

# **Plug Power Inc. (PLUG) Q4 2023 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

January 23, 2024 Tuesday

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**Length:** 8451 words

**Byline:** SA Transcripts

**Body**

Plug Power Inc. (PLUG)

Q4 2023 Earnings Conference Call

January 23, 2022 08:30 AM ET

Company Participants

Meryl Fritz - Marketing Communications Manager

Andy Marsh - Chief Executive Officer

Paul Middleton - Chief Financial Officer

Conference Call Participants

James West - Evercore

Colin Rusch - Oppenheimer

Aaron Spychalla - Craig-Hallum

Bill Peterson - JPMorgan

Craig Irwin - ROTH Capital Partners

Steve Fleishman - Wolfe Research

Sherif Elmaghrabi - BTIG

Brett Castelli - Morningstar

Presentation

Operator

Greetings. Welcome to the Plug Power January 2024 Business Update Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to Meryl Fritz, Marketing Communications Manager. Thank you. You may begin.

Meryl Fritz

Thank you. Welcome to the 2024 business update call. This call will include forward-looking statements. These forward-looking statements include, among others, statements of expectations, beliefs, future plans and strategies, anticipated results from operations and developments and other matters that are not historical facts. We intend these forward statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We believe that it is important to communicate our future expectations to investors.

However, investors are cautioned not to unduly rely on forward-looking statements, and such statements should not be read or understood as a guarantee for future performance or results. Such statements are based upon the current expectations, estimates, forecasts and projections, as well as the current beliefs and assumptions of management, and are subject to significant risks and uncertainties that could cause actual results or performance to differ materially from those discussed as a result of various factors, including, but not limited to, the risks and uncertainties discussed under Item 1A Risk Factors in our annual report on Form 10-K for the fiscal year ending December 31, 2022, subsequent quarterly reports on Form 10-Q, and other reports we file from time to time with the Securities and Exchange Commission.

These forward-looking statements speak only of day in which the statements are made, and we do not undertake or intend to update any forward-looking statements after this call or as a result of new information.

At this point, I would like to turn the call over to Plug Power's CEO, Andy Marsh.

Andy Marsh

Well, thank you, Meryl, and thank you to everyone joining us for our annual update call. I'd like to begin by sharing the exciting news that our Georgia plant is now operational. This facility stands as the largest PEM electrolyzer plant in operation across North America and Europe and it's coupled with our liquefaction plant. Achieving this milestone previously only within the reach of traditional industrial gas companies marks a significant achievement and signals a new era for the hydrogen industry.

While the construction took slightly longer than expected, it still progressed at a pace unmatched by other projects of comparable size and complexity in our sector. And we'll continue as we anticipate that our joint venture plant in St. Gabriel with Olin will start its operation in the third quarter of 2024, positioning us as one of the largest liquid hydrogen producers globally. Our strategy to expand our plant operations will be carefully timed to align with market development and the support we receive from the Department of Energy.

On this note, I'm thrilled to announce that Plug Power has finalized the term sheet negotiation with the Department of Energy for a $1.6 billion loan facility. We were notified yesterday that the application has been submitted to the Credit Review Board for their final considerations and issuance of a conditional commitment. This funding, when received, will support the development construction and ownership of up to six hydrogen production facilities, significantly advancing green hydrogen deployment in the United States. The loan can catalyze our ongoing projects with the Plug facility expected to generate over 200 tons of hydrogen daily.

We're grateful for our partnership with the Department of Energy and look forward to our continued collaboration which will play a pivotal role in scheduling our forthcoming plants in Texas and New York.

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Addressing the critical issue of cash management and resolving our going concern is now our foremost priority. Our approach to cash management doesn't imply holding our growth. Rather, we're focusing on growth that can enhance cash generation. This has been a key focus since the beginning of the fourth quarter. Paul will soon provide a more detailed insight into our cash management strategies.

Following Paul's remarks, I'll outline the operational measures we've implemented and plan to continue aiming to boost the company's profitability. A significant factor in our improved capability to foster profitable growth is the maturation of our newer product line, including our electrolyzer systems and stationary products, which we're transitioning from being cash strains to becoming cash generators.

We're also continuing to reduce costs. For instance, a new bonding strategy for our electrolyzer stacks is projected to save about $100,000 per stack. While the industry growth over the past few years hasn't met our initial expectation, we remain optimistic about its future, especially with increasing government support in the United States and Europe.

The essential role of hydrogen in addressing climate change is undisputed. Reflecting on our journey, a cautious approach to cash management as we look forward is appropriate, and Paul will elaborate on the measures we've taken and will continue to take to optimize our cash flow.

So let me turn the presentation over to Paul.

Paul Middleton

Good morning, everybody. 2023 was another substantial year for Plug Power, full of many positives like the launch of many new products and platforms, the signing of many new customers, and the scaling of our new facilities. However, there were many challenges as well, and we saw the continuation of the challenges into the fourth quarter.

