



Aspen Aerogels, Inc.

Fourth Quarter and Fiscal Year 2017 Earnings Conference Call

February 22, 2018

C O R P O R A T E P A R T I C I P A N T S

John Fairbanks, *Vice President, Chief Financial Officer and Treasurer*

Don Young, *President and Chief Executive Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Eric Stine, *Craig-Hallum Capital Group, LLC*

Chip Moore, *Canaccord Genuity Group, Inc.*

Sean Hannan, *Needham & Company*

P R E S E N T A T I O N

Operator:

Good afternoon. My name is Chantelle and I will be your conference operator today. At this time, I would like to welcome everyone to the Aspen Aerogels' Q4 2017 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

John Fairbanks, you may begin your conference.

John Fairbanks:

Good afternoon. Thank you for joining us for the Aspen Aerogels' conference call. I'm John Fairbanks, Aspen's Chief Financial Officer. There are a few housekeeping items that I would like to address before turning the call over to Don Young, Aspen's President and CEO.

The press release announcing Aspen's financial results and business development, 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, a summary of key financial and operating statistics for the quarter and year ended December 31, 2017. In addition, the Investors section of Aspen's website will contain an archived version of this webcast for approximately one year.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, and 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. The Company's press release issued today and filings with the SEC can also be found in the Investors section of Aspen's website. The forward-looking statements made today represents the Company's views as of today, February 22, 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. Definitions of and reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures and a discussion of why we present these non-GAAP financial measures is available in today's press release.

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

Donald Young:

Thank you, John. Good afternoon. Thank you for joining us for our Q4 and Fiscal Year 2017 Earnings call. I will start by providing comments about the business and our performance. Next, John will review our Q4 and fiscal year 2017 financial performance and provide 2018 guidance. We will conclude the call with a Q&A session.

I plan to cover five topics in my prepared remarks. First, I will comment on our patent enforcement wins at the United States Patent and Trademark Office, the USPTO, the United States International Trade Commission, the ITC, and in the German court; second, I will comment on the \$5 million prepayment that we will receive from BASF during 2018, and the significant progress we have made in our strategic relationship with them; third, I will review our actual performance against our 2017 key performance indicators and introduce three key performance indicators for 2018; fourth, I will discuss the current commercial environment, including our market outlook for 2018, and fifth, I will provide an updated view of our strategy, which is centered, in part, on our strong capability to help our customers and partners shape their own strategies around the global megatrend of resource efficiency and sustainability, help them combine economic success with environmental protection and social responsibility. I will also describe the strategic opportunities available to us as we leverage our aerogel technology platform across our core, adjacent and new markets.

My first topic today is IP enforcement. In April 2016, we initiated a series of legal actions to assert our rights against companies that infringe our intellectual property. Since that time, we have logged several victories.

During the first half of 2017, one defendant challenged the validity of our patent with the United States Patent and Trademark Office. This challenge was denied by a panel of three patent judges at the USPTO, a very favorable outcome for Aspen.

Then, in September 2017, the ITC issued an initial determination, finding our patent claims valid and infringed upon by the Chinese companies. The judge recommended a limited exclusion order as the remedy to prevent the importation of infringing Aerogel products into the United States. In early February, the full ITC Commission issued a final determination confirming the judge's conclusions and issued a limited exclusion order prohibiting the entry of infringing products into the United States.

Also, in January 2018, a German court issued a series of judgements and injunctions against a Dutch distributor, prohibiting the resale of Aerogel products originating from China. In the settlement, the distributor agreed not to resell infringing Aerogel blankets in all European countries where we have patents.

We believe these wins at the USPTO, the ITC and in the German court clearly validate the strength of our patent portfolio and demonstrates the unique value our aerogel technology platform brings to our business partners around the world.

My second topic today is the \$5 million prepayment we will receive from BASF in 2018. BASF is clearly among our most important global business partners. In June 2016, we signed agreements with BASF that included commercial, technical and financial elements. The financial support was initially linked to our capacity expansion plan in Statesboro, Georgia. Last week, we amended the agreements to receive from \$5 million in prepayments in 2018, which will be focused principally on two initiatives.

The first initiative is our joint development work with BASF focused on building insulation. We have made rapid technical progress on an important next-generation product which has world-class thermal properties and is non-combustible and easy to use. We, both BASF and Aspen, are excited about completing these development efforts and realizing the potential of our combined technologies. The \$5 million prepayment will help to accelerate these efforts.

