



Aspen Aerogels Inc.

Second Quarter 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

Don Young, *President and Chief Executive Officer*

John Fairbanks, *Chief Financial Officer and Treasurer*

CONFERENCE CALL PARTICIPANTS

Robin Schumacher, *KeyBanc Capital Markets*

Tyler Frank, *Robert Baird*

Sean Hannon, *Needham & Company*

Ryan Cassil, *Seaport Global*

Sean Meakim, *JP Morgan*

PRESENTATION

Operator:

Good afternoon. My name is Blair and I am the conference operator today. At this time, I would like to welcome everyone to the Aspen Aerogels Second Quarter 2016 Earnings Conference 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 that time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

John Fairbanks, you may begin.

John Fairbanks:

Good afternoon. Thank you for joining us for the Aspen Aerogels Conference Call. I'm John Fairbanks, Aspen's CFO. There are a couple of housekeeping items that I would like to address before turning the call over to Don Young, Aspen's CEO.

A press release announcing Aspen's first quarter 2016 results and business developments, as well as a reconciliation of Management's use of non-GAAP financial measures as 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 six months ended June 30, 2016. In addition, the Investor section of Aspen's website will contain an archived version of this webcast for approximately one year.

Please also note that our discussion today will include forward-looking statements, including any statements 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 the 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 represent the Company view's as of today, August 4, 2016. 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, 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.

Don Young:

Thank you, John. Good afternoon. Thank you for joining us for our Q2 2016 earnings call. I will provide comments about the business and our performance, and John Fairbanks, our CFO, will present financial details for the second quarter and our guidance for 2016. We will conclude the call with a Q&A session.

I plan to cover three topics in my prepared remarks. First, I'll provide a second quarter and first half 2016 overview, a sense for the current commercial environment and an update on our 2016 catalysts, namely Plant 2, market expansion and technology and development. Second, I'll comment on our IP enforcement initiative, and third, I'll take a moment to review both our strategy which is based on leveraging our Aerogel technology platform, and our vision which sees Aspen as a \$500 million revenue company with 40% gross margins.

Despite revenue declining by 8% compared to Q2 2015, the second quarter was marked by strong improvement in gross profit, net loss and Adjusted EBITDA. Revenue increased 13% to \$60.5 million for the first half of 2016, and was within our guidance. Our current outlook for total revenue in the second half is between \$56.5 million and \$64.5 million, up from our prior outlook. As we have said in the past, we will experience quarterly variability in revenue and gross margin due to projects, product mix or short-term trends in a given market segment and Q2 revenue is an example of that phenomenon. As we continue to diversify our end markets, we expect that quarterly variability will become increasingly muted.

The market shift we predicted in late 2015 is materializing largely as expected with a significant increase in our subsea and oil sand activity. It will be hard to feel confident about these upstream areas until oil prices stabilize at or above the \$50 to \$60 per barrel level; however, we continue to see growth in our downstream energy infrastructure business with particular strength in Asia. Latin America is also an area where we think we will see a strong finish to 2016, in part because Petrobras has recently announced the green light to restart work in two refineries where we are well positioned.

We are also benefiting from our focus on adjacent and new markets; most notably, on the building materials, LNG, district heating and OEM markets. These developments are good examples of our efforts

to broaden and diversify our end markets to create additional growth engines and to offset areas of weakness such as the current upstream environment.

As discussed in early 2016, we are focused on important catalysts for the long-term success of the Company. These catalysts fall into three categories: Plant 2, market expansion and technology development. With respect to Plant 2, we are following the same disciplined approach that we took with a third production line in East Providence and expect a similar result, a project that is executed safely, on time and on budget.

The \$22 million prepayment associated with the BASF supply agreement and the corresponding potential for significant baseload business from BASF supports strongly our effort to secure the required debt financing for Plant 2, a financing which we expect to close in the next few months. We are confident that we will achieve our Plant 2 related milestones during the remainder of 2016.

