



Aspen Aerogels Inc.

Second Quarter 2017 Earnings Conference Call

August 3, 2017

CORPORATE PARTICIPANTS

Don Young, *President and Chief Executive Officer*

John Fairbanks, *Chief Financial Officer and Treasurer*

CONFERENCE CALL PARTICIPANTS

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

Sean Hannan, *Needham & Company*

Chip Moore, *Canaccord Genuity Group, Inc.*

PRESENTATION

Operator:

Good afternoon. My name is Emily and I will be your conference operator today. At this time I would like to welcome everyone to the Aspen Aerogel's Q2 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, please 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 Aerogel's conference call. I'm John Fairbanks, Aspen's Chief Financial Officer. There are a couple of 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 developments as well as a reconciliation of Management's use of non-GAAP financial measures compared to the most applicable GAAP measure 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 ended June 30, 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 In addition, the Investors section of Aspen's website will contain an archived version of this webcast for approximately one year.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 uncertainty.

Aspen Aerogels' actual results may differ materially from those expressed in 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, August 3rd, 2017. 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 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 also available in today's press release.

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

Don Young:

Good afternoon. Thank you for joining us for our Q2 2017 earnings call. I will start by providing comments about the business and our performance. Next, John will present financial details for Q2 and the first half 2017, and comment on 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 the three important indicators related to the performance of our business that we believe will mark 2017 as a successful year. Second, I will discuss the current commercial environment, including our market outlook for the remainder of 2017, and third, I will reiterate our strategy and describe the longer term scope of our opportunity.

Our first topic today is an update on the three important indicators related to the performance of our business that we believe will mark 2017 as a successful year. Our first indicator is focused on our goal for 2017 to build momentum each consecutive quarter by gaining market share in our core end market, principally refinery and petrochemical companies, by demonstrating value and growth in our LNG, district energy and power adjacent market, and by taking a partnered approach in the development of new markets, including building materials. Progress toward achieving this goal will be demonstrated by gaining commercial momentum throughout the year with Q2 stronger than Q1, Q3 stronger than Q2, and Q4 stronger than Q3. This momentum will position us to resume our revenue and Adjusted EBITDA growth trajectory in 2018.

We achieved revenue growth from Q1 to Q2 2017 of \$2.1 million or 9% to \$25.1 million. This growth was supported by maintenance activities in our core refinery and petrochemical businesses, and by solid growth in our district energy and LNG adjacent markets in the United States, including additional shipments to the Cove Point LNG Export Terminal in Maryland. The global energy market is not yet robust but we continue to penetrate our accounts and to capture market share, and importantly, our revenue growth contributed to a 500 basis point increase in gross margin versus Q1 2017 to 15%.

In combination with a significant reduction in IP enforcement costs in the second quarter, this revenue growth and gross margin improvement supported a \$3.7 million increase in Adjusted EBITDA in Q2 versus Q1. We clearly achieved our goal of building momentum during the second quarter.

The second indicator centers on our revenue not comprised of Subsea and the South Asia Petrochemical Project. Tracking revenue not comprised of Subsea and the South Asia Petrochemical Project permits us to gauge our day in and day out maintenance and small project work, the base for sustained future growth. 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 anticipate that they will account for less than 15% of our total revenue. On the other hand, our base revenue, revenue not comprised of Subsea and the South Asia Petrochemical Project has grown in millions of dollars from the low 70s in 2013 and 2014, to the low 80s in 2015 and 2016. We project continued growth of this base revenue during 2017 driven by anticipated gains in market penetration in our core market, growth in our adjacent markets, and by our price increase.

We increased annualized base revenue to approximately \$92 million for Q2, bringing the annualized number for the first half of 2017 to the mid 80s. In line with our goal to build momentum during 2017, we expect base revenue to grow into the 90s for the full year. This base revenue, in combination with our expected 2017 revenue from Subsea and the final shipment to the South Asia Petrochemical Project supports our 2017 revenue guidance and positions us for renewed revenue growth in 2018.