The second initiative is our new EP20 capacity expansion project. The goal with EP20 is to increase the manufacturing capacity of our East Providence facility by 20% by the end of 2020. Additional capacity in our existing facility is very valuable. With growth in revenue from our 2017 level of approximately \$110 million to our current revenue capacity of approximately \$150 million, we estimate that our Adjusted EBITDA, excluding IP enforcement costs, will increase from breakeven in 2017 to a projected range of between \$16 million and \$20 million. In other words, 40% to 50% of the revenue we generate from current levels drops to the Adjusted EBITDA line. The goal of our EP20 project is to expand our current revenue capacity from approximately \$150 million to approximately \$180 million per year. At \$180 million, we project that the East Providence facility would have the potential to generate Adjusted EBITDA in the range of \$28 million to \$35 million per year. The \$5 million prepayment from BASF will help to accelerate the EP20 project, which, in turn, will significantly enhance the profit potential and economic profile of our existing business.

Our third topic today is to review our actual performance against our 2017 key performance indicators and to introduce three indicators for 2018.

Our first 2017 performance indicator was to grow revenue each quarter by gaining market share in our core end markets, principally refinery and petrochemical companies, demonstrating value and growth in our adjacent markets, including LNG, district energy and power, and taking a partnered approach for the development of new markets, including building materials. We met the goal in 2017 by growing revenue from \$23 million in Q1 to \$25 million in Q2, to \$27 million in Q3, and to \$36 million in Q4. We believe this momentum is an important first step towards achieving our goal to deliver long-term growth in revenue and profitability.

The second indicator was centered on our revenue not comprised of subsea and the South Asia petrochemical project. To provide context, it is important to remember that subsea and the South Asia petrochemical project, together, accounted for approximately 30% of our revenue in both 2015 and 2016. However, in 2017, we had anticipated this revenue would account for less than 10% of our total revenue. Tracking revenue, other than subsea and the South Asia petrochemical project, enables us to gauge our day-in and day-out maintenance and small project work, revenue which we believe is the base for sustained future growth. Entering 2017, we knew we needed to grow base revenue to at least \$90 million in order to meet our revenue guidance for the year. For perspective, our base revenue has grown in millions of dollars, from the low 70s in 2013 and 2014, to the low 80s in 2015 and 2016. While we reached our target for overall revenue in 2017, and achieved record base revenue of \$88 million, we fell short of our 2017 target of \$90 million. This shortfall is one of the three main reasons why we are cautious with our 2018 revenue guidance. We will continue to track base revenue as a performance indicator during 2018, and will increase the target to \$100 million.

The third 2017 performance indicator was related to the strategic importance of diversifying into adjacent markets. We launched, on schedule, in July 2017, our new product, Pyrogel HPS, targeting the power industry, an industry that consumes \$1.4 billion of insulation per year. We define success to be our ability to generate \$1 million to \$3 million of revenue, to build a portfolio of case studies and to begin the typical adoption progression, from maintenance work to small scope project work and then on to larger scale project work. We succeeded in meeting these performance indicators. In addition, we worked our way into the global specifications of several key players in this market, including the major turbine manufacturers, which is a critical step as we work the adoption progression, and the successful roll-out of Pyrogel HPS is an important demonstration of our core competency of commercialized innovation; that is, our ability to leverage our aerogel technology platform and to develop and commercialize innovative Aerogel products in adjacent and new markets.

Looking forward to 2018, the three performance indicators we will track involve base revenue, year-to-date growth in both revenue and Adjusted EBITDA, and the EP20 project.

The first performance indicator, base revenue—again, revenue not comprised of subsea or the large South Asia petrochemical project—is a good indicator of day-in and day-out maintenance and small scope project work, our version of a recurring revenue stream. We are targeting \$100 million in base revenue for 2018, representing year-over-year growth in base revenue in the range of 10% to 15%.

The second performance indicator for 2018 relates to growth in revenue and Adjusted EBITDA. The performance indicator is growth in the year-to-date revenue and Adjusted EBITDA as measured at the end of each quarter. After delivering a 30% revenue CAGR from 2008 through 2015, our goal is to return to double-digit revenue growth, and we firmly believe that significant growth in Adjusted EBITDA will follow. 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 break-out value.

