**Aspen Aerogels**
**Second Quarter 2014 Earnings Conference Call**
**August 7, 2014**

**Operator:**

Good afternoon. My name is Ian and I will be your conference operator today. At this time I would like to welcome everyone to the Aspen Aerogels Second Quarter 2014 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'd like to ask a question during this time, simply press star, then the number one, on your telephone keypad. If you'd like to withdraw your question, then press the pound key.

I would now like to turn the call over to Ms. Susan White, Vice President of Finance and Corporate Strategy.

**Susan White:**

Thanks, Ian, and good afternoon everyone. Thank you for joining us for the Aspen Aerogels conference call. I am Susan White, Vice President of Finance and Corporate Strategy. Before turning the call over to Don Young, our President and CEO, and John Fairbanks, our CFO, there are a couple of housekeeping items I'd like to take care of. First we will take questions at the end of our prepared remarks and as the operator says, an archived version of this webcast will be available in the Investors section of our website.

The press release announcing the second quarter results and our business outlook, as well as a reconciliation Management's use of non-GAAP financial measures as compared to the most applicable GAAP measures is available on the Investor section of your website, www.aerogels.com. There you will also find a Summary Statement of Operations, a Summary Balance Sheet and a Summary of Key Financial and Operating Statistics for the second quarter and first half of 2014.

Today's call contains estimates and other statements that are forward-looking under the Private Securities Litigation Reform Act of 1995 and other federal securities laws, including but not limited to Management's future expectations, beliefs, intentions, goals, strategies, plans or prospects, and any other statements that are not historical fact. These forward-looking statements include without limitation statements relating to our future financial performance, our construction plans and expected timing, costs and capacity of our third manufacturing line in East Providence, Rhode Island, the ability of our IPO proceeds to allow to execute our growth strategy, the future operation of our two existing production lines, our plans to build a new manufacturing facility in New York or Asia, and expected timing costs and capacity of the facility, and our future performance in the offshore market. These statements are based on Management's current expectations, are subject to risks and uncertainties and involve a number of factors that could cause actual results to differ materially from those expressed or implied by such statements. Additional information concerning these factors concerning these is contained in the filings with the SEC including our prospectus dated June 12, 2014, that we filed with the SEC on June 16, 2014, which is available at www.sec.gov.

The forward-looking statements made today represent our views as of today, August 7, 2014. Aspen Aerogels disclaims any obligations 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 EPS and Adjusted EBITDA. These financial measures are not prepared in accordance with US 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 and a discussion of why we present these non-GAAP financial measures is available on today's press release, which is available on our website.

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

**Don Young:**

Thank you, Susan. Good afternoon everyone. Thank you for joining us for our first conference call as a public company. In terms of the format of the call, I will provide comments about the business and John Fairbanks, our CFO, will follow me and present the financial details of our second quarter. We will conclude the call with a Q&A session.

First, in June, we completed our IPO which raised $77 million of net proceeds and included the conversion of all convertible notes to common stock. We were able to repay our subordinated notes and our line of credit prior to the end of the quarter using $20 million of IPO proceeds. We end the quarter with a clean balance sheet, with $57 million of cash and minimal debt. This is a great way to start as a public company.

Next our second quarter operating performance was solid across the business, and importantly, we positioned ourselves for continued strong performance through the remainder of the year. We achieved record quarterly revenue and our fifth consecutive quarter of positive Adjusted EBITDA. We also started construction of our third manufacturing line in East Providence, Rhode Island, which remains on target to become operational during this first half of 2015

With the proceeds from the IPO and given our disruptive position in serving the global energy market, we have a clear opportunity to execute our strategy, focused on growth and profitability.

As a newly public company, we want to take just a moment to remind you why Aspen is a dynamic and important energy technology company. Our high-performance aerogel insulation is used in a diverse range of large-scale energy infrastructure assets, including refinery, petrochemical and LNG facilities, as well as in the offshore, oil sands and power generation subsectors. Our end-use customers select our products when thermal performance is critical and to save money, to reduce energy use, to preserve operating assets and to protect workers. Our initial success has led to a five-year revenue CAGR of 34%.

Our second quarter product revenue growth rate of 19% was moderated by our existing manufacturing capacity and highlights the importance of dedicating our IPO proceeds to the expansion of our capacity to support continued growth.

We currently have two production lines in our East Providence facility. We expect these assets to operate at full capacity throughout the remainder of the year. To meet growing customer demand, we are expanding our capacity in two phases. In the first phase, we're building a third line in East Providence which will increase capacity by approximately 25%. The project is on track and we expect it to be completed on budget during the first half of 2015.