The next important catalyst is market expansion. First, it is important to remember that we still have substantial growth opportunities remaining in the core downstream refinery and petrochemical segment. Our products are becoming increasingly mainstream and we know that we can build on that valuable base of business and create a high-margin segment measured in the several hundreds of millions of dollars. It is also safe to assume that the upstream market will work through its cycle and be a contributor again, as it has been in past years.

We also have a great opportunity to expand the number of markets we serve by leveraging our Aerogel technology platform. Our first effort had been in adjacent markets where we are able to utilize the same products or distribution channel to achieve diverse growth. We delivered our first LNG project in the first half of 2016 with PTT in Thailand. We are in the midst of delivering a large order for Wheatstone LNG in Australia which will be our second substantial LNG project win. We are optimistic that we will commence shipment to yet another LNG project before the end of the year and believe that these wins demonstrate the important role we will play in the LNG market.

District energy is an adjacent market where the thin profile and hydrophobic nature of Pyrogel are winning characteristics. After introducing our products to the district energy market in 2015 and generating a couple of million dollars of revenue, we anticipated a doubling of our revenue in 2016. We now believe the business has potential to triple or quadruple in 2016 as we continue to build a portfolio of successful projects. We are confident that we can systematically build a district energy market measured in the tens of millions of dollars of annual revenue.

In addition, we remain on track to launch in 2017 a product specifically designed for the large and attractive power industry, an end market that consumes more than \$1 billion of insulation per year.

LNG, district energy and power are examples of our progress thus far in developing adjacent and high-value markets around our core refinery and petrochemical work.

As another example of our market expansion effort, our BASF agreement position us for success in the building materials market. In addition, the commercial, technical and financial characteristics of the agreement are examples of important components for future agreements with other world-class companies. We will continue to partner to develop a number of interesting commercial opportunities beyond our energy infrastructure market in order to fully leverage our valuable Aerogel technology platform.

The third catalyst is technology development. We will complete during this third quarter a full-scale pilot line. This pilot capability will be dedicated to creating next generation products and to improving yields, throughput, and manufacturing costs in our East Providence and Statesboro plant. The pilot plant will be

an important development asset as we leverage our Aerogel technology platform with world-class partners and create advanced Aerogel-enhanced projects for existing and new markets.

The next topic is the IP enforcement initiative. As we announced in June, we are taking a series of pre-emptive legal action to assert our right against companies that infringe our intellectual property. At the time of our last earnings call, 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 infringed several of our patents. Since that time, the ITC decided to institute an investigation which is currently ongoing. If the ITC finds infringement of US patent it typically issues exclusion orders prohibiting the importation of infringing products into the United States.

We also brought a patent enforcement action in Germany and have since settled with one distributor while the litigation is ongoing against the two Chinese companies and a second distributor. We are committed to protect our intellectual property rights and these actions will play an important role in that effort.

Similar to other companies that have become market leaders by creating valuable technology and intellectual property, we must initiate legal action to defend these strategic business assets when required.

Finally, we want our strategy and the scope of our opportunity set to be clear. We are continuing to build out our successful core energy infrastructure market and its adjacent markets, including LNG, district energy and power. These markets are approximately \$3 billion in size and we believe we can achieve market share in the 10% to 15% range.

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 trends of resource efficiency and sustainability, and more specifically by the fact that 40% of all energy is consumed in the heating and cooling of the built environment. We believe, based on ROI, that energy efficiency will be first in line to tackle this challenge and that high-performance insulation will be a preferred solution.

Our initial focus on wall systems with BASF is a very specific niche that is measured in the hundreds of millions of dollars. More broadly, this partnered approach to the building materials market represent 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 a low thermal conductivity, high surface area, high electrical conductivity and tunable (inaudible) may lead to Aerogel-enhanced products that could prove to be next generation technology in important and very large markets. Each of these potential markets has world-class companies that are technical, commercial and financial leaders, are well positioned to leverage new technologies and are potential partners for us. More to come in the future on this subject.