The third 2018 performance metric relates to the EP20 initiative. Again, our goal is to increase the capacity in our East Providence manufacturing facility by 20% by the end of 2020. The capacity expansion to our existing manufacturing assets will be driven primarily by process technology advancements designed to improve manufacturing productivity and capital efficiency. We believe the EP20 plan is achievable, because we have tested the concept in advance in our full-scale pilot plant which we commissioned in 2016. We will also conduct several studies during 2018 that will lay the foundation for EP20 work planned for the second and third years. Our 2018 capital budget for EP20 is \$3 million, which will be supported by the prepayment from BASF.

We will report out on the three 2018 performance indicators each quarter. Again, the three indicators are expanding our base revenue, driving year-to-date growth in both revenue and Adjusted EBITDA, and increasing capacity through our EP20 initiative.

Our fourth topic today is a discussion of the current commercial environment. While we have continued to diversify our revenue successfully with growth in our adjacent markets, we remain linked to oil prices and related energy infrastructure activity levels. WTI crude prices were roughly \$55 per barrel a year ago and moved \$10 per barrel in each direction, up and down, during the year, and are now at approximately \$60 per barrel. This feels reasonably stable relative to the \$108 to \$28 per barrel slide that we experienced during the 2014, 2015 and 2016 timeframe. While the market feels better today than it did one year ago, we remain cautious for 2018 for three reasons.

First, as I stated earlier, we slightly underachieved on our 2017 base revenue performance metric at \$80 million versus our goal of reaching or surpassing \$90 million. While we reached the upper end of our 2017 revenue guidance, and we have set an aggressive goal of \$100 million for base revenue in 2018, we were disappointed that we did not achieve the 10% to 15% base revenue growth during 2017 that we wanted. This is one of the reasons why we have chosen to be cautious in our revenue outlook in 2018.

The second reason we are cautious on our 2018 revenue guidance again relates to base revenue. While we underachieved on base revenue in 2017, we overachieved against our expectations in the subsea market and on the continued supply to the South Asia petrochemical project, reaching 19% of total revenue in 2017. We expect that percentage to be in the 7% to 10% range for 2018, a \$9 million to \$14 million drop in non-base revenue. We expect to make up most or all of that revenue loss in 2018 with significant base revenue growth, but, nevertheless, it is a big hole to fill.

The third reason we remain cautious for 2018 revenue guidance is because insulation is a late cycle product. The fundamentals and activity levels in the market are stronger and momentum appears to be building. As you may remember, we were beneficiaries of late cycle activity in Q4 2015, a period of time when WTI crude was heading to prices under \$30 per barrel. Even though oil prices were crashing and the market was weak, the flywheel was still turning for us and we posted a record quarter with \$37.4 million in revenue and \$5.4 million of Adjusted EBITDA. If current market conditions continue to build strength through 2018, we would expect to feel the full positive impact in 2019 and into 2020.

We are encouraged by the market activity levels. We believe if we can get out in front of business in a timely way that we will continue to win a growing market share. We are increasing the size of our sales force by 25%, in order to take increasing market share in a strengthening commercial environment, an action we believe will enable us to outpace the market and result in strong growth. We are making outstanding progress in executing our strategy to leverage our aerogel technology platform across our core, adjacent and new markets. Our ability to build base revenue to position ourselves for significant project work, and to continue to exhibit strength in entering new markets gives us confidence that over a two- to three-year period we can experience substantial and diverse growth, even within the current energy price environment.

This narrative leads to our fifth and final topic, which is the articulation of our strategy. Our strategy is to leverage our aerogel technology platform. There are three key elements.

The first element is to grow our core and adjacent markets to fully utilize the East Providence manufacturing facility, including the expanded capacity from the EP20 initiative. At capacity, we would have the potential to be a business generating \$180 million of revenue and Adjusted EBITDA of between \$28 million and \$35 million.

The second element is to organize around innovation and to leverage our core competency of commercializing innovation. We have world-class Aerogel products and process technology, and the premiere Aerogel Research Scientist is committed to continuing to advance the science. We have created a new Business Development Team dedicated to prioritizing the best opportunities for our aerogel technology platform, in order to address significant global challenges and to identify world-class partners and optimal business structures to accelerate value creation.

The third element of the strategy is to maximize long-term shareholder value. With revenue growth in our core and adjacent markets, combined with the improved profit potential in our East Providence plant, associated with our EP20 project, we believe we can generate free cash to invest in one or two new business opportunities where our aerogel technology platform has the potential to create breakout value. Our vision for Aspen is to be a prosperous and valuable leader in our core and adjacent markets, and to have the potential for breakout value in new markets.

