

02-Aug-2018

Aspen Aerogels, Inc. (ASPN)

Q2 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Jesse, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Aspen Aerogels Q2 2018 Earnings Call. [Operator Instructions] Thank you.

John Fairbanks, you may begin your conference.

John F. Fairbanks

Vice President, Chief Financial Officer & Treasurer, Aspen Aerogels, Inc.

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

A few housekeeping items that I would like to address before turning the call over to Don Young, Aspen's President and CEO. 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 quarter and half ended June 30, 2018. In addition, the Investors section of Aspen's website will contain an archived version of this webcast for approximately one year.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. Such statements are subject to risks and uncertainties. Aspen Aerogels' 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 are 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.

Company's press release issued today and filings with the SEC can also be found in the Investors section of Aspen's website.

Forward-looking statements made today represent the company's views as of today August 2, 2018. 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 of and reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures, the discussion of why we present these non-GAAP financial measures is also available 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, Chief Executive Officer & Director, Aspen Aerogels, Inc.

Thank you, John. Good afternoon. Thank you for joining us for our Q2 2018 earnings call. I will start by providing comments about the business and our performance. Next John will review our Q2 and first half 2018 financials, and update our guidance for the year. We will conclude the call with a Q&A session.

I plan to cover two topics in my prepared remarks. First, I will review Q2, describe the current commercial environment, and also comment on how we see the market playing out for the remainder of 2018 including the outlook against our three 2018 performance indicators. And second, I'll provide an update on the execution of our strategy, which is to leverage our aerogel technology platform across our core, adjacent, and new markets.

With respect to Q2, revenue of \$21.7 million was below the same period in 2017, and below our expectations. Revenue in Q2 was comprised virtually entirely of small orders and lacked the usual handful of \$1 million, \$2 million, and \$3 million orders related to project work that we have typically countered each quarter for many years.

In Q2, 2017 for example, we had nearly \$6 million of subsea and LNG project work. While in Q2, 2018 we had approximately \$0.5 million of similar project work. Growth in our day-in and day-out maintenance related work made up a portion of the difference, but not the full amount. We believe that the lack of project work in Q2 2018 was an anomaly and was the result of decisions made by asset owners back in 2015 and 2016 to delay capital investments.

We also believe Q2 2018 represents the low point of this downturn and energy prices for late cycle products such as ours. We believe that we will return to normal levels of project work over the remainder of 2018, and experience an expansion of project work in 2019, 2020 and 2021. In fact in subsea alone, we've already received over \$11 million project wins scheduled for delivery during the second half of 2018 and the first half of 2019.

We're disappointed in our Q2 numbers and for that matter first half numbers, but we are not discouraged. We have the solid backlog of subsea projects in hand, and our day-in and day-out activity levels in the United States and Asia are good.

We also believe that we will capture in the coming quarters the typical array of \$1 million, \$2 million and \$3 million orders that we have delivered each quarter in previous years. In addition, the successful completion of the

approximately \$70 million South Asia petrochemical project and our three key LNG projects in 2017 positions us to win additional large-scale projects in the coming years.

To that point, we have invested in a dedicated global projects team, and have expanded our sales and marketing organization by 25%. We expect these investments to pay-off in 2019, 2020 and 2021. Our ability to build base revenue position ourselves with significant project work and to continue to exhibit strength in entering new markets gives us confidence that we can experience substantial and diverse growth.

With respect to our three 2018 performance indicators, as a reminder they are growing our base revenue, driving year-to-date growth in both revenue and adjusted EBITDA and expanding capacity through the EP20 initiative. The first performance indicator base revenue, again defined for these purposes as revenue not comprised of subsea or the large South Asia petrochemical project is a good indicator of day-in and day-out maintenance in small scope project work, our version of the recurring revenue stream.