The third indicator related to the performance of our business in 2017 is the strategic importance of diversifying into adjacent markets. We launched on schedule in July 2017 a new product, Pyrogel HPS, targeting the power industry, an industry that consumes \$1.4 billion of insulation per year. Success this year will be defined by our ability to generate \$1 million to \$3 million of Pyrogel HPS revenue before year-end to build a portfolio case study and to begin the typical adoption progression from maintenance work to small scope project work and then on to larger scale project work. A bonus would be to attract a lead customer as we have done in the past with Technip in the Subsea, ExxonMobil in the refinery market and BASF in building materials as examples. The successful rollout of Pyrogel HPS is also an important demonstration of our core competency to commercial innovation. That is our ability to leverage our Aerogel technology platform and to develop and commercialize innovative Aerogel product into adjacent and new markets.

Our progress in the LNG, district energy and power market is a strong illustration of our ability to target and develop diverse and high-value adjacent markets to supplement our core refinery, petrochemical and subsea work. This key value driver for Aspen bodes well for future efforts as we continue to leverage our Aerogel technology platform into new and exciting markets.

We will continue to track and report out on these three indicators of our performance as we progress through 2017. Again, the three indicators are building momentum each quarter, expanding our base revenue, and launching Pyrogel HPS.

Our next topic today pertains to the current commercial environment and market outlook for 2017. We stated at the time of our last earnings call that we assume for 2017 planning purposes that conditions in the upstream and downstream energy end markets in 2017 will be about on par with 2016. That is to say limited upstream activity and constrained downstream spending by our refining and petrochemical end users. While this outlook remains mostly correct, we have been positively surprised by recent levels of bidding activity for subsea projects. The main thrust of the activity centers on the attractive economics for offshore platform owners to leverage existing assets with the construction of extended subsea pipelines. Our Aerogel products are perfectly suited to guarantee flow assurance by addressing extreme thermal challenges associated with longer pipelines. As such, we now expect certain subsea projects to be technically feasible and economically attractive even within today's oil price environment. Furthermore, we believe we are well-positioned to play an enabling roll in the execution of these projects.

Another factor that has supported our outlook for 2017 is a recent win of a refinery project in Brazil. It is encouraging to receive a purchase order from a region that has been largely dormant but that is rich with opportunity.

Finally, the importance of our Spaceloft A2 product, which is dedicated to the European building materials market was underscored by the circumstances of the recent Grenfell Tower tragedy in London. The reference to A2 in our product name relates to the very high standard in the fire codes within the EU. We are working hard with our partner BASF to bring timely solutions to the market.

Overall, we remain conservative in our outlook for the market, although we are encouraged by our progress. Our products are becoming increasingly mainstream in both maintenance and project work, and we are clearly benefiting from our focus on adjacent and new markets. We believe the adoption pattern that has characterized our core markets from maintenance to small scope projects to larger scope projects applies to many of our end markets, and as our products become more universally recognized, we believe the adoption pattern will be accelerated and become truncated in time.

This narrative leads neatly to our third topic which is the reiteration of our strategy and scope of our opportunity. Our strategy to leverage our Aerogel technology platform. We have world-class Aerogel product and process technology. Our progression from core to adjacent and to new markets is powerful with opportunity to build a large and profitable company. The core and adjacent energy infrastructure markets are over \$3 billion in size, and technical standards are moving in our direction. The building materials market for insulation is very large, over \$20 billion. Our agreements with BASF are driven at the macro level by the global trend of resource efficiency and sustainability, and of course by the need for high performance insulation that are fire resistant.

Our initial success in entering adjacent new markets is indicative of our progress towards the goal of broadening and diversifying our end markets, creating additional growth engines and offsetting areas of cyclical weakness, such as the current energy environment.

More broadly, our partnered approach to the building materials market with BASF represents an excellent template as we evaluate additional large and high value new market opportunities in which to leverage our Aerogel technology platform. We will target markets where Aerogel elements such as low thermal conductivity, high surface area, high electrical conductivity and tunable porosity may lead to Aerogel enhanced product that could prove to be the next generation technology to support very large markets.

Each of these potential opportunities has world-class companies that are technical, commercial and financial leaders, are well-positioned to leverage new technology and are potential partners for us.

