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Advent Technologies Holdings, Inc.

Second Quarter 2021 Earnings Call

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CORPORATE PARTICIPANTS

Dr. Vasilis Gregoriou, *Chief Executive Officer*

Kevin Brackman, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Laurence Alexander, *Jefferies*

Elliot Jones, *Fearnley*

Adam Forsyth, *Longspur Research*

PRESENTATION

Operator

At this time, I would like to welcome everyone to the Advent Technologies Second Quarter Earnings Conference Call.

On the call today, we are joined by Dr. Vasilis Gregoriou, Advent's Chairman, and CEO, and Kevin Brackman, Advent's CFO.

Before we begin with the prepared remarks, we would like to remind you that Advent issued a press release announcing its second quarter 2021 financial results shortly before market opened today. You may access the material on the Investor Relations section of ir.advent.energy.

I'd also like to remind everyone that during the course of this conference call, Advent's Management will discuss forecasts, targets, and other forward-looking statements regarding the Company's future. Customer orders and the Company's business outlooks that are intended to be covered by the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995 for forward-looking statements.

While these statements represent the Management's current expectations and projections about future results and performances as of today, Advent's actual results are subject to many risks and uncertainties that could cause actual results to differ materially from those expectations, in addition to any risk highlighted during this call. Important factors that may affect Advent's future results are described in its most recent SEC reports filed with the Securities and Exchange Commission, including today's earnings press release. Except as required by applicable law, the Company undertakes no obligation to update any of these forward-looking statements for any reason after the date of this call.

Lastly, information discussed on this call concerning the Company's industry competitive position in the market in which it operates is based on information from independent industry, and research organizations, other third-party sources, and Management estimates.

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Management estimates are derived from publicly available information released by independent industry analysis and other third-party resources, as well as data from the Company's internal research and are based on assumptions made upon reviewing such data in this experience and in knowledge of such industry and markets, which believes to be reasonable.

These assumptions are subject to uncertainties and risks, which could cause results to differ materially from those expressed in the estimates. Please note that this call is being recorded.

Kicking off the call will be Dr. Vasilis Gregoriou. Dr. Gregoriou, I'll now turn the call over to you.

Dr. Vasilis Gregoriou

Thank you, Operator.

Good morning, everyone, and thank you for joining us on Advent's Second Quarter 2021 Earnings Call.

I'm joined today by Advent's newly appointed CFO, Kevin Brackman. We're pleased to have Kevin joining Advent this quarter, and we'd like to offer a warm welcome to him as a member of the leadership team. Kevin replaces Bill Hunter, who had served as the CFO of Advent following it merger in February 2021 with AMCI Acquisition Corporation, where he was Chief Executive Officer.

On today's call, I will provide some brief comments about our results, followed by an update on the business. I will then turn things over to Kevin, to review our financial performance and outlook in more detail.

Turning to our results, having completed our second quarter as a public company, we continue to build our high-temperature PEM products to new and existing markets, and we're working to expand our offerings throughout various partnerships. Our business is rapidly growing, and we're strategically expanding our team.

In the second quarter, we delivered $1 million in revenue, up 400% from the prior year, driven by strong customer demand for Advent's product offerings and the acquisition of UltraCell. We continue to have strong cash reserves, totaling $116.1 million at quarter end.

Our sales of MEAs and redox flow battery components remain strong, and we expect to see both revenues and bookings increase as we move through the remainder of 2021. We're optimistic about the long-term earning power of the company.

We have had a very busy quarter highlighted by notable new business activity. More recently, we entered into an agreement to acquire the fuel cell system businesses, SerEnergy and fischer eco solutions from fischer group. SerEnergy, based in Denmark and the Philippines, is a leading manufacturer of high-temperature proton exchange membrane fuel cell system globally with thousands of systems shipped around the globe during its 15-year operation. fischer eco solutions based in Germany provides fuel cell stack assembly and testing as well as the production of critical fuel cell components including membrane electrode assemblies, bipolar plates and reformers.

FES operates a facility on Fischer Group's campus in Achern Germany, and that facility would be leased to Advent upon closing of the deal. The transaction is expected to accelerate implementation of a business plan and to expand Advent's growing revenue base in fuel cell stacks and systems. Together we will provide a platform to meet the rapidly increasing demand for alternative power across the globe.

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With the addition of SerEnergy and fischer eco solutions, Advent will expand its geographic footprint by three countries in Europe, and Southeast Asia and will add 92 employees to its growing team. We look forward to successfully integrate our new colleagues, and the extensive experience they have to offer.

