

# **PowerCell Sweden AB (publ) (PCELF) Q2 2024 Earnings Call Transcript**

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**Body**

PowerCell Sweden AB (publ) (PCELF)

Q2 2024 Earnings Conference Call

July 18, 2024 04:00 AM ET

Company Participants

Richard Berkling - President and CEO

Torbjorn Gustafsson - SVP, CFO and IR

Conference Call Participants

Henrik Alveskog - Redeye AB

Presentation

Operator

Welcome to the PowerCell Q2 2024 Report Presentation. For the first part of the conference call, the participants will be in listen-only mode. [Operator Instructions]

Now I will hand the conference over to the speakers. Please go ahead.

Richard Berkling

Good morning, and a warm welcome to the quarter two report from PowerCell. This time live from Gothenburg. And today, we are here: Richard and Torbjorn, and it is my pleasure to have Torbjorn this time and also one more time. We announced earlier this month that Torbjorn will move on from PowerCell, which is a good [indiscernible] for Torbjorn, which I'm happy for. But I will have the pleasure of having your company one more time.

Moving into the quarter then. It is an interesting quarter to report on because we claim that this is a very good market activity but on a softer market. And this notion of softer market needs to be a bit explained because why we say that, we are reporting 6% growth quarter two, and 17% growth rolling 12 months, but it also is a record quarter when it comes to sales, and also rolling 12 months. That's the best sales we're having in PowerCell.

And to be able to report that on what we call a softer market needs some explanation. And the terms of the market is related to the fact that we are transitioning away from the short-term project sales to a more long-term OEM-driven market sales. And that is something that we have explained in quarter one, and that will be kind of the theme throughout this presentation as well.

So it is an interesting quarter. We feel that we have a very strong positioning that we will elaborate on during this presentation. Part of that strong positioning is the launch of the new Marine System 225, which is an evolution of the existing PowerCell marine offering. Once again, a product that has positioned PowerCell in a very strong way in the marine market. Looking at market share, we were number one in Marine in quarter one. We also received an order from O.S. Energy early in quarter two on a smaller installation, the Marine System 100. We also had a government loan converted into a grant, generating a positive income, not top line, Torbjorn will explain more, and then also loan to secure working capital for PowerCell, because we are now expanding into more OEM-driven sales.

So we are operating on a very interesting market where we have strong underlying market trends, shifting gears then to OEM business and commercially driven customers. We also see now that marine and power generation is now driving demand in this market. A bit more on the Marine System 225, we reported in quarter one that innovation and continuous development of our offering is extremely important in a technology shift. And the market launch in quarter two was well received. The product will be ready for customer delivery in quarter one, 2025.

As we said, this is an evolution of the existing product, but with a 12.5% improved power rating, which is highly valuable, but also more knowledge going into this product based on all the experience we have from different segments that constantly improve the core technology and the customer value. We also have more supply value from Bosch, which we think is a very important part of our industrial stability, more subcomponents from the Bosch Hydrogen Portfolio, which is strengthening the PowerCell offering.

We are also happy to report that we, yesterday, received -- or today received the first order for Marine System 225. It is a breakthrough order from a leading European OEM manufacturer, four units to be delivered within first half of 2025. And this is also a very good indication that the market is acknowledging our innovation and product offering, but also that the marine industry is now accelerating this transition. Some more input from the market, because we are quite often talking about this transition and energy transition as something of the future. This is a testament from one of our customers who have been operating our technology in their genset that has been touring around the world, giving power from the Extreme E tour.

This was an event in Scotland previously, a couple of weeks ago, where they generated 11-megawatt hours of power, which is the equivalent of 1,000 U.K. homes per day. 80% of that event received its power from green hydrogen being reformed to or transformed to energy through our fuel cells. So these components have been touring around the world. It's been to the West Coast of U.S.A., in Spain in the Middle East., it's now in Scotland and Siberia experiencing different weathers, climate, et cetera.

We've really been tested in application and actual use. And this is a very important proof point, because this is now happening, and we are now seeing more and more acceleration of the market where green hydrogen is available, but also where our customers are using different scales of hydrogen to accelerate this transition. So quite interesting start-up of this year, 2024, and the strong position that we have built up with PowerCell is something that we're taking with us going forward this year and also, of course, next year.

