

Aspen Aerogels, Inc. NYSE:ASPN

FQ2 2024 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS	GUIDANCE
EPS Normalized	0.05	0.21	▲320.00	0.06	0.20	0.66	-
Revenue (mm)	100.71	117.77	▲16.94	92.72	388.47	557.43	720.00

Currency: USD
Consensus as of Aug-08-2024 11:10 AM GMT

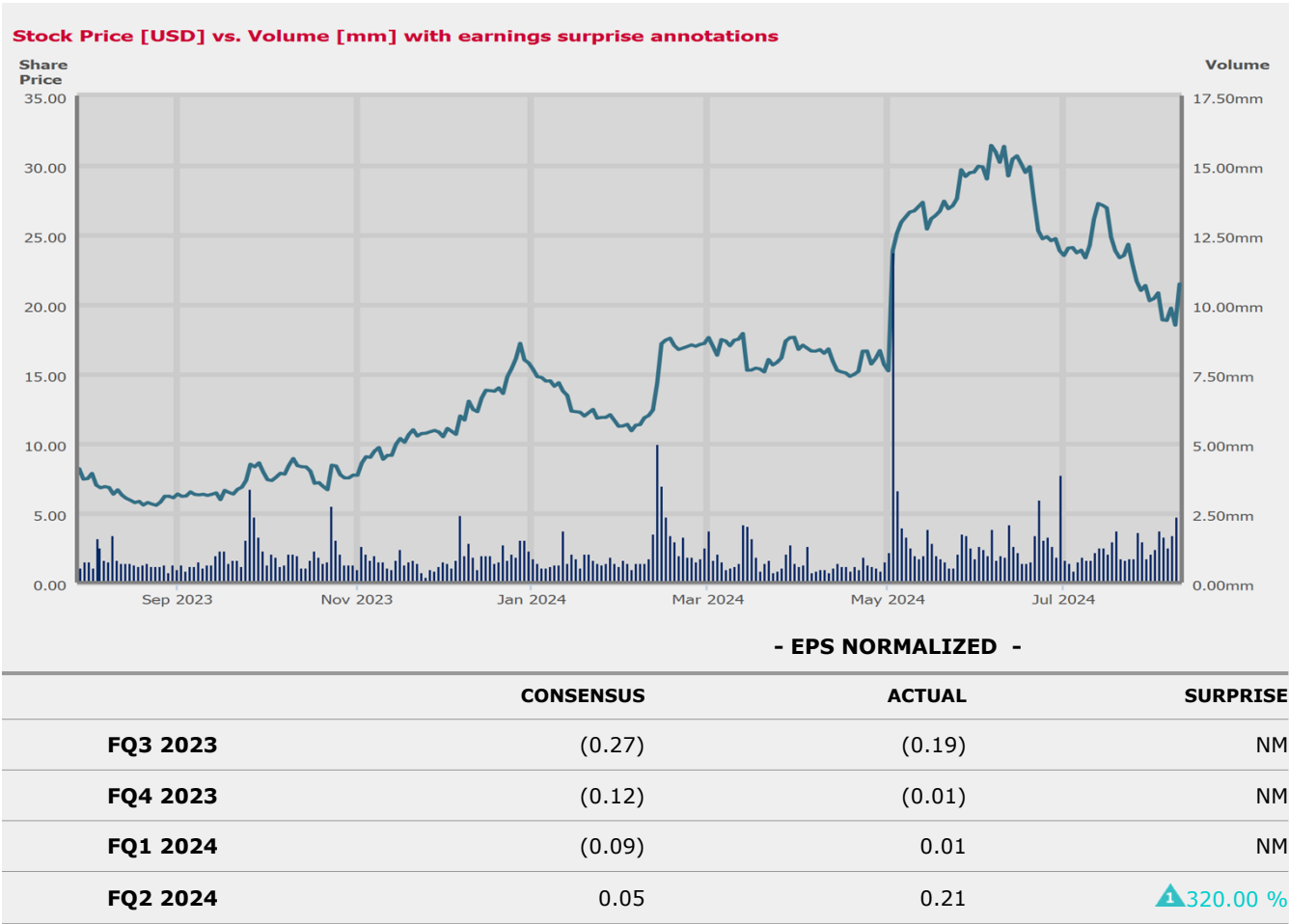


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Presentation

Operator

Good morning. Thank you for attending the Aspen Aerogels, Inc. Q2 2024 Financial Results Call. [Operator Instructions] An opportunity for questions and answers at the end. I would now like to turn the conference over to your host, Neal Baranosky, Aspen's Senior Director, Head of Investor Relations and Corporate Strategy. Thank you. You may proceed, Mr. Baranosky.

Neal Baranosky

Senior Director of Corporate of Strategy & Finance

Thank you, Elissa. Good morning, and thank you for joining us for Aspen Aerogel's Second Quarter 2024 Financial Results Conference Call. With us today are Don Young, President and CEO; and Ricardo Rodriguez, Chief Financial Officer and Treasurer.

The press release announcing Aspen's financial results and business developments and the slide deck that will accompany our conversation today are available on the Investors section of Aspen's website, www.aerogel.com.

During this call, we will refer to non-GAAP financial measures, including adjusted EBITDA. The reconciliations between GAAP and non-GAAP measures are included in the back of the presentation and earnings release.

On today's call, management will make forward-looking statements about our expectations, these statements are subject to risks and uncertainties that could cause our actual results to differ materially. These risks and uncertainties include the factors identified in our filings with the SEC. Please review disclaimer statements on Pages 1 and 2 of the slide deck as the content of our call will be governed by this language.

I'd also like to note that from time to time, in connection with the vesting or pending expiration of restricted stock units and our stock options issued under our long-term equity incentive program. We expect that our Section 16 officers will file forms for to report the sale and/or withholding shares in order to cover the payment of taxes and/or the exercise price of options.

Lastly, I want to call out that next Tuesday and Wednesday, August 13 and 14, Don, Ricardo and I will be hosting one-on-one investor discussions at Canaccord's 44th Annual Growth Conference. This event will also include a fireside chat with Don and Ricardo on Tuesday, August 13, from 8 to 8:25 a.m. EST. On Wednesday, September 4, the company will host investor discussions at the Barclays 30th Annual CEO Energy Power Conference in New York. And finally, on Tuesday, September 24, the company will host one-on-one investor discussions at Oppenheimer's Innovating Sustainability Summit to be held virtually. I'll now turn the call over to Don. Don?

Donald R. Young

President, CEO & Director

Thanks, Neal. Good morning, everyone. Thank you for joining us for our Q2 2024 Earnings Call. My comments will focus on Q2 and first half performance, 2024 full year outlook and the status and expected impact of several key elements of our strategy. Ricardo will dig deeper into our financial performance and outlook and our business strategy. As Neal indicated, we will conclude with a Q&A session.

We operated very well in Q2. The strong execution leveraged and extended the momentum that we built throughout 2023, and during Q1 of this year. The performance is reflected in the Q2 financial results and in the higher 2024 revenue and adjusted EBITDA outlook, our second [indiscernible] and raise quarter of the year.