Overall, we are confident that the strength of our technology and the ROI that we bring to our end users across multiple markets will enable solid performance for our Company. Our progress from core to adjacent and to new markets is powerful, it creates the opportunity to build a large and profitable company. We have an experience team of people and we are confident in our ability to execute our strategy and to realize our vision for the Company.

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

John Fairbanks:

Thanks, Don, and good afternoon. Let's start by running through our reported financial results for the fourth quarter and fiscal 2017 at a summary level.

Fourth quarter total revenue grew 32% to \$36.4 million, versus \$27.6 million in the fourth quarter of 2016. Fourth quarter net loss was \$1.7 million, or \$0.07 per share, compared to \$5.7 million, or \$0.25 per share, last year.

Fourth quarter Adjusted EBITDA was positive \$2.2 million, compared to negative \$2.1 million a year ago. We define Adjusted EBITDA as net income or loss before interest, taxes, depreciation, amortization, stock-based compensation expense, and other items that we do not believe are indicative of our core operating performance.

Patent enforcement costs had a less significant impact on our net loss and Adjusted EBITDA during the fourth quarter this year than in the fourth quarter last year. We incurred only \$600,000 of patent enforcement costs during the fourth quarter, versus \$1.9 million in the fourth quarter last year.

For the full year, total revenue declined 5% to \$111.6 million. Net loss was \$19.3 million, or \$0.83 per share, in 2017, versus a net loss of \$12 million, or \$0.52 per share, last year, and Adjusted EBITDA for the year was negative \$3.3 million, compared to positive \$3.9 million a year ago.

Patent enforcement costs had a significant impact on both our net loss and Adjusted EBITDA during both 2017 and 2016. We incurred \$3.5 million of patent enforcement costs during 2017, versus \$3.6 million in 2016.

Our performance during the fourth quarter again met our objective to build sequential quarterly momentum during the year. Total revenue this year improved from a low of \$23 million in the first quarter to a high of \$36.4 million in the fourth quarter. As we discussed during our previous conference calls, our gross profit and gross margin are highly dependent on product revenue and capacity utilization levels. Principally, as a result of the growth in quarterly revenue during the year, gross margin improved from a low of 10% in the first quarter to a high of 21% in the fourth quarter. Gross profit dollars also improved from \$2.2 million in the first quarter to \$7.8 million in the fourth quarter. Adjusted EBITDA improved from negative \$5.1 million in the first quarter to positive \$2.2 million in the fourth quarter. With future revenue and utilization growth, we would expect to see percentage growth in gross profit and Adjusted EBITDA continue to outpace the associated growth in product revenue.

I'll now provide additional detail on the components of our results.

First, I'll discuss revenue. Fourth quarter total revenue was comprised of product revenue of \$35.9 million and research services revenue of \$472,000. Total revenue for the year was comprised of product revenue of \$109.6 million and research services revenue of \$2 million.

During the fourth quarter, product revenue increased by \$8.7 million, or 32%, to \$35.9 million, versus \$27.2 million last year. Fourth quarter product revenue growth was driven by strong demand in the U.S. and European markets, and a high volume of subsea project work. During the quarter, total shipments increased by 12% to 11.9 million square feet of Aerogel blankets, and our average selling price increased by 18% to \$3.02 per square foot, principally due to the increase in the mix of higher priced subsea products this year. For the full year, product revenue decreased by \$5.9 million, or 5%, versus last year. This decrease was driven, in large part, by the conclusion of shipments to the multi-year South Asia petrochemical project. For 2017, total shipments decreased by 15% to 37.5 million square feet, while our average selling price increased by 12% versus 2016, to \$2.90 per square foot. The price increase during the year reflected both the increase in mix of our higher priced subsea products and the decrease in revenue from our lower priced South Asia petrochemical project.

Looking forward, we anticipate broad-based growth across our core and adjacent markets will offset most or all of the expected revenue decline associated with the completion of the South Asia petrochemical project and a decline in the subsea market.