The deal will bring together some of the leading minds in the high-temperature fuel cell space and will further build our platform to meet the rapidly increasing demand for clean energy worldwide. This transaction fully aligns with Advent's "Any Fuel. Anywhere" option and this, together with a previously completed UltraCell, acquisition makes Advent a true global leader in the remote and off-power market for fuel cell production with mobility and aviation products on the horizon as well. We look forward to being able to share more information in the coming weeks as the transaction is expected to close in the third quarter of 2021.

In early March, we announced that we entered into a joint development agreement with the United States Department of Energy's Los Alamos National Laboratory, Brookhaven National Laboratory and the National Renewable Energy Laboratory.

Under this agreement, along with support from the DOE's Hydrogen and Fuel Cell Technologies Office, Advent's team of scientists are working closely with its counterparts to develop breakthrough materials to help strengthen the U.S. manufacturing in the fuel cell sector, and bring high-temperature proton exchange membrane fuel cells to the market. This very important program has continued to progress over recent months, including delivery and testing of samples for key components of next generation high-temperature PEM systems.

In May, we announced our participation in the Major European Hydrogen Project White Dragon proposal. As part of a group of the largest energy companies in Greece and Italy, the proposal sets forth a future vision for the entire hydrogen value chain and a path to expand its role in the Greek energy system reduced carbon coals.

The objective is to gradually replace the lignite power plant in Western Macedonia in Greece, and transition to clean and energy production transmission with the ultimate goal of fully decarbonizing Greece energy system. The white dragon project plans to use large scale renewable electricity to produce green hydrogen by electrolysis in Western Macedonia.

Advent is a key player in the project as this hydrogen will then be stored using Advent's high-temperature fuel cells, supplying all of Greece with clean electricity, clean energy and heat.

Further in July 2021, we announced that we have been nominated by the Greek Ministry of Development and Investment to be part of the first wave of IPCEI on Hydrogen and have also been selected to be the Coordinator of Technology Field 2, dedicated to fuel cell and associated technologies. The Company is very pleased to be the designated fuel cell partner for a potential €8 billion project. We look forward to offer an additional color as the project becomes together in the coming few months.

Early in Q2, we've also signed a new contract through our subsidiary, UltraCell with the U.S. Department of Defense for a wearable fuel cell. Through this contract, we will be focusing on completing the MIL-STD certification of UltraCell's 50-watt Reformed Methanol Wearable Fuel Cell Power System, known as Honey Badger. Honey Badger, is designed to integrate with materials already utilized by the U.S. Army and will operate as a wearable battery that can be function on the move.

As we noted on last quarter's call, Honey Badger was selected by the DoE's National Defense Center for Energy and Environment to take part in its 2021 demonstration/validation program. We are excited about the continuing progress of Honey Badger. Partnering with the U.S. Army is a landmark for Advent, as our products become a key choice for defense applications.

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On the policy front, we're optimistic that Advent will continue to increase market share as the world focuses more on clean energy. As of June, the World Resources Institute reported that 59 countries represented over half of global GHG emissions, have conveyed net-zero emission target. We believe our fuel cell technology will play a key role in driving de-carbonization. As we move forward worldwide towards clean renewable energy, Advent is prepared to increasingly contribute to the goal of 100% clean energy.

With that, I would like to turn it over to our CFO, Kevin Brackman.

Kevin Brackman

Thank you, Vasilis, and good morning, everyone.

Before I jump into a review of the results, I want to say how thrilled I am to join the Advent team. This is a dynamic company with an exceptional leadership team, and unique operational opportunities ahead with growing integration of hydrogen and fuel cells into the global energy transition over the next decade, Advent is well positioned to play an important role in the adoption of hydrogen fuel cells through its innovative MEA technology. As a result, I couldn't be more excited to be part of the Company and look forward to playing a role in Advent's evolution.

Turning to our financials, as Vasilis noted earlier, we delivered net revenue of $1 million in the second quarter, a 400% increase from the prior year. The increase was driven by growing customer demand for advanced MEAs and other products as a result of Advent's customers increasing their own testing and usage of our products. The acquisition of UltraCell also contributed to the growth in revenue this quarter.

Cost of revenues increased $0.5 million or 207% year-over-year to $0.7 million in the quarter, as compared to $0.2 million in the prior year period. The increase was directly related to revenue growth over the last year and the requirement for increased production of MEAs and other products to satisfy customer demand as well as UltraCell's operations.

Gross margins were also higher in the quarter, reflecting the revenue growth and a more mature mix of revenue. Advent reported gross profit of $0.3 million in the quarter compared to breakeven in the prior year quarter due to the strong revenue growth.

R&D expenses were $0.6 million in the second quarter, primarily related to our cooperative research and development agreement with the Department of Energy we announced in March of this year.

