

# **NuScale Power Corporation (SMR) Q1 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

May 10, 2024 Friday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 4588 words

**Byline:** SA Transcripts

**Body**

NuScale Power Corporation (SMR)

Q1 2024 Results Conference Call

May 09, 2024 05:00 PM ET

Company Participants

Scott Kozak - Director, Investor Relations

John Hopkins - President and Chief Executive Officer

Ramsey Hamady - Chief Financial Officer

Conference Call Participants

George Gianarikas - Canaccord Genuity

Marc Bianchi - TD Cowen

Ryan Pfingst - B. Riley Securities

Presentation

Operator

Good afternoon, and welcome to NuScale's Fourth Quarter and Full-Year 2023 (sic) [First Quarter 2024] Earnings Results Conference Call. Today's call is being recorded. All participants are in a listen-only mode. After managements' prepared remarks, there will be a question-and-answer session. [Operator Instructions]. A replay of today's conference call will be available and accessible on NuScale's website at ir.NuScalepower.com. The web replay will be available for 30 days following the earnings call.

At this time, for opening remarks, I would like to turn the call over to Scott Kozak, Director of Investor Relations. Please go ahead, Mr. Kozak.

Scott Kozak

Thank you, operator. Welcome to NuScale's first quarter 2024 earnings results conference call. With us today are John Hopkins, President and Chief Executive Officer; and Ramsey Hamady, Chief Financial Officer.

On today's call, NuScale will provide an update on its business and discuss financial results. We will then open up the phone lines for questions. This afternoon, we posted a set of supplemental slides on our Investor Relations website. As reflected in the Safe Harbor on slide two, the information set forth in the presentation and discussed during the course of our remarks and the subsequent Q&A session includes forward-looking statements, which reflect our current views of existing trends and are subject to a variety of risks and uncertainties. You can find a discussion of our risk factors, which could potentially contribute to such differences in our SEC filings on Form 10-K for our fiscal year 2023 and in prior SEC filings.

I'll now turn the call over to John Hopkins, NuScale's President and Chief Executive Officer. John?

John Hopkins

Thank you, Scott, and good afternoon, everyone. As you all know, NuScale was founded on the belief that, nuclear power, a cleaner, safer, more reliable form of energy, is critical to meeting the increasing global demand for carbon-free power. Today, we are seeing this belief borne out in real time. As you'll see on Slide 3, the need for clean, reliable power is significant and growing, driven by the electrification of the transportation, building, technology and industrial segments. A recent five-year projection for U.S. electricity demand growth has doubled from forecast provided just one year ago. Overall, peak demand in the U.S. is expected to grow at least 38 gigawatts over the next five years.

When you consider that the country is on track to close half of its coal-fired generation capacity by 2026, the vulnerability of domestic grids to intermittency comes into greater focus. Particularly when you consider that in 2023, coal represented more than 16% of U.S. utility-scale electricity generation. The U.S. has made historic investments in climate progress and federal regulations, and state policies have helped to bend the projected greenhouse gas emissions curve further down. However, the country continues to lag behind Paris Agreement targets to cut emissions by 50% to 52% below 2005 levels by 2030 and achieve net zero emissions by 2050. For example, in 2023, the U.S. added 32 gigawatts of zero-emissions electricity generation and storage. But as you see in the chart, still falls far short of the target addition of 46 gigawatts to 79 gigawatts needed to keep pace with the country's Paris Agreement goal.

Let me add an additional perspective. In March, I attended CERAWeek, the flagship annual conference on the energy industry calendar, and the dominant theme was artificial intelligence and AI's insatiable appetite for electricity. Data center and AI-driven companies attended event in mass, speaking on panels and seeking out meetings with utility executives, power developers and power production technology companies, including NuScale. A few key takeaways from these discussions. First, NuScale's SMR technology resonates so strongly with this group because our solution is scalable, reliable, near-term deployable and aligns with their clean energy commitments.

In addition, our flexible business model means, they will not need to own or operate a nuclear energy plant. Second, data center and AI companies are not like traditional nuclear energy customers. The sense of urgency and the pace at which they move are clear differentiators. We are in advanced discussions with a number of these prospective customers and several are considering commercial operation dates before the end of this decade. Third and finally, while these companies are competitors commercially, many are collaborating on energy solutions, because they recognize the scope and immediate nature of their common need.

