

01-Nov-2018

Aspen Aerogels, Inc. (ASPN)

Q3 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'd like to welcome everyone to the Aspen Aerogels Third Quarter 2018 Earnings Call.

All lines are placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] 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. There're 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 nine months ended September 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In addition, the Investors section of Aspen's website will contain an archived version of this webcast for approximately one year.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, 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. They 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.

Forward-looking statements made today represent the company's views as of today November 1, 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.

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Donald R. Young

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

Thank you, John. Good afternoon. Thank you for joining us for our Q3 2018 earnings call. I will start by providing comments about the business and our performance. Next, John will review our Q3 and year-to-date 2018 financials and update our guidance for the year. We will conclude the call with a Q&A session.

I plan to cover three topics in my prepared remarks. First, I will review Q3, 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.

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. And third, I will share my early view of the commercial outlook for 2019 and our key targets for the year.

At a summary level, Q3 revenue of \$23.9 million was 10% higher than Q2 and we are projecting a significantly stronger fourth quarter. At the time of our last earnings call, I noted that revenue in Q2 was comprised virtually entirely of maintenance orders and lacked the usual handful of \$1 million, \$2 million and \$3 million projects that we have historically captured each quarter for many years.

We believe the lack of project work in the second quarter was the result of decisions made by asset owners back in 2015 and 2016 to delay capital investments. While project revenue in Q3 was only slightly higher than in Q2, we see our project pipeline becoming considerably more active in near-term.

We are projecting strong growth in project work during Q4 and a significant expansion of our project based revenue in 2019 and 2020. We believe that two of the key building blocks of our strategy to expand the size of our

sales force and to increase our manufacturing capacity are on the mark and will prove essential to our success over this time period.

We expect Q4 revenue to increase from Q3 levels by roughly 50% to between \$33 million and \$38 million. This sequential increase is a function of steady growth in our day-in and day-out maintenance work and more normalized levels of project work combined with a history of strong fourth quarters.

When I refer to normalized levels of project work, I'm referring to the period between 2008 and 2015 when we delivered a 30% revenue CAGR and project work represented 40% or more of our revenue. Since that time, maintenance work has grown consistently, but project work has decreased significantly hitting a low point in Q2 2018.

As I stated earlier, we see our project pipeline becoming more active and more near-term. In subsea alone, we have recently received over \$13 million of purchase orders with \$7 million to be delivered in 2018 and the remainder set for the first half of 2019.

In petrochemical and LNG, we are specified in active projects in the U.S., Asia and Africa. We anticipate project work will represent 15% to 20% of our Q4 revenue. While we do not expect project work to reach historical levels in 2019, we do expect projects could account for 25% or more of total revenue for the year.

This change, signals a strong improvement in market trends compared to recent years. In addition, to the favorable trends in project work, we are forecasting expanded growth in our base revenue driven by increased investment in sales personnel, new products and enhanced marketing programs.

We have also implemented a price action for 2019 that will increase our average selling price by approximately 10% and support our 2019 revenue projections. As a result of all of these factors we are projecting 2019 revenue growth in excess of 20% and a return to positive adjusted EBITDA for the full year.

I will now turn 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 EP20 initiative.

Base revenue was a good indicator of day-in and day-out maintenance in small scope project work, our version of a recurring revenue stream. We've targeted \$100 million in base revenue for 2018 from our 2017 level of \$88 million and consistent with our goal of long-term annual growth in base revenue of between 10% and 15%.

Base revenue, for the first three quarters of 2018 was \$64 million. For the full-year we expect base revenue to grow between 5% and 10% from 2017 levels into the mid-90s and while it will be a record number, it will fall short of our \$100 million target. 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. Although, we do not expect to grow total revenue or adjusted EBITDA in 2018, we do believe that our solid Q4 performance, a strong subsea backlog, anticipated additional near-term project wins and continued growth in our base revenue will create momentum finishing 2018, and set the stage for 2019 revenue growth in excess of 20% and return to positive adjusted EBITDA.

The third 2018 performance metric relates to the EP20 initiative. Our goal for EP20 is to increase the capacity in our East Providence, Rhode Island manufacturing facility by 20% by the end of 2020. The goal of EP20 translates

to expanding our current capacity from approximately 50 million square feet to 60 million square feet of aerogel blankets per year, including the impact of our 2019 price increase, which we implemented to offset raw material price increases.

Our post EP20 capacity of 60 million square feet will represent revenue capacity of approximately \$200 million. At this post EP20 revenue capacity of \$200 million, we continue to project that Aspen will have the potential to generate adjusted EBITDA in the range of \$28 million to \$35 million per year from our East Providence facility.

