

Aspen Aerogels, Inc. NYSE:ASPN

FQ2 2020 Earnings Call Transcripts

Thursday, July 30, 2020 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.20)	(0.21)	NM	(0.10)	(0.46)	(0.21)
Revenue (mm)	23.04	24.64	▲6.94	29.32	116.70	142.57

Currency: USD

Consensus as of May-18-2020 1:21 PM GMT

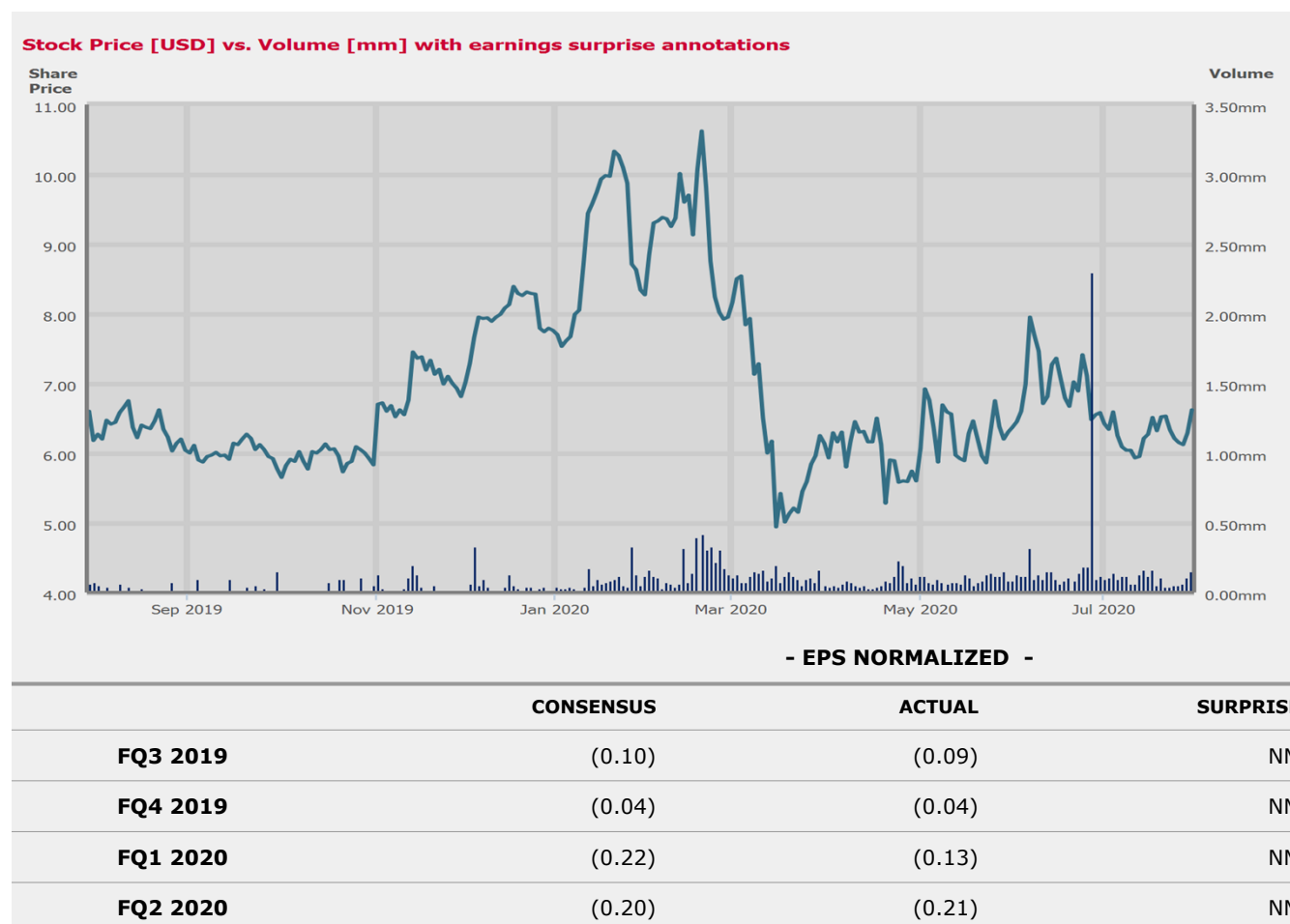


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Call Participants

EXECUTIVES

Donald R. Young

President, CEO & Director

John F. Fairbanks

*VP, CFO, Principal Accounting
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Research Division*

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Aspen Aerogels, Inc. Q2 2020 Earnings Conference Call. [Operator Instructions]

I would now like to hand the conference over to your speaker today, John Fairbanks. Thank you. Please go ahead.

John F. Fairbanks

VP, CFO, Principal Accounting Officer & Treasurer

Good afternoon. Thank you for joining us for the Aspen Aerogels conference call. I'm John Fairbanks, Aspen's Chief Financial Officer.

