NYSE:GWH Q2 2025 Earnings Call Transcript

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Operator | Conference Operator:

Ladies and gentlemen, thank you for standing by. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. At this time, if you have a question, you'll need to press the star 1 on your push button phone. I would now like to turn the conference over to Eric Byland. Please go ahead, sir.

Eric Byland | Conference Moderator:

Thank you. Welcome to ESS's second quarter of fiscal year 2025 financial results conference call. Joining me on the call today from ESS are Kelly Goodman, Interim CEO, and Kate Sodolnik, Interim CFO. Following management's prepared remarks, we will hold a Q&A session. Earlier today, ESS released financial results for the second quarter of 2025. The earnings release is in the investor relations section of the company's website. As a reminder, the information presented today will include forward-looking statements. including without limitation statements about our growth prospects, partnerships, energy-based product, financial performance, capital raising, including under our standby equity purchase agreement and strategy for 2025 and beyond, and the impact of regulatory and legislative developments. The forward-looking statements are also subject to known and unknown risks and uncertainties It could cause actual results to differ materially from those projected or implied during this call. In particular, those described in our risk factors set forth in more detail in our most recent periodic filings filed with the Securities and Exchange Commission, as well as the current uncertainty and unpredictability in our business, challenges with raising capital, issues with our partnerships, the markets, the economy, the current geopolitical situation, and the development and launch of the energy base. You should not rely on our forward-looking statements as predictions of future events. All forward-looking statements that we make on this call today are based on assumptions and beliefs as of the date hereof, and we disclaim any obligation to update any forward-looking statements except as required by law. During the call, we will also present certain financial information on a non-GAAP basis. Management believes that non-GAAP financial measures taken in conjunction with U.S. GAAP financial measures provide useful information for both management and investors by excluding certain items that are not indicative of our core operating results. Management uses non-GAAP measures internally to understand, manage, and evaluate our business and make operating decisions. Reconciliations between U.S. GAAP and non-GAAP results are presented within our earnings release. And with that, I'll turn the call over to Kelly.

Kelly Goodman | Interim CEO:

Thank you, Eric. Good afternoon, everyone. Thank you for joining us for ESS's Q2 2025 earnings call. Before we begin with the quarterly updates, I would like to take a moment to reaffirm who we are as a company and the value we deliver. ESS is a technology leader in long-duration energy storage. Our proprietary iron flow battery platform is designed to deliver safe, sustainable, non-flammable long-duration energy storage for 10 hours or more. We use abundant domestically sourced materials, iron, salt, and water, and our systems are designed to cycle over 20,000 times with no capacity degradation. This combination of durability, safety, and sustainability positions ESS to meet a rapidly growing market need. As data center build outs accelerate and electrification efforts expand across industries, utilities face mounting pressure to deliver reliable, clean power at scale. At the same time, regulatory momentum around grid reliability and decarbonization is intensifying. These converging forces are exposing the limitations of short duration storage and lithium-ion technologies in particular are not well-suited to effectively address these long-duration needs at scale. At an early stage in our story, we built strong relationships with Tier 1 customers, representative of developers like SB Energy, the CNI space with Honeywell, and utilities, Portland General Electric, Sacramento Municipal Utility District, and Burbank Water and Power as examples, leaders at the forefront of the energy transition. Their continued engagement and partnership gives us the foundation to continue to build a long-term commercially viable business as demand for long duration energy storage accelerates. Let me now highlight the four key events from the first half of the year. First, we secured up to $31 million in new capital, strengthening our balance sheet and extending our operational runway as we scale deployments. Second, we significantly reduced our operating cash burn rate, down approximately 80% in June compared to the first quarter average. Third, we made a material leap forward with a new material substitution in the core ESS stack technology. which has demonstrated extended duration of 12 to 17 hours and accelerated our cost and performance roadmap by 18 months. And fourth, we closed our first commercial order for the energy base, an eight megawatt hour project with a U.S. strategic partner that is expected to be delivered in 2026. These results are encouraging. particularly as part of the operational reset we've been executing over the past two quarters. But let me be clear, we are not declaring victory, though we are showing real progress. While driving our roadmap forward, we remain focused on disciplined execution and capital control. In Q2, we made meaningful headway on our cost reduction goals. Although we had to make difficult but necessary decisions to ensure the long-term viability of the company, we used this inflection point to sharpen our focus on core functions, particularly around our technology, and to reposition ESS for future growth and profitability. Cost of revenue decreased 37% year over year, total operating expenses fell by 45%, Our net loss improved 50% and adjusted EBITDA approved nearly 60% compared to Q2 of last year. These are early but meaningful indicators that our cost discipline is taking hold. And while we are actively working to raise additional capital and provide additional resources for critical needs, we intend to maintain a controlled approach to cost. We are dedicated engineering resources to the energy-based design and productization, optimizing vendor contracts, and streamlining our delivery processes. On the commercial front, momentum continues to build. The eight-megawatt-hour energy-based order for a U.S. strategic partner is anticipated to be delivered in 2026, and we continue to see strong interest in our long-duration solutions. We are actively engaged in a growing pipeline of commercial opportunities, including RFP activity that reflects a meaningful step up in both scale and strategic importance for ESS. Notably, 100% of our pipeline is now focused on the energy base or core component sales, and our proposal activity exceeds 1.1 gigawatt hours since the energy base launch, highlighting the demand from the market and the value it brings to customers seeking safe, sustainable, and scalable storage. As part of our strategic pivot, we took a hard look at how to best position ESS for long-term success. And that starts with having the right leadership in place. We are excited to welcome Jigesh Trivedi as our new Chief Operating Officer. Jigesh brings over 30 years of experience across technology, product development, manufacturing, and operations, and we look forward to his impact as we begin manufacturing and delivery of our first energy-based orders in the coming quarters. We have also appointed Kate Suhodolnik as interim chief financial officer. Kate has served as ESS's controller for over two years and brings deep financial and operational expertise. I am confident she will play a critical role and helping us scale with discipline and focus. With that, I will turn it over to Kate to walk through the financial results.