Revenue generated in the subsea market and from the multi-year South Asia petrochemical project contributed \$21 million to total revenue in 2017. Our 2018 revenue forecast anticipates a decline in revenue in these markets to approximately \$7 million to \$12 million, although project work can be difficult to predict. Our 2018 revenue forecast anticipates revenue growth in our base business of approximately \$9 million to \$14 million, or 10% to 15%, to a range of between \$97 million and \$102 million. As a result, we expect product revenue, total product revenue during 2018 of between \$104 million and \$114 million, compared to the \$109 million we generated during 2017. This expectation is reflected in our 2018 annual guidance. We expect our average selling price for 2018 will remain flat from 2017 at \$2.92 per square foot, plus or minus \$0.05, with the impact of a 2% effective price increase in 2018, offset by the anticipated reduction in the mix of our higher priced subsea revenue. This average selling price expectation is also reflected in our 2018 guidance.

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 was \$473,000 during the fourth quarter and \$2 million during the year. For 2018, we expect research services revenue of approximately \$1.75 million, down slightly from 2017. This expectation is reflected, as well, in our 2018 guidance.

Next, I'll discuss gross profit. Gross profit was \$7.8 million, or 21% of revenue, during the fourth quarter of 2018, versus \$3.7 million, or 13%, last year. This improvement in gross profit and gross margin was driven by the 18% increase in average selling price for our products, the 12% growth in shipment volume, offset, in part, by a 7% decrease in production volume that we instituted to manage inventory balances and a volume-related increase in material costs during the quarter.

As a reminder, our variable contribution margin is approximately 45%. As a result, an increase in revenue and capacity utilization will lead to a disproportionate increase in both gross profit and gross margin. This case held true in the fourth quarter of 2017. The 32% growth in revenue, versus 2016, led to an expansion of our gross margin by nearly 800 basis points and a 109% increase in gross profit dollars.

For the year, gross profit was \$18.7 million, or 17% of revenue, versus \$23.3 million, or 20% of revenue, last year. The decline in gross profit and gross margin this year was largely the result of the 15% decline in shipment volume, the cumulative 25% reduction in production volume enacted to manage inventory balances, and a small increase in material and warranty costs, offset, in part, by the 12% increase in our average selling price for our products and a decrease in manufacturing expenses during the period.

Looking forward to 2018, we expect gross margins to remain in the high teens for the full year, but like 2017, quarterly gross margins could run from the low double-digits to the low 20s, depending on quarterly revenue volume. This gross margin expectation includes our planned investment in manufacturing personnel to re-establish full-time, three-line operations in the East Providence plant, to improve manufacturing productivity and costs, and in support of our EP20 initiative to expand the capacity of the East Providence facility by 20% by the end of 2020. This gross margin expectation is included in our 2018 guidance.

Next, I'll discuss operating expenses. Fourth quarter operating expenses were flat to last year at \$9.4 million. For the year, operating expenses grew by \$3.3 million, or 9%, versus last year, to \$37.8 million. Looking forward, our 2018 guidance includes our expectation that operating expenses will increase by 4%, slightly more than \$39 million for 2018. This projected operating expense increase reflects our planned investment in sales, research and support personnel, and expense to drive growth in our energy infrastructure business, and to develop breakout opportunities in new markets, offset, in part, by a projected decline in patent enforcement costs of approximately \$2.5 million.

Next, I'll discuss our balance sheet and cash flow for 2017. Cash used in operations of \$4.6 million reflected our negative Adjusted EBITDA of \$3.3 million and \$1.3 million of cash used for working capital during the year. This use of cash for working capital was higher than we had recently projected. In particular, our accounts receivable balance at year end was temporarily higher than expected, due to strong project-related revenue during the fourth quarter. Capital expenditures for the year totaled \$6.1 million, in line with our guidance of \$6.3 million, and down from \$13 million in 2016.

We ended 2017 with \$10.7 million of cash, \$3.8 million on our revolving credit facility, net current assets of \$26.1 million, and shareholders' equity of \$101 million, and, importantly, we had access to an additional \$13.9 million under our revolving credit facility at year end.

I'll now summarize our full year financial outlook for 2018. Total revenue is expected to range between \$106 million and \$116 million. Net loss is expected to range between \$16.9 million and \$19.9 million. Adjusted EBITDA is expected to range between a loss of \$2 million and a loss of \$5 million. EPS is expected to range between a loss of \$0.71 and a loss of \$0.85 per share. This EPS guidance assumes a weighted average of 23.6 million shares outstanding for the year. This 2018 outlook also assumes depreciation and amortization of \$10.3 million, stock-based compensation of \$4.3 million, and interest expense of \$300,000. In addition, this financial outlook includes between \$1 million and \$1.3 million of costs and expenses associated with our patent enforcement actions for the year. For the full year, we expect a gross margin in the high teens and average selling price of \$2.92 per square foot, plus or minus \$0.05.