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 for years to come. We will maintain our commitment to grow profitably, to prudently scale up our operations and to remain financially strong. We are in position to execute well during this tough energy market and to take advantage of the subsequent recovery. We have a strong team of people at the Company 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. As Don highlighted during his comments, we delivered strong growth and profitability during the second quarter and made solid progress in our goal to expand and diversify our business. We grew gross profit 30% to \$6.7 million, achieved a 24% gross margin. Net loss improved to \$1.4 million and Adjusted EBITDA nearly doubled to \$2.5 million despite almost \$400,000 in expense associated with our patent enforcement actions. And, we effectively secured \$22 million in financing for the Statesboro, Georgia facility through the scheduled prepayments under our supply agreement with BASF.

I'd like to start by running through our reported financial results for the second quarter and the first half of 2016 at a summary level. Second quarter total revenue declined 8% year-over-year to \$27.7 million. Second quarter GAAP net loss improved to \$1.4 million or \$0.06 per share versus a net loss of \$2.7 million or \$0.12 per share last year. Second quarter Adjusted EBITDA improved to \$2.5 million compared to \$1.3 million a year ago. Our net loss and Adjusted EBITDA for the second quarter included nearly \$400,000 or \$0.02 per share of legal and related costs associated with our patent enforcement action during the period. Just to be clear, if we had not incurred these patent enforcement costs during the second quarter, our net loss would have been reduced to approximately \$1 million and our Adjusted EBITDA would have been approximately \$2.9 million.

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.

For the first half of 2016, total revenue increased 13% to \$60.5 million, within our first half guidance range. GAAP net loss improved to \$3.2 million or \$0.14 per share in 2016 versus a net loss of \$5.5 million or \$0.24 per share last year. Our Adjusted EBITDA for the first half of 2016 was \$4.5 million, up from \$2 million a year ago.

Our net loss and Adjusted EBITDA for the first half of 2016 included approximately \$600,000 or \$0.03 per share of legal and related costs associated with our patent enforcement action during the six-month period.

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 \$27.1 million and Research Services revenue of approximately \$600,000. For the first half of 2016, product revenue was \$59.4 million and Research Services revenue was \$1.1 million.

During the second quarter, product revenue declined 9% versus last year. This decrease reflected the previously anticipated weakness in the subsea market and a reduced rate of shipments to the south Asian petrochemical projects, offset in large part by strong growth in the Asian and North American markets and resurgent demand in the building materials market.

During the quarter we shipped 9.9 million square feet of Aerogel blankets at an average selling price of \$2.73 per square foot. Manufacturing productivity was strong. Total production during the quarter exceeded 12.6 million square feet of Aerogel blanket, including a build of 2.7 million square feet in finished goods inventory.

For the first half of the year, product revenue increased 12% versus last year. This growth was due principally to renewed demand in the building materials market and strong growth within the Asian market. For the first half of the year, shipments increased by 9% to 21.8 million square feet and our average selling price for the first six months of 2016 increased 3% versus a year ago to \$2.73 per square foot reflected the impact of price increases over the past year offset in part by the year-over-year decline in the mix of our high priced sub-C product.

I'll now turn to Research Services revenue. Our Research Services revenue is related to contract research performed principally for government agencies. Research Services revenue increased 74% during the second quarter of 2016 to approximately \$600,000 and 79% during the first half of 2016 to \$1.1 million. This growth was due to the relative value and timing of the contracts versus last year. For the full year, we expect Research Services revenue to be approximately \$2 million, essentially flat with 2015 revenue level. This expectation is reflected in our 2016 full-year financial outlook.