Kate Sodolnik | Interim CFO:

Thank you, Kelly, and good afternoon, everyone. Unless otherwise noted, all numbers we discussed today will be on a non-GAAP basis. You'll find the reconciliation of GAAP to non-GAAP financial measures in our earnings release, which is posted to our investor relations website. For the second quarter of 2025, we reported GAAP revenue of $2.4 million, a 294% increase from Q1 of 2025, driven by deliveries of what are expected to be our final energy warehouses and energy centers to a related party as we prepare for the future shift to sales and operating efforts around the energy-based product. GAAP cost of revenues were $7.5 million, down 15% versus Q1 of 2025. GAAP operating expenses were $6.4 million, down 35% quarter over quarter, as our cost reduction efforts began to take hold. While we remain focused on keeping costs low, we're confident that the organization is right-sized to execute effectively. We've preserved the critical capabilities needed to deliver on our near and long-term priorities and will leverage external resources where needed. As Kelly mentioned, we've recently secured up to $31 million in new capital through a combination of immediate cash inflows and a standby equity purchase agreement for up to $25 million that we can access over a 36-month term. In the first six weeks of operating this program, we have already been able to raise over $2 million in capital. This financing package allowed us to strengthen our balance sheet and extend our operational runway as we scale deployments and work to secure additional long-term financing. We ended July with cash and cash equivalents of $7.2 million, a meaningful improvement from the end of the second quarter. Finally, I'd like to provide an update on the impact of recent legislation and executive actions on our business. While the One Big Beautiful Bill Act, which was signed into law in early July, included a number of changes that significantly impact the availability of investment tax credits that our customers may take advantage of, we believe that our domestic manufacturing and supply chain structure generally should benefit from these changes and make our products even more attractive to our customers. The OBBB left the Section 45X production tax credit regulations, which we qualify for, largely untouched. While tariff and trade restrictions continue to evolve, as we've discussed on previous calls, all of our manufacturing is conducted in our Wilsonville facility, and we do not import foreign cells for U.S. assembly. We have an extremely high degree of American-made inputs from our supply chain. Over 98% of the components in our bill of material are sourced domestically and therefore our exposure to these changing policies continues to be minimal. Looking ahead, we are energized by the differentiated demand for our storage solutions. With a stronger financial footing and sharper execution capabilities, we are well positioned to capture value as long duration storage becomes a strategic imperative across markets. That said, our focus remains disciplined execution, value creation, and transparency. With that, I'll hand the call back to Kelly for closing remarks. Thanks, Kate.

Kelly Goodman | Interim CEO:

Looking ahead, we are focused on three core priorities. First, delivering on customer commitments. We are laser focused on manufacturing and delivering our first energy-based systems, ensuring execution excellence, and building trust with our partners. Second, Scaling with discipline. We intend to grow strategically, deploying capital efficiently, controlling costs, and aligning our team and processes around high-impact activities. Third, converting commercial momentum into long-term growth. With strong validation from Tier 1 customers and increasing demand for long-duration storage, we are focused on advancing our pipelines, and securing multi-year agreements that position us for revenue growth beginning in 2026 and beyond. To close, our recent efforts have marked a turning point for ESS. We are beginning to see the results of our strategic pivot, and we are building a business with a clear focus, tighter execution, and early commercial validation. Thank you for your continued support. We look forward to your questions.