These challenges included factors like the chaos in the hydrogen fuel market with unprecedented number of industry fuel facility shutdowns, and culminated in the third quarter but has since abated. But the effects of these continued on into the fourth quarter. These issues had a negative impact on margins and, more recently, caused some customers to slow deployments to be assured that the hydrogen available issue -- hydrogen availability issue has been abated.

Our own hydrogen plant scale-up effort has taken longer than planned, and given our continued application growth and the new demand from these application sales, it has made the shortage in new facility delays more of a pressing issue.

Doing big new things generally takes 2 times as long and costs 2 times as much versus plan. And our new product platforms like the 5-megawatt electrolyzer system or the high-powered stationary system have held true to this which, in turn, has pushed out some of the sales into 2024 and has delayed some of the cost-down activities associated with these platforms.

Some of the IRA guidance on various provisions this year were favorable to Plug, but recent guidance on PTC and manufacturing credit elements were not as favorable as expected. The manufacturing credits, in particular, did not materialize in 2023 as we hoped. We are active in the treasury comment process and continue to advocate for final rules on these dynamics, which will be more appropriate for the industry.

And lastly, the overall economy and other political factors, like the interest rate hikes, have not exactly made it easier to find debt capital efficiently. Given these factors, after a lot of consideration, we've decided to make certain business decisions to posture for better cash position in lieu of just revenue.

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As an example, instead of our normal PPA sale leasebacks for which we get revenue, but must restrict a significant amount of cash, we held programs that were underway and commenced a program under the new RA transferability rules to sell the ITC benefits. We're also making sure that all new platforms are generating cash in the initial phases. These business decisions will -- that will guide our near-term focus as well.

Looking more specifically at Q4 2023, we had shared previously that we thought a lot of these factors would result in final sales coming in lower than expected. But the market dynamics were even more unfavorable in their impact than we expected in the fourth quarter of 2023.

As a result, it looks like the sales for fourth quarter will come in at just over $200 million. And we're still closing the results and we have a lot of new customer arrangements and new products that are complex, but this is our current estimate. Some of the programs were deployed, but given our focus on cash, where we have an opportunity to get cash for transferring the tax benefits, we held off the normal sale leasebacks where we get sales treatment that would have equated to over $60 million of sales in the fourth quarter 2023.

We did have one of our key traditional PPA customers move to a direct sale program, and they purchased seven sites. However, given the fuel shortage issues mentioned previously, they pushed deployment to 2024, so around $20 million of the sale will be pushed into 2024.

On our 1 and 5-megawatt electrolyzer systems, these are new designs and new offerings that have taken time to scale the manufacturing and supply chain processes. Many of these programs were shipped, but just did not get to final commissioning. Hence, the respective sales will be pushed to 2024. Cumulatively, this was for systems over $40 million in revenue.

As a net impact from overall lower sales, this resulted in lower volumes and, in turn, lower fixed cost absorption. This coupled with continued new product investments overall will result in lower gross margins than anticipated for the fourth quarter.

The last comment I would make is that given the softening in the capital markets and our stock price, it has led us to do a more in-depth evaluation of the goodwill we have on our balance sheet. Given the market dynamics, it appears likely we will take an impairment charge for the goodwill, which could be an amount of up to $250 million. This would be a non-cash charge and the final determination will be made as we get closer to the end of February with our filing.

Turning our focus to 2024. We know we must significantly improve margins and cash flow, and we see this as an opportunity to reset given ongoing economic and market conditions. Our near-term strategies are focused primarily on cash and margin enhancement. We are actively pursuing significant price increases across all our offerings, including equipment, service and fuel. This is a paradigm shift as we have historically not raised prices even during inflationary times when market rates have increased.

We've implemented a hiring freeze and will use attrition to naturally lower payroll cost. We've grown the team a lot over the last few years, and we now need to optimize the leverage of the capabilities we've built and drive increased collaboration and precision of focus. We've invested significantly in inventory in '23 to launch a broad range of new products and to support the ongoing growth. This has put us in a position where much of the material we need for '24 is currently on hand. So our focus is to optimize and significantly reduce the inventory investment.

Making certain focused commercial decisions such as pushing traditional PPA customers to direct sale models, versus our past practice where we subscribe the solution to the customer that sold the equipment to the banks and sale-leaseback transactions to monetize the tax benefit, but in turn had to restrict cash back to the bank. Now we've commissioned the new hydrogen facilities that we've turned on in Georgia, and soon in Tennessee, we'll expect to use these plans to drive margin improvement in fuel costs.

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Costs at these facilities is expected to be one-third of the market cost before any anticipated PTC benefits. In certain cases, we are managing deployments and new platforms with enhanced focus on cash and profitability. We will continue the nurturing effort, but focus more on escalating cost curves, before we ramp the sales efforts. We've slowed investment in the following hydrogen facilities in Texas and New York until we find the right financing solution.

Fortunately, as Andy talked about, the DOE loan program for Plug has crossed a critical milestone with the submission to the Credit Review Board. So we believe this program is on track to enable loan program kickoff and the build-out activities to come forward in the second half of '24.