Next, I'll discuss gross profit. During the second quarter, gross profit grew 30% to \$6.7 million. Our gross margin of 24% represented an increase of 7 points from the second quarter of 2015. Gross profit was \$13.2 million for the first half of the year and our gross margin at 22% represented an increase of 4 points over last year. A significant improvement in gross margin during both the second quarter and the first half of 2016 was due to improved manufacturing yields and productivity, favorable mix of products sold and the impact of our 2016 price increases.

Next I'll discuss the operating expenses. Second quarter operating expenses grew \$200,000 or 2% to \$8 million. The increase in G&A expense associated with patent enforcement costs of nearly \$400,000 was offset in part by a \$200,000 year-over-year reduction in all other operating expenses during the quarter. The first half of 2016, operating expenses increased by \$1.2 million or 8% to \$16.3 million. The increase in the first half operating expenses included \$800,000 for increased investment in sales personnel and marketing program and approximately \$600,000 in patent enforcement costs, offset in part by a \$200,000 reduction in all operating expenses during the period.

Next I'll discuss our balance sheet and cash flow. We generated \$2.5 million in Adjusted EBITDA during the second quarter but we used \$5 million in cash to fund operating activities due to a \$7.5 million investment in working capital. This working capital increase was driven by a \$5.6 million increase in finished goods inventory and a \$1.9 million increase in all other working capital items.

Capital expenditures during the quarter totaled \$4.6 million and included expenditures related to Plant 2 engineering designs, equipment to support production of new products for the Power Market and betterments in additions in our East Providence manufacturing facility.

We ended the quarter with \$19.7 million of cash and minimal debt. Net current assets of \$41 million and shareholder's equity of \$122 million. In addition, our \$20 million revolving credit facility remains untapped.

We're updating our full-year financial outlook for 2016. Total revenue is expected to range between \$117 million and \$125 million, unchanged from prior guidance. Net loss is expected to range between \$6.8 million and \$8.6 million. This is our initial net loss guidance.

Adjusted EBITDA is expected to range between \$7 million and \$8.5 million, down from prior guidance of between \$11.5 million and \$13 million. This Adjusted EBITDA guidance reflects the expected legal and related costs associated with patent enforcement actions for the year of between \$3.4 million and \$3.9 million.

GAAP EPS is expected to range between a loss of \$0.30 and a loss of \$0.37 per share, down from prior guidance of a loss of between \$0.09 and \$0.16 per share. Again, this GAAP EPS guidance reflects the legal and related costs of the patent enforcement actions for the year. In addition, this GAAP EPS guidance assumes weighted average shares outstanding of 23.2 million shares for the year. This outlook also assumes depreciation and amortization of between \$9.8 million and \$10 million, stock-based compensation of between \$5.3 million and \$5.4 million and interest expense of \$200,000.

As always, product mix and the timing of project work may create quarterly and annual variability. In addition, we may incur charges, realized gains or losses, incur additional financing and interest expense or experience other events in 2016 that could cause our results to vary materially from this outlook.

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

Operator:

At this time, I'd like to remind everyone in order to ask a question, it is star followed by the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

The first question comes from the line of Robin Schumacher from KeyBanc Capital Markets. Your line is open.

Robin Schumacher:

Thank you. Don, John, what is causing the litigation or the patent enforcement expense to be \$3 million in the second half of the year roughly versus \$600,000 in the first half. Is there some significant incremental actions, I guess, taken there?

John Fairbanks:

So Robin, the Chinese defendants have secured attorneys and are defending themselves and we're now fully engaged in the litigation and so the second half of the year is really the expense leading up to a hearing ultimately on the patent infringement case in early 2017. So the bulk of the litigation and the bulk of the legal effort is going to occur in the second half of 2016.

Robin Schumacher:

Okay. So a hearing and then I guess potentially a trial or how does that work?

John Fairbanks:

The hearing is essentially a trial before an administrative judge that works for the ITC.