There are a few housekeeping items that I would like to address before turning the call over to Don Young, Aspen's President and CEO. The press release announcing Aspen's financial results and business developments as well as a reconciliation of management's use of non-GAAP financial measures compared to the most applicable GAAP measures is available on the Investors section of Aspen's website, www.aerogel.com.

Included in the press release is a summary statement of operations, a summary balance sheet and a summary of key financial and operating statistics for the second quarter and 6 months ended June 30, 2020. In addition, the Investors' section of Aspen's website will contain an archived version of this webcast for approximately 1 year.

Please note that our discussion today will include forward-looking statements, including any statement regarding outlook, expectations, beliefs, projections, estimates, targets, prospects, business plans and any other statement that is not a historical fact. These forward-looking statements are subject to risks and uncertainties. Aspen Aerogel's actual results may differ materially from those expressed in these forward-looking statements.

A list of factors that could affect the company's actual results can be found in Aspen's press release issued today and discussed in more detail in the reports Aspen files with the SEC, particularly in the company's most recent annual report on Form 10-K. The company's press release issued today and filings with the SEC can also be found in the Investors' section of Aspen's website.

The forward-looking statements made today represent the company's views as of today, July 30, 2020. Aspen Aerogels disclaims any obligation to update these forward-looking statements to reflect future events or circumstances.

During this call, we will refer to non-GAAP financial measures, including adjusted EBITDA. These financial measures are not prepared in accordance with U.S. generally accepted accounting principles or GAAP. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. The definitions and reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures and a discussion of why we present these non-GAAP financial measures are included in today's press release.

I'll now turn the call over to Don Young, President and CEO of Aspen Aerogels.

Donald R. Young

President, CEO & Director

Thank you, John. Good afternoon. Thank you for joining us for our Q2 2020 earnings call. I will start by sharing our recent business results and our perspective on the current operating environment. I will also discuss our ongoing strategy related not only to our core energy infrastructure business, but also to our 2 electric vehicle initiatives.

Next, John will review our Q2 and year-to-date financial performance, describe the progress we've made to ensure the long-term financial strength of the company and introduce new financial guidance for 2020. We will conclude the call with a Q&A session.

Let's start with the obvious. The pandemic is having a negative impact on our business, particularly on our near-term revenue generation. Our products are installed by contractors working in refineries, petrochemical plants and LNG terminals around the world. It is critical to us for contractors to have access to the energy infrastructure facilities that we serve. In response to COVID-19, facility owners have limited the number of contractors on site in order to reduce worker density. For this reason, our revenue has been negatively impacted during Q2, most notably in the U.S. maintenance market.

Adding to the challenge in Q2, our distributors actively manage their own working capital which resulted in a destocking of the distribution channel. Fortunately, a distributor can only destock once in a given period of time. So for this pandemic, we believe that the negative impact of destocking has largely played out.

Looking forward, we expect revenue to rebound strongly when contractor access to facilities improves and the distribution channel restocks. It is clear that there is a significant pent-up demand, especially on the maintenance side of the business. When we examine EIA data for U.S. refineries, we see the capacity utilization for this period last year was over 90%. In April 2020, as the pandemic intensified, capacity utilization for U.S. refiners dropped below 70%. Capacity utilization in U.S. refineries has now partially rebounded to approximately 80%. An active facility needs regular maintenance, so we view this trend as a positive sign.

However, given that we have seen starts and stops in all regions, it is hard to predict with certainty when a consistent demand boost for our products will begin. To be cautious, our underlying assumption for our new financial guidance is that lower density work sites will be the reality for the remainder of the year, and therefore, we expect quarterly revenue levels to be relatively consistent with the first 2 quarters of 2020.

In the face of the dual impact of COVID-19 and an uncertain energy environment, our critical commercial task for both maintenance and project work is to sell our value proposition centered on simplified logistics and reduced workforce requirements to continue to gain market share in the energy infrastructure space even in a down market. Also, we will continue to strengthen our sales organization, including a focus on converting our pipeline into additional project wins. We are confident that these investments will pay dividends.

Our second quarter performance was largely consistent with our COVID-19 expectations, with revenue down 17% for the quarter and down 8% year-to-date during which we had 2 positive pre-COVID months, January and February.

Our revenue required for adjusted EBITDA breakeven has decreased from \$140 million last year to a revenue level of approximately \$110 million for 2020. This decrease in adjusted EBITDA breakeven is the result of the actions we took to lower compensation and discretionary expenses, to reduce our bill of material costs and to improve our yields and productivity in our East Providence manufacturing plants. The impetus for this important work was both the pandemic and our ongoing drive to profitability.

Interestingly, the lower breakeven level was achieved at a time when we increased our R&D spending to support our strategy to leverage our aerogel technology platform into new, diverse and valuable markets, including our 2 emerging opportunities in the EV space.