During 2018, we'll continue our focus on controlling capital expenditures to maintain a strong balance and financial flexibility. Our 2018 capital budget of \$4 million is comprised of \$1 million of (inaudible) capital projects and \$3 million for our EP20 initiative to expand the capacity of the East Providence facility by 20% by the end of 2020.

Turning to cash at an aggregate level, within the context of the Adjusted EBITDA range in our 2018 full year outlook, we expect to exit 2018 with between \$8 million and \$11 million of net cash on hand. As Don mentioned, we have amended our supply agreement with BASF to secure \$5 million in advance payments in 2018, to help support our capacity expansion plans, our process improvement initiatives and our new business development efforts. This \$5 million in advanced payments is included in our 2018 year end cash guidance.

While we don't provide specific quarterly guidance on a routine basis, we think it's important from time to time to provide our investors with a general view to our expectations during the year. In general, we expect our quarterly financial performance in 2018 to mirror the profile of our 2017 quarterly performance, with a significant step-down in revenue and profitability in the first quarter and sequential quarterly growth thereafter. We are also striving to deliver year-over-year improvement in financial performance during each of the three-, six-, nine- and 12-month year-to-date periods during 2018, and to enter 2019 with strong operating and financial momentum.

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

Operator:

At this time, I would like to remind everyone, in order to ask a question, please press star, then the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from Eric Stine with Craig-Hallum. Your line is open.

Eric Stine:

Hi, Don. Hi, John.

Donald Young:

Hi, Eric.

Eric Stine:

I was just wondering, could you just help us kind of bridge the fact that you're guiding to flat revenues, but also taking these steps to bring on capacity? I know that's by 2020, but flat revenue, you've got a lot of room now, you know, just thought process. Is it some of the large project activity that you expect to hit starting in 2019, views of some partnerships on the horizon, or how should we think about that?

Donald Young:

I think there may be two ways of doing it. When we're doing an expansion in a plant—in this particular one, we're improving the process technology of our existing asset, as opposed to adding new assets to the facility, kind of the brute-force method. It's very difficult to do that kind of work while you're operating the plant full out, and so this is the time to do that work. So, we've got the perfect time to do it, one. Of course, we wouldn't do it if we weren't confident that we could grow our revenues to that \$150 million level and to the \$180 million level, you just wouldn't do this. That's in the backdrop, as well. So, our goal here is to continue to grow that base revenue, and we've said a few times in our presentation in that 10% to 15% range year-in and year-out, and then put some projects on top of it.

As you know, Eric, we've worked that progression, from doing maintenance work to small scope work to large scope project work pretty successfully. LNG is the most recent example of that. We believe, with the successful delivering of three projects in 2017, that those will lead to additional projects and larger projects in the LNG area, for example, in that 2019 and 2020 timeframe.

So, we're doing this with purpose, and we also believe that it's just the right time to do it, and there's no question that having BASF help shoulder the load a bit here financially is really important to us.

Eric Stine:

Right, and that's a good segue to my second question. I mean, it seems like the health of that relationship with BASF is in very good shape. Is this a case where—I mean, should we think about that Plant 2, I mean, it would seem that this pushes that off quite a bit, or that BASF doesn't necessarily care whether their \$20 million eventually goes to Plant 2 or it's invested in your plant, they just want to have that capacity?

Donald Young:

Yes, they would like access to—guaranteed access to the capacity. If you go back to the 2015, early '16 timeframe, there were points in time where we were capacity constrained significantly, '14 and '15, and early '16, and they were concerned about having that happen to them again, and so that's part of their motivation here in helping us with our capacity expansion. Obviously, it provides a nice sort of baseload activity for us, as well, as we go and create this new capacity. So, those are the drivers.

The relationship is very strong. We've talked a bit here about the financial parts of it, but they've helped us with some of the operating improvements that we're making in our facility in East Providence, and of course working closely with us through the JVA on these next-generation products, as well. So, it's a strong relationship and we really appreciate their help.

Eric Stine:

Right, right, okay, and maybe a last one for me, just on subsea. Yesterday, Technip had their call and they had pretty positive commentary on activity continuing in 2018, and going forward. Is your view of

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2018 more a case of—I know you don't report a backlog, but that the backlog for subsea as it stands today isn't necessarily there and it's more about if you were to get awards, you're late cycle, and so that we would be more late '18 or 2019 work? Is that the reason? Because, I mean, what Technip said and what you're looking for, those are different views.