Robin Schumacher:

Okay. My other question, on the volume in the quarter—the square footage—9.9, so it sounds like based on your guidance that you expect the volume to accelerate in the second half of the year, third and fourth quarter, and are still expecting the price per square foot to be around 270 plus or minus \$0.05?

John Fairbanks:

Yes. I think a better way to think about it, Robin is just to think about volume. We did \$60.5 million of revenue in the first half of the year. If you look at our financial guidance, after the second half of the year would have us between \$56.5 million and \$64.5 million. Within that range the volume would be slightly lower, on par or higher than—clearly at the upper end of the range than the volume that we had in the first half of the year. In terms of the price per square foot. Some project work and various different product mix can have our price per square foot actually vary probably between about \$2.50 per square foot and \$2.80 per square foot, but we do expect that the average selling price for the full year will still come in line with that \$2.65 to \$2.75 range.

Robin Schumacher:

Okay.

Don Young:

Robin you remember also that when we gave our outlook at the beginning of the year, we suggested that revenue would be a little heavier in the first half and a little lighter in the second half, but as you can see we've adjusted that a little bit. While we fell within guidance in the first half, we've raised that outlook here for the second half, as John just described.

John Fairbanks:

Robin, that's principally due to just timing of project work during the year.

Robin Schumacher:

Right. Right. Okay. Thank you.

Don Young:

Thank you Robin.

John Fairbanks:

Thanks Robin.

Operator:

Your next question comes from the line of Tyler Frank from Robert Baird. Your line is open.

Tyler Frank:

Hi guys. Thanks for taking my question. Can you discuss what your current lead times are like and given the visibility that you have into the back half of the year, how should we expect the cadence of revenue and earnings to come in on Q3 versus Q4?

Don Young:

I will start with the—the first part of that in terms of backlog or lead times I should say. As we have said for a long time, we've been trying to work with those downs so we could be more responsive to the market and run our plant more efficiently and we're in the process of achieving that goal. I wouldn't say we're all the way there yet, but our ability to respond in a more industry standard of say eight weeks, I think we're very much in there. What's important to also, Tyler, we've had two examples recently where we've had relatively sizeable orders come on an emergency basis and we have been able to fulfill those very rapidly and in the past that would be a struggle for us. If you'll remember, when we had lead times of 20 and 24 weeks, we would have to change meaningfully our manufacturing cadence and a variety of different things to try to fill those orders and we were able to do that very effectively here recently.

John also talked a bit about the successful productivity in the manufacturing plant and we attribute part of that to the facilities ability to take longer runs and run—let me just say more normally. So that ability to have some level of inventory is beginning to pay dividends.

John Fairbanks:

Then I think the other part of your question was about what the expectations were by quarter for the second half of the year. We haven't provided any guidance for the quarter but I think just some rule of thumb, it should be fairly level third and fourth quarter of the year and we could see variability based upon timing of projects. Whether our project shipment falls on the last week of September or the first week of October could swing that quarterly performance slightly. I think it's best right now, the best thing to do is simply project the second half in the aggregate.

Tyler Frank:

That makes sense. A quick follow-up and shifting gears to the second plant. I guess what should we expect in terms of the timing of the financing and are you going to try and secure financing for both phases or should we expect sort of Phase I financing, closer to \$85 million prior to Phase II and what sort of milestone should we be looking for construction wise to make sure you guys are on track?

John Fairbanks:

So we are on track. The first milestone we will achieve this year is the completion of the engineering work and we expect to have that done shortly. Get approval for the project in the aggregate from our Board of Directors and to close the financing and I think, as we've alluded to, we see that we should be able that financing and announce the financing within the next several months. We remain highly confident in our ability to get that financing accomplished.

We are focusing our financing on the first phase of that first line and then we'll focus on financing the second phase of that line in a couple of years, really. But we would expect that'd be generating significant cash flow at that point in time and we'd hope to be able to finance a good portion of the second phase of the first line through our cash from operations and our ability just to generate cash.