Administrative and selling expenses were $6.6 million, a year-over-year increase of $6.2 million due to increased staffing, costs to operate as a public company, and stock-based compensation expense. The net loss totaled $3.1 million in the quarter, and the adjusted net loss was $6.8 million. I should note that our adjusted net loss excludes the impact from the change in the fair value of the outstanding warrants. This compares to a net loss and adjusted net loss of $0.3 million in the prior year period. Our net loss per share was $0.07 in the second quarter of 2021.

Advent also remains well capitalized, with $116 million in cash reserves on the balance sheet, which provides us with the flexibility to be agile and executing on our strategic and operational priorities. This is a decrease of $8.9 million from March 31, 2021, driven primarily by the use of cash for operating and capital expenses in the second quarter, and a $2 million payment to complete the acquisition of UltraCell.

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Existing cash reserves and projected cash flows are anticipated to be sufficient to support our planned operations for the next 12 months. The Company expects to invest substantially in fixed assets, plant and equipment in the near future as it executes its product development programs.

Turning to our outlook, based on our performance today and the current macro factors, we are reaffirming our previously issued full-year 2021 guidance of investing between $25 million and $40 million in combined Capex and operating expenses, to develop our next-generation fuel cell products and expand our business. We continue to plan on utilizing between $15 million and $30 million on a net cash basis, which includes our current revenue projections for existing products. We continue to anticipate entering 2022 in a very strong position with a significant portion of our current cash balance and a liquidity position that will allow us to fund operations for the foreseeable future.

In closing, we at Advent are well positioned for the future. The Company has built a solid foundation for the business, and we will continue to execute in against our strategic growth priorities. I look forward to meeting and speaking with many of you in the coming weeks as I settle into the CFO role. Please do not hesitate to reach out to set up a time to speak as I look forward to getting to know all of you.

With that, I will turn it back over to Vasilis for closing remarks.

Dr. Vasilis Gregoriou

Thank you, Kevin. We believe there is enormous opportunity for high-temperature PEM fuel cell technology. The hydrogen economy is here, and our business is ready and able to provide the necessary scale and innovation to fill the gap. Since we have begun, we have always been committed to be a leader in this space, and continue to provide education through our product partnership and continued product development. As the world increasingly recognize the importance of renewable fuels, Advent would be a major player in the fuel cell and hydrogen economy.

I want to thank you all for joining us today and now we're ready to answer questions. Thank you very much.

Operator

Your first question comes on of Laurence Alexander with Jefferies.

Laurence Alexander

Good morning, I have two questions. One, can you give a feel for the SG&A cadence for the balance of the year? Secondly, can you put some context around the White Dragon project, what the potential revenue opportunity for Advent could be if the project goes forward?

Kevin Brackman

Yes, so thank you for the questions. This is Kevin. I'll take the SG&A question, and then Vasilis will address the White Dragon project. So, on SG&A in the second quarter, we had roughly $6.5 million of SG&A (inaudible), I would say that that included approximately $1 million of what I would call non-recurring costs, which we don't expect to repeat in the third and fourth quarters. But having said that, we will have additional stock-based compensation expenses in the third and fourth quarters from the grants for the awards that we completed in June, and so I think our run rate SG&A will probably be a little bit higher than what we were looking at in the second quarter.

Dr. Vasilis Gregoriou

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Yes, now regarding the White Dragon project, the White Dragon is an umbrella project, meaning that it has sub-projects under it, and Advent is the key participant there, because we will provide if the project goes to the finance state, and we will—we should know in the next few months, we will provide not only the high-temperature PEM fuel cell, but in collaboration with the Norad (phon), the Italian company, we actually would be key providers of the electrolyzer as well. It is a mega project. The potential earnings capability for Advent is enormous. I don't want to say more not to mislead, because we need to make sure that we have the okay from the European Commission and the Greek Government that they will actually fund the majority of the project, but so far it's a three-stage project, if you will. We have passed the first one, meaning that we are the selected one to go to the first wave from the Greek Government of—via the Greek Ministry of Development and now we wait from the pre-qualification from the European Commission, and that should happen relatively soon. There we should be able to give a better idea, but we're talking about a very, very, very significant opportunity for us, and thanks for bringing it up. We will know more in the next few months the exact amount.

Laurence Alexander

Then I guess it's also for both of those, both the DOE project and the initial phase of the White Dragon where you're acting as the coordinator, are your total costs related to those projects being covered, being reimbursed in any way? Or, is there kind of a net gap that we should be thinking about that's incremental, and then you would get it back if the project proceeds?