Donald Young:

Technip has been our largest customer in the subsea, dating back to 2004 and '05, so they've been a great partner of ours through that period. I was encouraged to hear their report. I listened in and read their work. You know, subsea is really difficult for us to project. We are bird-dogging more than a dozen projects today around the world in the subsea, and those could break any time. The hard part is predicting it. If you just look at the last three years—and, John, correct me if I'm wrong—if I remember correctly, the subsea numbers were \$24 million, \$11 million and \$14 million, they're just banging all around the place. So, it's really difficult to kind of want to hang your hat on any particular number, and so what we do is we take a longer term view of it and just try to find kind of an average number. If you go out five years, the average the number, it's kind of in that 7, 8, 9 kind of range, and we're sort of just projecting that forward here in 2018. We hope Technip is spot on. I mean, they are really right in the middle of that market, obviously, so they know a lot. Yes, we do come a little late cycle, so maybe it would have the biggest impact on us late '18 and into 2019. We feel good about 2019 for lot of different reasons and that's one of them.

Eric Stine:

Okay. Thanks a lot.

Donald Young:

Thanks, Eric.

Operator:

Your next question comes from the line of Chip Moore with Canaccord. Your line is open.

Chip Moore:

Hi, thanks, and congratulations on the nice finish, guys. Maybe you could guide a little bit more on EP20, the \$3 million next year, sort of where does that get you to, and then when we think about the ramp-up to that \$180 million capacity, what additional sort of investments will that take?

John Fairbanks:

Yes, Chip, the overall project, we've earmarked between \$15 million and \$20 million to achieve the 20%. We'll, obviously, focus on projects that we get the best bang for the buck initially with that money. So, that original, that initial \$3 million will go a long way towards gaining some fairly significant capacity during the year. We'll apprise you of our progress during the year as we go, rather than setting expectations, but we'll let you know what advances we're making and what we're seeing in terms of capacity improvement.

The \$15 million to \$20 million is a long-term message, principally capital spending. So, it would be the initial \$3 million out of potentially a minimum of \$15 million. We would expect to increase our spending in 2019 and 2020, to ultimately complete that project.

Chip Moore:

That's perfect, that's helpful, and it seems like a nice flexible approach, and maybe if we can talk just a little bit more about some of the markets. It sounds like you're seeing pretty broad-based growth across

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all the different areas, but maybe if you could just give us a little more color on some of those individual markets. Thanks, guys.

Donald Young:

Thank you, Chip. Well, let me just—I could just make a couple of comments. We had nice growth in 2017 in both the United States and across Europe, good growth numbers, very significant numbers, in fact, in the U.S., and continuing good momentum in that market. I talked about increasing the size of our sales force. After a good amount of travel in the second half of 2017, I am convinced that if we can get in front of business in a timely way—our products are now well accepted, they're well proven, they're no longer exotic or novel products, and if we can get in front of this—and when I say "in a timely way," I mean getting the specifications early on of some of these mid- and large-sized projects—I think we'll win more than our fair share of that work. So, I'm feeling good about—through the maturation level of our product or that adoption cycle, and so that's been good, I feel good about that.

I've talked in the past a bit about the LNG market. Again, we were very successful delivering the three projects and the engineering companies and the asset owners gave us very high marks for doing what we said we would do and for that product to be valuable to them. As you look forward, some of those very same engineering companies and end users, asset owners, have next-stage projects right on the drawing board, and so we're in a terrific position to compete not so much for the size that we did in 2017—you remember those were \$3 million, \$5 million and \$8 million in size—but for projects that could be measured in the \$10 million, \$20 million, even \$30 million kinds of range. So, we've done a terrific job doing that.

Also, I just want to focus on the adjacent markets. In addition to LNG, our district energy business and the launch of our HPS product continue to be successful. So, getting incremental growth from those segments is really critical to us as we grow base revenue and position ourselves for some good project work.

Chip Moore:

Thanks, that's great, it's good to see.

Donald Young:

Thank you, Chip.

Operator:

Again, if you would like to ask a question, press star, then the number one on your telephone keypad.

Your next question comes from Sean Hannan with Needham. Your line is open.