In 2024, we're targeting to reduce the cash burn by over 70% from '23, with lower CapEx, no investment in working capital, and improved margins. We're also targeting to leverage these improvements to achieve a positive cash flow run rate in the next 12 months. These initiatives will mean slower revenue growth in the near term compared to our prior history, but we think this paradigm shift is critical and necessary given the market conditions. And equally important, it will substantially improve the foundation for Plug, which we believe will allow Plug to grow more rapidly and profitably in years to come.

In our last 10-Q filing and earnings call, we disclosed that, based on accounting standards we have determined a going concern issue. Accounting standards do not allow a company to include potential capital sources in the determination, even though we are confident in the range of options available to us. And we have a long history of accessing the debt and equity markets.

Having said that, given the ongoing market conditions, coupled with the soft capital markets and the going concern accounting matter, we feel confident about these strategic decisions previously outlined to adjust our near-term focus. In addition, we filed an ATM facility last week, which can be used to address the accounting exercise for the going concern analysis, given the liquidity available to us under the principal transaction aspect of that facility.

Our near-term capital strategy is very focused. Leverage the ATM facility as needed as we continue to develop the varied debt solutions we are evaluating, drive significant improvement in the cash burn by reducing CapEx, reducing inventory investment and improving margins, while reducing new platform spending, work with the DOE to secure the $1.6 billion project financing facility, and continue developing varied debt solutions. The company has received and continues to receive many debt offers, but they are not under terms that are interesting to the company. Part of this was driven from the ongoing interest rate hikes. We won't take bad deals. The ATM program, coupled with reduced cash burn efforts, puts us in a position to be more selective as we continue developing new solutions.

I'll now turn the presentation back to Andy.

Andy Marsh

Thanks, Paul. I'd like to delve into how we're operationally implementing cash management strategies by examining each of our business segments. Starting with our application business, which incur composite service, power purchase agreements and equipment sales.

Our service sector has faced challenges, leading us to implement price increases and efforts to minimize field failures. We've identified solutions to some issues and have onboarded an experienced individual in distribution center engineering to spearhead these improvements. We are targeting this business reaching gross margin positive in the fourth quarter.

The PPA segment has been injured by a mixture of factors, including the mismatch between the bank repayment terms and the lifespan of our assets. This has ballooned our restricted cash to $1 billion. Following a pause in new PPAs in the fourth quarter, as Paul mentioned, we're shifting our approach to enable customers to deal directly with banks, mirroring forklift dealers operations. While this may temper short-term revenue growth in material handling, we anticipate resolving these issues in the later half of the year.

We expect this change will transform PPAs into a cash source for Plug in 2024 and the next five years as the restricted cash gets released. For material handling products, while material costs are in line with our targets, overhead has been high. We've consolidated our satellite facilities and third-party warehouses to cut costs. The implementation of SAP in the second half of the year is expected to significantly enhance operational efficiency.

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Our stationary product line is showing promise with the leading advisory firm in the hydrogen space predicting it could become Plug's most significant market opportunity, especially as a complement to wind and solar in the power grid. Our initial product is performing well, targeting markets like fleet electric vehicles, where grid electricity is costly and slow to deploy. Initial models are priced higher than their cost, but we foresee this jetline generating cash in 2024 due to in-house inventory.

For new projects, a combination of Plug raising prices and falling costs should generate positive gross margin. Our energy business spans cryogenic equipment, liquefaction, hydrogen and electrolyzers. Our cryogenic equipment and liquefaction systems are already generating positive gross margin with cash generation expected to rise throughout 2024.

With our Georgia plant operational, and the Tennessee plant coming online, we expect a significant reduction in costs. Starting February 1, we will see subsidizing hydrogen for customers, allowing hydrogen to stop being a cash strain in 2024. While raising prices isn't a long-term solution, we're committed to reducing hydrogen network inefficiencies working with partners to cut costs and decreasing hydrogen prices as new plants become operational.

Regular meetings with customers will ensure appropriate price adjustments. Building plants is expected -- is projected to require about $150 million in cash in 2024. This excludes expenses for completed and ongoing projects in Georgia, Louisiana, New York and Texas.

Our electrolyzer business is expected to reach positive gross margins in the later half of 2024, contributing to cash flows throughout 2024. Initial high inventory costs and early underpriced deals will impact gross margin in the first half of the year, but pricing was adjusted in the second half of 2023, which will allow this business to achieve expected gross margins near 30% by the fourth quarter of 2023.

Paul discussed effective working capital management, particularly inventory, alongside tighter forecasting and supplier management, were central to meet meeting our cash goals. We're also focused on cutting unnecessary overhead.

Paul outlined our cash raising plan, and we anticipate a reduction in cash needs by 70% in the coming year. And this is expected to decrease significantly as the St. Gabriel project concludes.

In summary, we're committed to prudent cash management. Despite slower market development initially, our investments have laid the foundation for long-term shareholder value and customer value, including building the world's premier MEA gigafactory PEM and a comprehensive product line. While adopting a more conservative outlook, we remain dedicated to leading the industry and building the company prudently.

