of the total revenues, it's coming down quickly. I don't think it will impact especially second half figures much. And from I think in 2025, it will be only stack balance of stack.

Unidentified Analyst

Very clear. Thank you.

Operator

I think we can squeeze in one last question from Erwan from RBC. Please go ahead, Erwan. Your microphone is activated. Erwan, please go ahead. Activate the microphone on your end as well.

Erwan Kerouredan

Can you hear me now?

Håkon Volldal

Yes.

Erwan Kerouredan

Yes. Thanks, Wilhelm. And thanks for taking my question. And well done on the solid update in a complex market. I've just got one question, please. Can you just confirm your ambitions in the U.S. market or at least give your sentiment on the attractiveness of a green hydrogen market from your side and your customer side after the 45V update, please? Thank you.

Håkon Volldal

It's a complex question. I think prior to the recent announcements where the more detailed regulations were proposed, regulations were shared with the market. I think everyone thought IRA would be extremely beneficial to all projects. When the detailed regulations came out, the proposed regulations, I think the off-grid developers are happy. The developers that depend on grid connections are not so happy. I think let's see what the final regulations are. It's not decided yet. A lot of things can happen.

But I would say if they turn out to become what has now been proposed, it means that certain projects will proceed as planned and they will get the full funding. Other projects will receive less funding and blue hydrogen will receive almost nothing. So green versus blue is more competitive, but not all green projects will be as attractive as our customers expected.

Having said that, I think we see enough projects in North America to believe that North America will be a key market for Nel and green hydrogen in the coming years. The IRA will be important. It will drive business both for Nel and other suppliers.

Erwan Kerouredan

Thank you.

Operator

So unfortunately, there are more questions in the line here, but the time is running out and we have a hard stop at nine. So unfortunately, we need to end the call here. I will give the word back to management for any final remarks.

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Håkon Volldal

No, I think. Thank you for watching [ph]. And as we've said numerous times, 2023 was a big step in the right direction. And we work hard every day to make the next big step in the right direction in 2024 and remain optimistic that probably the one thing you're missing is the next large contract that will materialize as soon as possible and remain optimistic and confident that it will happen soon. Thank you.

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