As reflected on Slide 4, when you consider how the electricity needs of tech companies have evolved, a sense of the urgency in their activity is justified. Most traditional data centers built 10 years ago, were energy consumers of 10 megawatts or less. Today, it's not uncommon to see a 100-megawatt data centers. There are data centers planned in the next three to five years that will approach 1,000 megawatts. The International Energy estimates that electricity demands from data centers globally could top 1,000 terawatt hours by 2026, more than double 2022 levels. Data centers, AI and cloud storage are 24/7 power consumers. They require an uninterrupted reliable power supply.

Subscribe to Seeking Alpha for more content like this

At CERAWeek, an Amazon Web Services executive commented that the world adds a new data center every three days. This need was underscored by a new initiative between Google, Microsoft and Nucor working together across electricity ecosystem, develop new business models and aggregate their demand for advanced clean electricity technologies, including advanced nuclear. Initiatives like this will help to bring first of its kind commercial projects to the market.

As you see on Slide 5, nearly every leading hyperscaler has made major commitments to reduce carbon emissions. NuScale's technology has the ability to provide base load decarbonized energy at scale and can help meet those sustainability objectives. We in turn see our sales funnel for prospective data center and AI customers expanding with significant inbound inquiries from Tier 1 hyperscaler computing providers. The most common sentiment we hear in meetings with hyperscale's as well as data center operators like Standard Power, I need the power now and how do I get it? I want to emphasize this is not a passing need. We already see another big energy consumer, Quantum Computing, on the horizon.

Strain on the grid from AI-driven power demand is made even more acute due to strong growth in domestic manufacturing as seen on Slide 6. Driven by domestic content requirements and on showing trends as well as promotion of private investment to the Bipartisan Investment Law, the CHIPS and Science Act and the Inflation Reduction Act, investment commitments for American manufacturing now since 2021 have exceeded $525 billion.

As a result, and noted on Slide 7, we continue to progress serious conversations with prospective industrial customers, including in the petrochemical industry about identifying and incorporating clean energy options, in particular producing clean, high-temperature, high-pressure steam for process heat applications. Related to this interest and activity, we are honored that we added Dr. Dirk Schmidt to our Technical Advisory Board in April. Dr. Schmidt recently retired from Shell Corporation, where he served as their Chief Scientist and Chairman of the Shell Science Council.

I will add that NuScale is continuing to innovate in novel ways. For example, we believe, we have made great progress converting brine to an effective hydrogen carrier using clean energy from a NuScale plant. In the near future, you'll see more news on a test that formed at Pacific Northwest National Laboratory that confirm our patent pending approach. All our prospective customers value the numerous decisive advantages of NuScale technology relative to large-scale nuclear and other energy sources as well as compared to the largely unproven claims of newly emerging SMR technology developers. NuScale enables process heat for industrial customers providing a clean, safe, reliable base load source of energy with a small land footprint. Our small emergency planning zone allows us to co-locate with production facilities. This positions us very favorably, when speaking with prospective customers.

As featured on Slide 8, the strategic partnership we formed with Inter One Energy, an American independent energy producer and plant development owner with significant energy and infrastructure experience enables NuScale to bridge the power plant development plus ownership value.

As seen on slides 9 and 10, with Doosan making significant steps towards production, our readiness is far more advanced than our SMR technology peers that have aspirations for U.S. Nuclear Regulatory Committee approval. And the gap continues to widen between NuScale and our SMR competitors as we continue manufacturing our NuScale power module. It also highlights the degree to which we have derisked our modules. In April, Doosan Enerbility opened a dedicated steam generator tube bending shop. It includes the installation of new state-of-the-art tube bending machines. Recent renovations also enabled the facility to perform tube bending for NuScale power modules, a key milestone in future development. I toured to Doosan's facility last month in -- and I am so impressed with all that Doosan has done to support forgings and manufacturing new scales power modules.

We also are continuing to start new forgings and expect to have all of the forgings needed to support the first six upper reactor press initials by the end of this year. I saw that the first seven large forgings for upper reactor vessels, which we refer to as long lead materials, have made it through the forging and initial manufacturing phase. Our reactive pressure vessels are now ready to enter the next fabrication phase. Our other strategic suppliers like IHI of Japan and PaR Systems in the U.S. we're also making preparations to accept customer-backed orders. This includes fabrication of prototypical NuScale plant components. We look forward to sharing more updates from our suppliers that demonstrate our readiness to deploy NuScale powered plants.