Paul and I are now ready to address your questions.

Question-and-Answer Session

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first questions come from the line of James West with Evercore. Please proceed with your question.

James West

Hey. Good morning, Andy, Paul.

Andy Marsh

Good morning, James.

James West

So Andy, this change in tact on pricing -- raising pricing kind of across the board, across products and what you're selling hydrogen for -- reselling hydrogen for, and then now of course selling your own hydrogen with your Georgia facility online -- and congrats on that. How has that gone so far in customer conversations? Are they accepting the increases? Is it too early to say? I'm just curious kind of the interactions with you and your customer base.

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Andy Marsh

Well, James, look, it's never easy to raise prices. I think there is some understanding that, one, inflation has gone up by about 20% over the last three, four years. They have not seen the impact. I think what's really been valuable in the discussion is the fact that we're not going in saying this is forever more. There is a pathway. The St. Gabriel comes online, as the DOE loan hits, as Georgia, and as New York and Texas get deployed, you can see a pathway where pricing starts to come down.

And that's why, as well as the efforts we're doing on hydrogen efficiency that our forward-looking organization has been involved with, it hasn't been great.

James, I wouldn't tell you these are great conversations. But with some of our customers, we've been discussing this for about five or six weeks. So, I think everybody knows, for this industry to be viable, for Plug to be able to support their long-term needs, that this is a necessity.

I also got to -- have to say that some of our third-party providers have understood that they're going to have to help, and that -- in this pricing issue, and we've had some good initial discussions.

James West

Okay, got it. And then with the Georgia facility operational now, I'm curious, are we up to 15 tons per day? Or are we still ramping towards that? And if we're not there, when would we expect to be fully running?

Andy Marsh

I think it will take about three to four weeks to get to 15 tons a day. By the end of this week, it should be about five or six tons.

James West

Okay, got it. And then just one more for Paul. When would you anticipate having -- or being able to announce something on some bridge financing? I know you're receiving a lot of offers. I know you're not going to take a bad deal. I totally get it. But given that you're at the point of the DOE where you're at the credit committee, things are probably -- the deal terms are probably getting better. I mean is this something we could hear about in the next few weeks? Is it a few months? What's kind of -- what do you think the timing is going to be here?

Paul Middleton

Yes, it's a good question. I guess I would say a couple of things. First, we have more than any time I've been with Plug, the amount of inbound interest that we've gotten from a wide range of parties is fast. And so that's a good thing.

As we mentioned, our focus is not to take a bad deal. So, we're going to keep nurturing those opportunities. We are seeing benefits now with all of these initiatives that we've kicked off, which is significantly reducing the burn for Q1. And we purposely have the ATM in place as a backstop if needed to kind of bridge that.

So, it's possible that we'll do something between now and our filing, but we're going to keep nurturing these opportunities and take the right thing at the right time.

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Andy Marsh

Yes. I mean, Paul, you've been looking at the restricted cash closely, too.

Paul Middleton

Yes. We've had multiple parties. When you look back at the Generate facility that we had where it was basically in advance against that as a deferred receivable, there's been a lot of parties that look at that.

And the pace that that release is at, $200 million a year, that's pretty impactful and powerful. So, a lot of parties have been expressing interest there. So, I wish I could give you a more definitive date, James, but I'd tell you that we're working hard at trying to pick the right ones and put them in place.

James West

Sure. Got it. Okay. Thanks guys,

Andy Marsh

Thanks James.

Operator

Thank you. Our next questions come from the line of Colin Rusch with Oppenheimer. Please proceed with your question.

Colin Rusch

Thanks so much guys. I guess as we -- as you guys ended the year, I would love to understand where you were at from a liquidity position. How much unrestricted cash did you have?

And then how should we think about, I guess, the impact of that cash position on your bookings activity with new customers around some of the electrolyzer activity?

Andy Marsh

Do you want to take that, Paul?

Paul Middleton

Yeah. We ended the year with close to $140 million of unrestricted cash and we got $1 billion of restricted cash. And again, Colin, I think that given the volume of the second half and the receivables, we've had a pretty heavy receivable collection process going on, which is very helpful. The conversion of the one customer to a direct sale, they've paid for that equipment, that was a substantial cash that I didn't -- wouldn't have normally gotten at that pace. So those have all been extremely helpful. And I guess I'll let Andy talk about some of the commercial activities.

Andy Marsh

I guess, Paul, you also have ongoing tax credits, especially associated now with the liquefaction portion at Georgia.

Paul Middleton

Yeah. So there's a number of working capital initiatives that we're working through, which is, as Andy said, one of them, that is collectively in excess of $100 million. And so there's a lot of different initiatives that we can kind of help work -- that were incremental and new to us that help bridge things as well. So I'll say that helps.

Andy Marsh

Yeah. Colin, maybe can you rephrase the electrolyzer question, see if I can help?