Importantly, also during this time, we strengthened our company with an equity raise and credit line extension in February and a PPP loan in May. We believe we have positioned the company to emerge from the COVID-19 period with a strong operating platform and significant strategic momentum.

On the subject of strategy, we continue to make substantial progress with our 2 initiatives addressing electric vehicles. We have accelerated optimization of our silica-based aerogel blankets to provide better solutions to EV manufacturers to manage thermal runaway. The development of our thermal runaway mitigation product, PyroThin, benefited from our experience delivering critical fire protection solutions to our energy infrastructure customers and from active technical exchanges with key EV manufacturers.

The thermal runaway product leverages our existing silica aerogel technology, can be produced using our current manufacturing assets and is protected by our existing intellectual property.

One of our performance indicators for 2020 is to gain adoption for or to generate initial revenue from the thermal runaway opportunity in the EV market in 2020. In fact, we had shipped an initial thermal barrier order to an Asian partner to be used by BYD in its new Blade Battery platform. BYD, of course, is the largest Chinese producer of electric automobiles and buses. Blade is BYD's innovative battery system focused on safety, energy density and cost. The Blade Battery system will be used in BYD vehicles and will also be available for sale to other EV manufacturers.

In addition, we are in the midst of responding to a request for quote with a potential U.S.-based customer with whom we have completed significant product development work. The RFQ contemplates orders spanning multiple years and potentially totaling multiple hundreds of millions of dollars of revenue. If successful, in the near term, we will receive during Q3 2020, an order for a small prototype fleet of EVs. An RFQ does not guarantee success, but it does mean that we are in the hunt for significant business with our PyroThin product.

With respect to our carbon aerogel efforts, we continue our work to validate and accelerate the potential adoption of our technology within the battery materials market. Our effort centers on taking full advantage of the unique attributes of our carbon aerogels and leveraging our decades of experience manufacturing aerogels at scale. The ultimate goal is to improve the energy density of lithium-ion batteries, a key enabler in expanding the drive range and reducing the cost of electric vehicles. We continue to work closely with our evaluation partners, SKC and Evonik, and are actively engaged with other industry leading companies, both battery and EV manufacturers.

In the first 6 months of 2020, we accomplished several important items. We improved significantly both the performance and cost of our materials, we expanded our battery team and we built an in-house battery fabrication -- fabrication and testing capability that will allow us to accelerate development even faster.

During the remainder of 2020. We will provide larger sample quantities of our newest carbon aerogel materials to our partners to test in full cells and on more production-level equipment. The goal is to test full battery systems with multiple cells stacked back-to-back to measure against a total energy output target.

This feedback from our evaluation partners is critical as we continue to optimize our carbon aerogel materials. The advance data also makes our attractiveness to potential new partners yet more appealing. We continue to believe that we will expand our relationship with one or both of our existing partners and enter into additional agreements with other industry leaders during 2020.

Our goal with these 2 opportunities that leverage the megatrend towards electric vehicles, is to build proprietary and diverse aerogel-based businesses and to further demonstrate the value and breadth of our technology platform. We will continue to report out on our progress related to these important strategic initiatives.

Finally, and to recap, we believe we are taking the correct actions in this unusual time to fortify the company to regain our commercial momentum and to advance our strategy. Our goal is to keep everyone on the Aspen team safe and healthy, and at the same time, to keep the company strong. We are focused on our drive to profitability and on executing our strategy. These times demand a balancing act, and we will continue to aggressively manage the company to ensure we maintain the correct balance.

Now I'll turn the call over to John for a review of our financial results. John?

John F. Fairbanks

VP, CFO, Principal Accounting Officer & Treasurer

Thanks, Don. Let's start by running through our reported financial results for the second quarter of 2020 at a summary level.

Second quarter total revenue declined by 17% to \$24.6 million from \$29.5 million in the second quarter of 2019. Second quarter net loss was \$5.7 million or \$0.21 per share versus \$5.3 million or \$0.22 per share last year.

Second quarter adjusted EBITDA was negative \$2.1 million compared to negative \$1.7 million a year ago. We define adjusted EBITDA as net income or loss before interest, taxes, depreciation, amortization, stock-based compensation expense and other items that we do not believe are indicative of our core operating performance.

For the first half of 2020, total revenue declined by \$4.4 million or 8% to \$53.1 million. Net loss improved to \$8.9 million or \$0.34 per share in 2020 versus a net loss of \$11.3 million or \$0.47 per share last year. And adjusted EBITDA for the first half improved to a loss of \$1.6 million compared to a loss of \$4.2 million a year ago.

For the remainder of my comments, I'll focus on second quarter performance and our outlook for the remainder of the year. However, I first want to emphasize that, in the first half of 2020, we improved adjusted EBITDA by \$2.6 million despite a revenue decline of \$4.4 million during the period. This improvement was driven by our initiatives to reduce compensation and discretionary expense in response to COVID-19-related uncertainty, our multiyear initiatives to reduce bill of material costs, continued improvement in yields and productivity in our East Providence plant and our annual price increases.