The EP20 capacity expansion is driven primarily by process technology advancements, designed to improve manufacturing productivity and capital efficiency. We're making significant progress. By the end of 2018, we expect to increase our manufacturing capacity to approximately 55 million square feet or in terms of revenue capacity to approximately \$180 million well on our way to our \$200 million EP20 target.

Our 2018 capital budget for EP20 is \$3 million and is supported by the \$5 million prepayment previously received from our partner BASF. Given our 2018 progress, we believe we will achieve the goals of the EP20 initiative using less capital than initially anticipated. This important initiative is in good shape.

One additional comment on EP20. I've been asked why we've invested in increasing our capacity when we've operated below capacity in recent years. There are two parts to the answer. One has to do with operational practicality and the other with our commercial outlook.

With respect to the physical work, it is hard and costly to make process technology improvements to our assets. When you are running at or near full capacity and with respect to our commercial outlook, we believe we will grow our base revenue by 10% to 15% for each of the next two years. And we believe that project work will grow to comprise 25% or more of total revenue in 2019, 2020.

That general math leads us to believe that we need capacity sufficient to string together multiple quarters approximating \$40 million in the near future. Something we would be unable to deliver without EP20. The EP20 project, prepares us for a meaningful improvement to our growth and profitability profiles.

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 these Providence manufacturing facility including the expanded capacity from EP20 initiative in order to create a business with total annual revenue capacity of \$200 million, and the potential to generate adjusted EBITDA of between \$28 million and \$35 million per year.

The second element of the strategy is to leverage our aerogel technology platform by creating additional businesses. We have jump started the process with our promising building materials initiative with the BASF as we begin to penetrate our first major commercial market outside of energy infrastructure.

Since our last earnings call, UK regulations driven in part by the insurance industry have modified and now ban all combustible insulation on the exterior of new and renovated buildings above 18 meters largely in response to both the Grenfell Tower tragedy and commonsense.

Our new products with BASF are high performance and non-combustible, a perfect combination for a focus on safety and energy efficiency. Along with a fast paced development program around a second generation product for this market, these joint activities have continued to intensify our working relationship with BASF.

The technical, commercial and financial partnership that we have with BASF is the template that we want to replicate with other elite partners, as we leverage our aerogel technology platform to additional new markets.

We believe the key to maximizing long-term shareholder returns is to build a strong energy infrastructure business that generates cash to reinvest both in realizing substantial potential in our core and adjacent markets and in 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. The third topic today is our early view of the commercial outlook for 2019 and our key targets for the year. While we expect to provide our 2019 guidance at the time of our Q4 2018 earnings call in February, I would like to provide high level comments about our expectations for the year. We expect to grow revenue in excess of 20% and to deliver positive adjusted EBITDA for the full year.

This early view is based on the expectation of continued growth in our day-in and day-out maintenance work, the net positive impact of our 2019 price increase and a more robust and near-term project pipeline. We believed that project revenue as a percentage of our – of total revenue will move towards historical norms in 2019 and 2020.

And we believe 2019 will also mark both a deepening commercial and financial relationship with BASF around the large building materials market, and by the emergence of a similarly elite partner in a new business opportunity, further leveraging our aerogel technology platform.

In summary, we believe the relative lack of project work during recent quarters represents the bottom of the energy downtime for late cycle products such as ours. And we will grow revenue significantly and generate positive adjusted EBITDA in 2019. We are confident that we have laid the groundwork during 2018 to increase significantly the value of the company.

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

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 third quarter and the first nine months of 2018 at a summary level. Third quarter total revenue declined to \$23.9 million from \$27.2 million in 2017. Third quarter net loss was \$6.5 million or \$0.27 per share versus a net loss of \$3.1 million or \$0.13 per share last year.

Third quarter adjusted EBITDA was negative \$2.7 million, compared to positive \$1.1 million, a year ago. We define adjusted EBITDA as net income or loss for interest taxes, depreciation, amortization, stock-based compensation expense and other items that we do not believe are indicative of our core operating performance. We encourage \$283,000 of patent enforcement costs, during the third quarter of 2018 versus \$53,000 in the third quarter of last year.

The first nine months, total revenue declined to \$68.7 million from \$75.3 million last year. Net loss was \$20.3 million or \$0.86 per share in the first nine months of 2018 versus a net loss of \$17.6 million or \$0.76 per share last year. And adjusted EBITDA for the first nine months of 2018 was negative \$8.3 million, compared to negative \$5.5 million last year. We incurred \$519,000 of patent enforcement costs in the first nine months of 2018 versus \$2.9 million last year.