As we announced in June 2016, we took a series of preemptive legal actions to assert our rights against companies that infringe our intellectual property. We filed a complaint with the United States International Trade Commission, the ITC, alleging that two China-based companies engaged in unfair trade practices by selling aerogel products in the United States that infringe several of our patents. We initiated a similar action in Germany at that time. Based on our complaint, the ITC instituted an investigation and conducted a hearing. If the ITC finds infringement of U.S. patents, it typically issues exclusion orders prohibiting the importation of the infringing products into the United States. We expect to hear the outcome of the ITC action later this year, and the German litigation in early 2018.

Recently, one of the defendants challenged the validity of four of our patents at the United States Patent and Trademark Office. The defendants challenge was denied, thus reconfirming the validity of all four patents at the USPTO, a very favorable outcome for Aspen.

We remain committed to continue to protect our intellectual property rights underlying our valuable Aerogel technology platform. Similar to other companies that become market leaders by creating valuable technology and intellectual property, we must take legal action to defend these strategic business assets when required.

During the downturn in the energy market, we have continued to invest in research and development, sales and marketing, and operational excellence, and believe these investments are creating strong technical and commercial positions in our core and adjacent markets, and in several promising opportunities in new markets. We will continue our strategy of leveraging our Aerogel technology platform. We remain focused on building momentum with each successive quarter, and believe we are well positioned to return to a solid growth trajectory.

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. We will maintain our commitment to grow profitably, to prudently scale up our operation and to remain financially strong. We have an experienced team of people and we are confident in our ability to execute our strategy and to realize our vision for the Company.

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

John Fairbanks:

Thanks, Don. I'd like to start by running through our reported results for the second quarter of 2017 and the first six months of 2017 at a summary level. Second quarter total revenue declined 10% to \$25.1 million versus \$27.7 million in 2016. Second quarter net loss was \$5.5 million for \$0.23 per share versus a net loss of \$1.4 million or \$0.06 per share last year. Second quarter Adjusted EBITDA was negative \$1.4 million compared to positive \$2.5 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 second quarter this year than in previous quarters. We incurred \$152,000 of patent enforcement costs during the second quarter versus \$379,000 in the second quarter last year.

For the first half, total revenue declined 21% to \$48.1 million. Net loss was \$14.6 million for \$0.62 per share in the first half of 2017 versus a net loss of \$3.2 million or \$0.14 per share last year, and Adjusted EBITDA for the first half was negative \$6.6 million compared to positive \$4.5 million last year.

For the first half of 2018, patent enforcement costs had a disproportionate impact on both our net loss and Adjusted EBITDA. We incurred \$2.9 million of patent enforcement costs during the first half of 2017, versus \$573,000 last year.

At a summary level, the decline of \$11.1 million in first half Adjusted EBITDA versus the first half of 2016 was driven by three principal factors: first, a decline in gross profit associated with the year-over-year decline in product revenue and production levels; second, the increase in patent enforcement cost versus the first half last year; and third, increase in operating expenses designed to position Aspen for strong long-term growth through investment in sales and marketing personnel and programs, the development of new products, technologies and markets.

As we highlighted in the first quarter conference call, our gross profit and gross margin are highly dependent on product revenue and capacity utilization levels. Capacity utilization declined from approximately 98% during the first half of 2016 to 69% this year as a result of both the decline in product

revenue and our decision to constrain output levels to manage inventory growth. As a result, gross profit declined sharply during the first half of 2017, in line with our operating plan and our 2017 financial guidance.

Importantly, I'd like to emphasize that we have not seen any significant change to the underlying economics of our business. Our value proposition remains strong and our product pricing, material costs, and manufacturing expenses remain relatively stable. With future revenue and volume growth, we would expect the percentage growth in gross profit and Adjusted EBITDA to outpace the associated growth in product revenue, and, moving forward, we would expect to see a meaningful reduction in patent enforcement costs.

I'll now provide additional detail on the components of our results. First, I'll discuss revenue. Second quarter total revenue was comprised of Product revenue of \$24.6 million and Research Services revenue of \$507,000. First half total revenue is comprised of Product revenue of \$46.9 million and Research Services revenue of \$1.2 million. During the second quarter, Product revenue decreased by \$2.6 million, or 9% versus last year's \$27.1 million. As expected, this decline was led by the conclusion of shipments to the multi-year South Asia Petrochemical Project combined with constrained capital investment and low activity levels in the global energy market. The revenue decline in our core energy markets was partially offset by growth during the quarter in the LNG and district energy adjacent markets in the United States, and project related growth in the subsea market.