Don Young:

Tyler obviously the \$22 million prepayment from BASF you could say with respect to the financing—the financing that John talked and as we complete that here, the next milestone for this calendar year will be ordering the long lead-time items which will take place later in 2016. But as John said, we feel very much on track to get all of those milestones.

Tyler Frank:

Got it. Great. Thank you, guys.

Operator:

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

Sean Hannon:

Good afternoon folks and thanks for taking my questions here. First, I want to see if I can get some perspective or update on the BASF relationship in terms of outlook or orders. Obviously it's going to be something that will take some time as there is a little bit of education and I suppose a process in that sale. Trying to get a better understanding around that, where you stand today, the reception with their customers really so far in this joint product relationship?

Don Young:

Obviously, we decided a few weeks ago but I think we certainly had a running start. We have a longstanding relationship with BASF, as you know Sean, dating back to an earlier equity investment that they made in our company in our private days and our first joint development and agreement in 2011 and that yielded a product that we refer to as (inaudible) A-2 and that will be the primary focus of our commercial activities in the early days 2017 and for those years. I think the joint development agreement is work that we have done—that we have discussed and are beginning to put in action as exactly that, a joint development effort and we are very confident, very interested in this joint work. We have some really excellent ideas, I think, to reach—to create a second generation product for that market.

So the punchline—the answer to your question; expect revenue coming from the first generation product, again, primarily in 2017 and building over time, especially as we bring up that new asset in Statesboro, Georgia, and then a little further down the road from there, a second generation product that might have yet broader application in that large building materials market that I talked about.

Sean Hannon:

That's great. Then are there other products that you can partner with them on in terms of your interest or entry into other markets, or is there anything being actively explored in that regard?

Don Young:

BASF is a big capable company and with a far reach both in terms of distribution but also their technical capability. You've heard us talk more and more about the leveraging of our Aerogel technology platform and beginning to exploit some of the unique properties of Aerogel and BASF—and a lot of great companies actually understand the uniqueness and the value of those properties. So I think you will see us with BASF and other companies begin to develop products and markets that are beyond kind of our core energy infrastructure in those adjacent markets I talk about. Building materials are certainly a first market—a first new market if you will. I mentioned in my comments the strength of our so-called OEM markets here in the first half of 2016. For us OEM, internally we call it planes, trains, and automobiles. It's mostly transportation and it's a business that has moved from the low-single digit millions last year to something very much in the five to ten and growing rapidly a part of business. This is mostly high speed train, subway systems and automobiles and obviously companies like BASF have a very expensive reach—certainly into the auto industry. I think you can count us building that relationship in time with BASF and other great companies.

John Fairbanks:

I think importantly, Sean, the joint development agreement does not have any constraints in terms of what markets we can attack jointly with our combined technology.

Sean Hannon:

Sure, sure. I follow. That's helpful. Thank you. Last question. I'm sorry if I had missed this. Did you state when that hearing would be?

John Fairbanks:

Yes, it's anticipated it would be in early 2017, and that's what we're ultimately driving to.

Sean Hannon:

Okay, right but we don't have a set date yet? Okay.

John Fairbanks:

We're trying to keep our—when we're involved in litigation we try to keep our comments at a very high level here. We obviously will disclose information when it's in the best interest of the Company and our Shareholders.

Sean Hannon:

Thank you very much.

John Fairbanks:

Thanks Sean.

Don Young:

Thanks Sean.

Operator:

Your next question comes from the line of Ryan Cassil from Seaport Global. Your line is open.

Ryan Cassil:

Good afternoon guys. Just to piggyback on the litigation questions, do you get a sense that there's more copycat brands, if you will, out there? Do get the sense this is going to be an ongoing issue?