We targeted \$100 million in base revenue for 2018 consistent with our goal of long-term annual growth in base revenue of between 10% and 15%. Base revenue in the second quarter of 2018 was \$21.1 million and for the first half was \$42.8 million. To reach \$100 million our second half base revenue will need to be \$57.2 million which will translate to overall revenue toward the upper end of our revised guidance of between \$102 million and \$112 million.

It is an ambitious target after the late first half, but we do believe that we have the commercial opportunities available to make a run at that goal. Then with respect to non-base revenue as I said, we have won orders for over \$11 million of subsea work, of which we expect almost \$7 million will be delivered during the second half of 2018. This increased subsea activity is a positive sign that the market is becoming more dynamic.

The second performance indicator for 2018 relates to growth in year-to-date revenue and adjusted EBITDA as measured at the end of each quarter. Our goal is to return to double-digit revenue growth and to deliver significant improvement in adjusted EBITDA.

For the first half of 2018, revenue was down \$3.3 million or 7%. Adjusted EBITDA improved by \$0.9 million principally related to significantly lower costs associated with patent enforcement actions. Adjusted EBITDA would have increased by a greater amount however; we are facing a spike in the cost of certain silica materials. We have taken steps to mitigate the issue and believe that the impact of the high cost material will be contained in 2018 and will not impact 2019.

Although we expect that overall annual revenue growth in 2018 will be challenging given the light first half, we do believe that our second half will be significantly strong as in the first half that we will finish the year with solid momentum and that the stage will be set for a strong 2019.

The third 2018 performance metric relates to the EP20 initiative. As described during our last earnings call, our goal for EP20 is to increase the capacity in our East Providence manufacturing facility by 20% by the end of the year 2020. The goal of EP20 translates to expanding our current annual revenue capacity from approximately \$150 million to \$180 million. We believe that between 40% and 50% of the increase in revenue that we generate beyond current levels will drop to the adjusted EBITDA line.

At \$180 million, we project Aspen will have the potential to generate adjusted EBITDA in the range of \$28 million to \$35 million per year. The EP20 capacity expansion to our existing manufacturing assets is driven primarily by process technology advancements buying to improve manufacturing productivity and capital efficiency. We're

making significant progress. By the end of 2018, we expect to increase manufacturing capacity to approximately \$165 million well on our way to \$180 million EP20 target.

Our 2018 capital budget for EP20 is \$3 million, which we allocated from the \$5 million prepayment from our partner BASF. Given our 2018 progress, we believe we will achieve the goals of the EP20 initiative with meaningfully less capital than initially anticipated. This important initiative is in good shape.

The second topic today is an update on the execution of our strategy. Our strategy is to leverage our aerogel technology platform across our core, adjacent, and new markets. There are two key elements to the strategy. The first element is to grow our core and adjacent markets to fill the East Providence manufacturing facility including the expanded capacity from the EP20 initiative in order to create a business capable of generating annually \$180 million of revenue, and between \$28 and \$35 million of adjusted EBITDA.

The second element of the strategy is to leverage our aerogel technology platform by creating additional businesses. We have organized a dedicated team to prioritize the best new business opportunity and to identify world-class partners in optimal business structures to accelerate value creation. We have jumpstarted the process with our promising building materials work with BASF as we begin to penetrate our first major commercial market outside of energy infrastructure.

We believe the two elements of our strategy will maximize long-term shareholder returns. We envision a strong energy infrastructure business that generates cash to reinvest in realizing the substantial potential in our core and adjacent markets, and to fund select business opportunities in new markets which can lead to significant breakout value. The goal is to unlock the potential and to reset meaningfully the valuation of the company.

In summary, we believe the relative lack of project work in the first half of 2018 was an anomaly and signals the bottom of the energy downturn for a late cycle product such as ours. We are confident that we will have markedly higher revenue in the second half of the year, and our investments in our sales and marketing team, the EP20 capacity expansion, and a new business creation give us confidence that we have laid the groundwork to significantly increase the value of the company.