During the quarter, shipments decreased 12% to 8.7 million square feet of Aerogel blankets while our average selling price increased by 3% to \$2.82 per square foot, in line with our prior guidance. This increase in average selling price reflected a year-over-year increase in the mix of higher priced subsea products and the impact of price increases enacted in early 2017.

For the first half of 2017, Product revenue decreased by \$12.5 million or 21% versus last year. Again this decrease was driven by the conclusion of shipments to the multi-year South Asia Petrochemical Project and the broad-based decline in revenue in the global energy markets. Shipments decreased by 22% to 17 million square feet while our average selling price increased by 1% versus a year ago to \$2.73 per square foot.

I'll now turn to our Research Services revenue. Our Research Services revenue is related to contract research performed principally for government agencies. Research Services revenue decreased by 15% during the second quarter to approximately \$500,000, but increased by 5% to \$1.2 million during the first half of 2017. This growth 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 \$2.2 million, essentially flat with last year. This expectation is included in our 2017 guidance.

Next, I'll discuss gross profit. Gross profit was \$3.7 million or 15% of revenue during the second quarter of 2017 versus \$6.7 million or 24% last year. This decline in gross profit and gross margin was driven by the 12% decline in shipment volume and a 34% decrease in production volume that we instituted to manage inventory growth, offset in part by decreases in manufacturing, warranty and material costs during the quarter.

Gross profit was \$5.9 million, or 12% of revenue, for the first half of 2017, versus \$13.2 million, or 22% of revenue, last year. The decline in first half gross profit and gross margin was principally the result of the 22% decline in shipment volume, a 30% cumulative reduction in production volume that we enacted to manage inventory growth, and a small increase in warranty expense offset in part by a reduction in material costs and a reduction in manufacturing spend during the period. Looking forward, we anticipate improvements in gross profit and gross margin principally associated with our expectation of increasing revenue, increasing output and improved capacity utilization levels.

Next, I'll discuss operating expenses. Second quarter operating expenses grew by \$1.1 million, or 14%, to \$9.1 million. This growth in operating expenses was driven by a \$600,000 increase in sales and marketing expense, a \$400,000 increase in research and development expense, and a \$100,000 increase in all other operating expenses during the quarter.

For the first half of 2017, operating expenses grew by \$4.1 million, or 25%, to \$20.4 million. This increase in operating expenses was the result of a \$2.3 million increase in patent enforcement costs year-over-year, a \$700,000 increase in research and development expense, a \$600,000 increase for sales personnel and programs, a \$500,000 year-over-year increase in all other operating expenses. Again, the growth in our second quarter and first half operating expenses reflects our commitment to position Aspen for solid, long-term growth.

Next, I'll discuss our balance sheet and cash flow. Overall, our cash flow was in line with our expectations for the first half of 2017. Cash used in operations of \$6 million reflected our negative Adjusted EBITDA of \$6.6 million, offset in part by \$600,000 of cash generated by changes in working capital net of interest expense during the period. Capital expenditures during the first half totaled \$4.8 million, down from \$7.7 million last year. We ended the first half of 2017 with \$7 million of cash and minimal debt, current assets of \$38 million, and shareholders' equity of \$103.3 million. In addition, we had \$10.5 million available under our revolving credit facility at the end of the second quarter.

We're updating our full year financial outlook for 2017. Total revenue is expected to range between \$104 million and \$112 million, revised from prior guidance of \$102 million to \$112 million. Net loss is expected to range between \$18.2 million and \$20.8 million, revised from prior guidance of \$18.2 million to \$21.2 million. Adjusted EBITDA is expected to range between a loss of \$2 million and a loss of \$5 million, revised from prior guidance of a loss of \$2 million to \$4 million. EPS is expected to range between a loss of \$0.78 and a loss of \$0.89 per share, revised from prior guidance of \$0.78 to \$0.91 per share. With EPS, the guidance assumes a weighted average of 23.4 million shares outstanding for the year. The 2017 outlook also assumes depreciation and amortization of between \$10.6 million and \$10.8 million, stock-based compensation of between \$5 million and \$5.2 million, and interest expense of \$200,000. In addition, this financial outlook includes between \$3.9 million and \$4.2 million of costs and expenses associated with our patent enforcement actions for the year.