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Deep dive into the numbers. I now hand over to Torbjorn, and we will come back to the strategic side of the presentation.

Torbjorn Gustafsson

Thank you, Richard. As you had already have mentioned, net sales are up 6% in the second quarter, and it's also then up with 17% in rolling 12 months. And this is then what we call a softer market. And I think related to that is really that we have during this period of time with a bit softer market, strengthening our position and also delivered on a growth, which is a good sign for us in this sense.

The product mix within the quarter is with higher part of project sales in this quarter and also year-to-date. But it's also good to highlight that the royalty from Bosch is increasing on a rolling 12 months from almost SEK17 million up to SEK23 million. And we do not have the full visibility on where and how that arises, but it's a good trend going forward. And of course, that's recognized as net sales and revenue for us, but it also then comes down to 100% of gross margin, supporting our gross margin going forward.

Regarding gross margin development, the second quarter gross profit was SEK11 million. And with that, the gross margin of about 17%. I should really emphasize that this lower gross margin in the second quarter is highly affected by inventory revaluation of about SEK8 million that appeared in the second quarter. But taking that out of account and then sort of equalizing between the first quarter and the second quarter, we would have a more balanced situation that more underlines sort of the overall trend and the underlying gross margin. And then we are at the year-to-date gross margin of 30% and the rolling 12 months of almost 38%, which is sort of -- so it's not a shift in the second quarter to something really helps, but rather a situation where we have a temporary effect from this revaluation.

And then of course, underlying, there is a product mix change between quarters. And this time, it's a lot on the project sales.

Richard Berkling

And also gross margin has been a focus area for PowerCell for the last three years. And we are very strong in protecting the gross margin because this is the foundation for future growth and especially to be able to leverage growth, because as a fast-growing company in a technology shift, you need to be able to leverage top-line growth to make sure that your EBIT is improving over time.

Torbjorn Gustafsson

And then on our cost side and OpEx side, we do have an OpEx in relation to net sales rolling 12 months of 62%. And that is then on the graph, you see the trend going downwards. And this is then although we are increasing the number of employees with 7% versus Q2 last year. So we are improving capabilities, but we are then focusing on having operating leverage, and we still have a positive trend, although on sales side, it's been a bit weaker, although we have an increase. But this is three really a key that we are following and really emphasizing to keep that down to go towards positive numbers in results. And that's sort of the last bullet point that focusing on this will also then support our operating income, and we're having a good trend on this.

Richard Berkling

And just to once again clarify, this is one of the graphs where you want to see the trend going down. That's an improvement. Quite often, you want to see the opposite.

Torbjorn Gustafsson

And regarding cash flow, we do have a cash flow in the second quarter of minus SEK50.6 million, but the year-to-date is minus 11. And there is a volatility in our cash flow on a quarterly basis. And in the second quarter, it affects us negatively in the timing of customer payments and also that we have had quite high activity in EU-funded projects that is then sort of where we get the payments than in the second half of the year. So highly affected. And I think we have seen it before. We saw it in the fourth quarter of 2023, and we have seen it before as well. And we will see it going forward that we will have a volatility, and it will come back in a good way.

And highlighting that we are also driving product development projects, and we had SEK10.4 million that was capitalized in intangible assets in the second quarter. And to end up the finest part of the presentation is to mention what Richard also brought up that we had a loan that was then transferred into a subsidy for PowerCell. And this is then being seen as another operating income, not as revenue, but in other operating income, but also highlight that as an item affecting comparability, so it's highlighted in the report and how we show it.

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Richard Berkling

Good. So then moving forward to focus on 2024 and we have stressed this before and I need to emphasize it once again. We are now focusing heavily on OEM customers. And that transition is very important to us. Also, the introduction of the new Marine System 225 is an answer to this transition because the OEM customer compared to the traditional and old project sales, much more demanding customers where you need to have a product offering that is not just creating value in its operation, but it's also creating value throughout the life cycle in the operational cycle at the customer side.

So that is once again a bit more demanding when it comes to our product portfolio, which is why we have upgraded the product portfolio, but of course, also longer sales cycles and negotiation cycles, because we're not selling one-offs. We are selling and negotiating long-term contracts where you also have an aftermarket commitment. So that is the focus for 2022 and the press release today where we now have the first OEM customer on the Marine System 225 is, of course, a very valuable proof point to us, both to the fact that we are now having orders on the newly released system only 4.5 weeks after the introduction, but also the fact that the OEM customers are now starting to accelerate in the market.