Quarterly revenue grew to \$118 million, which was accompanied by a 44% gross profit margin. Adjusted EBITDA grew to \$29 million, resulting in an adjusted EBITDA margin of 25%. Quarterly revenue and gross

profit were at record levels in both our energy industrial and EV Pyro Thin Thermal Barrier businesses. We are well positioned to be net income positive for 2024, an important milestone for the company.

Our profitability metrics are driven by both leveraging our fixed assets and controlling expenses. Our operating facilities are placing an emphasis on important safety, operational and financial objectives and are producing outsized value for Aspen and our customers.

The gross profit margin over the past 6 quarters has expanded from 11% to 17% to 23% to 35% to 37% and now to 44%. Our adjusted EBITDA margin over the same 6 quarter period has grown from negative 31% to positive 25%. Comparing the second quarter of 2024 to the second quarter of 2023, revenue increased by approximately \$70 million and gross profit grew by approximately \$43 million, dropping 62% of incremental revenue to the gross profit line.

These results demonstrate the power of leveraging growth through our focus on unit economics and cost controls, both key elements of our business model. We believe we can continue to improve our performance. As demonstrated above, driving incremental revenue through existing capacity is extra valuable in terms of our profitability metrics, especially, as we continue to improve yield throughout the manufacturing and parts assembly processes.

The transition to the supplemental supply in support of our Energy and Industrial business is also strengthening our gross margin expansion. Our external manufacturing facility or EMF, supplied 10% of our energy industrial revenue in Q4 2023, 50% in Q1 2024 and over 75% in Q2.

Over these 3 quarters, our energy industrial gross margin grew from 32% to 42%. We anticipate that the EMF supply percentage will continue to grow as we more fully dedicate our East Providence plant to the thermal barrier business. Energy industrial activity remained strong across all regions and segments, including significant growth of Cryogel products serving the LNG industry. Since the launch of Cryogel products in 2007, 29 facilities globally have been built or converted for LNG export. Aspen's Cryogel is being used on 23 of these facilities.

We have also won our first two carbon capture projects where our Cryogel products deliver high-performance thermal management. These important wins reinforce our role in sustainability and introduce an additional high potential segment to our energy industrial business. We believe our energy industrial team will drive steady, long-term and highly profitable growth for the company, including a record year in 2024 of at least \$150 million in revenue and with gross margins exceeding our original 35% target.

In the medium term, the team is focused on doubling the size of the business and providing a valuable base load of revenue and profits. We started the year with an outlook for revenue of \$350 million and for adjusted EBITDA of \$35 million, which we raised to \$380 million and \$55 million, respectively, at the time of our Q1 Earnings Call.

The midyear results and momentum of both businesses have given us confidence again to boost our 2024 revenue outlook by \$10 million to at least \$390 million and our adjusted -- in our 2024 adjusted EBITDA outlook by \$5 million to at least \$60 million.

Per usual, this outlook is comprised of baseline numbers, and our objective is to exceed them. In fact, we believe that we have over \$50 million of upside to our baseline revenue outlook, predominantly in our EV PyroThin thermal barrier business.

During Q2, we announced our sixth design award from a large EU battery manufacturer to supply the next-generation battery platform for Porsche, the EU luxury sports car brand under the VW umbrella. The EU battery manufacturer has delivered over 2 million battery systems since the year 2019. The battery platform is expected to underpin multiple nameplates for Porsche and has an expected start of production in 2025.

Our EV commercial activity remains at peak levels. During Q3, we expect to deliver over 100,000 prototype or preproduction parts to over a dozen programs in our development pipeline. We are in final contract negotiations with a major European OEM, which we expect to become a formal design award during the third quarter. This award would be our seventh.

We anticipate securing additional OEM EV cereal programs this year, which will further solidify and diversify our position in the electric vehicle market.

With respect to our commercial activity with General Motors, GM reiterated, during its Q2 Earnings Call that it is targeting to produce between 200,000 and 250,000 EVs in 2024. IHS cited 108,000 Ultium-based EVs produced in the first half of the year, and that it anticipated an acceleration in the second half of the year with the launch of several new vehicle nameplates. For our cautious planning purposes and embedded in our 2024 outlook, we anticipate that GM will produce in 2024 180,000 Ultium-based EVs for GM nameplates, plus an additional 45,000 Ultium-based EVs for Honda and Acura.

As Ricardo will discuss, the July sell-through levels were notable and support our expectations for the year. The potential upside to our revenue outlook that I cited earlier, is largely based on GM maintaining its current ramp-up and achieving its targeted production range. We are fully prepared to supply GM's PyroThin thermal barriers demand should they meet or exceed their targeted production range.

We believe that our strategic accomplishments, both commercial and operational, keep us on a direct path to utilize our current capacity and supply arrangements, and to realize our interim baseline target of at least \$650 million in revenue, \$230 million in gross profit and \$160 million in adjusted EBITDA.

Our first half 2024 financial performance more than supports these profitability metrics. We are executing three elements of our strategy that are important to our revenue and profitability goals. First, the full conversion of Plant 1 and East Providence Rhode Island to support the growth of the PyroThin thermal barrier business; second, the transition to our external manufacturing facility to support the growth of the energy industrial business; and third, the financial stewardship to reinforce the strength and flexibility of the company necessary to achieve our interim and long-term goals.

In terms of financial strength and flexibility, we finished Q2 with over \$90 million in cash, just \$10 million lower compared to the end of Q1. And as noted above, with the momentum from our recent operating performance, we now anticipate for the full year 2024 at least \$60 million in adjusted EBITDA and positive net income.

As we plan for revenue beyond \$650 million, we are focused on our second Aerogel manufacturing facility in Georgia, which will add approximately \$1.2 billion of revenue capacity by 2027. Several months ago, we announced that the U.S. Department of Energy Loan Programs Office invited Aspen into the formal due diligence and term sheet negotiation stage of the process. This loan application is one of the key drivers for restarting the construction of Plant 2.

We have made steady progress with the loan programs office. While we do not have assurance that the OE will issue a conditional commitment. We remain deeply engaged with the LPO and its advisers and continue to believe that we are a strong candidate to partner with the DOE LPO in this program.

We believe that we are in the final stages of the due diligence process. If we are successful, the next step would be a letter of conditional commitment. We expect to be able to provide additional details prior to at the time of our next quarterly earnings call. Ricardo, over to you.

Ricardo C. Rodriguez
CFO & Treasurer

Thank you, Don, and good morning, everyone. [indiscernible] to report another record-breaking quarter in a row on behalf of our team, starting on Slide 4.

We delivered \$117.8 million of revenue in Q2 which translates into 145% growth year-over-year and 25% growth quarter-over-quarter. This reflects an annual revenue run rate of over \$470 million. Most importantly, we believe that operating at this run rate demonstrates the scalability of our asset base, and validates that it was only a matter of time before the man caught up with our team's ability to deliver what we've been laying out and some for over a year.