Colin Rusch

Yeah. What I'm curious about is the impact to the balance sheet and the financing activity around the development of the longer-term pipeline for incremental sales and how you're developing the backlog. So are customers worried about the platform? One of the assets that you had is just having electrolyzers that people could look at as being a meaningful validation in sales point. I'm just curious how those relationships are evolving.

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Andy Marsh

Yeah. I think the -- we see the energy business for the electrolyzers growing significantly in the coming year. As Paul mentioned, there's about $40 million, which we shipped in the fourth quarter, was because of the terms of the contract we can't recognize. I would expect that the electrolyzer business will be, call it, 30% to 40% of our business this year. It is certainly one of our healthier segments.

And the fact that I took one of the leading IGCs down to the plant at the end of December, and who is also looking to buy electrolyzers from us, and I can tell you that they were just extremely impressed with everything they see, Colin. And matter of fact, they said to me, why have you turned this on yet? We would have turned it on, but we've been really cautious about bringing up this plant. But you take a look, we've been running an electrolyzer of that plant for over a year of our 5-megawatt platform. It's actually ran pretty flawlessly. So we're really pleased in what we can show off now just is going to help accelerate the development of that market.

Colin Rusch

Thanks so much. And the follow-up question is really around your strategic partners. You've had a couple of strategic investors who are working with you guys on various JVs. I'm curious about the maturity of conversations with those folks around enhancing those relationships or evolving them to support the platform as the backdrop, on a macro and technology basis evolves a little bit here?

Andy Marsh

Yeah. Good question. I didn't really touch on it. The activity with SK in the coming year, we see high burst from a fueling station point of view for the number of buses we're looking to put on the road with them, which is, over the next 18 months, call it, over 800 units. That platform is really working well. We are the first company in Korea to have a qualified TAM electrolyzer that meets KoGas's standards.

In HYVIA, we're excited because -- we're excited that we've have a new CEO at HYVIA with a long experience in fuel cell development at Stellantis. We have some aggressive new plans for deployments leveraging Plug stack technology, which I think we'll probably talk about more during the earnings call as those numbers get finalized for deployment. So we're really happy with both relationships.

Colin Rusch

Great. Thanks so much, guys.

Andy Marsh

Okay, Colin.

Operator

Thank you. Our next questions come from the line of Eric Stine with Craig-Hallum. Please proceed with your questions.

Aaron Spychalla

Hey, good morning. It's Aaron Spychalla on for Eric. Thanks for taking the questions.

Andy Marsh

Good morning, Aaron.

Aaron Spychalla

For me -- good morning, Andy. Thanks. You kind of touched on some of the segment level details. But at a high level, can you just kind of talk about 2024 and maybe overall growth expectations, cadence for the year? And then anything on margins and how those overall gross margins might progress through the year?

Andy Marsh

Do you want to take that, Paul?

Paul Middleton

Yeah. I think I guess, first and foremost, Aaron, like previous years, our thought process is that you're probably going to see the one-third, two-third scenario again just because of the momentum in the build, material handling traditional seasonality, plus continued momentum on new programs with the other business segments. And so that's how you'll see it for the balance of the year.

We will see growth that we absolutely will grow off of 2023. That's our expectation. It's probably going to be a little softer than our traditional and experienced growth rates just because of our focus on cash and margin. But we certainly expect that, we will grow this year. And we expect that with the initiatives that we're taking, coupled with the growth that you're going to see margin enhancement from Q1 onwards. You're definitely going to see an improvement and a lot of things in motion. There's a lot of activities underway. So you'll see the story unfold as the year progresses, but we're making good traction where we expect to start strong with Q1 and move forward.

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Andy Marsh

Yes. Paul, I think maybe you might comment, I think with our inventory, even some of those projects which may be negative gross margin will actually generate cash for the company.

Paul Middleton

Yeah. I mean, if you think about some of the very initial pilot programs, those are the ones that's hardest to make the money from a volume and design and as you're figuring things out. But good news is, as Andy mentioned, because of the investment we've made and building inventory to support that growth and that build-out activity, from a cash standpoint, we've largely invested what we needed to -- to deploy that activity. So from a -- you got the books, which is on -- from a GAAP standpoint, which also have EBITDA and cash positions, we expect that to be even stronger given that dynamic.

Aaron Spychalla

Understood. Okay. That's helpful. And then on the DOE term sheet, good to hear there. Anything you can share on kind of structure, terms, timing? Any other color there?

Andy Marsh

87 pages, eh?

Paul Middleton

It’s pretty thick. Yeah. So I think what we've shared is it's a $1.6 billion program. They're targeting advancing somewhere in the range close to $0.80 on the dollar -- on dollars for those programs. Two, a lot of the details still have to kind of get to those final approval steps. But conceptually, the concept is to support us over the next five to seven years as these programs roll out, and allow a reasonable amortization. Probably the most helpful thing is that from a statutory standpoint, the rate can't get above 6.5% today. So we'll see where that lands. But to get to a reasonable rate is what our expectation is, that lower cost of capital is incredibly helpful, obviously, to help fund those programs.