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

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John F. Fairbanks

Vice President, Chief Financial Officer & Treasurer, Aspen Aerogels, Inc.

Thanks Don. I'd like to start by running through our reported financial results for the second quarter and the first six months of 2018 at a summary level. Second quarter total revenue declined 14% to \$21.7 million versus \$25.1 million in 2017. Second quarter net loss was \$7 million or \$0.29 per share versus a net loss of \$5.5 million or \$0.23 per share last year.

Second quarter adjusted EBITDA was negative \$3.2 million compared to negative \$1.4 million a year ago. We define adjusted EBITDA as net income or loss for interest, taxes, depreciation, amortization, stock-based compensation expense and any other items that we do not believe are indicative of our core operating performance.

We incurred \$146,000 of patent enforcement costs during the second quarter of 2018 versus \$152,000 in the second quarter last year. For the first half, total revenue declined 7%, \$44.7 million. Net loss was \$13.8 million or \$0.58 per share in the first half of 2018 versus a net loss of \$14.6 million or \$0.62 per share last year, and adjusted EBITDA for the first half of 2018 was negative \$5.6 million compared to negative \$6.6 million last year.

We incurred \$235,000 of patent enforcement costs in the first half of 2018 versus \$2.9 million during the first half of 2017.

I'll now provide additional detail on the components of our first half results. First, I'll discuss revenue. First half total revenue was comprised of product revenue of \$43.6 million and research services revenue of \$1.1 million. During the first half, product revenue decreased by \$3.3 million or 7% versus last year's \$46.9 million. This decrease was driven by the successful conclusion during 2017 of the multi-year South Asia petrochemical project and several key LNG projects in combination with a decline in project work in the subsea market during the first half of 2018.

The decline in project related revenue was partially offset by solid first half growth in our core petrochemical and refinery markets most notably in North America. During the first half of 2018, shipments decreased 12% to 14.9 million square feet of aerogel blankets while our average selling price increased by 6% to \$2.93 per square foot in line with our prior outlook.

This increase in average selling price reflected the impact of price increases enacted in early 2018 and year-over-year improvement in the mix of products sold. I'll now turn to our research services revenue. Our research services revenue is related to contract research performed principally for government agencies. Research services revenue decreased by 6% during the first half of 2018 to \$1.1 million from \$1.2 million during the first half of 2017. This decline was due to the relative value and timing of research contracts versus last year.

For the full year we continue to project research services revenue of approximately \$1.75 million down slightly from 2017. This expectation is included in our 2018 guidance.

At the time of our first quarter earnings call in May, we anticipated that broad based growth across our core and adjacent markets in 2018 would offset most or all of the expected decline in product revenue both in the subsea market and associated with the completion of the South Asia petrochemical project.

Although we experienced growth in our core petrochemical and refinery markets during the first half of the year, the decline in our adjacent markets due to the completion of key LNG projects will make this objective difficult to achieve. As a result, we have reduced the range of our 2018 product revenue guidance between \$100 million and \$110 million, a decrease of \$4 million from prior guidance.

This reduction is principally the result of a decrease in projected shipment volumes. We continue to expect that the average selling price of our aerogel blankets for the full-year remained flat with 2017 at \$2.92 per square foot plus or minus \$0.05.

Next, I'll discuss gross profit. Gross profit was \$5.6 million or 12% of revenue during the first half of 2018 versus \$5.9 million or 12% last year. This decrease in first half gross profit was driven by 7% decline in product revenue, and an increase in the cost of silica materials as constitute over half of the raw material costs of our aerogel blanket. Offset in part by the impact of our 2018 price increases, a decrease in warranty expense, modest cost increases in other raw materials, and solid manufacturing yields and productivity.

Looking forward to the second half of 2018, we anticipate an improvement in gross profit and gross margin particularly in the fourth quarter from first half levels due to projected increases in revenue, output and capacity utilization. We also expect gross margins for the full year to reach from the low to the mid-teens.