The second phase of our capacity expansion is to build a new manufacturing facility in Europe or Asia to diversify our manufacturing sites and to lower costs. We are in the process of evaluating potential sites and will do so throughout the remainder of 2014. The factors that will be important in determining the location include proximity to raw materials, low labor rates, efficient logistics, IP protection and government grants. We remain on track to announce the location of our second plant by the end of this year. We expect that the first production line of this second plant will increase capacity by 50% and we continue to expect to begin construction during 2015 and to start operations during 2017.

Now I would like to review commercial highlights of the second quarter. As we have discussed in the past, we have diverse revenue growth. We serve all subsectors of the energy market, a broad group of leading energy companies, all geographic regions, all phases of maintenance and project work and across a wide temperature range. We are not reliant on any single market sector, region, or end-use customer, and this second quarter was no exception.

Our record revenue in the second quarter was driven by robust activity in the petrochemical sectors in Asia and South America, as well as in the offshore market.

This growth was supported by a strong foundation of recurring maintenance work in the United States. Our Asia revenue hit a record level due to a large petrochemical project with a major energy company. We received $14 million of purchase orders for this project in January, and we recognized $5.4 million in revenue against these purchase orders during the first half of 2014. We recently received a second set of purchase orders for this project for an additional $14 million, scheduled for delivery later this year and next.

The offshore market has been important to us since 2005 and has been particularly strong this year. Our historical offshore revenue level has been about $5 million per year, but we expect to more than double this amount in 2014. We attribute our success in the offshore market to a strong value proposition. The thin profile of our aerogel blankets allows contractors to install deep sea flow lines faster and cheaper. While it is difficult to predict future offshore revenue, we have strong relationships with leading offshore engineering companies and are tracking several projects for delivery in 2015.

On the operations side, we ran our facility in East Providence at full capacity during the second quarter, and the manufacturing team delivered strong throughput and yields. However, we sold more product than we manufactured and our finished goods inventory dropped quarter-over-quarter to meet demand. We expect to continue to operate at full capacity for the remainder of the year.

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

**John Fairbanks:**

Good afternoon. As Don highlighted during his comments, we delivered record quarterly revenue in the second quarter. We also achieved a fifth consecutive quarter of positive Adjusted EBITDA, and we ended the quarter with a strong balance sheet with 56.9 million of cash and minimal debt.

I'd like to start by running through our financial results for the second quarter at a summary level. Revenue grew 16% year over year to $26.6 million. GAAP net loss was $42.1 million or $13.88 per share. This net loss included $38.8 million of non-cash expense related to the completion of our IPO. This expense was comprised of accretion of our convertible notes to final conversion value, and the recognition of compensation costs for performance-based stock options.

Our Adjusted EBITDA grew 23% year over year to $432,000. We define Adjusted EBITDA as net income or loss before interest income or expense, taxes, depreciation, amortization, stock-based comp, and other non-cash items that we do not believe are indicative of our core operating performance.

Adjusted EPS for the quarter was a loss of $0.14 per share. Adjusted EPS excludes the impact of a non-cash expense related to the closing of our IPO to adjust the weighted average share count to equal the 23 million shares outstanding after the IPO.

I'll now provide additional detail on the components of our results. First, I'll discuss revenue. Total revenue was comprised of product revenue of $25.9 million and research services revenue of $722,000. As Don mentioned, our product revenue is well diversified again across geographies, the sub segments of the energy market, and all phases of maintenance and project work. This quarter, our product revenue increased 19% versus last year due to particular strength in the petrochemical sector in Asia and Latin America and in the offshore market.

During the quarter, we shipped 10.1 million square feet of aerogel blankets. Our weighted average selling price increased 4% versus last year to $2.57 per square foot and reflected both a high proportion of offshore revenue, which has a higher ASP, and the impact of price increases over the past year.

I'll now turn to our research services revenue. Our research services revenue is related to contract research performed principally for government agencies. Research revenue declined 39% versus Q2 '13, principally due to limitations on our eligibility to receive SBIR contract awards due to factors including our revenue amount, our employee count and our ownership structure. We expect research services revenue to remain around $750,000 per quarter through the remainder of 2014 and this amount is included in our total revenue guidance.