Our energy industrial revenue was \$36.9 million, an increase of 4% year-over-year and a 27% increase quarter-over-quarter. \$20.3 million was delivered through our external manufacturing facility, which has

nearly doubled its ability to supply product quarter-over-quarter, and is well on its way to enable us to deliver over \$150 million of revenues in this segment, as we close out the second half of 2024.

As Don mentioned in his remarks, the applications, recurring maintenance and new projects continue driving excess demand, and we are incentivized to continue increasing supply in this segment. EV thermal barrier revenue of \$80.8 million was up more than sixfold year-over-year and 24% quarter-over-quarter, reflecting a higher-than-expected ramp in GM's production of Ultium-platform-based electric vehicles and higher volumes from Toyota, Scania and more preproduction parts for Audi. Our prototype and preproduction part volumes continue to exceed those over the prior quarters.

Next, I'll provide a summary of our main expenses. Cost of goods sold of \$66.2 million or 56 percentage points of sales reflect relatively flat material costs quarter-over-quarter, but a significant improvement in conversion costs as a percentage of sales.

Let's remember that we define conversion costs as all production costs required to convert raw materials into finished products. These include all elements of direct labor, manufacturing overhead, factory supplies, rent, insurance, utilities, process logistics, quality and inspection.

The higher revenue levels and our team's ability to scale and deliver -- lower our cost of goods sold by 7% quarter-over-quarter. This is an 18% improvement in our ability to deliver gross profit from lower conversion costs, which tended to make up around 30% of our sales.

So the effect that the team's focus on optimizing our capacity, introducing automation and improving production yields among many other things, is materializing faster than expected. We also believe this improvement could continue if revenues ramp further, with each incremental dollar of revenues above Q2's revenue level, bringing over 50 percentage points of sales as gross profit regardless of mix.

In Q2, company-level gross profit margins were 44% and our gross profit of \$51.6 million is a \$43.2 million improvement over our gross profit of \$8.4 million during the same quarter last year. Our Energy Industrial segment delivered \$15.5 million of gross profit or a 62% year-over-year increase on comparable revenues. In EV thermal barriers, we delivered \$36.1 million of gross profit in Q2.

The resulting gross profit margins during the quarter were 42% and 45% for our energy industrial and EV thermal barriers segments, respectively. Most of the onetime charges of obsolete inventory and equipment related to customer-driven engineering changes that we implemented in Q1, were reversed in Q2, as we receive the benefit of those changes and the reimbursement from customers.

With this in mind, the best way to look at the profitability of our EV thermal barrier business is by looking at the results of the first half, rather than each quarter separately.

Operating expenses, which are sized for our near-term projected annual revenue capacity of over \$650 million were at \$31.6 million in Q2 were down by \$1.1 million quarter-over-quarter. This would have been even lower without several onetime expenses linked to performance pay, recruiting and talent development. Higher-than-expected insurance costs also drove OpEx to these levels.

We will continue managing OpEx in the second half of the year, and we'll focus increases on driving incremental demand and profitability only. Our team continues to visit every key company process and implementing new systems with the intent of bolstering our capabilities, reducing fixed costs and driving our OpEx towards the recurring \$110 million per year level.

Putting these elements together, our adjusted EBITDA was of \$28.9 million in Q2, compared to negative \$10.8 million during the same period last year. Delivering 25% EBITDA margins in Q2 of this year at the current revenue run rate, more than validate the planning and execution of the gearing that we defined over a year ago.

As a reminder, we define adjusted EBITDA as net income or loss before interest, taxes, depreciation, amortization, stock-based compensation and any other nonrecurring items, that we do not believe are indicative of our core operating performance.

In Q2, these adjustments were limited to \$3 million of stock-based compensation, \$1.1 million of interest income and \$2.3 million of interest and financing-related expenses.

Our net income in Q2 increased to \$16.8 million or \$0.21 per diluted share versus a net loss of \$15.8 million or \$0.22 per diluted share in the same quarter of 2023. We could not be more excited about reversing this loss in 12 months' time.

Next, I'll turn to cash flow and our balance sheet. Cash generated by our operations of \$6.8 million reflected our adjusted EBITDA of \$20.9 million, interest income of \$1.1 million and \$23 million used for working capital.

The key items that resulted in the usage of working capital were an increase in accounts receivable and inventory, offset by an increase in accounts payable, prepaid and accrued expenses. If we counted revenue collected from customers of \$28 million in the week after closing the quarter, we would have generated free positive cash flow.

Our capital expenditures during the quarter were of \$24.8 million. These put our operating cash needs for the quarter at \$18 million, down by 59% quarter-over-quarter from \$43.6 million in Q2.

Again, if we included the revenue collected during the week after we closed the quarter, we would have generated over \$10 million of positive free cash flow. In Q2, we spent \$12.3 million towards slowly advancing progress to fully enclose the [main] structures at Plant 2 and temperature control in all areas.

To date, we have incurred \$300.2 million in cumulative expenses through the end of the second quarter towards Plant 2 in Georgia, to position the project for a potential restart of construction, after we've obtained conditional approval from the U.S. Department of Energy's loan programs office as part of our application to fund the remaining construction cost of Plant 2, through a loan pursuant to the DOE's advanced technology vehicle manufacturing or ATVM loan program.

The remaining CapEx spent in the quarter of \$12.5 million went towards additional improvements at our Aerogel plant in Rhode Island and EV thermal barrier equipment in Mexico that will enable the potential continued ramp of our business in 2025.

Our financing activities in the quarter, including -- included \$8.1 million relate to the exercising of employee stock options that were close to expiring, within our equity compensation plan.

Looking ahead, we continue pursuing capital leases to fund a meaningful portion of this year's remaining CapEx outside of Plant 2, which I'll go into when we discuss our updated outlook.

We ended the quarter with \$91.4 million of cash and shareholders' equity of \$517.8 million. We continue meaningfully working our way through the due diligence and term sheet negotiation phase with the U.S. Department of Energy's loans programs office as part of our application to fund the remaining construction costs of Plant 2, through a loan pursuant to the DOE's advanced technology vehicle manufacturing or ATVM program.

In the appendix, we have a graphic of the different phases of the DOE's application steps and details on the work streams that make up the due diligence and term sheet negotiation phase and our progress within these. As our operating performance improves, we continue assessing relatively inexpensive debt options that have become available.

These include asset-backed loans, term debt and a potential revolving line of credit to support our business. We expect to end the year with a capital structure aimed at continuing to lower our cost of capital, and making sure that we have the flexibility to fund a potentially faster than expected, but very profitable ramp in our business.

Now I'll turn over to Slide 5, and walk through our updated thoughts on the outlook for the rest of the year. I'll focus on the EV thermal barrier segment, as Don covered our Energy Industrial segment in his opening remarks, and we have a very clear line of sight delivering at least \$150 million of revenue there this year.

We remain sold out and revenues there depend on our ability to increase broad supply of all our product variants. With 2 quarters of EV production behind us, we could not be more impressed by the launch of the Honda Prologue, a vehicle that we weren't expecting to launch until later in the year. We believe that Honda is a very attractive product here being produced by General Motors.