I'll now provide additional detail on the components of our third quarter results. First, I'll discuss revenue. Third quarter total revenue was comprised of product revenue of \$23.3 million and research services revenue of \$595,000.

During the third quarter, product revenue decreased by \$3.5 million versus last year's \$26.8 million. This decrease was driven by a decline in project work in the subsea and South American markets during the third quarter of 2018.

This decline in project related revenue was partially offset by continued growth in our core petrochemical and refinery markets, most notably in Asia and in the U.S. During the quarter, shipments decreased to 7.8 million square feet of aerogel blankets from 8.6 million square feet last year. While our average selling price decreased by 3% to \$2.99 per square foot in line with our prior outlook. This decrease in average selling price reflected a year-over-year decrease in the mix of high price of subsea products, offset in part by the impact of price increases that we enacted in early 2018.

At the time of our second quarter earnings call in August, we anticipated sequential growth in product revenue during both the third and fourth quarters of 2018. This expectation largely reflected increasing levels of project work over the second half of the year. We achieved sequential growth in the third quarter, but product revenue increasing by 11% to \$23.3 million from \$21.1 million in the second quarter.

We expect this sequential momentum will continue into the fourth quarter. The product revenue projected in the range of \$32.5 million to \$37.9 million. This fourth quarter outlook reflects solid projected growth versus third quarter levels in both our base refinery and petrochemical markets and in subsea project work. For the full year, we're projecting product revenue will range between \$100 million and \$105 million. This expectation is included 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 increased during the quarter to \$595,000 to \$386,000 during the third quarter of 2017. This increase was due to the relative value and timing of research contracts versus last year. For the full year, we expect research services revenue of approximately \$2 million. This expectation is also included in our 2018 guidance.

Next I'll discuss gross profit. Gross profit was \$1.5 million or 6% of revenue during the third quarter of 2018, versus \$4.9 million or 18% last year. This year-over-year decrease in third quarter gross profit was driven by a decline in production volume we instituted to manage inventory growth, the increased cost of raw materials led by increases in the cost of silanes, the decline in product revenue and an unfavorable mix of products sold. However, looking forward to the fourth quarter of 2018, we anticipate a significant improvement in gross margin to the low 20s, due to the expected increases in revenue, output and capacity utilization in the period. We also expect gross margins for the full year to reach the low to mid-teens.

Next, I'll discuss our operating expenses. The third quarter of 2018, operating expenses were essentially flat to last year at approximately \$7.9 million. Increased sales and marketing expenses of \$300,000 in the third quarter were fully offset by decreases in research and development, and general and administrative costs.

We are reducing our 2018 full year operating expense projections to between \$35.8 million, at the low end of our revenue guidance range and \$37.1 million at the high end of our revenue guidance range. Next I'll discuss our balance sheet and cash flow for the first nine months of 2018. Cash used in operations of \$8.7 million, during the

first nine months reflected our adjusted EBITDA of negative \$8.3 million and an investment in working capital of \$400,000, principally due to a decrease in accounts payable and accrued expenses during the period.

Capital expenditures during the first nine months included investments in our EP20 initiative and totaled \$2.6 million, down from \$5.4 million in capital spending last year. During the nine months, we also received prepayments from BASF, the aggregate of \$5 million. At the end of the third quarter, we had \$5.2 million of cash, net current assets of \$18.6 million, \$5.2 million borrowed under our revolving credit facility, shareholders' equity of \$83.5 million.

In addition, we had access to an additional \$8 million available under our revolving credit facility at the end of the period. We're revising our full year financial outlook for 2018, total revenues expected to range between \$102 million and \$107 million, revised from prior guidance of \$102 million to \$112 million. Net loss is expected to range between \$21.6 million to \$22.6 million, revised from prior guidance of \$20.6 million to \$22.6 million.

Adjusted EBITDA is expected to range between a loss of \$6 million and a loss of \$7 million, revised from prior guidance of a loss of \$5 million to \$7 million. EPS is expected to range between the loss of \$0.91 and a loss of \$0.95 per share revised from prior guidance of a loss of \$0.87 to \$0.95 per share.

This EPS guidance assumes a weighted average of 23.7 million shares outstanding for the year. 2018 outlook also assumes depreciation and amortization of \$10.8 million, stock-based compensation of \$4.3 million and interest expense at \$500,000. In addition, this financial outlook includes \$900,000 of cost and expenses associated with our patent enforcement actions for the year. And we expect a gross margin in the low to mid-teens and average selling price of \$2.98 per square foot, plus or minus a few cents for the full year.