I'll now discuss gross profit. Overall we saw solid performance in our manufacturing operations. Gross profit was $3.4 million this quarter, however, our gross margin of 13% was down by 2 percentage points from Q2 '13. This gross margin decline was primarily due to two factors. The first factor was a $725,000 stock comp charge associated with the performance-based options triggered by the IPO. This non-cash charge reduced our gross margin by 3 points during the quarter. The second factor was that under GAAP, recognition of approximately 280,000 of revenue associated with an offshore project was pushed to the third quarter; however, we recognized 100% of the cost for this project in the second quarter, which reduced our gross margin by 1 point. Looking forward, we expect gross margin to increase by several points during the second half of the year due to lower stock comp expense and the recognition of the remainder of the offshore project revenue.

Next I'll discuss operating expense. Operating expenses increased $5.4 million compared to the second quarter of last year. This increase was principally the result of the recognition of $4.9 million in non-cash stock compensation expense associated with the performance-based options triggered by the IPO. Excluding this IPO-related stock-based comp, operating expenses increased by 7.4% and they were in line with our expectations. This increase was primarily driven by costs related to preparing to operate as a public company.

Next I'll discuss our balance sheet. The IPO had a significantly favorable impact on our balance sheet during the quarter. First, we received net IPO proceeds of $77.3 million after underwriter discounts and offering expenses. Second, our convertible notes converted to common stock at the time of the IPO. And third, we utilized approximately $19.8 million of the IPO proceeds to repay our subordinated notes and borrowings under our credit line in full. As a result, we ended the quarter with $56.9 million of cash and minimal debt, net current assets of $68.2 million, and shareholders equity of $126.4 million.

I'll now provide our financial guidance for Fiscal 2014. We plan to routinely provide annual guidance for three primary metrics: total revenue, GAAP EPS, and Adjusted EBITDA. We'll update this annual guidance on a quarterly basis.

For 2014 total revenue is expected to range between 98.5 and $101.5 million dollars. Second, GAAP EPS is expected to range between a loss of $5.45 per share and $5.55 per share. This GAAP EPS guidance assumes weighted shares of 12.4 million for the full year, which assumes 23 million shares outstanding for both the third and fourth quarter of 2014. Third, Adjusted EBITDA is expected to range between $1.2 and $2 million. We define Adjusted EBITDA as net income loss before interest income or expense, taxes, depreciation, amortization, stock-based compensation and other non-cash items that we do not believe are indicative of our core operating performance.

This Adjusted EBITDA guidance assumes depreciation and amortization between $10 and $10.5 million, stock-based compensation between $8.5 and $9.3 million, and interest expense of $50.4 million, almost all of which was recognized in the first half of the year.

Note that we don't plan to provide specific quarterly projections. The timing of projects may have a significant impact on quarterly revenue and profitability, and can be difficult to predict.

I'll now turn the call back to Ian for questions and answers.

**Operator:**

At this time I'd like to let everyone know again to ask a question, please press star and the number one on your telephone keypad. Your first question comes from Will Thompson at JP Morgan. Your line is open.

**Will Thompson:**

Good afternoon.  John, can you help us—great color on the on the gross product margins.  I just want to make sure I caught all that.  So there was about sort of 200 basis point impact from stock-based comp, another 100 basis points from an offshore project moving to the right.

**John Fairbanks:**

Yes.

**Will Thompson:**

Okay.  Would we expect to see that revenue be booked in the third quarter from that offshore project?

**John Fairbanks:**

Yes.  So you're right.  So there are about 300 basis points from stock compensation in the quarter.  And then— I'm sorry.  Yes, 300 basis and 100 basis points for the project-related revenue.  We would expect for that revenue to be recognized in the third quarter without cost.  So 100% of the cost in the second quarter and then 10% of the revenue deferred into the third quarter.  So we would expect that to benefit gross profit in the third quarter.

**Will Thompson:**

How should we think about gross margins as we add Line 3 in East Providence in the first half of next year and start to absorb some of the fixed costs on the greater scale?

**John Fairbanks:**

Sure.  Just a couple of points about gross profit.  We will see variability quarter to quarter based upon project work and mix, and we'll always give guidance in terms of our profitable EBITDA.  We'll be looking at the full year.  But you will see some of that ebb and flow, and we're always happy to answer the questions in a quarter to give you that sort of a longer term view of what's going on.

I think it's important, if you look at our six-month gross profit, in 2014 it's 14% of revenue.  In 2013, the same six-month period it was 9%.  So we've actually seen a 5 point increase in gross profit despite the headwinds from the stock compensation and the movement of that revenue into the third quarter.