Next we'll discuss operating expenses. For the first half of 2018, operating expenses decreased by \$1.2 million or 6% to \$19.2 million. This decrease in operating expenses was a result of the \$2.6 million reduction of patent enforcement costs offset in part by \$700,000 increase for sales personnel and programs and a \$700,000 year-over-year increase in all other operating expenses. This growth in sales and other operating expenses was driven by increases in personnel and expense to drive growth in our energy infrastructure business and to develop breakout opportunities in new markets.

We're reducing our 2018 full year operating expense guidance from \$39 million down to a range of between \$35.9 million at the low end of our revenue guidance range and \$38.6 million at the high end of our revenue guidance range.

Next, I'll discuss our balance sheet and cash flow. Cash used in operations was \$6.2 million during the first half of 2018 reflected our adjusted EBITDA of negative \$5.6 million and an investment in working capital of \$600,000 principally due to an increase in inventory levels during the period.

Capital expenditures during the first half included investments in our EP20 initiative and totaled \$1.7 million down from \$4.8 million during the first half of 2017. During the first half of 2018, we also received prepayment from BASF at an aggregate of \$5 million.

We ended the first half of 2018 with \$7.3 million of cash, \$3.8 million on our revolving credit facility, net current assets of \$23 million and shareholder's equity of the \$88.9 million. In addition, we had access to an additional \$8.7 million available under our revolving credit facility at the end of the first half of 2018.

We're updating our full year financial outlook for 2018 today. Total revenue is expected to range between \$102 million and \$112 million revised from prior guidance of \$106 million to \$116 million. Net loss is expected to range between \$20.6 million and \$22.6 million revised from prior guidance of \$17.6 million to \$20.6 million.

Adjusted EBITDA is expected to range between a loss of \$5 million and a loss of \$7 million revised from a prior guidance of a loss of \$2 million to \$5 million. EPS is expected to range between a loss of \$0.87, a loss \$0.95 per share revised from prior guidance of a loss of \$0.74 to loss of \$0.87 per share. This EPS guidance assumes a weighted average of 23.7 million shares outstanding for the year.

This 2018 outlook also assumes depreciation and amortization of \$10.8 million, stock-based compensation of \$4.3 million and interest expense of \$500,000. In addition, this financial outlook includes \$1 million of costs and expenses associated with our patent enforcement actions for the full year. And as noted earlier, we expect the gross margin in the low-to-mid teens and an average selling price of \$2.92 per square foot plus or minus \$0.05 for the full year.

Turning to cash in an aggregate level within the context of the adjusted EBITDA range set out in our 2018 full year outlook, we expect to exit 2018 with between \$7.3 million and \$10.5 million of cash on hand, the balance of \$3.8 million on our revolving credit facility. We also continue to project that capital expenditures including funds dedicated to our EP20 initiative will total \$4 million for the year.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Eric Stine with Craig-Hallum. Your line is open.

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

Hi Don and John.

Q

Donald R. Young

President, Chief Executive Officer & Director, Aspen Aerogels, Inc.

Hey, Eric, how are you?

A

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

I'm all right. Maybe we could just talk about the guide a little bit and just dig into it. The – so refinery and petrochem, you actually sound a little bit more optimistic there. Is there any way to point to a culprit in the other end markets as to the lack of project work in the quarter? I guess that'll be the first question.

Q

And then the second question, it seems like with your guide you're just – you're basically flowing through the Q2 shortfall. What's your confidence level, are you already seeing some of that project work come back in some of these other end markets?

John F. Fairbanks

Vice President, Chief Financial Officer & Treasurer, Aspen Aerogels, Inc.

Good questions. With respect to the culprit, I guess – look we had substantially more LNG work, subsea work in the first half of 2017 than we did this year. And that had an impact on us, no question. It was remarkable Eric that – we had a lot of orders, but they were small orders. And so just different than quarters that we've had really since we were a public company, we've always had a handful of \$1 to \$3 million orders that have complemented all the small orders. And we love the small orders.