Turning to cash at an aggregate level within the context of the adjusted range set out in our 2018 full year outlook, we expect to exit 2018 with between \$6.8 million and \$8.3 million of cash on hand and outstanding balance of \$5.2 million on our revolving credit facility.

And we also projected capital expenditures including funds for our EP20 initiative and totaled approximately \$3.8 million for the year. Although, we don't normally provide quarterly guidance, I'd like to emphasize that our updated full year 2018 outlook includes our expectations for continued strengthening during the fourth quarter. The differential between our 2018 full year guidance and our nine months actuals indicates that fourth quarter total revenue is expected to range between \$32.9 million and \$38.3 million.

Fourth quarter net loss is expected to range between \$1.3 million and \$2.3 million. Fourth quarter adjusted EBITDA is expected to range between a positive \$1.23 million and \$2.3 million. And fourth quarter EPS is expected to range between a loss of \$0.05 and \$0.10 per share. As discussed earlier, we expect our gross margin to exceed 20% during the fourth quarter.

As Don mentioned, looking forward to 2019, we're projecting to grow total revenue in excess of 20% to reduce our net loss and to deliver positive adjusted EBITDA. This projected improvement in financial performance reflects our expectation of continued volume growth in our core petrochemical and refinery markets, the strengthening pipeline of 2019 project opportunities, particularly in the subsea and LNG markets and a 2019 price increase designed to offset recent increases in raw material costs and to maintain the economics of our business.

We currently plan to issue detailed 2019 guidance at the time of our fourth quarter conference call in February 2019.

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

QUESTION AND ANSWER SECTION

Thank you. [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.

Hi, Eric, how are you?

A

John F. Fairbanks

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

Hi, Eric.

A

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

Fine. So I just want to start with subsea, I know last quarter you talked about I think \$7 million in orders, you were expecting to hit in the second half and then \$4.5 million for 2019. You gave some updated numbers today. I'm just wondering is that additive to the numbers that you had given with the second quarter. Or have you just added, it looks like \$1.5 million to \$2 million to 2019?

Q

Donald R. Young

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

Yeah, so that's exactly right. So we've added to the total, it isn't – the entire number isn't added, we are going up by about \$1.5 million, that's exactly correct.

A

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

Okay. Is that something you expect, I mean, that's number one when all is said and done, I would assume that you're looking for growth in subsea year-over-year. And maybe how you see that playing out in terms of orders for the rest of the year?

Q

Donald R. Young

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

We have had a good pipeline of subsea projects right now. And it's been an active market for us. And so we have where we are in a lot of specifications. We bid well for them and we anticipate that we will continue to win subsea projects for 2019 at this point, including quite possible that we'll win some additional ones in 2018, but again deliverable in 2019.

A

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

Right, right. Okay.

Q

John F. Fairbanks

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

As Don said, Eric, we'll do about \$8 million this year in subsea project work in 2018 and we expect significant growth in 2019.

A

Donald R. Young

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

You'll remember, Eric. And we've had years where we've had as little as \$3 million or \$4 million, or \$5 million of subsea revenue and years where we've had as much as \$25 million plus or minus of this. So that's obviously a segment that swings a bit for us right now, but it's moving in our direction at the moment.

A

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

Okay. And maybe just turning to LNG, I was going to ask if you've seen any negative impact from the proposed tariff on LNG from China, but it sounds like given the increased confidence, it sounds like you are not. Maybe just more color on that confidence. I know in the past I think you've been chasing or had optimism over one project. It sounds like now that maybe has expanded to multiple projects, so maybe if you could just dig in there a little bit? That'd be helpful.

Q

Donald R. Young

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

That's great. China is a portion of our LNG outlook, but not a major portion. We are working hard though because as you know there are several receiving terminals on the drawing board. It's interesting that several of those are being engineered by international companies and that suits us well because what we participated with most of those international companies at this point. So they know our product well and they know how to bid our product et cetera, et cetera. But you are right. So we're seeing a broad based, not any single project. Although, there are a few projects that are rather large, but we are seeing broad based activities in the U.S., in Asia, including in Australia but also in Africa as well.

A

So a lot of LNG activity happening and we're fortunate, right. We delivered really well three projects in 2017. And those would become really excellent case studies for our product, our products performed extremely well in their first year of service and certainly through the installation portion of these projects. And so we're confident about the LNG business and that it's going to play a meaningful role in our growth in 2019 and 2020.