Then, of course, for 2024, continued growth and expansion in the U.S. This is, of course, driven by the fact that the U.S. is accelerating the energy transition heavily subsidized by the Inflation Reduction Act, but also from industrial initiatives because you have some geographical aspects of the U.S. market that is supporting the energy transition. You have some areas where you have the coastal areas where you could have solar wind power, availability of the green energy solutions where you could have reform -- you can have electrolysis of hydrogen, but you can also produce methanol and ammonia that then can be the energy carrier that we then reform into hydrogen as we operate an installation.

So U.S. is important from many, many areas. We are also scaling the existing product generation to drive towards breakeven and balance the cash flow. So once again, improving our product offering is extremely important. And I've stated this in quarter one, I do it now, and I will continue to do it. This is still an innovation-driven market. I am very proud, which also Torbjorn pointed out that we now are developing PowerCell as a company that not only have good technology, but really solid industrialized products.

But we also have an operation that can support our product offering, but also our customers in the transition towards the new installations because there is a lot of documentation, certification processes together with [indiscernible] societies for Marine, in aviation, the aviation certification, and also then, of course, internal control of PowerCell, how do we operate our manufacturing and operations. How are we designing our products? We are now developing a company that is industrial mature which is a certain investment into the future, which is also one of the positioning strengths that we have within PowerCell.

So continuing to accelerate industrialization and next-generation product portfolio is also important because although we are adding more value to the existing technology portfolio, we need to be competitive in the next generation. So development of the heavy-duty platform, which is 300 kilowatts to 1 megawatt, which will be the first-megawatt fuel cell in the industry, but then also the next generation of the current size, the medium-duty full platform. Accelerating that industrialization is also important because that is what will make PowerCell profitable and competitive from 2030 onwards. And being able to balance both the short-term competitiveness and long-term while focusing on operational leverage, to have a clear road to breakeven. That is something that I'm extremely proud of how we managed to balance within PowerCell.

And then as we said, industrial innovation, in quarter one, we said that we will have new product features being released in quarter two and quarter three. In quarter two, we released Marine System 225, which I am extremely proud of. Of course, that system is designed also for a power generation version. So it will be suitable for our power generation solutions. It could be backup power. It could [indiscernible], et cetera. So preparation for that is, of course, ongoing, and we will see a launch of that throughout the year. But also [indiscernible], something new as a feature to strengthen the product portfolio.

And as we said, there is a new phase in the market where we are moving away from product sales to the OEM business. This is imposing new requirements on companies like PowerCell and also new opportunities, much more demanding customers, much more real-life experience where you need to create value, not just in one project, but over a complete life cycle. This is where our industrial background of the heritage from Volvo Group, but also the collaboration with Robert Bosch gives us massive strength in this market conditions.

And then also the new opportunities. When we move away from individual project sales to the more long-term OEM business, you build up a pipeline or a portfolio of repetitive business, which is, of course, a solid base for any company, but even more important for companies in a technology shift that needs to build a repetitive business.

We have, as you know, the first signed commercial order in Aviation with ZeroAvia. Their certification testing in plant is going according to plan. Very good progress there. But we now also see OEM activity in power generation and in marine, where we now think that marine will be the segment that is accelerating the fastest in the upcoming six to 12 months. And we have prepared for this for quite some time.

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This is the market scenario that we have a platform, investing in product offering, investing into the internal abilities and capabilities because there are new requirements on a company like PowerCell. It's a different thing to sell a number of units to a university, to sell to a commercial application where you have external auditors coming in and auditing PowerCell all the way through design principles to operation and production.

We have invested into productivity and internal efficiency. This is why we have a very strong gross margin, although quarter two was affected by the reevaluation of inventory. But over time, we see that we have been able to protect gross margin and develop it. So we feel confident in the gross margin development going forward, while still bringing down cost to the end customer because you need to do that. You need to make the product that you sell to the market more cost-effective and more value-creating in the customer operation.