And importantly, we improved profitability despite an increase in research and development spending in support of our electric vehicle and next-generation process technology programs. This performance indicates that we are operating well despite the COVID-19-related market challenges, that the fundamental economics of our business are improving. And we believe that the actions we're taking to improve profitability in the energy market and the strategic investments we're making in the EV market will enable Aspen to thrive when business conditions improve.

I'll now provide additional detail on the components of our second quarter results. First, I'll discuss revenue. Second quarter total revenue decreased by \$4.9 million or 17% to \$24.6 million versus \$29.5 million last year. This decrease in second quarter total revenue was driven by a decrease in project-based revenue in the subsea market, a COVID-19-related decline in maintenance-related business, most notably in the U.S. petrochemical and refinery market and our planned reduction in research services revenue. These are offset in part by growth in onshore project work globally led by strong demand in the LNG market.

The COVID-19-related decline in our maintenance-related business was largely the impact of our energy customers limiting the number of internal and third-party insulation installers in their facilities to reduce worker density and temporarily shuttering operations from time to time in response to COVID-19 outbreaks. These access-related issues affected our business globally during the quarter, but were particularly prevalent in the U.S. Gulf Coast region.

Total shipments during the quarter decreased by 13% to 7.3 million square feet of aerogel blankets, and our average selling price decreased by a slight mix-related 2% to \$3.35 per square foot.

Next, I'll discuss gross profit. Gross profit was \$2.9 million during the second quarter of 2020 versus \$3.5 million during the second quarter last year. However, gross margin was 12% during both quarters. The decrease in gross profit was largely driven by a 13% decrease in volume, a 2% decrease in average selling price and the decline in research services revenue, offset in part by a decrease in manufacturing expense and a decrease in material costs.

I want to highlight that our second quarter gross profit reflected \$1.2 million of expense associated with our \$4 million reduction in inventory during the quarter. If we had maintained inventories at first quarter levels, our gross margin would have improved to 16% in the second quarter of 2020 compared to 12% last year. However, we chose to decrease inventory balances in the second quarter to improve cash flow as we gain confidence that we could sustain manufacturing operations despite the COVID-19 pandemic.

Next, I'll discuss operating expenses. Second quarter operating expenses decreased by \$200,000 or 3% versus last year to \$8.5 million, despite a \$300,000 increase in research and development in support of

our electric vehicle initiatives. The decrease in operating expenses was principally the result of a decrease in travel-related expenses and the tight discretionary cost controls we instituted in response to the COVID-19 pandemic.

Next, I'll discuss our balance sheet cash flow for the second quarter. Cash used in operations of \$1.9 million reflected our adjusted EBITDA of negative \$2.1 million, offset in part by a \$200,000 decrease in working capital investment during the quarter. The decrease in working capital was principally the result of a \$4 million decrease in inventory, net of an associated \$3.8 million reduction in accounts payable.

Capital expenditures during the second quarter totaled \$1 million and supported the expansion of our carbon aerogel battery lab in our Northborough, Massachusetts headquarters and capital investments to improve the efficiency and reliability of our East Providence facility.

During the quarter, we also received PPP loan proceeds of \$3.7 million and nearly \$900,000 in proceeds from the exercise of stock options. We ended the second quarter with \$13.4 million of cash, net current assets of \$30.1 million, no borrowings under our revolving credit facility and shareholders' equity of \$66.5 million. We also had access to an additional \$8.9 million available under our revolving credit facility at quarter end. Importantly, we believe we have the balance sheet, liquidity and available credit required to support operations and to continue to fund our planned strategic investments.

At the time of our first quarter investor call in April of this year, we indicated that the COVID-19 pandemic and volatile energy markets were adversely impacting demand for our products and making accurate projections of our 2020 revenue exceedingly difficult. Accordingly, we withdrew our prior 2020 financial outlook due to the considerable uncertainty for our business associated with the COVID-19 pandemic.

At present, we expect that ongoing worker density constraints and access issues at customer facilities will continue to press demand for our products during the pandemic. However, oil prices have settled above \$40 per barrel, and we believe the demand patterns for our aerogel blankets have begun to stabilize.

While risks and uncertainties remain, we currently expect that our second half 2020 revenue will be roughly in line with first half actuals, with some potential for project-related upside but will fall below 2019 levels.

As a result, we are introducing a new 2020 full year outlook as follows. Total revenue is expected to range between \$104 million and \$110 million. Net losses expected to range between \$17.7 million and \$14.7 million. Adjusted EBITDA is expected to range between negative \$3 million and breakeven. EPS is expected to range between a loss of \$0.67 and a loss of \$0.55 per share. This EPS outlook assumes a weighted average of 26.3 million shares outstanding for the year.

