

# Montana Technologies

energy innovation

Q2 2024 Earnings Call

Montana Technologies Corporation (Nasdaq: AIRJ)

August 23, 2024

## **MONTANA TECHNOLOGIES PARTICIPANTS**

Matt Jore, Chief Executive Officer

Pat Eilers, Executive Chairman

Stephen Pang, Chief Financial Officer

Bryan Barton, Chief Commercialization Officer

Tom Divine, Vice President of Investor Relations and Finance

## **TRANSCRIPT**

### ***Operator***

Greetings, and welcome to the Montana Technologies 2<sup>nd</sup> Quarter 2024 Earnings Call. At this time, all participants are in a listen only mode. If anyone should require operator assistance during the conference, please press \*0 on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host Tom Divine, Vice President of Investor Relations and Finance.

### **Tom Divine**

Thanks, Joe, and thank you all for joining us on the company's second quarter earnings call. On the call today are Matt Jore, our Chief Executive Officer; Pat Eilers, our Executive Chairman; Stephen Pang, our Chief Financial Officer, and Bryan Barton, our Chief Commercialization Officer. During this call, we'll be referring to a presentation which is available on the webcast platform and on the investor section of our website.

## AIRJ Q2 2024 Earnings Call Transcript

I would like to note that many of the comments during this earnings call are forward-looking statements that involve risk and uncertainties that could affect our actual results and plans. Many of these risks are beyond our control and are discussed in more detail in the risk factors and the forward-looking statements sections of our filings with the SEC, including our most recent registration statement on Form S-1. Although we believe the expectations expressed are based on reasonable assumptions, they are not guarantees of future performance, and actual results or developments may differ materially.

And now, I'll turn it over to Matt Jore.

### **Matt Jore**

Thanks, Tom, and thank you to everyone for tuning in today to our second quarter earnings call.

On the last earnings call, you heard from Pat Eilers and Stephen Pang, who are both with me on the call. There's another member of the team with us today that I'd like to introduce, and that's Bryan Barton. Bryan serves as our Chief Commercialization Officer and is responsible for all of our business development and operations activities. As he'll describe, he has been spending much of his time and energy recently on customer engagement and building out our product engineering and manufacturing facility in Delaware. He'll provide some additional details on these topics later in the call.

On page 4 of the presentation, there is a photo of our latest pre-production unit called P5, which is located at our test facility in Montana. As you can see in the picture, this unit has been outfitted with extensive instrumentation and sensoring. Our technology and operations teams have been working closely with the team from GE Vernova to optimize the individual components within the AirJoule® system in order to drive down energetics and increase water production.

We've also made tremendous progress with BASF on the supply side. BASF is our supplier of the metal organic framework, or MOF, a material that is critical to the AirJoule® system. BASF has helped us drive the cost down to less than \$100 per kilogram.

It's through this ongoing cycle of innovation and optimization that we're able to achieve the transformational energetics and water production that we expect in our commercial units.

Turning to slide 5, this is how we are able to create value for our customers. Put simply, AirJoule® will serve two types of customers who are facing a water-related challenge. On one hand, there are customers who need water for their industrial processes. For these customers, AirJoule® can be a reliable, proximate, and cost-effective source of pure, PFAS-free, distilled water.

## AIRJ Q2 2024 Earnings Call Transcript

On the other hand, some customers need to remove water, in the form of humidity, from their systems or facilities. Through our transformational system, AirJoule® can dehumidify air more efficiently than existing technologies, such as DX or desiccant systems.

So with AirJoule®, we have multiple value propositions, depending on the use case. AirJoule®'s ability to harvest water from the air more efficiently than any other technology in the world makes it an ideal solution for dehumidifying air in an air conditioning system. Conventional air conditioning systems still rely on century-old vapor compression of refrigerants to condense water out of the air. AirJoule® can reduce the power consumption of air conditioning by as much as 75% and significantly reduce the need for environmentally harmful refrigerants.