A

We think of it is kind of recurring revenue for us, but that was the real difference in Q2 and the reason that we were below expectation. We are seeing, and we do have in hand the subsea activity that meaningfully enhances the second half of the year, and frankly the beginning of 2019 as well, one of the major orders is to [indiscernible] (00:26:12) the first half of 2019. And again the market activity is quite good and definitely on a day-in and day-out work in the U.S. and in Asia is solid.

So, again, we feel that the second half of the year is going to be markedly better than the first half. And I think your math around the guide, I think you're largely right that the guide down is function of what's happened here in the first half.

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

Is it? Is it too simplistic to say that – this is just subsea work that was just kind of pushed to the right and you did assume that you might have some of that hit in the second quarter or is it – because I know LNG, that's not necessarily something you were expecting, is that the right way to think about it or not? Is that too simplistic?

Q

Donald R. Young

President, Chief Executive Officer & Director, Aspen Aerogels, Inc.

A

No, I think that's largely it. And we have other project activity that's not just LNG and subsea, turn around work and work that is kind of \$1 million that you tend to get, kind of quarter in and quarter out, they're not announcement worthy but they're important and we just didn't really have them. We see them now here in Q3 and in Q4.

And again, it's the reason why we are confident that the second half of the year is going to look a lot different than the first half of the year, and in particular the second quarter.

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

Q

Okay, maybe turning to subsea. I know you had – I think in the first quarter you won the \$4.5 million project, and you were targeting more, and it sounds like you won that, and then so I'm just curious, this recovery in orders, how that maybe compares to past recoveries and what kind of confidence does that give you specific to subsea as you look out to 2019, 2020, 2021?

John F. Fairbanks

Vice President, Chief Financial Officer & Treasurer, Aspen Aerogels, Inc.

A

Yes, we really – so, you see your math is right. We did win an order earlier this year and that we find for \$4.5 million in the first half of 2019. So, that's terrific. Almost \$7 million here for the second half of 2018, but we also – if you just look at the pipeline of subsea orders for 2019, we think it's a solid pipeline with some real upside to it, as we look out into 2019.

Again, that activity level is what we're looking for. And we win a lot of these projects. So, that's a really good sign not only for the second half of 2018, but for 2019.

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

Q

Yeah, okay. Maybe last one from me, just turning to BASF, just – I know it's a couple of months, but an earlier update on the uptake of SLENTEX, wall system and then just – clearly you mentioned that you're increasingly confident with that relationship. Just curious if there any specifics or more that, you've gotten the payments and now and things just continue to progress?

John F. Fairbanks

Vice President, Chief Financial Officer & Treasurer, Aspen Aerogels, Inc.

A

Yeah. So, payments both have been received about \$2 million to \$2.5 million are prepayments which have been great. We have had an enormous amount of activity in the SLENTEX product also called Spaceloft A2, going into that market. And I think of them as kind of priming the market with projects.

Some are prospectively reasonable size. And again, many in response to the focus on noncombustible building materials in the UK and across Europe, and that work is growing, and there's no question that during 2018 we, Aspen and BASF, will have a nice array of case studies installed for us to market out into 2019 and 2020.

I would also say, so in addition to the payments, the financial part, the early case study work with the SLENTEX are joint development work with the next-generation price as well. Excellent thermal performance in

noncombustible, we are really pleased with the progress that our teams have made in that area as well, and we're proving that product out initially to ourselves, and ultimately to the market out in the 2019 timeframe.

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

Okay. Thanks.

Q

John F. Fairbanks

Vice President, Chief Financial Officer & Treasurer, Aspen Aerogels, Inc.

Thanks, Eric.

A

Operator: Your next question comes from Chip Moore with Canaccord. Your line is open.

Chip Moore

Analyst, Canaccord Genuity, Inc.