In addition, this 2020 outlook assumes depreciation and amortization of \$10.5 million, stock-based compensation expense of \$4 million and interest expense of \$200,000. This full year outlook also assumes a gross margin of between 16% and 18% and an average selling price of \$3.45 per square foot, plus or minus \$0.05.

Turning to cash, we expect that capital expenditures will total approximately \$4 million for the full year. And within the context of the adjusted EBITDA range set out in our new 2020 full year outlook, we expect to exit 2020 with between \$12 million and \$14.5 million of cash on hand.

Overall, we believe we have the balance sheet, liquidity and available credit required to support operations and to continue to fund our planned strategic investments. We believe we have taken prudent actions to reduce expense levels and to improve our cash flow. We believe our business fundamentals are improving, and we remain committed to monitoring all aspects of our business and are prepared to take the actions necessary to keep the company financially sound and to execute our strategy.

I'll now turn the call back to Cheryl for Q&A.

Question and Answer

Operator

[Operator Instructions] The first question is from Eric Stine of Craig-Hallum.

Eric Andrew Stine

Craig-Hallum Capital Group LLC, Research Division

So I was hoping, before moving on to the electric vehicle topic, if we could just talk about the core business. So you -- I mean it seems like the weakness that you've seen in Q2, not a surprise, but also that you expect for the remainder of the year, is that day-to-day business that up until this point has grown every quarter every year, I believe, is how you've described it. And with the view that, that comes back, I mean I would love to hear a little bit about the project business you did in the release and a little bit in the commentary there, talk about how you were seeing some positive signs. But just talk about that business and then maybe some of the end markets within that business.

Donald R. Young

President, CEO & Director

Yes. So there's a lot of discussion going on in the industry today about the timing of projects and how the pandemic has impacted that timing. Whether we talk to contractors or our distributors, the basic consensus for now is that we've seen primarily delays in project work as opposed to cancellations of project work, at least for our part of the world. And so we're doing everything we can to be in position and competitive for those projects. There are several projects that are -- that have passed through the financial decision and in many cases, have begun construction. And we feel we're in a prime position to participate in those over the course of 2021 and 2022.

We are very focused on replacing, if you will, the PPP -- excuse me, the PTT Thai LNG project that we have, which will come to an end towards the end of Q1 2021. And we think that we will do that, not only in the LNG business, and there are 2 or 3 prime projects that we're focused on and believe that we're in a strong competitive position to win. But also in the petrochemical and refinery areas as well, particularly in our Asian region.

So again, I don't want to pretend that the pandemic hasn't had an impact. It clearly has. It has caused people to slow down. And so our -- frankly, our focus right now is to execute the projects that we have and monitor carefully worker access, contractor access into those job sites. And as I noted in my comments, there's been kind of a rolling starts and stops to access, again, depending on where you are in the world. We are seeing pretty good access in Asia, and that's an important region for us, in particular, in Thailand. And right now, I would say we're seeing a little pause or a little extra cautiousness on the Gulf Coast here in the United States, and for all the reasons that we read about all the time, just the -- just the activity levels of COVID-19 down in Texas and around the Gulf.

So I think our outlook is largely the same. Just these pauses, these delays clearly have an influence.

Eric Andrew Stine

Craig-Hallum Capital Group LLC, Research Division

Yes. And then when I think about the guide and the guide for a second half, it looks a lot like the first. I mean, is it fair to say that you really are factoring in only modest improvement in that access problem and that maybe that's a little bit offset by the fact that there's no destocking or the destocking at the distributor level is done?

It just seems -- so you mentioned some potential upside from project business. Is it in terms of the day-to-day business, is that upside there? Or is that something where you have enough visibility into some of the refinery schedules that you think that is truly more of an early 2021 part of the business?

Donald R. Young

President, CEO & Director

Yes. So on the -- on the core side, I think your characterization is right. We just think it's prudent for us to assume that quarters 3 and 4 are going to look and feel a lot like Q2 from an access point of view. And so we based our new financial guidance on that assumption. To the extent that I talked about some of the refinery capacity numbers returning back to kind of pre-COVID norms, those activity levels, with no question, translate to more activity back in the refinery and petrochemical side of the world. So that forms a bit of upside for us.

Also the project. So look, we have some projects that have themselves had some starts and stops to them. And I think our upside in project work is, again, an assumption that we get maybe better-than-expected access to finish off some of those projects. Again, some here in the U.S. as well.

Eric Andrew Stine

Craig-Hallum Capital Group LLC, Research Division

Okay. That's helpful. Well, maybe just turning to the electric vehicle opportunity. The RFQ details with the large North American OEM, I mean, is it fair to say that, that is the one that kind of from the start you've been furthest along with?

And then just curious, you mentioned that if you get that RFQ, it would mean that you would start with a small order for a pilot deployment. Maybe just talk about, is that something where you are competing versus another technology once you get to that point? Or is it really a decision by the OEM? Do they move forward or not?