When we initially approached Carrier, which is one of the leading HVAC companies in the world, about collaborating, they recognized the value of AirJoule® if applied to air conditioning. After vetting the technology extensively, they made their largest investment to date from their Carrier Ventures group into Montana Technologies. Ajay Agrawal, one of their top executives, now serves on our Board of Directors. Carrier is our commercialization partner for HVAC deployment of AirJoule® in the Americas, and we are working very closely with them to design and engineer various AirJoule® form factors for initial applications.

In atmospheric water generation, AirJoule®'s daily water production, which we expect to be around 1,000 liters per day for our next pre-production unit, makes it among the most highly performing atmospheric water harvesting technologies in the world.

One of the applications we're targeting on the water generation side is a standalone unit for military use. As you might imagine, the Department of Defense is always looking for new technologies to improve readiness and security for American soldiers around the world. Potable water is a critically important consideration for troops deployed around the world. GE Vernova, our joint venture partner, has been working on atmospheric water generation in a project funded by the Department of Defense over the last several years. That's actually how they discovered Montana Technologies and the work that we were doing with MOFs and the dual chamber vacuum design that underpins the AirJoule® system. Since forming our joint venture earlier this year, we've been working closely with GE Vernova on this project. We're in the late stages of the process, with the final Department of Defense evaluations set to begin later in the third quarter. Additionally, we've been having conversations with the different branches of the military, including the Army and the Air Force. We look forward to providing some more updates on military use cases in the coming quarters.

## AIRJ Q2 2024 Earnings Call Transcript

Beyond the military application, we've been having extensive conversations across a variety of industries that can benefit from AirJoule®'s water production capabilities. As mentioned on page 6 of the presentation, we recently announced two MOUs to collaborate on AirJoule® deployment. One opportunity is for improving water security in the United Arab Emirates, and the other is for AirJoule® to provide water to a solar-powered hydrogen production facility in the Australian desert.

We're also continuing to engage with data center operators about using AirJoule® to improve water sustainability. With the confluence of rising electricity demands and increasing water scarcity, efficiency of data center cooling is top of mind for many data center operators that we're hearing from. Evaporative cooling continues to be the lowest cost method of cooling, but it does require a tremendous amount of water. With AirJoule®, we could not only generate water from the air for use in evaporative cooling, but we could recapture the humidity at the downstream end of the evaporative cooling system, thereby creating a closed loop system and further reducing water consumption. Not only does this reduce costs, but it improves the water footprint and sustainability ratings of these data centers, which is increasingly a priority for the operators.

Now I'd like to turn it over to Pat Eilers to chat a little bit more about our recent MOUs.

### **Pat Eilers**

Thanks Matt. I was recently in Dubai last Wednesday and had the opportunity to sign in person our Memorandum of Understanding with TenX Energy Investment. Through this agreement, we'll be working closely with TenX to explore the deployment of AirJoule® units for atmospheric water generation at locations throughout the United Arab Emirates. Our goals here align with sovereign initiatives on sustainable development that include water security and energy efficiency for a region that utilizes a significant amount of its power generated for HVAC systems.

This is my fourth trip to this part of the world in as many quarters, and I see the UAE as a key launch pad for our future international growth. TenX is an Emirati-owned private enterprise that fits with our strategy of collaborating with local companies to accelerate market adoption of AirJoule®. Once our prototypes are delivered to the UAE, TenX will assist in installation and optimization of AirJoule® for local needs and include AirJoule® in its offerings targeting energy efficiency and water harvesting opportunities. The vision is that with sufficient demand and adoption over the next few years, Montana Technologies could endeavor to manufacture AirJoule®s in the UAE.

Governments and businesses in the region are committed to addressing the issue of water scarcity, which appears to be exacerbated by the impacts from very rapid development and

## AIRJ Q2 2024 Earnings Call Transcript

climate change. As one example, the UAE has allocated \$20 Billion AED for water security and sustainable energy projects as part of its Vision 2030 strategy. Our partners at Carrier have a large presence in the UAE, and we're exploring some options for a pilot project at their facility.