Andy Marsh

I think one of our supporters, Paul, for this is actually the head of the Energy Committee in the House or the Head of the Energy Committee in the House, and she's actually issued a letter to the DOE supporting this program, too. So we're being -- we have support from both the Democratic side and the Republican side for our loan.

Aaron Spychalla

Right. Good to hear. And then just maybe last -- one last quick one. Just overall thoughts on CapEx. I appreciate the kind of commentary on cash preservation. But just how should we think about kind of CapEx here in the next handful of quarters, 2024?

Paul Middleton

Yes. I think again, one positive thing for Plug is, as you know, we've built out Rochester, we've built out Vista, where we've built largely the CapEx operating capacity we need to deliver in the next couple of years. So, we don't expect much at all of an operational investment. I think Andy quoted a number of roughly about $150 million to complete Georgia, Louisiana and some of the programs we're expecting to -- on Texas and New York to continue moving those forward. But expect, holistically, a substantial reduction from 2023, I would guess somewhere in the total of $200 million range, probably, that kind of figure for the full year.

Aaron Spychalla

Understood. Thanks for taking the questions. I’ll turn it over.

Operator

Thank you. Our next questions come from the line of Bill Peterson with JPMorgan. Please proceed with your questions.

Bill Peterson

Yes. Hi, Andy and Paul. Thanks for sharing all the information today.

Andy Marsh

Good morning, Paul.

Paul Middleton

Hi.

Bill Peterson

So just on this cash burn, it looks like you had around a $360 million burn in the fourth quarter. Are you able to -- you gave what you had at the end of the fourth quarter. Are you able to discuss what your current unrestricted cash is today or I guess the end of last week? And I guess following that, if you're able to raise -- if you're using the ATM, you're able to raise, let's say, I don't know, $150 million to $200 million by February or whenever you have to file the 10-K, would that be enough for your auditors to sign off on removing the going concern?

Paul Middleton

So let me answer your first question. Again, Andy quoted that by year-end, we had roughly about $1 billion in restricted cash. I think it was pretty consistent with what we had, maybe a little bit lower even than what we ended Q3 with just because of our turn and focus of not doing those programs, that way more and focused on monetizing the tax benefits with the transferability rules. So we expect that actually to come down. And again, that's just cash that released to us, it's roughly about $200 million a year over the next couple of years.

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I would say this, let me be first and foremost clear, we are focused on resolving the going concern issue. That's our -- I mean, that is our priority. We're focused on that. We expect this program -- the way this particular program works, there's a part of the program that's effectively a bought deal aspect that cumulatively could be in total of $1 billion of capital available to us, not that we necessarily would act on that, but available to us.

And so we're able to factor that into the exercise. And when you look at the math of our target, reducing the cash burn by 70% year-over-year that tells you we think this goes a pretty long way. I hate to say to say definitively because we're still in the audit process and closing and we file on February 29th, but – so there's still some exercises to go through. But we think that this takes us a long way and puts us in a good position.

Bill Peterson

My question was on unrestricted cash where that stands today. And then I have a second question.

Paul Middleton

Yeah. I think, someone asked earlier, we ended the year about $140 million.

Andy Marsh

For last week, so you're still north of 140.

Paul Middleton

Yeah. We're still north of that, yeah.

Bill Peterson

Okay. Great. And then kind of a follow-up question on the DOE loan. And thanks for sharing some of the information there. But I guess what are the exact steps and timing between now and receiving the loan? What is the current review board looking for? Are there any technical milestones to be completed or verified by the DOE? And I guess what is the earliest or best case scenario for receiving cash from the DOE loan program?

Paul Middleton

Yes. So…

Andy Marsh

I think that's third quarter, right?

Paul Middleton

Yeah, that's right. And the reason why this particular milestone is a critical and important one is they've completed, by and large, all their technical diligence, they've done market diligence on the hydrogen market. They've done a lot of diligence [ph] from Plug. Andy mentioned the 87-page term sheet that we've had to pull together in addition to all the credit write-ups. And so the fact that the package has been submitted, it goes through the Credit Review Board where they assign the rate. I mentioned the statutory program. These are all government-driven aspects of establishing that rate. But there is a max rate that it can be. So they're just working through that.

Then the OMB, Office of OMB, it has to approve it as part of the program. And then there's the treasury, which will actually facilitate the bank. So there's an acclimation that matches the government rules and programs.

But, obviously, it's not done until it's done, but the general guidance is it wouldn't be submitted if there was a general consensus and a lot of confidence that it's going to get through those steps. So it's probably, minimum, 30 to 45 days to get through all of those review processes, could be slightly longer. But once it gets through that, you get what they call a conditional approval. The fact that there's an 87-page term sheet, it's all basically been documented in terms of the agreement, all the caveats. You got to just turn that into an official loan document. But that takes it a long way along that way.

And then you basically close and you start funding.

So it could drag in the third quarter. We're certainly going to be focused to try and get it done in the second and get that up and running. And there's been a lot of work done in preparation for what that next phase is so to, expedite that.

And there's some additional things we can do to -- with anticipation of success to allow that to go even faster. So we'll keep you updated, but that's kind of the -- in terms of the process and the timing.