On the regulatory side, NuScale's standard design approval application for a 77 megawatt up rate design was accepted for review by the U.S. Nuclear Regulatory Commission or NRC in July 2023. We expect the NRC's process to conclude on or before July of 2025. While the design is based on a same fundamental safety case and features approved by the NRC in 2020, we believe that the 77-megawatt NuScale power module supports an even wider range of customers. NuScale has deployed six E2 centers thus far with four of these centers deployed at US universities and two internationally. These energy exploration centers are the NRC approved control rooms for NuScale powered plants.

As seen on Slide 11, we toured the E2 center at Seoul National University with NEA director general Bill Magwood. This E2 center models' operations for 12 module NuScale powered plants. Among the first NuScale has achieved, the U.S. NRC has approved three operators in a 12-unit control room. For the first time since the event at Three Mile Island, the NRC also approved control room operations without a trained shift technical adviser. The US State Department announced that E2 Center will be deployed in Ghana, and we are in discussions to deploy several more. Akin to Apple Computers deployed to schools, this makes training on a NuScale E2 center the standard for advanced nuclear worldwide.

Subscribe to Seeking Alpha for more content like this

Next, I'll update you on the RoPower project. In late March, U.S. ambassador to Romania, Kathleen Kavalec, visited RoPower's Dorchest site. Ambassador Kavalec reiterated America's commitment to deploying a NuScale SMR in Romania and underscored that the RoPower project was an important element of the U.S. Romania strategic partnership. Planning continues for raw power projects to Phase 2 front end engineering design work, while commercial and government stakeholders work to finalize terms. While NuScale contracted directly with RoPower to complete FEED Phase 1, as planned, NuScale will serve as a subcontractor to -- for Row Power's FEED Phase 2. In late April, the President of Romania and a Romanian delegation toured NuSign's Enerbility manufacturing facility and saw the NuScale power module components being manufactured there.

Before I conclude, I want to reiterate that nuclear energy is such a valuable commodity in the context of the global energy transition because it's a sustainable solution that executes reliably, a pairing that does not exist with other current energy solutions. Whether it's industrial electrification, process heat, or the rapidly escalating demand of the data economy, NuScale's SMR technology is part of the solution, given our ability to produce clean, reliable energy, reach customers and help them to achieve their sustainability goals. We maintain competitive advantages in technology, safety, manufacturing readiness, siting and regulatory success and expect to play an integral role in helping a wide range of customers meet their 24/7 energy needs while reinforcing and expanding the power grid.

Now I'll turn it over to Ramsey Hamady to provide our financial update. Ramsey?

Ramsey Hamady

Thank you, John, and hello, everyone. Our financial results will be available in our filings, so my focus will be on explaining major line items. I will discuss our first quarter results found on Slide 12 and relevant factors impacting our financial position. All figures following are for Q1 2024 unless I state otherwise. I'll begin with NuScale's improved financial position. In January, the company implemented a series of strategic initiatives to better align our resources with NuScale's primary objective of transitioning towards commercialization and revenue-producing commercial contracts. These actions further NuScale's long-term financial stability by generating approximately $50 million to $60 million in annualized savings, starting in the Q2 of this year.

NuScale's overall cash position improved during the period and in the first quarter with cash and equivalents of $137.1 million, $5.1 million of which is restricted and no debt. This compares to the end of fourth quarter of 2023 when the company had cash and equivalents of $125.4 million, $5.1 of which was restricted and no debt. NuScale also reported revenue of $1.4 million and net loss of $48.1 million for the three-month period ending March 31st. This compares to revenue of $5.5 million and a net loss of $35.6 million for the same period in 2023.

Higher net loss reported in the current quarter is driven by a one-time $3.2 million charge associated with cost reduction efforts related to our transition from the R&D-based company to commercial operations and also a $9 million non-cash adjustment to the fair value of our warrants, driven by the increase in our share price. Looking forward, NuScale will maintain our financial discipline and prudently sustain a conservative liquidity reserve.

I conclude my remarks with a brief view of our capitalization summary on Slide 13. Additional information may be found on our SEC Form 10-Q and earnings release may be available prior to this call.

With that, I'd like to thank you again for joining today and for your continued support of NuScale. We'll now take questions. Operator?

Question-And-Answer Session

Operator

Thank you. [Operator Instructions]. Your first question comes from the line of George Gianarikas with Canaccord Genuity. Please go ahead.

George Gianarikas

Hi. Good evening everyone and thank you for taking my questions. You articulated like a lot of momentum in your discussions with some of the hyperscale data center companies. I'm curious as to when you see that momentum translating materializing into orders. It seems like, it's close, but any guidance there would be much appreciated. Thank you.