Don Young

We're very focused on these two. We're not aware of others who are infringing our intellectual property. We think this will be a—we're developing a market that is ultimately going to be a billion-dollar market, a \$3 billion market, a \$5 billion market. This is an enormous opportunity and as we build out our business, it will be coming into the sights of other companies. So we think it's important for us to be aggressive now and that's exactly what we're doing to lay claim to the technical work that we've done and we will do that, but we're focused on these two and we're not aware of others at this point.

Ryan Cassil:

Okay and I think just with the cross licensing agreement—is Cabot (phon) involved or would they come to the table here in terms of litigation? Or is that sort of a non-issue?

Don Young:

A non-issue, I would say. Again that agreement dates back a number of years at this point and we are not, let me just say, partnering with Cabot on this activity.

Ryan Cassil:

Got you. Then just—I know it's a little early but any visibility that you have on '17 and whether we should see growth there on an overall basis and then maybe also on the power generation side. When should we think that that vertical picks up steam, if you will.

Don Young:

Let me start with the second part of it and I'll let John do the first part of it. On the power side, we are very much on track in the development of—in the final development really of this product aimed very specifically at market and we've made an investment, a capital investment to make that product a reality and we are scheduled to introduce that product into the market during 2017. Again, very much on the track that we've talked about in the past. We've come to know more and more about that market and what we think will make our product special within that area and so again we're very much on track.

John Fairbanks:

Ryan, we haven't provided any financial guidance on 2017 at present. We're not prepared to do that today.

Ryan Cassil:

All right. Thanks guys. Appreciate it.

Operator:

The next question comes from the line of Sean Meakim from JP Morgan. Your line is open.

Sean Meakim:

Gentlemen. Good afternoon.

Don Young:

How are you, Sean?

Sean Meakim:

Good. A lot of my questions have been asked, but I just wanted to maybe touch base a little more on the pilot line that you talked about today. Could you give us a little more detail on what the impact could be across production capacity? Are there any implications in terms of R&D run rate going forward? Just trying to think a little bit more about where the impact could be across the financial statement.

Don Young:

We're excited about it, Sean. It will be operational here in this current quarter. It has been—in past years, Sean, for us to experiment at scale, we had to break into one of our existing lines and as we became sold out towards the end of 2013, breaking into a line to do an experiment became a relatively expensive endeavor, from an opportunity point of view, and so this pilot line was still really in concert or at least designed in concert with our Line 3 buildout in 2014 / 2015 in the East Providence facility. Meaning that we—for the pilot facility, we can segregate chemicals and run it independently but while still using some of the assets associated with Line 3. So it's very efficient. Again, it allows us to experiment without upsetting the steady productivity of our other line. So we're focused really on two different aspects of it. One is in fact the yield and productivity, and you know our ability to experiment and drive more product through our existing asset is very lucrative for us if you can well imagine. So that is certainly a focus of that effort. As we take on a partner such as BASF, we have ideas for second generation products and to be able to do those at full scale will certainly be an advantage for us in accelerating and it's attractive for those partner companies to be able to team up with us to utilize those assets.

In terms of operating expense, relative to the cost of that facility overall, operating that for a cost that I want to say as close to negligible—I wouldn't call it super meaningful.

John Fairbanks:

The line actually leverages our existing manufacturing infrastructure and so there is a minor increment in the number of people in the plants and operating expenses, but we'd expect to have it pay for itself fairly rapidly in expansion of gross profit due to improved manufacturing productivity, and in that sort full effect of those expenses are already baked into our guidance for the year.

Sean Meakim:

Got it. Okay. Great. That's very helpful. Thanks.

Don Young:

Thanks Sean.

John Fairbanks:

Thanks Sean.

Operator:

I'll now turn the call over to Mr. Young for closing remarks.

Don Young:

Thank you, Blair. We appreciate your interest in Aspen Aerogels. We look forward to reporting our third quarter results to you in early November. Have a good evening. Thanks again.

John Fairbanks:

Thank you.

Operator:

This concludes this conference call. You may now disconnect.