Donald R. Young

President, CEO & Director

No question, that is the competitive environment. We feel that we have an excellent solution. And if you think about some of the parameters of this passive fire protection, that's really the nature of our product. A thin product, a compressible product. There are a lot of factors where this type of application really suits us quite well. No question, it's a competitive environment, where we've made it over some of the early hurdles, and we're moving fast and they're moving fast. So we think we're in a strong position, but still it's competitive.

The prototype fleet that is -- would require initial parts, initial shipments, is that would be a Q3 2020 order. Yes. Again, I emphasize it's not an important amount of revenue per se, but it is crumbs on the trail for sure that we're -- that we're moving in the right direction. We would expect that, that type of order would expand in 2021 and begin to have some noticeable revenue, but it's really in the 2022, 2023 time frame where you start to see really quite noticeable revenue. The more work we've done in this space, and I have said this before, that we believe that this opportunity can be as large and important and perhaps larger than our energy infrastructure business, where we had \$140 million of revenue last year. And it's clear to me the opportunity is at least of that scale.

John F. Fairbanks

VP, CFO, Principal Accounting Officer & Treasurer

I think it's important, Don, to mention that it's for the 2022 model year. So it's prototype in late 2020, initial commercial production in late 2021, an introduction at that time and then ramping thereafter 2022, 2023 and beyond.

Operator

Your next question is from Amit Dayal of H.C. Wainwright.

Amit Dayal

H.C. Wainwright & Co, LLC, Research Division

So with respect to the EV side of your progression, did you say you've already shipped some amounts to BYD? Or is that also sort of a 3Q event?

Donald R. Young

President, CEO & Director

We have shipped to our Asian partner, who is responsible for fabrication and delivery to BYD. So you are correct, we have shipped that product.

John F. Fairbanks

VP, CFO, Principal Accounting Officer & Treasurer

And Amit, that was a couple of hundred thousand dollars. That's kind of the prototype levels. Yes.

Amit Dayal

H.C. Wainwright & Co, LLC, Research Division

So how does this -- so what needs to happen for that relationship or that sort of order to move to the next level, if you will? Is there a testing period? And how long will that take, et cetera? If there's any color you can provide?

Donald R. Young

President, CEO & Director

Well, they've been working with the material for a period of time already. This is, again, for what we refer to and the industry refers to as a prototype fleet. Again, using BYD's new battery system so-called Blade and which they announced a few months ago. And I believe, actually, in June of this year. And so this is a material that -- our material is looking for a role to play in that new battery system. And again, we've gone through substantial testing through our partner and with BYD for that material.

Amit Dayal

H.C. Wainwright & Co, LLC, Research Division

Understood. Yes. I'll take my other questions on this topic off-line. Just getting back to sort of the adjusted EBITDA sort of expectations. Some of these cost cuts that you've made, how much of this should we think will be permanent? And as you sort of scale back and hopefully the economy starts reopening, et cetera, will some of these costs come back into the business? And are you going to try and keep them at bay?

Donald R. Young

President, CEO & Director

John, do you want to take that?

John F. Fairbanks

VP, CFO, Principal Accounting Officer & Treasurer

Yes, I will. I think it'll probably be a mix. We've pulled back discretionary spending. And I think we're learning to operate in a new mode. And I do think that some of the cost savings will be permanent and that we will see improvements to our bottom line flowing because of sort of the actions that we've taken and the way we've operated during COVID-19. Other expenses will return. I mean, at present, quite a bit of the savings is our sales force not traveling. We would love to get back to a position where we could be making our sales pitches face-to-face. It's very effective in this industry, and we have definitely lost something in doing those virtually.

A portion of it is a reduction in incentive compensation. That was set pre-COVID and that we're not achieving at present, so we pulled that back. We'd expect that to return as well.

So I think it's a mix. But we, as a management team, have as sort of one of our goals is to find ways to take some of these learnings and cost savings measures and make sure that they are permanent and help us achieve our drive to profitability objectives.

Donald R. Young

President, CEO & Director

I can tell you, those initiatives that we had in place around raw material cost reductions and yield and productivity improvements, those are fundamental. Those are going to stay with us past the pandemic. But I think John has it exactly right. I can tell you, I'm really biting at the bit right now to get back traveling. And there are a lot of good reasons for me to be in Asia. There are a lot of good reasons for me to be in Europe. And I'm sort of -- sort of ready to go. And of course, those are expenses that will enter back on to our income statement, but also we believe that they will, and for our team in general, will help solidify and advance some of the strategic work that we're doing.

I give my team a lot of credit for being able to advance our strategy, I don't want to say without interruption, but we've made a lot of progress during the COVID period here with our key partners. It's sometimes the partners -- the potential partners who one knows less well that are -- that's probably where the delay is coming, if you will. It's a little harder to break into a new relationship from a distance. And -- but our team has done a terrific job advancing our strategy through this kind of virtual world.