And then, of course, investment into industrial stability and capacity. So we have the scalability of our production footprint, together with Robert Bosch, that is very strong for a company of PowerCell size, but also gives us this asset-light footprint that clearly gives us a role to break even. That is quite interesting, already in the early stages of the market development.

So we are structured to reach breakeven even in a low market -- low volume market. So we're working hard on that one and hopefully, we can come back in the upcoming quarters to show even more improvement on operational leverage and operational income.

So continuing our growth journey, as we said, we have industrialized production established. So we're well prepared for what is coming. We have our offering that we have now called industrial innovation for a number of years. Once again, repeating what that is, we are now approaching OEM customers with a product portfolio that is industrialized, standard components, and solutions, but with an ability to tailor and customize to the end customer requirements to make sure that the adaptation and transition on the customer side is as smooth and effortless as possible. That is a very important part of being competitive in partnerships. I would say it's equally important to the capacity and capabilities of your core technologies. So in a technology, you don't -- you are not winning by having the best technology. You will win by having the best technology product that can be adapted into a customer application.

We think that we have a first-mover advantage from having multiple applications out there. We see that we are gaining knowledge and experience from aviation, marine, power generation, and off-road vehicles as well as automotive together with Robert Bosch. This pool of technology or experience where we see how the system is performing in actual life is something that is giving us constant data points to refine and constantly evolve our product and technology.

We see a growth in commercial orders. We have reported some in quarter two and now in quarter three, and we are working hard to bring even more commercial orders to the market. And we are ramping our production together with Bosch as a supplier and enhancing the deliveries from Bosch into our product technology, as we said before, where we have more components coming from Bosch is also a way of securing gross margin because Bosch is a highly competitive and cost-conscious supplier, but also giving us industrial stability.

And then we need to comment on the market drivers because we have had a situation where initiatives have been delayed going from communicated projects to actually what they call final investment decisions. This is something that we have seen throughout both China, U.S., and Europe, and having now more initiatives from governments subsidizing and challenging the industry is something that is going to hopefully accelerate moving into more, what we call the final investment decision, but also the fact that we are seeing interest rates stabilizing, inflation stabilizing and the fact that hydrogen is acknowledged to be one of the more important solutions of this energy transition. So we see the industry maturing.

I think we mentioned in quarter 1 that there is a balance now where previously, everybody was going for green hydrogen, which still is a scarce resource and fairly expensive to having also different colors of hydrogen available to accelerate this because you have this chicken and egg situation. Without hydrogen available, there will be no fuel cell sole or hydro electrification in the market because you don't have hydrogen to drive with. And without the components or products out in the market, there's no offtake on the hydrogen. So a chicken and egg situation has affected the whole industry up until now.

But with the fact that the customers are now accelerating this by also using gray hydrogen, blue, turquoise, pink, then we are getting more and more components out there, solutions out there, a critical mass, which then, of course, will create a market demand also for green hydrogen, accelerating that expansion and bringing down that cost. So we are now seeing the first indications of solving the chicken and egg situation, which is quite encouraging.

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So as a summary, we are accelerating this transition. We see a lot of initiatives from governments. We have leading technology in the industry, not only the best-validated fuel cell stacks, but also industrialized together with a partner, Robert Bosch, that gives us a very strong competitive edge in scaling this industry now. And then we are now starting to see deliveries to commercial applications. We are happy to say that we have an industrial footprint that we are quite happy with and that will support our growth going forward.

With that, upcoming reports. Torbjorn?

Torbjorn Gustafsson

Yes. So upcoming report next one will be 17th of October. And then for the fourth quarter, that will be presented in 13th of February 2025.

Richard Berkling

Thank you. With that, we open up for questions and comments.

Question-and-Answer Session

Operator

[Operator Instructions] The next question comes from Henrik Alveskog from Redeye AB. Please go ahead.

Henrik Alveskog

Hello, [indiscernible], do you hear me.

Richard Berkling

Yes. Hi, Henrik.

Henrik Alveskog

Hi, good morning. Great. Okay. I have a few questions here. And first, just one on the gross margin, which you explained rather well. But I'm also interested to hear is it -- when you record sales according to project completion, so to speak, are you, well, conservative in those -- well, when you include that in the P&L statement, is that one reason why the sales mix was negative in this quarter?