Bill Peterson

Okay. Thanks for sharing the additional insights.

Andy Marsh

Thanks Bill.

Operator

Thank you. [Operator Instructions] Our next questions come from the line of Craig Irwin with ROTH Capital Partners. Please proceed with your question.

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Andy Marsh

Good morning, Craig.

Craig Irwin

Hey Andy, first,…

Andy Marsh

Good to see you again.

Craig Irwin

…congratulations on getting Georgia up. It's still ahead of any time line for a legacy technology, still an accomplishment. So congratulations.

Andy Marsh

Oh. Thank you, Craig.

Craig Irwin

I wanted to ask specifically about Georgia. I know it's been painful for you over the last many months, and you spent a lot more money than you wanted to.

Can you maybe give us a little color, the money that you sunk into getting that up successfully, right, in production today,…

Andy Marsh

Yeah.

Craig Irwin

…how much of that was for design tweaks, design evolution and unforeseen engineering challenges…

Andy Marsh

Yeah.

Craig Irwin

… versus money that might recur for additional sites and necessitate some of these price increases that you've talked about? And is it a natural margin uplift on the price increase, I guess, is really the second part of the question?

Andy Marsh

Yeah. So Craig, I think the biggest cost delta and the biggest learnings really had to do with construction cost and managing EPCs. And part of that was really difficult, because it was a first of its kind and the EPC was not willing to commit to how much it would cost. And we, during that process, we certainly made design changes.

But when we look at Texas, for example, we've been able to get with -- key with a commitment on what the cost is going to be. That probably is the major difference between -- and look, I appreciate the fact that EPC didn't want to quote something that was never done before. Now that they can -- now that EPC can see what it takes and how to build it, I think that's important.

I think the second item is, when I look at it, there are design changes for the future. I'll give you an example, when I look at the building we built to store the electrolyzer systems and how we go about doing that with our -- Texas is going to use our new 10-megawatt skid which is much simpler, which is much easier to install. You won't have that huge building that surrounds the electrolyzers. I think that will drive out a great deal of cost.

From a timing point of view, look, I think we've been well supported by our partners. And I think we've learned a lot about the final commissioning stages and how, from a lesson learned point of view, how we will make sure equipment comes better pre-tested, better pre-installed. So I think that's a lot of the learnings.

Now I think when we look at in the future, the land is there to expand Georgia, to double its size. And I think our cost will be 40% lower, from our estimates. So there was a lot, a lot of learnings. That being said, as Paul highlighted, the cost for hydrogen out of Georgia will be one-third of what the cost is from buying from a third party. So I think that's a -- I know this is a long answer, Craig, but I think that's a significant change.

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Craig Irwin

That is perfect. And if I could sneak in a second one, Andy. So you talked about moving your customers off, let's just say, accommodative pricing for hydrogen that was hurting your margins on the hydrogen side. Can you just give us an idea of maybe how the conversations have gone with your customers? Is this something where we'll see that impact cut in pretty quickly? Do you expect to actually have positive margins on hydrogen sales before the end of the year? How should we look about that -- look at that for modeling perspective?

Andy Marsh

Yes. So the answer to your question is, by the end of the year, we do expect positive gross margins, Craig. Look, having conversations with customers about raising prices is never pleasant. But I think the key is, and I've heard this from our largest customer, what's the road map for the future?

And when we point out how between some of the efforts our forward-looking group's doing to make sure, in a very simple term, more the hydrogen that's produced is delivered because of managing outgassing of the liquid, to the fact that as new plants come online, we can start bringing the pricing down very much closer to where traditionally they paid, adjusted for inflation.

So I think when you look at that, the more knowledgeable customers about hydrogen understand that road map. Do they like that the price is going up? No. Do they understand this is critical to making sure their operation runs? And I think what they've really been focused on is, is this improvement going to continue? And I think the answer is, yes.

And look, and we're talking to our third-party suppliers too. And I think there is an understanding that, to support the development of the hydrogen industry, they're going to have to help in this area, too.

Craig Irwin

Well, thanks, Andy, and congratulations on the progress with these challenging items. Big changes. So, thank you.

Andy Marsh

Thanks, Craig.

Operator

Thank you. Our next questions come from the line of Steve Fleishman with Wolfe Research. Please proceed with your question.

Steve Fleishman

Okay. Thank you.

Andy Marsh

Good morning, Steve.

Steve Fleishman

Good morning. The ATM, the $1 billion ATM, is that a rough sizing of what the cash need is to address the going concern language?

Andy Marsh

Do you want to take that, Paul?

Paul Middleton

Yes. The answer is, we believe the number – as we sit today, the number is substantially lower. I think what I quoted was a 70% reduction into -- from 2023 burn. Not to worry out with accounting, but there's a lot to the accounting exercises that you have to go through. So we're still working through that. But as we sit today, our estimate is that it would be substantially less. And again, just for clarity, that's an exercise that we can use that capacity in the math, but it's not necessarily exactly how we'll solve it as we continue to move forward and fill that gap.