Amit Dayal

H.C. Wainwright & Co, LLC, Research Division

Understood. And just maybe going back, last question. Going back to the North American EV opportunity. You're saying this is multi-hundred million dollar opportunity for you. What would it take from an investment perspective to deliver these levels of orders if all goes well for you and you secure this customer at that rate?

Donald R. Young

President, CEO & Director

Yes. Good question. So we have plenty of capacity to deal with the early years. And again, this is spread out over the course of, let me just say, a 5- to 10-year period. And so we are retooling 1 of our 3 operating lines to optimize our performance around this new product, so-called PyroThin, and that's well within our -- well within our capital expenditure budget that John mentioned, \$4 million in total, so it will be a subset of that. So we feel that we're in good shape to be able to meet those orders in the years to come.

It will be interesting to see how the energy infrastructure business comes back strong and this business comes into play. We do anticipate at the right time that we will -- we will build additional capacity. And -- so time will tell, but we're fine for now.

If you remember, we have roughly \$200 million of revenue capacity in our existing manufacturing plant. And our guidance, \$104 million, \$110 million, I think that's a little artificially low. We were, what, \$140 million last year. So even with that, we still have some running room here to continue to grow within the confines of our existing asset base.

John F. Fairbanks

VP, CFO, Principal Accounting Officer & Treasurer

I just want -- I wanted to stress -- yes, Amit, I just want to stress that this is -- it's a silica aerogel-based product that can be manufactured in the East Providence plant. And when Don said retool, it's really sort of optimizing the existing production assets for that form of the product, but it's very similar to what we've been supplying in the energy markets for years.

Amit Dayal

H.C. Wainwright & Co, LLC, Research Division

Understood. Yes. I was just going to say, either way, it's a good problem to have.

Donald R. Young

President, CEO & Director

Yes. No, exactly. No, exactly. That's the way we think about it. And when it comes time to make that capital decision, John and I have talked about taking partnered approaches to new capacity or additional capacity, minimize our own capital. We're really about advancing our aerogel technology platform as a

technology company, as a technology platform company. And we believe that this EV opportunity, both on the silica aerogel and on the carbon aerogel side, positions us well. And there's no question in my mind also that we have additional ideas that are valuable to develop. Again, leveraging that platform into some additional markets as well.

We got our hands full right now with this one though, and we're really excited about it.

Operator

Your next question is from Jed Dorsheimer of Canaccord Genuity.

Jonathan Edward Dorsheimer

Canaccord Genuity Corp., Research Division

I guess, you've addressed a lot of them, but I was wondering, just digging into the core energy business. And I know that COVID has come and hit all of us, taking us by surprise, I guess. But if I look at rig count and kind of looking at a peak of 620 in 2019, that's going to come down to less than 150. And so I'm just wondering, is that kind of the bigger driver in terms of the energy market versus COVID?

And then also, along the same lines, we're going from 12.3 million barrels per day to less than 8 million. So I'm just wondering how I reconcile some of those figures, as I'm trying to figure out when the ramp is going to happen, if it's more COVID-related or just looking at the capacity related there.

Donald R. Young

President, CEO & Director

These facilities, we've really had our eye on the EIA numbers. They come out weekly. Capacity utilization, it just talks about the activity levels within these refineries. And these refiners can't consistently run their facilities either optimally or necessarily safely without an ongoing day in and day out maintenance program. So we find that particular number for us to be indicative.

And look, I mean, we're -- we're still a little bit in the early days for me. I cited the numbers being -- I just happen to remember, July of '19, that number was about 93% capacity utilization and dipped down into the mid to high 60s in April of 2020. Wrestled its way back up to about 80% now.

And it's pretty interesting. We -- we were going gangbusters July of 2019. We really felt it in April of '19. It's starting to feel a little better. So again, there are not 1 million data points there, but I think that does represent a reasonable pulse on the market for our -- for what we do.

We're also very international, as you know, Jed. We're exporting. John, I want to say over 60%, I believe, of our product...

John F. Fairbanks

VP, CFO, Principal Accounting Officer & Treasurer

Yes. 65%, yes.

Donald R. Young

President, CEO & Director

It's a little bit -- but not reign 65%. And we do have some geographic diversity here as well. We're seeing, for the most part, the Asian economy is more active than ours. We started to come back and we -- I think we're a little bit back on our heels right now on the Gulf Coast at the moment.

But -- and the U.S. maintenance market, I can't emphasize enough how important that market is to us. We have a terrific team of people working that market. It's kind of our home field, if you will. And so when that's quiet, we really feel that. We felt it a bit in Q2.

And the destocking didn't help, right? Those distributors did exactly what you and I would do. They managed their working capital, they pulled back their inventory a little bit. And so it was kind of a little bit of a double whammy for us in Q2. Again, we wanted to take the prudent approach to thinking about the

remaining part of the year, so we said, okay, let's just assume it's going to be a lot like Q2. Our hope is that we start to see a little better activity level, that 80% number stays there, it goes up a bit. And I think maybe that would just get us up into the middle or upper part of our guidance range if that happens.