Richard Berkling

I mean I would say that to that question, of course, for some of the projects, they are rather long. And then, of course, we are entering even though we have matured our operations and the suppliers and also our technology capabilities. Of course, we are breaking new grounds in some parts. So of course, in the estimations, we, of course, take into potential risks and maybe on currency effects and so on. So that's part of the revenue recognition process that we have. But with that said, of course, we do feel that we are doing this according to a well-balanced estimation. And it's based on a cost revenue recognition where cost builds up. That's also where we do recognize revenue. That's a question to your -- or answer to your question.

Henrik Alveskog

Okay. Well, thanks. And then a completely different question then. Just if you could give us some sense of, well, your current order backlog or pipeline for the second half of this year, and I mean you had a rather strong second half of last year. And do you find it challenging to maintain this positive growth momentum in your top line?

Richard Berkling

Once again, we are not making the forecast that I know that you are requesting from us and that we will improve. And with that said, if you go back to last year, you will see that, as you said, you more or less have a hockey stick in quarter three, quarter four. But that was also the case in 2022 and 2021. So that is, to some extent, how the market is operating. So no, we are not that concerned because this is kind of how the -- every calendar year is paying out. With that said, you need to work for every revenue in the technology shift. There is a constant battle. What we see, though, is once again more OEM activity, but also a shorter time from an order to a requested delivery. So that will also help strengthen our opportunities in the second half. But at the same time, we need to work hard on every revenue that we're bringing into the table. But we are not concerned if that is a clear enough answer to your question.

Henrik Alveskog

Okay. That's great. So if you could just give us a very brief update on a few of your business partnerships. The Vantastec Group placed an order. And in the press release, you said the first deliveries will take place well, basically now Q3 this year. Is everything running according to plan?

Richard Berkling

The development is running according to plan. Then as always, with this kind of market introduction, you need to have the full value chain in place. We are not concerned or seeing any significant delays in that one. But whether or not it will be exactly the volumes that we predicted, or we didn't give it a forecast. That needs to be reported when they are occurring, but the development and adaptation is going according to plan. This is where we are [Multiple Speakers] that is why I wake my work

Henrik Alveskog

Sure. And then I guess it was a couple of years ago when you announced some sort of partnership with the Norwegian company Havyard Group, correct? I'm just curious because we haven't heard that much on how this is progressing. Could you tell us anything?

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Richard Berkling

Yes, I have to admit that, that was even before my time in PowerCell. That is a collaboration that has resulted in the initial delivery to the European yacht industry that we reported in quarter two, where the customer now has the vote. I think it was project 821, if you look at that, a 3.2-megawatt delivery, but then also is the result of the [indiscernible] order that we received last year. So that collaboration has generated, I would say, in total, over 18 megawatts of power. But then as always, the partnerships, they are to be a bit, I wouldn't say volatile, but they are not necessarily providing value on a continuous basis. The marine industry is in its nature a bit project-driven because the ships are built to calling specifications. But it's generated a lot of value. So lastly thank you to my predecessor to sign that agreement. So it's providing some value.

Henrik Alveskog

Yes. Great. And then just finally, on ZeroAvia and your partnership with them. I know that there are -- they need to be certified and all that before you really can estimate when this starts. But the -- you said that you will establish assembly and maybe something else in the U.K. here. And are you starting to plan for that? Or is that later on?

Richard Berkling

No. Good question, and I will try and elaborate as extensively as I can. As you said, they're going according to plan. You talked about order value. Of course, there is an element of estimate. We have been clear that it's a condition order. And when we communicated this in October 2022, we communicated SEK 1.5 billion and I think it was 0.5 gigawatts of power. At the moment, if you look at ZeroAvia's communication, that is the equivalent of 800 propulsion units. Today, ZeroAvia have communicated that they have orders for 2,000. So we have a very conservative approach to our initial communication. So they are performing better than we expected, but still that is an order pipeline. So you need to look at their communication.

But with that said, they have now looked to relocate their manufacturing from the U.K. to the U.S. based on many merits being close to their end customers. So they have started a factory up in Seattle. So of course, we are reevaluating should we do production or final assembly in the U.K., or should we move together with them over to the U.S. But we have, as part of our commitment to ZeroAvia to have our final manufacturing in a final assembly very close to them, which is also then it will be an excellent center for PowerCell and of course, an aftermarket service point. So when we know more when and where this will be located, we will update the information.