Steve Fleishman

And just on the.

Andy Marsh

I think it's important, Paul, that it goes into the equation.

Paul Middleton

Yes. It's math that you can use in the algebra, that's exactly right.

Andy Marsh

So obviously, if you're reducing cost by 70%, you can see where it could make...

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Paul Middleton

A big difference.

Andy Marsh

Big difference.

Steve Fleishman

And can that math, just to better clarify that, can that math go in without actually executing on the sales or do you only count the executed sales?

Paul Middleton

No. And again, not to worry out with accounting speak, but effectively, there's an aspect of that deal that, for all intents and purposes, it's a bought deal capacity at our choice. So if we chose to put that forward, we could -- we would be able to extract that capital at those rates. So that's why technically, you can use it, but you don't have to use it to be able to get credit for the math.

Steve Fleishman

Okay. I'll try to clarify that a little better later on. But then just -- so you don't need to actually -- you can get credit for the math without actually having executed the bought deal, whatever amount you do?

Paul Middleton

That's right. What the rules say is if it's committed capital, which in this particular case it is, that you can take credit for it, but you don't have to exercise on it to take credit for it.

Steve Fleishman

Okay. That's helpful. Thank you. And then just on the question on the hydrogen, is there -- I might have missed it, but is there any sense of the size of the price increases that you're seeing or planning for -- plan?

Andy Marsh

Yes. Steve, it varies across customers, finalized numbers. Look, I think the last question they mentioned, will this generate positive gross margin by the fourth quarter? A combination of the price increases, the efficiency improvements and negotiations with other -- with our third-party providers should position us to get there.

Steve Fleishman

Great. Thank you.

Andy Marsh

Okay.

Operator

Thank you. Our next questions come from the line of Sherif Elmaghrabi with BTIG. Please proceed with your questions.

Sherif Elmaghrabi

Hey, good morning, Andy, Paul.

Andy Marsh

Good morning, Sherif.

Sherif Elmaghrabi

Thanks for taking my questions. A couple of quick ones. What is your downstream demand for hydrogen for material handling? I remember -- if I remember correctly, Tennessee was about 20% of demand, but that was a few quarters ago.

Andy Marsh

Yes. So Tennessee is probably about 15% today, 16% today. And Georgia would be proportionally 20%, 25%.

Sherif Elmaghrabi

Okay. That's helpful. And then I guess, you talked about $200 million of CapEx this year. But with the learnings in hand, can you give us an estimate for the cost of Texas and New York, because I imagine a lot of that comes next year, so either on a project basis or a per megawatt basis would be helpful.

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Andy Marsh

Yes. I think probably a good number for Texas is probably in the $10 million per ton range. And you can remember we can, against the DOE loan, we can borrow 80%. One of the items that didn't come up on the call, Paul, is that for money we've already spent in New York and Texas, once the DOE loan is officially approved, we'll be able to borrow that money, which is probably somewhere in the $400 million to $500 million range.

Paul Middleton

Yes, it will count towards the math of our -- of the structure.

Sherif Elmaghrabi

That's really good color. Thanks, guys.

Andy Marsh

All right. Next one, Meryl.

Operator

Thank you. That is all the time we do have for questions today.

Andy Marsh

We'll take one more. Okay. I'm trying to keep it to 9:30 and I got a little bit of time before 9:30.

Operator

All right. Fantastic. So our next questions come from the line of Brett Castelli with Morningstar. Please proceed with your question.

Andy Marsh

Good morning, Brett.

Brett Castelli

Thanks for squeezing me in. Good morning.

Andy Marsh

Yes. My lawyers tell me I can't talk too much before -- after 9:30.

Brett Castelli

I'll ask just one then.

Andy Marsh

Okay.

Brett Castelli

Just on the cash burn for the year. You mentioned 70% lower year-on-year. Just curious if you can elaborate more on how you expect that to trend throughout the year and when you think the business could reach sort of positive operating cash. Thanks.

Andy Marsh

Do you want to take that, Paul?

Paul Middleton

Yes. So I mean, I guess, a couple of things, and this might -- hopefully this provides some color. First of all, is because you get one-third, two-thirds of the sales volume, second half is obviously heavier than the first half. So that helps more just from a volume standpoint in the second half. Having said that -- and on the CapEx, it's probably a little heavier in the first half just in terms of finishing Georgia and finishing Catfish [ph], the Louisiana facility. But the positive thing is that we're seeing benefits now in terms of all these actions with reducing cash burn. So we expect that to be pretty impactful in Q1. You'll see it. We're already seeing it now. And I think if that's -- the follow-on action in conjunction with increased volume over the balance of the year is where you'll get to the back half where we'll get to positive cash flows.

Andy Marsh

Well, thank you, everyone, for joining the call. I look forward to talking to everyone during the upcoming earnings call in the end of February. So thank you, everyone. Bye now.

Operator

Thank you. That does conclude today's teleconference. We appreciate your participation. You may disconnect at this time. Have a great day.

**Load-Date:** January 23, 2024

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