Leading our efforts over here is Ramdas Rao, President, International, for Montana Technologies, who will be based out of the UAE. I can tell you that after spending several days with Ramdas and visiting with a long list of potential customers interested in our technology last week, I believe that AirJoule® can and will be a part of the solution for addressing water scarcity, not only here but around the world.

Now, it's my pleasure to turn it over to Bryan Barton, our Chief Commercialization Officer. Bryan came over to us from GE Vernova, where he was commercializing new technologies and bringing them to market. That's exactly what he's doing in his role here, and we are thrilled to have him at Montana Technologies.

### **Bryan Barton**

Thanks Pat. I'm excited to be a part of the team and to be leading our efforts to commercialize the AirJoule® product. In thinking about my focus during the second quarter and for the remainder of the year, it's really about positioning us for a product launch in 2025. We're constantly thinking about how we can deliver a game-changing product to our customers. AirJoule® is a transformational technology that I believe will be deployed to solve water-related problems through a wide array of applications. But our focus over the next few quarters is to move from our latest P5 unit to our pre-production product next year. This will be the workhorse AirJoule® unit which will be used for both advanced dehumidification and water generation applications. We'll also be able to use this pre-production product to run pilot programs with customers for various use cases and derivative applications.

In order to get to that stage, we have to lay the foundation right now. Over the last couple of months, we've assembled a very strong business development and operations team. On the business development side, Matt Grandbois joined as VP of Business Development, as well as Bobby Carbonell, who is spearheading our efforts to bring the AirJoule® technology and its water harvesting capabilities to the military and humanitarian organizations. On the operations and engineering side, we've brought on Jonathan Tracy, Kunjan Khambhati, Hao Huang, and Matt Olsen as VP of Operations, Supply Chain, R&D Leader, and Applications Engineering Leader, respectively.

In June, we started outfitting our 30,000 square foot facility in Newark, Delaware where we'll carry out both product engineering and process engineering. Through product

## AIRJ Q2 2024 Earnings Call Transcript

engineering, we'll define the AirJoule® commercial product and the individual components that make up that system. Then, we'll define the processes required to manufacture these components and assemble a finished AirJoule® product. We'll need to do this at scale while ensuring strong quality control.

At our Newark facility, in addition to product engineering, MOF coating process development, and AirJoule® manufacturing lines, we will also have office space for our business development, operations, and engineering teams. Many of these individuals, including myself, are based in the greater Wilmington, Delaware area and will be working at this facility.

When it comes to customer engagement, Pat already mentioned our recently announced MOU with TenX in the UAE. We've also signed an MOU with Climate Impact Corporation, which is a company based in Australia that is developing solar-powered hydrogen production. Their project is quite interesting...they want to site their project in the Australian outback to take advantage of the vast solar resources. But they need a reliable source of water to make the hydrogen. That's where AirJoule® comes in – to be the source of the water, even in an arid desert environment. So we've started working with them on this project and look forward to providing updates in the next few quarters.

We're also in various stages of discussions and diligence for pilot projects with other customers who want to use AirJoule® to reduce their costs or improve their industrial processes. These customers include a food and beverage manufacturer who wants to recapture high purity water for reuse as process water, as well as the developer of a next-generation carbon capture system who needs highly efficient dehumidification.

As you can see, we plan to deploy AirJoule® as a solution for many different water-related applications, resulting in improved energy efficiency and lower costs for customers.

Now, let me turn it over to Stephen Pang to give an update on our financial results for the quarter.

### **Stephen Pang**

Thanks Bryan. Before I get into the numbers for the second quarter, I would like to provide some more context around the decision to restate our Q1 2024 financial statements.

In determining the proper accounting treatment for our AirJoule joint venture with GE Vernova for our first quarter financial statements, we initially determined, in consultation with our auditors, that due to a technical accounting interpretation regarding variable interest entities, we should consolidate the financials of the AirJoule JV into our financial statements. All of this was disclosed in our original 10Q filing for the first quarter.

## AIRJ Q2 2024 Earnings Call Transcript

During the second quarter, we initiated a consultation with the SEC regarding our accounting for the AirJoule JV. Based on the feedback we received during that consultation process, and after further discussion with our Audit Committee, our advisors and auditors, we determined that our interest in the joint venture should be accounted for based upon the equity method. As a result, our prior Q1 financials were restated to reflect this accounting treatment.