John Hopkins

Yes, George. John Hopkins, here. Just, it wasn't that long ago when I commented that, we saw a lot of activity with utilities related to coal plant refurbishment. And then last year, we saw a lot of activity and discussions around hydrogen production, process heat, ammonia. However, what I see this time in conversations with these Tier 1 and others as it relates to AI and data centers, it's not rhetoric. They have a demand and they have an immediate demand. It just continues to perpetuate. It's not that the coal plant have gone away or the hydrogen production. This is compounded by the additional requirements of these data centers and AI.

Subscribe to Seeking Alpha for more content like this

We have NDAs in place and we put these NDAs in place very quickly because everybody is kicking tires now and wants to see who can deliver first. As I mentioned, I was just in Doosan and I was stunned to see the advancement of seeing seven of our forgings coming offline. They're even doing tube bending and they're doing our Helical coil steam generators. They're actually scaled up in testing currently. And these things are invaluable to us because if somebody wants to move quickly, I could probably save over a year of the schedule because we already have these long lead eyes in hand.

I think the difference to your question is that, there's a lot of pressure now coming on when I see utilities from data centers and from AI companies saying, we need to meet the demand now. If you can't deal with it, we'll have to go somewhere else. I'm seeing the utilities now. We had the Inflation Reduction Act and we had the others that I talked about, but I've never seen any movement as fast as what I'm seeing currently right now. We're pretty bullish on the market. This is exactly what I feel and we needed a burning platform. I think this is going to be what promulgates this industry to really take off.

George Gianarikas

Thank you for that. Maybe just as a follow-up, are there any implications to you of the restrictions on Russian uranium imports? Thank you.

John Hopkins

No, there is not at all. Our Chief Technology Officer, Dr. Jose Reyes, back in the year 2000 made a cautious decision to stay as an advanced light water reactor predominantly because that's what the nuclear regulators all over the world do. They know light water. We're typically what we call conventional fuel, less than 5% a wrench, and our fuel is actually manufactured by Framatome here in the United States. Fuel is not an issue for us.

Operator

[Operator Instructions]. Your next question comes from the line of Marc Bianchi with TD Cowen. Please go ahead.

Marc Bianchi

John, I want to follow-up on that last discussion about the data center demand. You mentioned there were several that wanted to have commercial operation before the end of the decade. How many do you think could be awarded to the industry? I'm curious at how meaningful this would be, and I know you probably don't want to get into saying how many you could get. But just, what are the real prospects that are out there? Is it, like, two or three? Is it 10? Help us understand how much that can be.

John Hopkins

I think what comes down to, Mark, and thank you for the question, is the capacity to execute. One thing we don't want to do is overextend our capacity to execute. What I'm looking for right now, in our model, is pretty simple. We will take first of a kind risk. Provide us long term our, PPAs, and that's what we're asking for. Right now, we've got six modules coming offline. Doosan says they could fabricate 20 modules in an annual time frame and they're actually gearing up as they said before.

What I like the fact on these, what I call fungible assets, I can move these modules. We're building in a factory. As you remember, our model is predicated not to do one-off projects, but we have one or two, and we can locate or relocate these from the factory. As we are building in the factory, you are doing the commercial work in the field simultaneously, so we can move pretty quickly. For me right now, I'm not greedy. Just give me one plant, one plant to start and I'm telling you, you probably hear it. This is the first time I've really seen activity moving. People ask me about where is Standard Power. They're still there. But these are large and complicated financial transactions that just take time to finalize. The Standard Power has not gone away.

And again, the others like the Amazon and Google, you read the announcement with Nucor and Google and Microsoft teaming together. I was recently at a conference, and I heard one of the senior executives say, in the market, we're competition. Commercially, we're competitors. However, when it comes to energy, we're collaborated because we all have a standard need and they're looking to move where time is of the essence.

Marc Bianchi

Okay. I guess just two others for me. One, in the quarterly filings for the last few quarters, there's been a sales and marketing agreement. I think it started out as about $20 million a few quarters ago and it's been amortized lower as time goes on. Is that the agreement with Inter One? And if not, is there some expectation for some sort of an award to occur because of this agreement? And if an award doesn't occur, do you to get the money back or something like that? Maybe you could just talk about what's going on there.