Everything about the way this vehicle was launched, from the product plan, to the timing of the advertising blitz, pricing and availability seems to be working in the U.S. marketplace. In July of this year, almost 3,500 of them were sold, and we expect that the annual sales run rate of 42,000 units will increase as the year progresses.

With this in mind, we think it's worth splitting the Honda Prologue along with the Acura CDX variant, from the rest of the GM production volumes in our outlook, as we show here on the left side of Slide 5. We expect at least 45,000 of these to be produced in 2024.

GM continues ramping up production of a broad range of other Ultium-based nameplates. In mid-June, it revised its external 2024 Ultium production forecast from 200,000 to 300,000 units, down to a range of 200,000 to 250,000 units. This trimming of the upper end of their production goals does not impact our outlook. And we are actually revising our baseline production outlook of GM's Ultium vehicles down by 10% from 200,000 vehicles to 180,000 vehicles, to be safe.

GM can very well still exceed 180,000 units as it ramps up production in the second half of the year, of nameplates like the Equinox and Silverado. At the same time, we expected to launch the GMC Sierra EV, the Escalade IQ and the Cadillac Optiq. We continue to believe that GM's established brands with long-running customer loyalty, along with the size and scope of its distribution scale, can enable it to drive sales beyond these expectations.

Putting GMs and Honda's Acura's volumes together, we now expect to supply over 225,000 vehicles and enable our EV thermal barrier business to deliver over \$240 million of revenue in combination with Toyota, some initial Scania and Stellantis volumes, along with a high level of prototype sales.

A question that we get often from investors is centered around the sell-through of EV production, and whether we see risk in it affecting GM's production long term. In the center of Slide 5, one can see that in the U.S., the sales rate of Ultium-based vehicles grew by about 50% in July over June to 156,000 vehicles per year.

Through the end of July, we believe that around 45,000 vehicles have been sold, and if July sales rates were to stop growing, over 110,000 vehicles can be expected to be sold in 2024. To support sales of 225,000 vehicles, dealers would still need around 60 days of inventory on hand, or 40,000 vehicles at least. This inventory may need to be even higher to support many different vehicle nameplates. So to confidently produce over 225,000 vehicles in 2024, only around 75,000 incremental vehicles beyond the July sales rate need to be sold within the year.

We believe that this is achievable, especially as attractive lease incentives are offered to consumers, and therefore, we continue to see very profitable upside to our business baseline outlook. A vehicle like the Chevy Equinox, which is now the most attractively priced EV in the U.S. market, could drive most of the incremental unit sales required in the second half of the year.

We also continue seeing some investors attempt to connect our customers' volume plans to our revenues, and we strongly advise against this, as there is a significant delay of weeks or even months for a finished EV thermal barrier part that we invoice customers for, to end up in a produced vehicle. This delay is even longer for our sold vehicle.

We continue to include in Slide 12 in the appendix of this presentation to illustrate this, and we recommend studying it and reaching out to Neal if you have any questions.

For reference, on Slide 5, we are also showing IHS' expectations for what the Ultium production ramp looks like in the second half of 2024 versus the first half of the year, to get to a total of 244,000 units. While time will tell whether 244,000 units in 2024 is the right expectation, we believe that an increase going into the first half of 2025 is still likely.

Turning over to Slide 6. Combining both segments results in a total revenue outlook of at least \$390 million, which would be a 63% year-over-year increase from our revenues in 2023 and a \$10 million increase over our prior revenue baseline for 2024. With this updated baseline, we believe that we can deliver over \$16 million of operating income in 2024, a 45% improvement over our prior EBIT baseline of \$11 million, which assuming D&A of around \$30 million and stock-based compensation of \$14 million, would translate into over \$60 million of adjusted EBITDA.

This is a 9% improvement over our prior baseline EBITDA outlook, and it implies 50% EBITDA margins on the incremental \$10 million of revenue, demonstrating our ability to continue scaling profitability without relying on outsized revenue growth.

Our updated 2024 EBITDA outlook continues considering some potential headwinds to our near-term profitability, such as the cost of new launches, higher power prototype sales, engineering changes that could lead to inventory obsolescence and expedited freight costs driven by the start-stop nature of some of the nameplates in our thermal barrier demand.

We could also opportunistically decide to add OpEx to continue advancing our R&D in key areas, and accelerate the development of our technical sales capabilities and fund new program launches. As we reintroduced the rest of our energy industrial products, a mix that includes these products can also impact gross profit in this segment.

On the flip side, if additional demand is truly there, we expect a disproportionate amount of it to flow to our bottom line, as it did in Q2, and our team will continue reducing our fixed costs, increasing our production yields are uptime and driving the right energy industrial pricing and mix.

Continuing with the rest of our 2024 outlook, \$60 million of positive EBITDA would translate into net income of over \$7 million or \$0.09 per diluted share, assuming a share count of 79.3 million shares.

We are increasing our net income outlook by \$5 million or over 3.5x. On our diluted EPS outlook by \$0.06 per share from \$0.03 per share or threefold. Our CapEx without including Plant 2, is expected to be reduced by \$5 million to \$45 million from \$50 million for the year, thanks to our team's ability to deliver a higher level of uptime from our EV thermal barrier equipment in Mexico. We continue believing that this investment is enough for us to ramp up our production capacity in 2025.

As I mentioned earlier, we only spent \$20.5 million in the first half of the year, towards advancing the construction of Plant 2 in Georgia versus our original expectation of \$30 million. Looking ahead, we are not planning to spend more than \$15 million advancing the construction of Plant 2, until we receive a potential conditional approval on the loan pursuant to the DOE's advanced technology vehicle manufacturing or ATVM program. This investment will still ensure that the site is advanced enough to preserve all our investments made to date, and it enables the potential reacceleration of construction in the fourth quarter of this year.

On the right side of Slide 6, before moving on, I think that it's worth pausing again and taking stock of the operational and financial journey that our team has been on over the past 2.5 years. The basic metrics of revenue growth, gross margins, EBITDA and operating income, that had to be up and to the right are surpassing our initial expectations, thanks to the work of everyone on the Aspen team, that continues doing more with less and sharpening our acts by developing new capabilities. I couldn't be happier with our performance progression, and I'm excited to see it lower our cost of capital in real time, as we continue creating opportunity for the same team that got us here and our company.

Next, I'd like to please turn over to Slide 7. Before handing the call back to Don, we thought that it's important to take a look at what's happening in the U.S. electric vehicle market, that our in-production OEMs mostly participate in, so that we aren't rattled by the day-to-day headlines of exuberance or [gloom]. There just doesn't seem to be an even KLV out there. So we spent some time looking at the year-to-date market ourselves.

Let's just face it. The U.S. EV market didn't grow year-to-date through the end of July relative to last year in the U.S. It's only up around 1%, which is comparable to the growth rate of overall new vehicle sales. We foresaw this in early 2023 as we were planning for 2024, considering the effect of rising interest rates.