Henrik Alveskog

Great. Well, thank you. That was all from me.

Richard Berkling

Thanks.

Torbjorn Gustafsson

Thank you.

Richard Berkling

So, we also have questions here…

Operator

[Operator Instructions].

Richard Berkling

We have a written order here. With the orders that you already have signed, you have the capacity to take more orders from new customers.

Yes, as we have explained now, we have a good industrial footprint where we can both accommodate more volume in the existing footprint, but then also scale up quite rapidly. And this is where we have been talking about in an asset like footprint. We have the stack manufacturing together with Bosch, both in Bamberg, in Germany, but they also have production in China and establishing production in North America. So we could have local sourcing depending on where our customers are. But at the moment, our supply is from Bamberg and we are doing final assembly and also system manufacturing here PowerCell in Gothenburg.

And in Gothenburg, we can scale up our own production quite easily, both with more volume. But if we need to add more capacity, it's only -- I would say only, but it sounds like that. But we need more tools and some more people. So the industrial footprint of PowerCell we have the capacity that will support us through our business plan and to reach breakeven. So this is the asset-light model that we are talking about. So capacity is not an issue for PowerCell.

Then we have a question that is a bit macroeconomics, how big risk is a win for the Republicans in the U.S. when it comes to investment in the green energy transition. PowerCell has big hopes for U.S. market.

I'm not that concerned because what we see is that the political side of this energy transition, it might accelerate or slow down. But what we see now is that the industry itself is investing heavily into this. And I think I've said this before that I am convinced that if we could prove today that global warming is not related to man-made activity, I still think this energy transition would continue because it makes sense from a societal perspective.

With the increasing demand in electricity that we see in society, the fact that the grids more or less all over are completely filled, we need to see new solutions. We need to have more decentralized energy solutions, and that's where green energy is fitting into the mix in a very good way. And also, we have seen also from a particular perspective, the dependency on fossil fuels comes to some extent with a political and security risk. So transition in this way is also a way of mitigating that risk. But also, this is a business opportunity for many companies to lead in the valuing to really challenge existing structures. So this is why we see the regardless of, I think, political structure, this will continue to happen. So I'm not too concerned about this. But of course, we are following the development in a very, very close way.

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Torbjorn Gustafsson

And maybe to add there, I think -- I mean, one thing is really U.S. governmental initiatives, but we also see that you have states like California or other states, they are driving this Texas independent of the governmental incentives. So I think in U.S., I mean, no matter what, there's going to be initiatives in the different states.

Richard Berkling

And I mean you have this old expression, follow the money. If you look at where do you see most activity, where do you see most of the investment? That is in the U.S. in states where you have a dependency on fossil fuels. That's why I mentioned Texas. You also see in nations with a strong economy in fossil fuels. We are talking about Norway. We are talking about the Middle East. We also see massive investment and activity in China. So everywhere where you now have a dependency on the fossil fuels, that's where you see most activity in this technology shift. So there's also a very good indication that this is not just driven by governmental subsidies, but this is also something that is happening because it makes sense.

Do you have some kind of visibility for the Bosch royalties in the future? Could the growth get steeper?

Of course, we need to allow Bosch to communicate Bosch activities. If we look at the macro factors, we know that China is most likely going to accelerate because you have seen subsidies in China moving away from technology development to stimulating demand of hydrogen in the market. So the prediction is that growth in China of especially in commercial vehicles, will increase second half of 2024. And that will, of course, then accelerate demand for Bosch because they have a number of OEM customers in China. But as Torbjorn indicated, we have growth on the royalty in quarter two and for the rolling 12 months, which is a quite interesting trajectory. So we're following that closely because, as we pointed out, that is a 100% gross margin for PowerCell. Which one do you want to…

Torbjorn Gustafsson

Yes. I think we have a question here regarding cash position as well. And then the question is really, do you expect the cash position to be lasting? And will you need to raise cash? Or will you need to add other options like long-term credits? And I think for the second quarter, we did a press release, and we also then presented in the report that we have a credit and loan agreement with Nordea and we are very happy with that.