Operator | Conference Operator:

At this time, I would like to remind everyone, in order to ask a question, press star, then the number one, or your telephone keypad. We'll pause just for a moment to compile the Q&A roster. Your first question comes from the line of Justin Clare. Your line is open.

Justin Clare | Analyst:

Hey, good afternoon. Thanks for the time here. So, first, I just wanted to start on the energy base. You had mentioned submitting, I think, 1.1 gigawatt hours of proposals for the energy base. So, I'm wondering if you could just share, you know, what kind of traction you're seeing with those proposals, any early wins or signs of conversion, and then, you know, when could you expect to receive, you know, meaningful feedback on those proposals?

Kelly Goodman | Interim CEO:

Melanie Perreault- Thanks Justin and so we have already converted one to a win with the sale of the energy base that I mentioned in the remarks. Melanie Perreault- We do expect to be converting some additional proposals to backlog and the back half of this year, so look forward to reporting on that on future calls. I will say if you consider that we launched the energy base in February and are already, you know, seeing orders and conversion rates that we expect this year, including with utility customers, the pace at which we're able to move from proposal to contracting is something that we're really excited about.

Justin Clare | Analyst:

Okay, got it. And then just to follow up on that, just thinking through, you know, as you transition from the energy base and the energy warehouse to, or sorry, energy warehouse and energy center to the energy base, how should we be thinking about the revenue trajectory from here into Q3 and Q4? You know, how might that compare to what we saw in the first half of the year?

Kate Sodolnik | Interim CFO:

Yeah, Justin, this is Kate. You know, at this stage, we're not providing any guidance around revenue for the latter half of the year. You know, as Kelly mentioned, we're hoping to close on some contracts in the second half here that will provide us with some more clarity on our future revenue runway and look forward to giving some updates on that going forward.

Justin Clare | Analyst:

Okay. Got it. And then, okay, so then maybe shifting over, you had recently secured the 31 million in capital. TAB, Mark McIntyre, Including the standby equity purchase agreement so just wondering, you know, in total, how much has been secured, I think there was maybe 2 million on the on the separate so far, but just wanted to check in on the. TAB, Mark McIntyre, You know how much of the total amount has been accessed and then just how you're thinking about equity issuance into you know Q3 Q4 you know how how much might be accessed in the coming quarters here.

Kate Sodolnik | Interim CFO:

Yeah, Justin, I'll take that one as well. So as we mentioned in the remarks, you know, we ended July with cash and cash equivalents of 7.2 million. So I think that's pretty reflective of what we've been able to bring in so far, including the 2 million we've raised under the SEPA up to this point. Our focus for the upcoming months and quarter will be to, you know, maximize on those SEPA proceeds as much as we can. But obviously, it's a little difficult to predict exactly how much that will be dependent upon our stock performance and just the our ability to really capitalize on that. But it's something we're focused on, extending our runway as much as we can with the mechanisms we have in place at this point.

Justin Clare | Analyst:

Okay, got it. And I guess it's just on that, I mean, your cash burn did decline pretty meaningfully in June of Q2, something that's down 80% from Q1. How do we think about the outlook for the cash burn into Q3, Q4? And I guess what... what different levers do you have to, you know, extend that runway?

Kate Sodolnik | Interim CFO:

Yeah, we hope to continue to realize those reductions we saw in June, just continuing to focus on right-sizing the business, cost reductions, working with our vendors to secure extended payment terms where we can to really extend our runway. But there's There's a few variables there to consider, but I do think we've seen meaningful improvement in our cash burn towards the end of the quarter.

Kelly Goodman | Interim CEO:

And I think just to add on that, I mean, I think we've fundamentally shifted our philosophical approach, which is to right-size the business and the business costs in particular to where we are. So we are still out working on a broader capital raise. As we conclude that process, we'll certainly take a look at the company, where costs are And again, right size, but I think the important thing for your purposes is really that we intend to continue the discipline approach sort of regardless of what the actual number is that aligns with the direction and the capacity of the business.

Justin Clare | Analyst:

Okay, got it. I appreciate it. I'll pass it off.

Operator | Conference Operator:

That will conclude today's conference call. Thank you for your participation and enjoy the rest of your day.