This fact is a key ingredient in developing our 2024 revenue baseline. Still though, EVs made up around 7% of the market and over 1.3 million EVs are expected to be sold in the U.S. this year. So this has become a meaningful part of the market. Within it, there are some obvious share winners and losers. And as we started our EV thermal barrier business from zero in 2021, supplying newly developed platform in nameplates, we are benefiting from the demand gains of the OEMs that we supply.

PyroThin is equipped on 6 out of 10 new EV nameplates that have been introduced in the U.S. in 2024, and those vehicles that were developed before we had a sell-to-sell solution, are aging and losing share versus a range of fresh nameplates from OEMs that are gaining share. At this point, PyroThin is equipped on 100% of EVs sold by GM, Toyota and Honda in the U.S.

These OEMs are only scratching the surface of what their share can be, relative to their overall position in the entire new car market and the scale of their distribution. We believe that they will continue making gains as they launch new nameplates and offer attractive incentives on these vehicles to drive volume.

The need to produce EVs at a rate that properly enables the absorption of fixed manufacturing costs is, in our mind, expected to drive production rates in the second half of 2024, more than demand. The only thing more expensive than incentives up to a point, is running at below 50% of one's capacity.

I'll let you spend more time with this slide on your own time. But when we look at the EV market in 2024, we continue seeing opportunities for additional sell-through within the OEMs that we supply, thanks to an interesting circular reference of higher production volumes needed to deliver profitability and higher incentives needed to drive those volumes.

Thinking longer term and moving to Slide 8, it's worth remembering why OEMs built up all of this capacity to make EVs in the first place. Understanding the regulatory environment in the U.S. around emissions and fuel economy standards is important. As a guided investment that was made over the last 4 to 5 years within OEMs in preparation of tighter standards that will ramp up this next year.

I won't bore you with all the details, but U.S. new vehicle emissions and fuel economy regulation is driven by two major federal regulatory agencies. The Environmental Protection Agency or EPA and the National Highway Traffic Safety Administration or NHTSA. At the state level for 18 states that make up over 40% of new vehicle sales, including California, this is driven within the California Air Resources Board or CARB standards.

Neal would be happy to point you in the direction of good reading material to understand these standards in detail. These agencies can enforce fines, sue or enforce penalties on OEMs who do not comply with their standards, and therefore, impact the profit potential of currently lucrative sales.

Focusing on the EPA, when looking at 2026, to be minimum compliant with these regulations, the industry would need to reach roughly 15% EV sales mix, up about 7 percentage points from the current penetration, or more than doubling. This includes the exhaustion and rollover of emissions credits purchased or generated from the sale of EVs in prior years.

General Motors, for example, would need to quadruple the [EV] penetration from 4% in July of 2024, to around 16% by 2026 to be barely compliant. It is estimated that Ford would need to triple its EV mix from its current levels by 2026 to also barely comply with the EPA submissions regulations.

If we go to what will be our next most important market after the U.S., Europe, the CO2 emissions there, get even more stringent for OEMs, and that is why we see a lot of new programs from those OEMs in our core pipeline.

As we built up our thermal barrier business, we've met not only with teams inside the OEMs that are working to address thermal runaway in batteries for all form factors and chemistries, but we've also met planning teams that are making sure that OEMs are positioned to comply with these regulations in 2025, 2026 and beyond.

OEMs take these regulations more seriously than one would think from reading the press or investor relations materials. And this is what continues giving us the conviction to keep investing in this market,

particularly now, that our operating model is being validated on quarter after another. And with that, I'm happy to hand the call back to Don. Thank you for your attention and support.

Donald R. Young

President, CEO & Director

Thank you, Ricardo. While we operated well in Q2 and for the first half of 2024, we believe we have room to improve upon our record financial performance as we continue to focus on leveraging fixed assets, controlling expenses and executing key elements of our strategy. The Aspen team has done an outstanding job, and the team is positioned to continue to win. Alissa, let's turn to Q&A. Thank you.

Question and Answer

Operator

[Operator Instructions]. The first question comes from the line of George Gianarikas with Canaccord Genuity.

George Gianarikas

Canaccord Genuity Corp., Research Division

I'd like to focus on the gross margin upside. I mean, you talked a little bit about how you got there, but maybe just a little more detail as to what's driving that improvement? And also your view on the sustainability of that.

Ricardo C. Rodriguez

CFO & Treasurer

Yes. So as I mentioned in my remarks, right, in terms of material costs, we just don't think that there's a lot more room there left to squeeze. Those have settled out at levels, that we were surprised by 2 quarters ago. And it's very encouraging to see that trend continue. And as we renew some of the contracts for [indiscernible], they're all shaping out to end up at around the levels that we saw -- that we've seen here over the past 2 quarters.

Now, when it comes to fixed cost absorption, that's where we believe that there's still quite a bit of juice left to squeeze up to a point, right? It really depends on the revenue mix that we have, as we ramp up some of the other EV launches, I think the launch phase tends to be relatively expensive as we saw here with General Motors, throughout 2022 and the beginning of 2023. And so those will impact the gross margin to a point.

And then at the same time, on the energy industrial side, as we start ramping up production of Cryogel, that does not have the same gross margins as some of our higher running products. And so I do think that, that remark that I made of basically incremental revenue beyond the run rate of this quarter, coming in at about 50 percentage points of gross margin broadly, is the right way to think about this.

Obviously, until we find some other breakthrough in efficiency which still -- which would require quite a bit more development, and we just don't have line of sight to that just yet.

Donald R. Young

President, CEO & Director

I think, George, I would just add to what Ricardo said, I talked about -- we still have room to improve our performance. And one aspect of that is as we continue to drive yields, both in our Aerogel manufacturing facility and in our parts assembly activities. Again, there's room for us to improve there.

And then, as that gross profit translates to EBITDA and EBITDA margin, we largely have in place today, the OpEx structure at the organization to support further growth. So Ricardo mentioned it a number of times, our focus on straight lining and maintaining our current level of costs and OpEx. So that gross profit gains -- those profit gains fall down to EBITDA gains as well. So we do believe that there's an opportunity to sustain these kind of margins just as Ricardo described.

Ricardo C. Rodriguez

CFO & Treasurer

Yes. I mean, frankly, George, our mines are starting to shift from being excited about gross margins to being excited about what ultimately matters, which is operating income, net income and targeting generating positive free cash flow. And there, given -- as Don said, given the OpEx, it doesn't take a ton of incremental gross profit to increase those metrics by multiples, which is -- it's sort of implicit in the updated guide, which was pretty modest. But to increase our net income per share threefold, that to us, is the ultimate measure of profitability in it.

George Gianarikas

Canaccord Genuity Corp., Research Division

And maybe just as a follow-up, I'd like to focus on energy industrial, where relationships in China appear to be going well. Any update there? Any potential for that revenue capacity to flex higher over the near to medium term?

Donald R. Young

President, CEO & Director

The relationship is strong, and the cooperation is strong -- very much of a mutually beneficial relationship. And the answer is, yes. They have the capabilities of expanding their capacity. And so, we believe that there is upside to that, not so much necessarily in 2024, beyond the numbers that we've suggested to date.