We've also increased our projected average selling price for the full year to \$2.85 per square foot, plus or minus \$0.10. This average selling price reflects an increase of \$0.10 from our prior guidance, due to an expected shift in mix to higher priced products in the second half of the year. For the full year, we continue to expect a gross margin in the mid-teens. This gross margin expectation is unchanged from our prior 2017 outlook.

We're reducing our 2017 full year capital expenditure guidance by \$1 million to \$6.3 million. The \$6.3 million projection is comprised of \$1 million of new projects to be initiated during the year and \$5.3 million of final expenditures for the pilot line, equipment in support of new products, and other projects approved and initiated during 2016. Capital expenditures during the first half of 2017 totaled \$4.8 million. Accordingly, our 2017 outlook reflects our expectation that capital spending will be approximately \$1.5 million during the second half of the year.

Turning to cash at an aggregate level, we expect to generate cash during the second half of the year, due to projected improvements in operating performance, anticipated clients and patent enforcement costs, planned reduction in inventory balances, reductions in capital spending during the period. Within the context of the range of our 2017 full year outlook, we continue to expect to exit the year with between \$10 million and \$14 million of cash on hand.

As always, project work and product mix can create quarterly variability and we'll update our annual outlook at the time of each earnings release during 2017 or as otherwise necessary.

I'll now turn the call back to Emily for question and answer.

Operator:

At this time, if you would like to ask a question over the phone, please press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. We'll pause for just a moment to compile the Q&A roster.

Eric, your line is open.

Eric Stine:

Hi, Don. Hi, John.

Don Young:

Hey, Eric. How are you?

John Fairbanks:

Hey, Eric.

Eric Stine:

Sorry about that. It sounds like you had a little connection issue. Hey, I just wanted to start with the Pyrogel HPS product. I know that when you—as you've been talking about, that you've kind of positioned it as power generation, but on the launch you also talked about refinery and also chemical processing. So, I'm just wondering if you can speak to what you see the opportunity and how that product fits in those end markets. Then kind of a follow-on to that would just be are you still targeting or hoping for a lead customer in power gen, or could it potentially in one of those other end markets?

Don Young:

Thank you, Eric. The HPS launched—so, the key attributes of the product and what makes it different from our standard Pyrogel product is that it's particularly well tuned to the high end of the temperature curve, which is very characteristic of the way people run power generation facilities. There are also applications within our core refinery and petrochemical businesses, those parts of a refinery or a petrochemical plant that are operating within those particular temperature ranges; and sure enough, given our close relationship with those companies and moving product to them, we have been able to target some of those applications. Those are sort of—let me just call them, maybe, low-hanging fruit, in some sense. Largely because of the relationship, we were able to work our way into some very key specifications early on in the process and that has helped us gain some momentum in that area.

We're also very focused on the power plants themselves and I would anticipate that over the course of this year we have an opportunity to create case studies within very specific highly-regarded owners of some power stations during the remainder part of this year; and, again, we think those case studies are our best selling tools into the power industry as we head into 2018, and really try to build that business out. Again, the idea of a lead customer is very much on our mind. There are a few different variations as

we think of that. Power stations, power asset owners, for one. The turbine manufacturers are also interesting to us as potential lead customers, if you will.

But our target of getting that \$1 million to \$3 million of revenue in the latter part of 2017 is very much within our grasp, and things are going well. Our team has done a terrific job planning and executing the capital project behind this, and the marketing and rollout of this product. I would say it's the best one that we have done as a company.

Eric Stine:

Got it, and just can you talk a little bit about—and you mentioned it in your remarks, but just wanted to flesh it out a little bit. When we think about refinery, petrochem, LNG, where you're going from maintenance work to then greater scope, and then eventually, you know, into pretty sizeable numbers, whereas district energy is a little bit different where it's kind of just singles and doubles, and just getting deeper in with a customer. Would you put it in the first category of increasing scope or more similar to district energy, as this plays out?