Good evening. Hey. [indiscernible] (00:31:49)

Q

John F. Fairbanks

Vice President, Chief Financial Officer & Treasurer, Aspen Aerogels, Inc.

[indiscernible] (00:31:48) Chip.

A

Chip Moore

Analyst, Canaccord Genuity, Inc.

So I guess, back to the guidance on the back half, maybe you can touch perhaps a little bit – what you need in terms of project activity? Is this sort of a return to normal or do you need a little – a little more of a pickup there?

Q

John F. Fairbanks

Vice President, Chief Financial Officer & Treasurer, Aspen Aerogels, Inc.

Yeah, I think there are few things to look for Chip, that we're really focused on. We feel that – we've got the pickup, so to speak, in hand from the subsea work. That's a really solid second half for us of nearly \$7 million of that type of work.

A

We talk a lot about this base revenue; this definition that we've used is non-subsea and the South Asia petrochemical project. And again, that tends to be made up of these smaller orders and smaller project work, this kind of \$1 million kinds of orders that we tend to get each quarter.

And we – as one of our performance indicators, we set that target at \$100 million. And we have \$57, \$58 million to go in the second half. That's an ambitious target. We've said that that number of – we want that number to be in the 10% to 15% range.

At 10% growth in 2018 would be about \$97 million in there. And so we're really working hard to be sure we get into that kind of range. And if we can approach that as I indicated in my notes that gets us up into the upper half of our guidance, our revenue guidance for sure.

So, I think those are the things we're looking for, and I'm sure you're looking for as well.

Chip Moore

Analyst, Canaccord Genuity, Inc.

Q

Yeah. No. It makes sense. That's good color, good way to frame it. On the higher silica cost, maybe you can talk about what you're doing to mitigate that? And sounds like you're pretty confident that that shouldn't be an issue into 2019. What's – next couple of quarters, how does that play out and then what are you doing there?

Donald R. Young

President, Chief Executive Officer & Director, Aspen Aerogels, Inc.

A

Yes, so, it really jumped out in Q2. This is something that we've been anticipating. I would call it sort of the dynamic on the silanes business. We had one closure of a facility, and then there's some dynamics in the silanes business that really aggravated the situation.

We saw parts of this coming and so we have had a program in place for several quarters now to eliminate the need for this particular material in our bill of materials. And so our ability to – if you will, design that product out or that component out, it's an important part of our mitigation strategy with respect to reducing our exposure to that.

And we're in good shape to do that, and that's why we're confident that we can continue it here in 2018, and not let it creep into unexpected volatility in 2019.

Chip Moore

Analyst, Canaccord Genuity, Inc.

Q

Okay. That's helpful. And I guess lastly on expansion it sounded, I think you mentioned costs coming in below plan. What's going on there that's allowing you to do that?

John F. Fairbanks

Vice President, Chief Financial Officer & Treasurer, Aspen Aerogels, Inc.

A

I think it's – just to frame that, the goal is to increase capacity by 20% by the end of 2020. We had indicated that we thought that would require capital of between \$15 million and \$20 million. We are more or less at the halfway point of achieving that goal for approximately \$3 million.

So the way I would think about it is, we've done a lot of terrific process technology work optimization, yield work, throughput work, that has paid dividends for us. No question, we probably picked the lower hanging fruits to start with just as you would expect to see how far we could get with those items, and we've done a really good job for R&D operations, our engineering group have done an excellent job there.

So we are confident that that \$15 million to \$20 million capital requirement we won't be anywhere near that kind of a number. I'm not sure we'll get the other half of 3 million, but we're – we're focused on really managing those costs carefully.

Chip Moore

Analyst, Canaccord Genuity, Inc.

Q

Got it. That's good to hear. I'll – I'll let someone else on. Thanks.

John F. Fairbanks

Vice President, Chief Financial Officer & Treasurer, Aspen Aerogels, Inc.

A

Thank you, Chip.