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

Okay, got it. Maybe just last one for me, obviously looking for a big step up in the fourth quarter. Maybe just talk about the puts and takes there, I mean, it sounds like it's broad based. But I'd assume you're counting on an uptick in those – as you say, bread and butter, \$1 million to \$3 million, the project work but just wondering are there some large projects in there that could swing it as well?

Q

Donald R. Young

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

A

There are not any significantly large projects or anything that we don't have largely in hand at this point. There are some maintenance activities that could play. John, provided a range of roughly \$5 million of high end or the low end of fourth quarter, and that is not depending on any one or two projects. That's as you suggested a meat and potatoes kind of orders throughout the remaining part of the year.

John F. Fairbanks

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

A

Yeah. And Eric, once again I think we mentioned, we've got a nearly \$5 million of subsea project work in that fourth quarter. And that is already in hand, so that's a good solid base that underlies the projections [indiscernible] (34:12).

Eric Andrew Stine

Analyst, Craig-Hallum Capital Group LLC

Q

Okay, thanks a lot.

Donald R. Young

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

A

Thank you, Eric.

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

Chip Moore

Analyst, Canaccord Genuity, Inc.

Q

Thanks. Hey guys. How is it going?

Donald R. Young

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

A

Hi, Chip.

Chip Moore

Analyst, Canaccord Genuity, Inc.

Q

Wondering if you can back to the project pipeline, talk a bit more about visibility maybe what you're seeing, how that compares with some of the things you're seeing in the past and how you're thinking about win rates there?

Donald R. Young

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

A

So it's different than the past. Even in the past if you go back a little ways back to the seven year period where we had 30% revenue CAGR. It's different in the sense that we now have \$800 million or approaching \$800 million of product installed. We have a lot of case studies, we are in a lot of specifications now and including, and this is I think the reason that we feel strongly about 2019 and 2020. We're in the specifications of active projects, not [indiscernible] (35:23) pipeline but active projects.

And so it feels different to us and it's broad based. It's not one project, it is broad based number of projects across geographies and also include subsea, LNG and petrochemical. So, across our segment as well.

So, it feels it is different and you'll remember those three LNG projects that we did in 2017, we were not in the specifications of those projects at the beginning. We sort of broke into those projects later on as problem solvers and now there are just many more projects that we're in the specifications for.

And that hasn't happened by accident, that really happened partly by our track record, but also on our sales and marketing teams focus and I would say resource allocation on dedicating an effort towards being in those specifications. We now have a project group that largely their mission in life is to be sure we're in as many specifications as possible.

Chip Moore

Analyst, Canaccord Genuity, Inc.

Q

Got it. And let me follow-up that. The price increase, your comfort with that and ability to stay competitive. I guess particularly we get stronger dollar here, how are you think about those dynamics?

Donald R. Young

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

A

Yeah. We want to see how it plays out. It takes effect on January 1, but we're confident. We believe we're delivering a lot of value and that we will be able to offset some of the tick-up that we felt in some of our raw materials with this price increase. We're not alone in our industry in putting price increases in place right now. So, it's not an isolated event.

Chip Moore

Analyst, Canaccord Genuity, Inc.

Q

Yeah. And maybe one more from me. You bought BASF and deepening that relationship next year, maybe you could touch on that and then it sounded like you hinted at potential for another partnership, suggesting maybe having some discussions already, is that fair or not and maybe you can update us there. Thanks guys.

Donald R. Young

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

A

So, BASF we've had a terrific – continue to have a terrific relationship with them. And we are beginning to see some revenue flow to them in this so-called Spaceloft A2 area, really dedicated to energy efficiency and but with a non-combustible product. And we work technically with them on a improved second generation product as well, which we're really working hand in glove with them on that portion as well.

So there are a lot of dimensions to the relationship. And as I said in my comments, I think that they will continue to expand as a partner with us technically, commercially and financially into 2019.

With respect to additional – using that as a template and having additional opportunities, we feel the aerogel technology platform is rich with possibilities and we as you know, nearly a year ago put in place a dedicated team to look for additional markets.

And we will no doubt take a partnered approach into areas and we have several opportunities to do that in indifferent markets. So, that is something I would love to be able to say less than a year from now that, yes, in fact we have picked a partner to go after segment A, B or C. And again, we feel the platform is rich with opportunity.

Chip Moore

Analyst, Canaccord Genuity, Inc.

Thanks guys.

Q

Donald R. Young

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

Thank you, Chip.

A

Operator: That's all the time that we have for questions today. With that, I'll turn the call back to Don Young for his final comments.

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 fourth quarter 2018 results in February 2019. Have a good evening. Thank you very much.

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

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