In terms of gross profit moving forward, we would see that step function increase in gross profit with capacity expansions. Mostly that's just a direct result of us being able to absorb our existing manufacturing overhead across a greater—you know, an increased number of square feet, of production out of the facility. We'll give you guidance on the Line 3 impact on gross profit and on EBITDA when we provide a 2015 outlook.

**Will Thompson:**

That's helpful. And this one for Don: In light of your revenue guidance range for full year 2014, can you give us some clarity into your revenue visibility maybe beyond '14? Obviously you're at capacity right now until Line 3 is operational, but in addition to the purchase order from the Asian petrochem, what are you seeing from a level of inquiries from customers, how the end market's shaping up, and are you continuing to see success in displacing incumbent insulation products?

**Don Young:**

Thanks, Will. Well, customer demand is strong. It remains strong and our challenge today is balancing that strong demand with our existing and limited supply relative to the size of the opportunity. We talked a bit about the Asia energy company purchase order, the January order of $14 million. As I said in my comments, 5.4 of that was delivered in the first half of the year, so a substantial amount remains on that purchase order. Also, as I said, we received an additional $14 million purchase order associated with that project. So there's a lot of visibility for that project alone through the remainder of 2014 and into 2015.

I would also say on the offshore side, we have delivered approximately $4.5 million of revenue in that subsector thus far this year, and we have purchase orders in-hand exceeding $10 million in that area.

**John Fairbanks:**

In total.

**Don Young:**

In total. So we'll be delivering the remainder of that over the course of the year.

I would also say, Will, that an important part of our—really of the stability and the opportunity that we have relates to the diversity of our revenue growth. You know, we're serving all subsectors of that energy infrastructure market. We have a first-class group of end-users: 24 to 25 of the largest refinery companies, 19 to 20 of the largest petrochemical companies. We're serving all geographies. We're serving all phases of maintenance and project work, and we're serving both hot and cold work. Again, it provides a great foundation for stable and I think substantial growth, of course not only in '14 but in 15 as well.

**Will Thompson:**

Can you—go ahead.

**Don Young:**

No, go ahead.

**Will Thompson:**

Just to sneak one more in here before I get back in the queue.

**Don Young:**

Yes.

**Will Thompson:**

From my math, the revenue per square foot was about up over 4% year-over-year. Can you talk about how we should think about pure pricing gains versus maybe the mix impact between the 5 millimeter and the 10 millimeter aerogel blankets?

**Don Young:**

That's a great question. So our price increases over the last year were in the range of 3 to 5%, depending on product and region, and they were phased in over time. So we really feel that that 4% increase was essentially our effective price increase year-over-year in the quarter, and so mix was relatively neutral in the quarter. We had good offshore revenue Q2 of last year and Q2 of this year as well, and so ultimately, say that 4.2% was the effective price increase, and the remainder of our growth was volume growth.

**Will Thompson:**

All right. Thanks.

**Don Young:**

Sure.

**Operator:**

Your next question comes from the line of John Quealy at Canaccord Genuity. Your line is open.

**Don Young:**

Hi John.

**John Quealy:**

Hi, good afternoon, folks. Congrats on the successful IPO. A couple of questions. First, I don't know if you gave this or not, but the mix of business in the quarter, can you segment it for us, greenfield versus retrofit? Can give us an indication of how it came out?

**Don Young:**

I would say that it was primarily maintenance work. You know, we did have the substantial Asia project that we've mentioned already, 5.4 million. We also, as I said, delivered between $4- and $5 million of offshore work. We consider that to be project work. The remaining parts I would say were recurring maintenance day in and day out work that we're doing all around the world.

**John Fairbanks:**

Yeah, and our ability to track pure maintenance versus project work is somewhat limited, but we did -- you know, we obviously had a good base of project work that Don described, strong maintenance work. If I was a betting man, I'd say 40% project work and 60% maintenance work, in general. On the project side, you know, it's oftentimes difficult to say whether it's greenfield or brownfield. That petrochemical plant that we're talking about is in an existing facility, a very large expansion, where obviously our Sub C business is essentially greenfield.

**John Quealy:**

Great. Thanks. In terms of that, can you remind us on the pipeline, especially on the greenfield-related applications, how many—in general numbers, how many opportunities or projects you're looking at where Aspen Aerogels can be competitive?

**Don Young:**

So John, we—a few points on that question.  One, I would say that we have altered our organization at the end of 2013 to create a dedicated group towards—to following, pursuing these types of projects, so that's close work with the owners and with the large EPC companies, so we have a dedicated group there.  The other important factor on the project work is, you know, a certain sort of maturation of our product.  These products, Powergel and Cryogel, were introduced in the market in 2008.  The easiest way to sort of test those products, if you will, were in maintenance-type projects.  As we have gained technical validation and credibility across a broad range of these owners and end-users, we have been able to move towards more and more project work, and I think the Asia-based energy company, the large project that we've talked about, is indicative, perhaps on the large end of the spectrum but nevertheless indicative of the types of projects that we are pursuing in our pipeline.