Don Young:

I think as it plays out, we'll have the opportunity to do larger scope. I would bet our first wins will be measured, let me just say, in the hundreds of thousands of dollars, as opposed to the \$5 million and \$10 million range, but there is plenty of opportunity to do larger scope projects within the power generation business, no question about it; again, well over a billion dollars of annual sales of insulation going into that business. So, that's comprised—to get to a number like that, that's comprised of more than singles and doubles, and don't get me wrong, we love our singles and doubles, but there'll be some opportunities for us in the '18, '19 and 2020 timeframe to hit some home runs in that business.

Eric Stine:

Good. Maybe just turning to the refinery business, certainly, in the market, starting to hear signs of increased turnaround activity—and I know it sounds like you're still, I mean, obviously, viewing '17 as similar to '16 just for outlook purposes, but are you seeing any of that increased activity? It sounds like you're getting a little more positive, even if you're not changing that outlook.

Don Young:

Yes, I think I used the word “encouraged” in my formal script. I think that sizes it up well. I don't want to say the market is breaking loose, but we're seeing some signs of the market getting a little better and we're encouraged that we will be able to build that momentum that I talked about in my script, just as Q2 was better than Q1, Q3 better than 2, and Q4 better than 3, and that's I think a function of all of these markets just maybe getting just a bit better.

Eric Stine:

Okay, good, and maybe last one for me. You mentioned the refinery project, that win in Brazil. Just any clarity you could give into that, size, timing, if that's something you're able to do.

Don Young:

Timing is this year and size is—

John Fairbanks:

Single-digit million.

Don Young:

Yes, single-digit million for us, which is terrific. There's so much opportunity there. We've got a good team there birdogging these kinds of projects. It's great to get one into the win column and I suspect we could have some other ones, as well.

Eric Stine:

Okay. Thanks a lot.

Don Young:

Thanks, Eric.

John Fairbanks:

Thanks, Eric.

Operator:

Your next question comes from the line of Sean Hannan from Needham & Company. Your line is open.

Don Young:

Hello, Sean?

Operator:

Sean, your line is open.

Sean Hannan:

Yes, thanks, folks. Can you hear me a little bit better now?

John Fairbanks:

Yes, hi, Sean.

Don Young:

Hi, Sean. How are you?

Sean Hannan:

Okay, hi. So, just to circle back on the new products for power generation and other markets, what's going on right now—I realize it's, of course, early, but what's going on in terms of either sampling or initial shipments for this? What type of indication are you getting so far in the path of the uptake?

Don Young:

Our team had done a good job preparing for the launch. We took—as I have stated in the earnings call, earning script, \$1 million to \$3 million, we took in purchase orders at the lower end of that range right out of the gate, and so we're feeling confident that we're going to be within that range for certain for the remainder of this year. I think we have—the team has seeded the market effectively, again, coming right out of the gate. We launched that product on July 17.

Sean Hannan:

Sure. Is there a sense, though, of how the product is being used? Is this going right into the facilities and being used in primary locations, or is there a sampling process, per se, in more non-critical areas, as they try to get a better understanding and comfort around the quality of the product?

Don Young:

I'm not sure we have that kind of feedback yet, given that probably the product is being delivered to them as we speak, but having said that, we have been very focused on testing the product carefully ourselves and having a good sense for how it will perform in these applications. So, we're confident that it's going to perform well. Maybe save that question, Sean, for our next report out, and I think we'll have more empirical reports from the field at that point in time.

Sean Hannan:

You got it. Then, on the BASF partnership, that's been in place now for a bit—and you had referenced it a little bit earlier in the prepared remarks. I think, at least on my side, trying to better understand when it is that this relationship actually hits that inflection point, driving some more meaningful revenue contribution. It sounds like you've got a little bit more encouragement around building materials over in Europe. I'm just looking to see if we can get a little bit more color here on the direction and potentially timing for a more meaningful trajectory.