I think that really supports our ongoing business and the product portfolio we have and the discussions we have with existing and potential customers to drive with the current product portfolio. And I think that will also be a situation going forward that PowerCell will grow as a company, and we will need to work with both external debt, but also then over time, we will look at potentially raise cash, but then not for the current product portfolio and the current sort of business platform, but rather to increase and scale up the development and to take PowerCell to be something else than it is today. And I think that -- I mean, we are developing in both those dimensions, and we have been doing it. And I think we are highlighting it in this presentation as well.

And also then with PowerCell, which we say we are then sort of improving our position in the market, and we are then making also progress in the more strategic dimension of the company. So both looking at maybe raising cash to further accelerate those kind of strategic initiatives. But then going forward, with the loan agreement with Nordea, but also then looking forward, we will also be looking at external debt. With that said, the cash position is good, and we see that we can grow the business from the cash position we have in a really good way.

Richard Berkling

Yes. And what Torbjorn is pointing out here is the, I would say, parallel dimension of strategic development that you need to have in a technology issue. We need to focus on the short-term development of PowerCell being highly competitive today, having a clear path towards breakeven, protecting short-term value as quality delivery on time, all these kinds of operational excellence perspectives, but we also need to make sure that we are competitive also from a three to five year perspective or a five to 10-year perspective.

Balancing those is extremely important. And we could have reduced investment in the next phase of development, but then -- and shown better progress when it comes to EBIT and operational leverage, but then we would have jeopardized the long-term competitiveness of PowerCell. So this is a valid point that we constantly monitor within PowerCell as supported by board of course. And we feel that we have a very good position. This is why we talk so much about we think that we have created a PowerCell that is very well-positioned for the market conditions out there. And hopefully, we can come back in the coming quarters and deliver more proof point on that part.

We have a lot of questions. Should we take one more or…

We have a question related to data center, whether or not we will end the data set market, become a power supplier, and replace the diesel backup generators.

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Yes. And this is where the introduction of the new 225 system is very important because we have a partnership together with Hitachi Energy, where we launched together the Hyflex unit, which is a diesel generator replacement. Hitachi is now working in the market to launch this and drive sales. But this is also the product I showed from the Extreme E that was in Scotland a couple of weeks ago, providing on-site electricity. That's also a diesel generator replacement.

And of course, we have now a number of customers that have designed in the PowerCell core technology into their industrial offering. And this is the kind of OEM customers that we need to nurture in the power generation business because PowerCell will not become a Tier 1 supplier because we're not a manufacturer of complete container solutions. So we need to work with a number of OEMs to attract that market and use them as market channels.

But also -- and this ties into another question about the collaboration we have with e1 Marine and Maritime Partners, we see that an integrated solution, we also have a methanol reformer will be quite valuable for also the power generation market because regulation in handling methanol as a fuel compared to hydrogen as a fuel, then methanol is a less regulated market. It's less hazardous. So time to market could be accelerated with that one. So we are also working in the downstream aspect of our product portfolio to make sure that we can perhaps integrate even more solutions to make sure that the transition for the customer and implementation in the customer side is as effortless as possible as I said before.

Any more questions? Torbjorn, do you have something more that should be run off?

Torbjorn Gustafsson

I think we could run up if there's no other questions online.

Richard Berkling

Yes. So if we then summarize, we are reporting a quarter where we have higher ambitions than to grow at 6% because we view ourselves as a fast-growing company. But with that said, and doing that on a market that is transitioning away from product sales to OEM sales, which is delaying some of the orders compared to the short form negotiation period of rolling sales. Even with that, we are reporting record sales in quarter two, record sales growth in 12 months, and we have improved the operational leverage. So doing that and having a strong product portfolio, and we feel that we're well positioned for the market conditions. We are quite confident, but that doesn't mean that we're satisfied. We want to do more. We want to provide more value to our customers, but also to our shareholders. And that is what we're going to work hard on, delivering in 2023, 2024, and continuously.

And as always, if you want to reach out to us, you can contact us through our webpage, LinkedIn. Come by Gothenburg, and this is our factory, Sweden production, although now it's vacation time in Sweden. So it's actually Torbjorn, I, and just a few engineers continues to work. Production is starting up again in two weeks' time. But you're always welcome to [indiscernible] Gothenburg and hope you can stay in touch.

With that, thank you very much, and we wish you a nice summer.

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