But as we go into 2025, the ability to -- as I said in my remarks, our team is focused on doubling the size of that business here in the medium term. As you know, very valuable baseload of both revenue and profit for us. And so we're having those discussions with our manufacturing partner, to be able to execute on that strategy.

Ricardo C. Rodriguez

CFO & Treasurer

Yes. I mean our run rate within the baseline guide, right, our run rate needs to increase to over \$42 million a quarter here in the second half, in order for us to get to \$150 million. And so we're obviously very incentivized to increase that supply, and that's implied within the baseline.

Donald R. Young

President, CEO & Director

We're still trying to catch up with demand, frankly, especially in certain parts of that business. And as I noted, we've won two carbon capture programs here in North America, which I think, foreshadow a nice opportunity for us as we go forward over the course of the -- again, over the course of the medium term.

Operator

The next question is from the line of Colin Rusch with Oppenheimer.

Colin William Rusch

Oppenheimer & Co. Inc., Research Division

Given the -- given -- kind of the cadence of what's going on with the industry and certainly some other suppliers looking at the opportunity and your success, can you talk a little bit about the competitive landscape, and what you're hearing and seeing from customers and some of those other folks that may try to wedge into this market?

Ricardo C. Rodriguez

CFO & Treasurer

We don't see people trying to wedge in, especially more given the headline views, right? I mean if you look at folks that are currently selling components into EV manufacturers or that were sourced, when we were just getting started here on other parts of the EV value chain, they're all rethinking their investments into the EV market, right?

And so, while we used to -- or this space used to look extremely attractive a year ago. It doesn't look that way for them either. And that actually, I think, gives us room to just continue chipping away here at converting customers, right? When we look at the U.S. market and we see that we're on 6 of the 10 new nameplates that have been introduced, we can't help but wonder, why are we not on the other 4? And the reason is, because we were nowhere when those 4 vehicles were being developed. But as we look ahead, it's not that competitive.

I mean there isn't another material that we know of, that can deliver the three requirements that OEMs keep asking us to deliver, right? So the fireproofing within the thinnest profile possible. The thermal isolation within the thinnest profile possible. And then the mechanical properties, which are everybody else is a [indiscernible], including the thickness, right?

And so yes, I mean for us, as Don mentioned in his remarks, and I brought this up as well, the building that we're sitting in right now, which works on our EV thermal barrier prototypes could not be busier, as we ramp up new programs. And that we're just going to continue leaning into that even if these programs end up getting retimed and pushed out by the OEMs.

We hope that some of the remarks that we covered around the regulatory environment, really put this in perspective, when we're looking at 2026, I mean these nameplates have to launch, right? Paying fines is very expensive for these OEMs. We know that there's teams in there, optimizing the mix as they set up their product plans. And there's a reason where they continue investing in some EV capacity, even if it's at a slower rate. And we don't see any other competitors going in to meet these three requirements today.

Colin William Rusch

Oppenheimer & Co. Inc., Research Division

That's super helpful. And then thinking about where some of the growth is coming from, as you see that start to ramp more capacity and you guys continue to perform well there with customers. How do you think about serving that market, especially given the success that you've had with the contract manufacturing and the energy market, is that something that we should be thinking about as part of the long-term model?

Ricardo C. Rodriguez

CFO & Treasurer

I mean I think we're incentivized to leverage the facilities that we have in Mexico as much as possible, right? The scalability that the overhead there delivers is incredible. And if I just think to a previous life and the notion of ramping up facilities in Europe, that's a really hard place to make stuff in. You almost need to go to Eastern Europe or places like Morocco, Tunisia, and even there, the costs are rising. And so we're inclined to really stick to our strategy here.

And if we are able to solve for the cost of capital for the plant in Georgia, we would ramp up the plant in Georgia right away to meet all of this demand, that we expect in 2027 and 2028 and beyond. And then continue leaning into our assets in Mexico, we're actually setting up a warehouse in the Netherlands for some of these customers, so that we could have some inventory near their production facilities. But just given the profitability trajectory that we're on and the margin progress that we've made, we want to be very careful in expanding our footprint.

Operator

The next question is from the line of Ryan Pfingst with B. Riley.

Ryan James Pfingst

B. Riley Securities, Inc., Research Division

Ricardo, just to follow up on that last one. With the 6 OEM award for PyroThin and another expected in the third quarter, what's the strategy, if and when, that awarded volume in '26 or '27 or '28 exceeds your expected \$1.7 billion and revenue capacity after Plant 2 comes online?

Ricardo C. Rodriguez

CFO & Treasurer

Boy, that's an amazing problem to have. I'd love to be the CFO of the company. I mean, yes, I mean, for us, the plant in Mexico still has an ability to ramp. And our current assets -- last time we sized up our capacity, we mentioned that it was \$650 million, but our team in Rhode Island continues finding additional efficiency, right?

And we're incentivized to find as much productivity and capacity as we can, until Plant 2 comes online sometime, towards the end of 2027, right? And so if we solve our cost of capital issue here for Plant 2, the strategy is the same, right? Let's just ramp up Plant 2.

We do think that, there may be room in 2025 and 2026 to get all of these programs together. It will be tight, but to get all of these programs fulfilled out of Rhode Island, and potentially supplemented with some material from our external manufacturing facility for selected programs. But that would be a great problem to have.

I mean, we just want to take it one step at a time. I think the most immediate one is solving for the cost of capital to get Plant 2 in Georgia restarted as soon as possible. And our team in Mexico and our teams in Rhode Island continue finding additional capacity. And as those improvements are demonstrated, we -- it's fair to expect us to revise our capacity update from \$650 million of capacity to something that can bridge the gap to -- when Plant 2 comes online potentially.

Ryan James Pfingst

B. Riley Securities, Inc., Research Division

Got it. Makes sense. And then maybe just a second question on something a little more near term. Ricardo, could you potentially go a little deeper on the working capital dynamics and your expectations for collections and inventory here, in the second half?

Ricardo C. Rodriguez

CFO & Treasurer

It really depends on the volume trajectory, right? So if we have to continue capturing additional demand beyond our baseline expectations, we would continue consuming working capital similar to what we did here in Q2.

But at the same time, if the demand flattens out a bit on us, which is what's implied in the baseline, very conservatively, then all of that working capital would reverse itself, and I mean we get paid pretty reliably within 45 days of when we invoice something.

And so I think that overall, it's a net positive, right? I mean, if the -- for cash flow generation, if the demand increases and we have to flex up, we'll consume a little bit of cash take into what happened here in Q2. But then, if it doesn't, then our cash flow position would be potentially even better, as the working capital reverses itself.

And so, we think we're sitting here looking at the second half favorably from a cash position and it's a net neutral in terms of working capital and collections. I mean our AR on the energy side is extremely tight. We've rarely written things off there. We sell to very legitimate and large customers and so we have no concerns on our ability to collect.

Donald R. Young

President, CEO & Director

Great. And also, Ricardo, you mentioned in your script Ricardo, the possibility of a working capital line. Just to manage these things, I mean, we really managed through the first half of the year, our working capital without that kind of working capital lines. So it's very possible we could do that, and it would be very -- I think, very normal for a business like ours to benefit from that.