Dr. Vasilis Gregoriou

If I understand correctly, we're not going to prepay something right now, at least for the White Dragon. We will find out there is what's called a funding gap, and that's the major discussion there, because as you know, we have great products. I think people know that, its just expensive. So, there is what's called a funding gap that the customer, in this particular case, the European Commission, comes and agrees through negotiation to pay the majority of it, and that's the number that we wait to find out, but it will be massive if it goes through. As I said, it will be one of the marquee projects in Europe, and I'm glad again you bring it up, because I think the market so far has not come to appreciate the magnitude of it, and we also being conservative because we are a relatively smaller company now but this is a mega project. But we will actually be able to finish it with the support of the partners and the funding organizations, because we have the technology.

Now regarding the DOE, we have the DOE, which is a program that we pay, and we get the technology rights to it because we co-develop with the DOE, that's our innovative program, and then there is the DOE, the Honey Badger, and there the potential earnings are in the tens of millions, and we will know next year. Now, we're in the qualification stage, we have received a few million and we announced it in Q1, and now the Army is qualifying the product, and we should know early 2022, but the potential revenue there is probably $10 million to $30 million U.S. dollars.

Operator

Your next question comes from Elliot Jones with Fearnley.

Elliot Jones

Hi guys, thanks for the update, and good speech, Kevin, for the first quarter and congrats again on the new position.

Kevin Brackman

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Thank you.

Elliot Jones

Just two quick questions from me. The revenue year-on-year being driven by customer demand and UltraCelll acquisition, could you give the potential split of the revenues between Advent operation revenues, and the UltraCell revenues. Is that possible?

Kevin Brackman

We don't—we're not going to provide that level of detail between organic and inorganic. We haven't guided to that, and so we'll stay away from providing that level of detail.

Elliot Jones

Got it, that's okay then. Then the second quick question for me is just on the M&A. You guys are putting your cash balance to good use with the acquisitions. Do you expect kind of any further M&A in the short-term future, or do you think the kind of foundations that are kind of set for you guys for now in the next 12 months to say?

Dr. Vasilis Gregoriou

Yes, and we don't expect something immediately. We don't have something in the pipeline if you're asking that. However, as we—as you see with SerEnergy, which kind of immediately accelerate our business plan by years, when the opportunity is there, we moved fast. The point, I want to make here, I think you know it, but I think the market has also been more familiar with it is that we're talking about a very accelerated sector here. Okay. It's not the sleepy sector seven years ago that, there are only five players and we kind of figure out what to do, and we're far away. Things will happen now. They will happen because governments are driving it, and the opportunity that Advent provides with its unique technology has to be understood, because for Asia we are a bridged technology. We bridge oil and gas, which is going to be with us for the long time. I mean, let's be practical about the realities, but on the other hand, you have to much faster now go to a zero-emission world or a lower-emission world through a zero-emission strategy. So, in a way, coming back to the M&A's some things might happen just because they have to happen, but right now we don't have something in mind.

Operator

Your next question comes from Adam Forsyth with Longspur Research.

Adam Forsyth

Good morning. Three questions if I may. Firstly, it looks like you've got a healthy gross margin, 33%. I'm just wondering, if—can we see that level as a run rate going forwards, or is there anything, sort of, unusual in the mix? I think, Kevin, you referred to sort of mature revenue mix at the moment, but I'm guessing that there must be detail in there.

Second question, just a quick one. Obviously, we saw redox flow demand being quite strong in the first quarter, and I wonder if that's still there in the second quarter, or was that more for a one-off?

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Then finally just another question on White Dragon. When it comes to the actual fuel cell applications, do you have any—does fischer have any products which could be pretty much off the shelf to use at the moment? Or, are you going to have to develop specific products for White Dragon applications? Thanks.

Kevin Brackman

So, yes, your first question on gross margin. Yes, I think, it's going to vary depending on the customers you're selling to and the contracts that you have at any given point in time, but I do think 33% is pretty reflective of our existing customers and existing product base. Then I'll let (inaudible).

Dr. Vasilis Gregoriou

Yes, regarding the flow battery, yes, not only we are continuing, but we think there will be an acceleration, and I agree with you on this. This is a very good technology also, battery, battery technology and we have very good visibility for '21 and '22 for sure, which means that it will be continuing in the future, so that's number one.

Now, regarding the White Dragon, as you know the White Dragon, we can use technology that Advent has developed, but with the acquisition of SerEnergy, we've gotten other systems, methanol systems this time, but with some modifications that can actually be retrofitted to go there. So yes, the acquisition gives us another strength, if you will, to attack a big project like this, because in addition to the know-how, we have also manufacturing capacity now.

Adam Forsyth

Yes. Great, that's very helpful. Thank you.

Kevin Brackman

Yes, thank you, Adam.

Operator

There are no further questions at this time. This concludes today's conference call. Thank you for participating. You may now disconnect.

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