Subscribe to Seeking Alpha for more content like this

John Hopkins

I don't know if I'm at liberty to really say, where that money went other than it is for development purposes. Again, this is, as I said, these are complicated transactions. But I will say our partner, Inter One, they're in discussions with the top five tier banks. I'm in discussions with them as well and what they're looking for is, bankable projects. As I commented before, they don't necessarily want to just go and finance a nuclear power plant. These banks are looking for assets under management. They're looking at what Intra One brings is the overarching infrastructure of not just nuclear, but it could be LNG, hydrogen, ammonia, et cetera. We are assisting in some development costs and making this market happen and I'm glad we did it because I'm starting to finally see, hopefully, this is going to come to fruition.

Marc Bianchi

Okay. Great. And then the last... Sorry. Go ahead, John. You had one more point?

John Hopkins

No. I'm sorry. I interrupted. Sorry.

Marc Bianchi

I was just going to ask one for Ramsey on cash. The queue has a $33 million cash use and you talked about in the slides here of the $50 million to $60 million of annualized savings that'll happen in the second quarter. that's like $13 million a quarter of savings. Should the implication then be that, like, the cash use in second quarter and beyond should be in that ballpark of $20,000,000?

Ramsey Hamady

Mark, when we announced our cost savings plan in January, we did mention a savings of $50 million to $60 million on an annualized basis. Our cash from operations for this quarter was about negative $33.5 million. I anticipate that our cash burn on ongoing basis will be sub $10 million. We took a number of one-time charges during the first quarter. I think you're about in the ballpark if you're thinking 20% or low 20% as a quarterly cash burn rate just based on where we stand today.

Marc Bianchi

And to confirm that, that doesn't contemplate any further ATM sales. I know you could do those, but the numbers we're talking about here, that's before any benefit from ATM.

John Hopkins

I'm talking about cash flow for operations. So, yes. Absolutely.

Operator

Your next question comes from the line of Ryan Pfingstwith B. Riley. Please go ahead.

Ryan Pfingst

Good evening, guys. Understanding that the timing for RoPower is out of your control, can you just remind us what the final steps are there to finalize terms for the Phase 2 FEED work?

John Hopkins

Yes, Ryan. In fact, we had an update this morning with our RoPower client. As I commented, I was with the President of Romania two weeks ago in Romania when he toured the Doosan facility. We completed working with Flour Corporation to FEED Phase 1. We're now entering into the LNTP or the limited notice to proceed FEED Phase 2, where NuScale is a subcontractor to Flour Corporation. Their vote was to have it occurred in April 17th with the shareholders of RoPower.

However, for whatever reason, we don't know. All we were told, it has nothing to do with NuScale Technology or the contractors. It's politically driven in a year of elections that they postponed the date, the shareholders voted to June, July. We were told as of this morning that that's still progressing. It's not a financial issue. All we know is that the vote has been abstained or delayed until June, July time frame. That's the extent of what they've told us. To proceed phase, as I said, we're a subcontractor to the Flour. The duration of that is about a one-year duration before they move into the final notice to proceed. Does that help?

Ryan Pfingst

Got it. Thanks, John. And then, just one more. Wondering if you had any update on the two SMR appropriations programs that, we spoke about a little bit on the last call.

Subscribe to Seeking Alpha for more content like this

John Hopkins

Still, we're waiting for the request to come out. The initial, there's for $800 million, in our discussions with government. That award will probably be go on to the next administration, but then there's another award for $100 million that we're waiting on manufacturing and supply chain of normally about $100 million in what we were told the turnaround from that on that time on that contract is 90 days. We are still waiting and hopefully it'll come to -- at least that $100 million we'll know here pretty soon. That's what we we're told. It is an election year, mind you.

Ryan Pfingst

Understood. I appreciate that color. I'll turn it back. Thanks.

Operator

We have reached the allotted time for questions. I will now turn the call over to NuScale's CEO, John Hopkins, for closing remarks.

John Hopkins

Yes. Thank you, operator. As we stated before, NuScale is the only SMR design certified by the U.S. Nuclear Regulatory Commission. We, along with our strategic partner, Inter One, have built, we believe, a very robust business development pipeline. NuScale has industry-leading manufacturing readiness and is well-positioned to commercialize and deliver clean energy at scale. Nuclear technology is essential to powering the global energy transition and we believe we are at the forefront of that effort with our work to deliver safe, scalable and reliable carbon-free nuclear power.

I believe we're off to a good start in 2024 with progress in all fronts. I look forward to what we will accomplish together throughout the remainder of the year. I'd like to thank everybody for their interest in NuScale and for participating on the call today. Operator?

Operator

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

**Load-Date:** May 10, 2024

**End of Document**