Ricardo C. Rodriguez

CFO & Treasurer

That second point, Don. I mean I think we keep increasing our level of sophistication here. And so there's -- the things that we are considering, such as the working capital line, our revolver. There's also factoring that we could do with our AR to help free up cash flow earlier. We now have the margins and the reliability to be able to do that. With a little bit of insurance, we could actually do, fairly cheap factoring as well. And so we've got plenty of options to fund what could be a very profitable expansion here going into 2025.

Operator

The next question is from the line of Dave Anderson with Barclays.

J. David Anderson

Barclays Bank PLC, Research Division

Only 13 years between earnings calls for me. A little bit changed here. I want to ask you about -- I just want to ask what kind of overall kind of the bigger picture for your business over the next few years. A lot of concerns about EV demand in the U.S. and rest of the world slowly, Ricardo mentioned that. How, on the other hand, domestic OEM manufacturer really just starting to ramp up.

Just curious in your -- as you're sort of thinking about it and GM is obviously an anchor customer here. But when you're looking out there and cut their ramp-up, and I guess your other customers as they're ramping up, what is the [indiscernible] on the pace of that ramp up? What's guiding that? Is it the EV sales? Are they looking at sales and all that? Or is it more their manufacturing, as they're building out and improving manufacturing, I'm sure GM is probably trying to do all sorts of things, with that whole new line of products out there.

So how do we think about those two? Because it feels to me like there's a lot of worries about EV demand, but I'm not sure it really matters to your business in the next, kind of 2 to 3 years. Am I thinking about that the right way?

Ricardo C. Rodriguez

CFO & Treasurer

Yes. I mean, that's exactly right. And that's what we were trying to go to with our remarks, right? There's a blend of carrots and sticks driving EV production. And I would argue that those matter more for the OEMs than the demand itself, to your point.

And so, there's another gate which is these OEMs ability to make cells, make modules, make battery packs and make vehicles, which is an all-new thing for them, right? You're seeing that in Europe, where some of these folks that had very large expectations around building up capacity quickly are struggling to make their first batch of cells for a vehicle and therefore, delaying the manufacturing of some of these programs.

But when we look at an OEM like Ford, for example, that has been making EVs here in the U.S., we -- it's fair to expect them that on a next-generation product, they could ramp up pretty quickly, given the regulatory environment and the EV mix that they'll need to have, to be able to sell vehicles period in 2026 through 2030 and beyond.

So that's ultimately the gating item, right? If you're -- and the OEMs don't advertise this for obvious reasons, right? It means expenses, it means deploying capital, but they need to make EVs. And then once you set up that capacity, you basically have this straight off as an OEM on whether you run at a very low portion of that capacity and have no volumes and your guaranteed to lose money, or do you provide certain incentives through leases.

Leases are a very effective way for the OEMs to drive volume, and without having a ton of cost. And then that way, they'll hopefully get up to utilizing most of that capacity that they've deployed and make gross profit, right? So we think that all of them will go through some sort of ramp-up phase, but that will really intensify in 2026, given the sticks and carrot environment that the regulations provide.

Donald R. Young

President, CEO & Director

I also think they're gaining experience and the market and the consumer is becoming increasingly comfortable and interested in these types of vehicles. And Ricardo mentioned the Prologue during his -- the Honda Prologue, it's a really attractive vehicle. GM, the Equinox is a well-priced vehicle, very stylish, great drive range.

We have high confidence that we're going to get a good -- that they will get a good pull-through on that as well. And I think those things will reinforce themselves, or the production as you cited. And -- and I also think there will be good demand for growing demand for these vehicles, especially some of the newer nameplates.

J. David Anderson

Barclays Bank PLC, Research Division

So in your guidance for that potential -- hey, there's a potential \$50 million in upside here in '24. What's the swing factor on that? Is that just -- are you in your guidance just assuming, hey, you know what, we're going to take -- we're going to be conservative here. There could be some production kind of hiccups for GM, and that's why our guidance is where it is.

Whereas, the upside is, hey, if everything goes according to plan, that's how it is? So I'm just kind of curious what's sort of the difference? Is it more GM internally figuring this out and getting better at this? Is that kind of the gating factor? Just if -- I just pull it back to this year's guidance?

Ricardo C. Rodriguez

CFO & Treasurer

So I think there's actually two stages of upside within the baseline outlook, right? So we're obviously playing it safe, looking at GM's track record of producing and selling these vehicles. And their approach to Honda has been a little bit different, right? They've been producing mostly higher-end models, higher trim levels.

And so that's why we cut our baseline outlook to 180,000 vehicles for GM, right? But if GM does get to their 200,000 vehicles level, for us, that could be a good \$20 million of revenue upside during the year, right? And it could all fall in Q3 or Q4 or split out in various different ways. Like it's hard to determine how that would plan.

Then there's the same element of the upside, which is, whether they get to 250,000 right? And that would be another -- depending on the vehicle, that would be another 50 plus -- \$50 million to \$65 million of revenue upside, depending on what vehicles they make, right? So they make more Equinoxes, it's on the lower end of that number. If they make more Hummers, Escalades, larger battery pack vehicles and our CPV would be higher.

We just want to manage our business here and plan our expenses, not having to worry about whether GM goes to 225,000 or 190,000. We take our baseline guide very seriously. We think the planning internally pretty seriously. And it'd be great to just run our business without having to worry what GM is saying at some investor conference around their EV outlook, right?

The other part that's worth mentioning is that, we read the coverage of the OEMs and their messaging and right now, the market is incentivizing the OEMs to say that they're producing less EVs, because they perceive us an impact on their profitability, right? But at some point, EVs are really a driver of their sustainability as [indiscernible] that can sell vehicles, at least in the U.S. and in Europe, in 2026 and beyond, right?

And so I think people should not lose sight of that. And that's why while our long-term outlook is still very optimistic here in the near term, we just want to be careful with what we set our expectations of GM to produce.

Donald R. Young

President, CEO & Director

David, another source of that upside is -- that potential upside is the energy industrial business, which I know you know very well, probably in the range of \$10 million to \$20 million. And it's not about demand.

In this particular case, it's about production and our ability to supply, largely from our external manufacturing facility. So that's kind of another leg of the stool, I guess, when we think about our upside versus our baseline that we cited today at \$390 million.

Operator

The next question is from the line of Eric Stine with Craig-Hallum.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

So I'm just curious, you mentioned in your remarks and also in the presentation, this potential seventh OEM in the third quarter, major German OEM. Just curious, I mean, can you give any details there? Is that potentially a parent company of nameplates or brands you already have? Is that a new OEM altogether? Anything you can share would be great.

Ricardo C. Rodriguez

CFO & Treasurer

It'd be all new. All new -- I think Neal put a German flag on the slide, right? So at least one of them out, right? It would be all new and it's an OEM that we've been working with for quite some time. And they do have a relatively strong EV penetration globally already. And -- and yes, I mean the -- it's one where we have a very high level of confidence just based on the work that's been done so far, and we do expect to have that contract signed here, in the near term.