Operator: Your next question comes from Sean Hannan with Needham and Company. Your line is open.

Sean K. F. Hannan

Analyst, Needham & Co. LLC

Q

Yes, thanks good evening folks. Sorry to beat a dead horse here and it might just be that I'm a little obtuse. Overall I'm trying to assess how much of a handle you folks have on the expected orders or project work, and how this isn't repeatable for what you saw in the second quarter. I still really don't get the understanding of where perhaps the larger orders may have gone from the quarter.

And it seems Don that you feel comfortable that you're seeing them here in 3Q and 4Q and I'm not really sure what that means, I would have guessed, entering 2Q that you would have guessed similarly and that you'd see that within your line of sight but at the same time as you've always assumed to be 3Q or 4Q, then [ph] it slipped out of the year (00:37:49).

And the other side of the equation it seems like you were a little bit more bearish on hitting the \$100 million. I think that it was always clear, it was an aspiration, but I might be over interpreting some of the tone here. So again I'm just trying to get a better handle around what's happened here and trying to assess how much we really have a handle on the firmness of the assumptions here?

Donald R. Young

President, Chief Executive Officer & Director, Aspen Aerogels, Inc.

A

So again as I said in my in my earlier commentary, if you just look at Q2 alone in 2017 we had roughly...

Sean K. F. Hannan

Analyst, Needham & Co. LLC

Q

Right, and sorry to interrupt – Don, I'm sorry to interrupt you, I'm – because I'm not really comparing to 2017, I'm really going back to what we're already looking at and what's been established for expectations here for 2018. So I'm – we're past 2017, I'm just trying to understand from our most recent conversations and calls, what has changed since then if that makes better sense?

Donald R. Young

President, Chief Executive Officer & Director, Aspen Aerogels, Inc.

A

Yes, look I really think Sean it is – we received the number of orders that we would have expected in the day-in and day-out work. What we didn't really receive or were able to recognize in Q2 were just the orders that are typically a little larger than that, the kind of \$1 million type orders. And typically we get a small handful of those every year – every quarter, I should say \$1 million, \$2 million. And we're seeing that activity here in Q3 and Q4 and that's the reason why we're confident about the second year.

Plus, we have the nearly \$7 million of subsea work to be delivered here in the last two quarters. So I think if you see me hesitating about the \$100 million that's fair enough. I am – that's an ambitious target for us at this point given the weak second quarter in particular. And but having said that I think that our ability to get on a ramp that suggests that kind of a number will lead us into a strong second half and again set the stage for a much, much better 2019.

Sean K. F. Hannan

Analyst, Needham & Co. LLC

Q

And then switching gears here in terms of the cost pressures is there any cost recovery you can get through customers due to those raw material impacts being little bit more pronounced is that – can that be a conversation? Do you need to just kind of wait and try to make it up nominally through increased pricing a little bit further out? How do you address that at least in recovery or is it just effectively gone at this point?

Donald R. Young

President, Chief Executive Officer & Director, Aspen Aerogels, Inc.

A

Yes, it's difficult to claw back or to deal with it in the most immediate term. We've talked about how we would modify our prices and it's probable as we have as you know Sean since 2013 raised our price each year. We're going to be very mindful of that come 2019 to be sure we're in a good position to meet expectations around our margins.

Sean K. F. Hannan

Analyst, Needham & Co. LLC

Q

Okay. All right. Thanks so much for addressing the questions.

Donald R. Young

President, Chief Executive Officer & Director, Aspen Aerogels, Inc.

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Thank you, Sean.

Operator: And that's all the time that we have for questions today. With that I'll pass the call back to Don.

Donald R. Young

President, Chief Executive Officer & Director, Aspen Aerogels, Inc.

Thank you, Jesse. We appreciate your interest in Aspen Aerogels and we look forward to reporting to you our third quarter 2018 results in early November. Have a good evening. Thanks very much.

Operator: This concludes today's conference call. You may now disconnect.

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