Jonathan Edward Dorsheimer

Canaccord Genuity Corp., Research Division

Got it. And one last question there. The utilization number that you put out there, there have been a lot of refiners that have gone under due to the pricing. So is that a true apples-to-apples number? Or is that going up as a function of the companies that aren't able to stay in business, therefore, a lower denominator?

Donald R. Young

President, CEO & Director

Well, that's a -- I haven't exactly peeled apart the EIA numbers quite to that extent. I think those numbers are pretty reliable and have their finger on the pulse pretty well. I think the refiners, for the most part have -- well, I wouldn't call them they're not at their healthiest point in time. I think they're stronger than some of the highly levered frackers, et cetera, et cetera.

So I think that part of the business -- those are big broad-shouldered companies for the most part we serve.

Jonathan Edward Dorsheimer

Canaccord Genuity Corp., Research Division

Got it. Just turning to the -- turning to the EV side, I had a few questions, if you don't mind. So just to be clear, the product with BYD is for the passive fire protection, correct? It's not for the carbon battery materials?

Donald R. Young

President, CEO & Director

Correct. It is to address thermal runaway within their lithium-ion battery program.

Jonathan Edward Dorsheimer

Canaccord Genuity Corp., Research Division

So -- and you just shipped that within the last year to them?

Donald R. Young

President, CEO & Director

Within the -- within the last month.

Jonathan Edward Dorsheimer

Canaccord Genuity Corp., Research Division

Within the last month. So -- and I just want to make sure from an expectation perspective, you did -- so you're looking at going into the battery pack for the fire protection to be adopted with the 2022 model year for them? That would be the expectation?

Donald R. Young

President, CEO & Director

Well, we had 2 activities going on. And John, when he said that was particularly talking about the North American-based opportunity that we're in the middle of the RFQ process around, that is a 2022 launch, which will take place, as you know, in, what, September, October of 2021 with initial -- with initial volumes, if you will. So yes, think of it as a 2022 model.

On the BYD, I think you should assume the same time frame, 2022 model, late 2021 launch.

Jonathan Edward Dorsheimer

Canaccord Genuity Corp., Research Division

Got you. I mean, that strikes me as really -- I mean, even for BYD, that seems incredibly aggressive in terms of a time frame in that sector. Is there something that I'm missing in terms of -- I mean, that's a critical element in the car, particularly as you're reducing the risk of it catching on fire.

Is there something that you've been able to kind of circumvent to accelerate that program? Because I mean, hat's off to you, that sounds fantastic. I'm just curious how the time frame works.

Donald R. Young

President, CEO & Director

We are -- we've been very impressed with our -- the companies we're working most closely with the speed with which they are addressing this issue. I think it might be fair to say that they were not anticipating in the early design of these battery systems and these EVs, this issue quite to the degree that they're having to wrestle with it.

And I'm not saying that they're -- this is kind of a retrofit idea, it's not quite like that. But I think they are a little behind in their development for addressing this particular problem and so they're going all out to address it in their systems.

And the Blade Battery system is -- you can read about it online. I mean, one of its advertised attributes is safety. And they really talk about safety, energy density or drive range and cost. And so they put safety right at the beginning of that. So we like that. We like that safety emphasis, and we think that suits our product.

But look, Jed, I don't disagree with you. I've had other jobs in my career where we've addressed the auto industry. And look, we worked at -- we have a long history of working with very large companies, whether they're in the energy business or in the chemical business or -- and now here in the automotive business. It's not -- historically, those are not the fastest-moving companies unless they've got a problem to solve.

And I really believe that, that's the emphasis here. And we're the beneficiaries of it. Speed, innovation, customer intimacy, that's what Aspen is all about. And so it really suits us well to have this level of intensity.

Jonathan Edward Dorsheimer

Canaccord Genuity Corp., Research Division

Listen, I think it's a fantastic win for you guys. I just wanted to better understand the puts and takes and probability of the timing. And yes, so congrats. I will take the rest off-line.

Donald R. Young

President, CEO & Director

All right. Cool. We haven't exactly declared a win yet, but we still think we're in the middle of the game. I mean, this is going to play out big time over the course of the next months and quarters and couple of years.

And we're -- again, indications are pretty good. And -- but we're working hard to keep our head down and really serve those customers well. So thank you, Jed.

Operator

There are no further questions at this time. I will turn the call over to Don Young for closing remarks.

Donald R. Young

President, CEO & Director

Thank you, Cheryl. We appreciate your interest in Aspen Aerogels. We look forward to continue to report our progress to you in our third quarter 2020 results towards the end of October. Be well, and have a good evening. Thank you very much.

Operator

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

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