Don Young:

Yes, I think we'll start seeing more noticeable numbers next year, Sean, from that agreement. We have gone through a rigorous process of qualifying the material with BASF across the EU and we've been able to begin to put sample quantities out into the field here in 2017. Again, think of it as building those case studies with the Spaceloft A2 product, and we believe that that will lead to sales in 2018; again, noticeable to you as a follower of the Company. I feel strongly that the technical specifications are moving in our direction across the EU.

Sean Hannan:

Great, okay. Then last question here. If you were to think about June, say, as your base, as we move from this period forward—and, again, it seems like the sense is we're going to be having some increases in our revenues here—can you rank order, perhaps, the contributions you'd expect to see in the back half of this year in terms of the products or markets that are going to be giving you momentum back on that upswing? For example, you've been making good progress within district energy, you've referenced that. I'm just trying to understand and put some of these, you know, different end application areas in context. Thanks.

Don Young:

We're very focused on penetrating these accounts that we've had for a long time in the core globally, and we will continue to do that. We are having good success in the adjacent markets. The strategy is working, that idea of diversifying our revenue. Getting into these new markets, district energy, LNG, and now power, are very important to us for growing revenue on the margin and sort of filling in the hole that was left, in part, by the ending of the South Asia Petrochemical Project, which, obviously, we hadn't anticipated, and the slower activities in the subsea market.

You might remember at the last earnings call, I think we said that subsea and the South Asia project would be in the range of 10% of our revenue for the year, and we moved that up to 15% this year, in part, as I said in my script, the subsea bidding process has been more than we had anticipated, and as I described in my comments, it's really based on these asset owners, these platform owners, leveraging their existing assets, using extended lines, longer subsea pipelines coming into those assets, and if you think about the thermal challenge associated with that, that fits very neatly into our value proposition. We're seeing more activity in that area than we had suspected.

So, the way I would say it, Sean, is that we're going to continue to grow that base revenue, that non-subsea, non-South Asia Petrochemical Project revenue, meaningfully, as we did Q2 versus Q1, throughout the rest of the year, and we're going to put a little on top of that around the subsea that we may or may not have expected coming into the year.

Sean Hannan:

That's great. Thanks so much for the feedback.

Don Young:

Thank you, Sean.

John Fairbanks:

Thanks, Sean.

Operator:

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

Chip Moore:

Yes, hey, folks. How's it going?

Don Young:

Hey, Chip. How are you?

Chip Moore:

So, you just hit it partly there on subsea, but the pickup you're seeing in bidding activity there, is that broader based or do you visibility on more of a few specific opportunities, or how should we think about that?

Don Young:

You know what? We're seeing—what I think we will generally see, where you're extending existing assets, we'll see smaller projects than some of the ones that we've done historically. Not exclusively, there are some very measurable ones out there, for sure, but I think what we're seeing is the opportunity to bid for a whole series of opportunities. Some, we believe will come to fruition, some may not or some may come out in 2018, but we are very competitive in this particular area and we'll win more than our fair share of them, in my estimation. We'll see several projects that are kind of in the one, two, three range, and maybe one larger than that.

Chip Moore:

Yes, okay, that's helpful. I guess just bigger picture, a slightly more encouraging outlook. You've got the base business contract. Obviously, you're being prudent with the outlook, but as we look to '18, how do you balance sort of seeing these newer adjacent opportunities, new markets, versus fulfilling some of this potential pickup in demand? Thanks, guys.

Don Young:

You know, I said a few times in my script that such and such action was preparing us to resume our growth trajectory in 2018. While we're prepared to provide guidance to 2018, all three of our performance indicators for 2017—building quarterly momentum, building the base, demonstrating our ability to introduce new products like HPS, taking on a new market—those are all fundamental to our resuming the growth trajectory in 2018. We're determined to do that, and we think we have the technology and the products to do that. It would be terrific if the market even just slightly kind of worked in our direction a little bit, that would be great. Again, I think we're in a really position to resume that growth in 2018.

Chip Moore:

Thanks.

Don Young:

Thank you.

Operator:

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

Don Young:

Thank you, Emily. We appreciate everyone's interest in Aspen. We look forward to reporting our third quarter 2017 results to you in early November. Thank you very much. Have a good evening.

Operator:

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