Sean Hannan:

Yes, hi, folks. Thanks for taking the question here. I just want to come back to an earlier question, because I'm still not too sure if I fully understand the basis of investment and making that decision today. When I step back and I think about, you know, we've got a core business where initially last year you were looking to do \$90 million to \$100 million, that got pared back, and then we were looking to do \$90 million and then we were beneath that. We're looking, as an aspiration, to hit \$100 million, but you guys express some conservatism around that. The other aspects of your business, looking at the project orientation, there's a lot of variability there, and so it almost seems like we're really kind of building some flex capacity to accommodate a few LNG projects that are going to be fairly finite. I may be misinterpreting things, but can you help me to better understand this, because once we expand, if we're

bare in 2020, I would want to think that we have a good base to our core business that is just finite, versus the project side. Any help around that would be great. Thanks.

Don Young:

Yes. So, our target for base revenue this year is \$100 million and we're going to put all our resources into achieving that number. I would anticipate that that number continues to grow in that 10% to 15% range year-in and year-out as we move forward. If you start to put a couple of projects on top of that level over the course of 2018, 2019 and 2020, we are pushing up hard against that 150 number. Second, as I said earlier, the only time we can really make these investments in East Providence is not when you're running full out at 100% capacity, but as you lead up to that, where you have a little bit of flexibility in the management of that flexibility. So, we are making that—we have a strong conviction that we're going to grow in the way that I just talked about, and that's why we're making those investments now.

John Fairbanks:

One other point, Sean. Some of the advancements that we'll make this year, that \$3 million in capital expenditures, will be to improve yields in our plant, and those yield improvements increase our output, but it also drops our costs, and so there'll be a benefit to the bottom line that will accrue later in 2018, into 2019 and '20, so it will help us become more profitable. The other piece of it is the EP20 projects themselves are principally capital, so it's capital expenditures. This will not require us to increase the operating expense levels in our business, and that's why the incremental profitability associated with the increase, the potential profitability associated with the increase of \$30 million, from \$150 million to \$180 million, is so profitable to us. So, I think the investment we're making in 2018 is limited to that \$3 million of cap ex. It's the right time for those projects. When we start to fill the plant, we won't be able to accomplish those projects. We'll get an immediate benefit from yield improvement and then we'll get the benefit of improved profitability and cash flow when we do fill the plant. So, from that perspective, we felt it was the right time to make the investment.

Sean Hannan:

Okay, I understand, I follow that, and I suppose that, perhaps, what it then comes back to me is where the confidence is in the growth factor for that core business, because, again, last year we ended up in a very different place versus where our expectations were going to be, and, again, this year, as you guys are targeting that \$100 million, unless I heard you incorrectly, it sounded like you were explicitly stating we want to be cautious and conservative, and there are asterisks that you're putting around that. I'm just trying to bridge the gap as I hear those types of comments versus then, you know, Don, a moment ago, it sounds like you're very confident in growing that 10% to 15%. I'm just trying to connect the dots, guys. I'm sorry, I don't mean to come across the wrong way. I just want to make sure I understand this correctly.

Don Young:

Right. We agree with you that there are—that our confidence level, as depicted by the fact that we're willing to make these investments in expanding our capacity, and the fact that we are growing our sales force by 25%, those are the actions of a Management Team that feels strongly about their business. Look, I recognize that feels a little out of synch with our revenue guidance that we gave, which I think is cautious, I think is the word I used and the word that you repeated, and so I understand there's a little tension between those two things. We do think the late cycle impact has some real ramification for us and we think we will build throughout this year and we think we'll position ourselves very well for '19 and '20, as that flywheel starts to spin here a little bit. We're feeling a good U.S. market right now. We overachieved in Europe in last year. So, there are a lot of positive things going on. We just want to see them take hold here. I think our performance metric in 2018, of year-to-date growth in both revenue and in Adjusted EBITDA, as measured in each quarter, is going to be a really strong metric for us, and I would just anticipate keeping a close eye on that and building that, and that'll be a very important indicator.

Sean Hannan:

All very fair, Don. Thank you so much for patiently addressing the question.

Donald Young:

No, no, I understand. We had the question before. Thank you, Sean.

Operator:

There are no further questions at this time. I will now turn the call back over to Mr. Don Young.

Donald Young:

Thank you, Chantelle, I appreciate it. We appreciate your interest in Aspen Aerogels and we look forward to reporting our first quarter 2018 results to you in early May. Have a good evening. Thank you.

John Fairbanks:

Thank you.

Operator:

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