Today we filed an amended quarterly report for the first quarter of 2024, which provides restated financials for the first quarter. The main change in the amended report was reflecting our investment in the AirJoule JV under the equity method. We have also adjusted the accounting treatment for certain deSPAC transaction expenses in this amended report. In addition, we filed our quarterly report for the second quarter and the financial statements in that quarterly report also reflect the equity method treatment to account for our investment in the AirJoule JV.

I want to emphasize that the restatement was solely necessary because of our change in accounting treatment for the joint venture. There has been no change to the underlying business, operations, or cash flow of the Company whatsoever.

Now, let me highlight some of the financial results for the second quarter, which are included on page 7 of the presentation.

During the second quarter, we generated an operating loss of \$4.3 million, compared to a loss of \$56.4 million in the first quarter. The large operating loss in the restated Q1 financials reflects \$54.7 million of mostly non-cash transaction costs in connection with the deSPAC transaction. During the second quarter, our G&A and R&D expenses increased modestly as we built out our team and continued work on our pre-production AirJoule® units. While we aren't providing any formal guidance for the rest of 2024, we expect our cash burn in the second half of the year to be generally consistent with the second quarter. Any increases going forward would reflect expanded activity for customer engagement and product development.

We had a positive net income of \$13.4 million for the quarter, which was primarily driven by a gain in the fair value of our earnout liabilities of \$13.1 million associated with adjustments in the timing of expected milestones. In addition, we also had a one-time gain attributed to a settlement on legal fees associated with the deSPAC transaction of \$2.2 million and an approximately \$581,000 loss attributed to the AirJoule joint venture which is reflective of our 50% ownership in the entity.

You'll also notice that our restated Q1 net income was \$181.6 million, which includes a non-cash book gain of \$333.5 million as a result of the in-process research & development

## AIRJ Q2 2024 Earnings Call Transcript

of the AirJoule® technology which we contributed into the joint venture in exchange for our equity investment. It also reflects income tax expense of \$85.7 million related to this gain, all of which is recognized as a deferred tax liability.

In the month of June, we raised approximately \$12.4 million through the sale of common equity at \$10 per share in a private placement financing. This transaction originated through some reverse inquiries from existing investors, and we were glad to add additional liquidity to the balance sheet at a higher issue price than our March PIPE offering.

On the cash flow statement, you'll see that it shows \$18.4 million of cash raised from stock issuance this quarter. \$6 million of this was equity proceeds from the March PIPE that were received in early April. The remaining \$12.4 million is the proceeds from the June private placement.

We ended the quarter with around \$35 million of cash on the balance sheet, up from \$27 million at the end of the first quarter. I'll note here that the \$27 million March 31<sup>st</sup> cash balance no longer includes the roughly \$10 million of cash at the AirJoule JV as we are no longer consolidating the balance sheet of the joint venture under equity method investment. I would also note that in our second quarter 10Q, we have disclosed that as of June 30<sup>th</sup>, there was \$9.6 million of current assets on the AirJoule JV balance sheet. The majority of this is cash which will continue to be utilized to fund the ongoing operating activities at the joint venture.

I'll continue to echo what I said on our first quarter earnings call...we're comfortable that we have enough liquidity to provide runway through AirJoule® commercialization efforts in 2025. Any further capital raises will be opportunistic and driven by our ability to accelerate commercialization and deployment of AirJoule®.

With that, I'll pass it back to Matt to wrap us up.

### **Matt Jore**

Thank you, Stephen. And thank you to everyone who joined us today for our second quarter call. It was a very busy quarter, and we are excited to be making great progress on all fronts. Our partnerships are proving to be very fruitful in terms of product development and defining the pathway to commercialization. Bryan has assembled a strong team to support his focus on product development and customer engagement, and we expect to be able share more developments on pilot projects and demonstration deployments in the near future. Thanks everyone.

### **Operator**

This concludes today's conference. You may now disconnect your lines.