Eric Stine

Craig-Hallum Capital Group LLC, Research Division

Got it. That is great. And then last one for me. You mentioned carbon capture in two initial projects. Can you size -- well, I guess, first of all, I assume we should think about this as being kind of like LNG in the early days, where you get in, it's very small, you get in a little bigger and then potentially a project or a contract that's much larger. Is that how we should think about this? And maybe as you think about what the content is, maybe what it is today and kind of what you're shooting for?

Donald R. Young

President, CEO & Director

It's a little bit of a work in progress. But I would cite some differences actually with our LNG work. When we broke into the LNG business, and again, it's a very conservative group of engineers that surround that business, and the failures are extremely costly and difficult. So we really sort of cut our teeth in that on the maintenance side, doing relatively small projects within LNG facilities, building the confidence, getting our data in place.

And as I cited in my [indiscernible], we are very active in the vast majority of projects now these many years later. I think on the carbon capture side, the initial activities are sort of more project-oriented just given the newness of these facilities. And again, I think we have some work to do before we can really size the market.

But I believe, the opportunities on a per-project basis will be notable. And so give us a couple of quarters to kind of work our way into this market, but there's a nice pipeline of projects. And we think these carbon-capture programs are important from a sustainability point of view.

And also, they're being driven largely by the companies that we've served in our traditional energy industrial business. And so we have excellent channels into them relationships with the engineering groups and we have an excellent solution as well from a thermal management point of view.

Operator

The next question is from the line of Tom Curran with Seaport Research Partners.

Thomas Patrick Curran

Seaport Research Partners

For your internal modeling that underpins guidance, would you tell us what average CPV you're assuming for the Honda Prologue and Acura ZDX, respectively?

Ricardo C. Rodriguez

CFO & Treasurer

Yes, they're about \$900 per vehicle.

Thomas Patrick Curran

Seaport Research Partners

For both, Ricardo?

Ricardo C. Rodriguez

CFO & Treasurer

Yes.

Thomas Patrick Curran

Seaport Research Partners

Great. And then turning to the Scania contract. As a commercial vehicle brand, that marquees activity is just a bit more opaque. It's kind of tougher to track and get insights into. Could you speak to what indications you've gotten [indiscernible] about how that production volume is expected to ramp? And will you be starting with the Scania [450E] electric truck and just that model initially, are there additional models in the queue? Could you just share some color on the current visibility and expectations you have specifically for the Scania ramp?

Ricardo C. Rodriguez

CFO & Treasurer

Yes. So initially, it's just on one of these -- one of these commercial trucks, the 45p, as you mentioned, the -- it's worth highlighting that the Scania is actually using North Volt cells. And so even though they have -- we have fairly high expectations for the nameplate in Europe, in particular. It's dependent on the ability of the cell manufacturing to scale up, right? And so until that really starts happening, it's hard for us to gauge the ramp-up of that one.

Thomas Patrick Curran

Seaport Research Partners

Okay. And then I'll squeeze in one more quick one here. On the energy industrial side, Don, could you just remind us when it comes to an LNG project, when do your orders tend to hit relative to the projects FID announcement? What are the differences for you between a liquefaction project and a regasification opportunity?

Donald R. Young

President, CEO & Director

Well, we've from a -- on the regas side, I would say the largest project we've done on LNG has been a regasification facility. You might remember, PTT in Thailand. The majority of the projects we've done have been export facilities, though. And those have tended to be smaller, but still meaningful.

And again, as I said in my comments, we've participated in the vast majority of those over the course of the past 5 years, actually longer than that. So sorry, I forgot the first part of your question.

Thomas Patrick Curran

Seaport Research Partners

Just the timing of when you tend to see your orders hit and you get [spectated] relative to, let's say, a high-profile FID announcement?

Donald R. Young

President, CEO & Director

Yes. So we get [speculated] relatively early in that process, but we deliver product relatively in the stage of the construction project, right? Insulation is one of the part of the latter phase of these construction programs that the LNG terminals have. So again, we get visibility on it relatively soon, but then we deliver towards the end of the projects.

Operator

The next question is from the line of Alex Potter with Piper Sandler.

Alexander Eugene Potter

Piper Sandler & Co., Research Division

I'm up on time here. I'll just ask one, and it's on the STLA medium platform from Stellantis. I guess, maybe a 2-parter. Would you agree, first of all, that in terms of incremental volume in 2025 versus 2024, that this is the, I guess, single most consequential new target for PyroThin next year versus this year?

And then, the second follow-up question to that is, what's the update there? Have you had -- there's been some rumors of Stellantis potentially delaying a couple of launches. I don't know, if that's accurate or if that aligns with what you've been seeing. Anything you could give us on that relationship would be helpful.

Ricardo C. Rodriguez

CFO & Treasurer

Sure. So I'll start with the first one. We actually think that Audi could ramp up faster than Stellantis here. And the reason for that is because this STLA medium platform that we're expecting or the subset within that is the one that is using cells made by ACC in France. And so, until that ramps, that's when -- that's really when one can start thinking of timing of those nameplates.

And to your second part of the question, I think that's why we assumed those volumes to show up in the second half of 2025 versus in 2024, right? And so as 2024 is materializing here, it's no secret that people are seeing that the vehicles just aren't launching here in 2024, and we expected that. But we believe that, that will ramp up meaningfully in the second half of 2025. And -- but it should be a close second to Audi.

Operator

The next question is from the line of Sameer Joshi with H.C. Wainwright.

Sameer S. Joshi

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

Don, congrats on all the progress. One comment and then a question. It seemed that the increase in top line guidance of around this \$10 million is pretty conservative given that your baseline volumes have increased from 200 to roughly 225. So I'll just let that hang.

But on the second -- the question on that is -- on the DOE loan application process, is there a concern, and this is a good problem to have that the process could be delayed, that would prevent you from achieving the capacity that you will need to deliver in '26, '27 time frame? And how are you planning for that potential delays that could materialize with the DOE?

Ricardo C. Rodriguez

CFO & Treasurer

Sure. So happy to -- in reaction to the comment, I would just emphasize that it's baseline or greater than. And so we understand that, but we don't want to get ahead of our skis, right?

Then in terms of any potential delays on the DOE loan. I mean, I think my answer there is just, no. I mean we are moving as fast as we can on it. The DOE has been extremely engaged with us. I would not be surprised if within our team, we're spending at least 10 hours with them on any given week, since we made it to the face of the process.

And we obviously, cannot get ahead of expectations here disclosing something, but we are very optimistic about where we sit in the process. Everybody is incentivized to get this done before the election, and so we don't expect any delays. And that actually aligns perfectly with our timeline.

Operator

There are no further questions at this time. So I'd like to hand the call back over to Don for any additional remarks.

Donald R. Young

President, CEO & Director

Thank you, Alison. We appreciate your interest in Aspen Aerogels and look forward to reporting to you our third quarter 2024 results. Be well, and have a good day. Thank you.

Operator

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

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