We reviewed—we review regularly our pipeline, and there are many multiples of our targeted revenue of opportunity for us.  We will win our share and I hope more than our fair share of those projects as our capacity permits.

**John Quealy:**

Great.  Thanks.  Then on Providence, the expectation that it's sort of up, let's say entering the back half of 15, if not late the first half of '15, in terms of the qualitative milestones, mechanical completion, when does that happen in this facility?  I know it's a third line, but how are you going to update us about progress there?

**John Fairbanks:**

Sure.  So we've commenced construction on the line.  We're very comfortable with our projection that that line will be operational in the first half of 2015.  Clearly as a team, you know, we are capacity-constrained at present.  It is our single most priority to get that line up and running as quickly as possible and, you know, we've got resources and people focused on getting that accomplished.  We're not going to change our guidance from the first half of 2015 at present.  We're doing everything we can to make it as early as possible.

**John Quealy:**

Great.  Thanks, folks.

**Don Young:**

Thanks, John.

**Operator:**

Again, as a reminder, if anyone else would like to ask a question, please press star and the number one on your telephone keypad.

Your next question comes from the line of Ben Callow with Robert W. Baird. Your line is open.

**Tyler Frank:**

Hi, guys, this is Tyler Frank on for Ben. Thanks for taking the question.

Just wondering if you could provide a little bit of color on the potential sites that you're looking at in Europe and Asia for the second plant, and what sort of milestones should we look for on an operational side, both in the ramping of the additional line in Providence and then also on the site selection and potential construction start date of the second plant?

**Don Young:**

Let me start with the second plant, Tyler. The criteria that we are using as we go through our evaluation process includes the following items. Proximity to raw materials, that's important to us. Low labor rates; one of our main drivers here is to lower the cost of our operation, become more efficient. Second, to have efficient logistics. Next, IP protection is important to us. And finally, government grant packages are also a key driver for us. And so we have a - I think a very disciplined and careful process ongoing. We're visiting sites throughout this summer frankly and into the fall. We will continue to narrow it based on that criteria and the commitment that we made earlier and that we stand by is that we will announce the country in which we will build that facility by the end of this calendar year.

**John Fairbanks:**

The second question was milestones and ramp-up of East Providence. You know, I think the important part about East Providence is that line is being brought up in an existing facility. It's leveraging our existing management team and workforce. It's incrementally, it adds 25% to our capacity, but it adds significantly less than that in terms of our employee base. So there's a lot to do to bring that line up smoothly and successfully. We've got, we think, the resources in place to get that done. We would expect once it's operational for it to ramp up relatively quickly, given those factors.

**Don Young:**

And Tyler, I would just add that the long lead time items have arrived on that site for the most part, and so the risks around that part of a major project like this is minimal.

**John Fairbanks:**

Yeah, we have our construction permits and construction has commenced, and so that's obviously the most important factor.

**Tyler Frank:**

Right. Thanks. And in terms of, you know, competition in the marketplace and your ability to push through price increases, how should we think about that going forward and potential -the potential opportunities to push through price increases on the market?

**Don Young:**

Well, we're focused on the energy infrastructure part of this large inflation market, and we gauge the third-party research that the size of that market that we're targeting is approximately $3 billion. Obviously we have a small percentage of that, say 3%. We are growing faster than the market overall so we presumably are taking share and we think we will continue to take share.

**Tyler Frank:**

Great. Thanks, guys.

**Operator:**

There are no further questions. I'll return the call over to CEO Don Young.

**Don Young:**

Thank you, Ian.

Overall, I'm very pleased with our results this quarter. Customer demand remains strong and is diversified across geographies, end-users and subsectors. Operations are running well, and we are successfully managing our costs.

In closing, there are four major points I want to leave you with. First, we have a disruptive product with a compelling value proposition. Second, our products are used by the world's leading energy companies. Third, we have a tremendous growth opportunity in a large and established market. And finally, with the completion of the

IPO, we believe we have the assets and resources in place to execute our strategic growth plan.

Thank you for your interest in Aspen Aerogels. We look forward to reporting our third quarter results to you in November. Have a good evening.

**John Fairbanks:**

Thanks, everybody.

**Operator:**

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