

Capital market update & interim results

31 Jan. 2023



Introduction: Dennis Schulz



- Joined ITM on 1st Dec 2022 as new CEO
- 14+ years of experience in Technology/EPC and component manufacturing industry
- Held various positions at Linde, among them as Head of Project Execution Services and Head of Strategy and M&A, both at Linde Engineering's Headquarters
- Since 2017, led the restructuring of a sizable EPC entity in Germany, first as CFO and then as Managing Director, reshaping it towards a new product portfolio focussed on green tech, mainly CCUS and hydrogen
- ITM's key customer for 3 years, P&L responsibility within Linde for all ITM projects from sales to execution
- Close collaboration with ITM and great success in securing key customers and reference projects, and development of the 10 MW standard module, which will be first deployed in Lingen
- But, after a promising start on the sales side, ITM's project performance fell behind expectations; closely involved in collaborative efforts between ITM and Linde to recover delayed customer projects
- Despite close relationship with ITM, in role as Managing Director at Linde engaged with various electrolyser OEMs; deep insights into strengths and weaknesses of market players
- Strategist, track record in turnaround, well connected with customers



Interim results

Summary financials



Summary

- We raised capital to pursue an aggressive expansion strategy
- In doing so we underestimated the competencies and capabilities required to transition from an R&D company to a volume manufacturer of an industrial product
- This has led to an unacceptable set of results for the period
- We have performed a deep dive into contributing factors and have created the 12-month priorities plan to address this
- The vast majority of these actions will realise benefit in FY24, and not earlier

	H1 23 £m	H1 22 £m
Revenue	2.0	4.2
Gross losses	(45.6)	(2.6)
Adjusted EBITDA losses*	(54.1)	(12.9)
Cash	317.7	164.2
Cash used in op. activities	(41.8)	(9.8)
Investing activities	(6.4)	(2.0)
Decrease in cash in period	(48.1)	(11.9)

*In reporting EBITDA, management use the metric of adjusted EBITDA, to better reflect underlying performance and remove the effect of impairment, losses on disposal, and share based payments

Summary revenue



Leuna: Delays and split delivery change

- Project consists of 12 x 2 MW Cube modules
- In H1 23 we completed Factory Acceptance Test (FAT) for 2 modules
- In order to mitigate project delays, Linde requested split delivery of Cubes and Stacks for the remaining 10 modules
- As at today, all Cubes have been delivered to site
- They now await the upgraded Stacks to be delivered to site for Site Acceptance Tests (SAT) by Linde

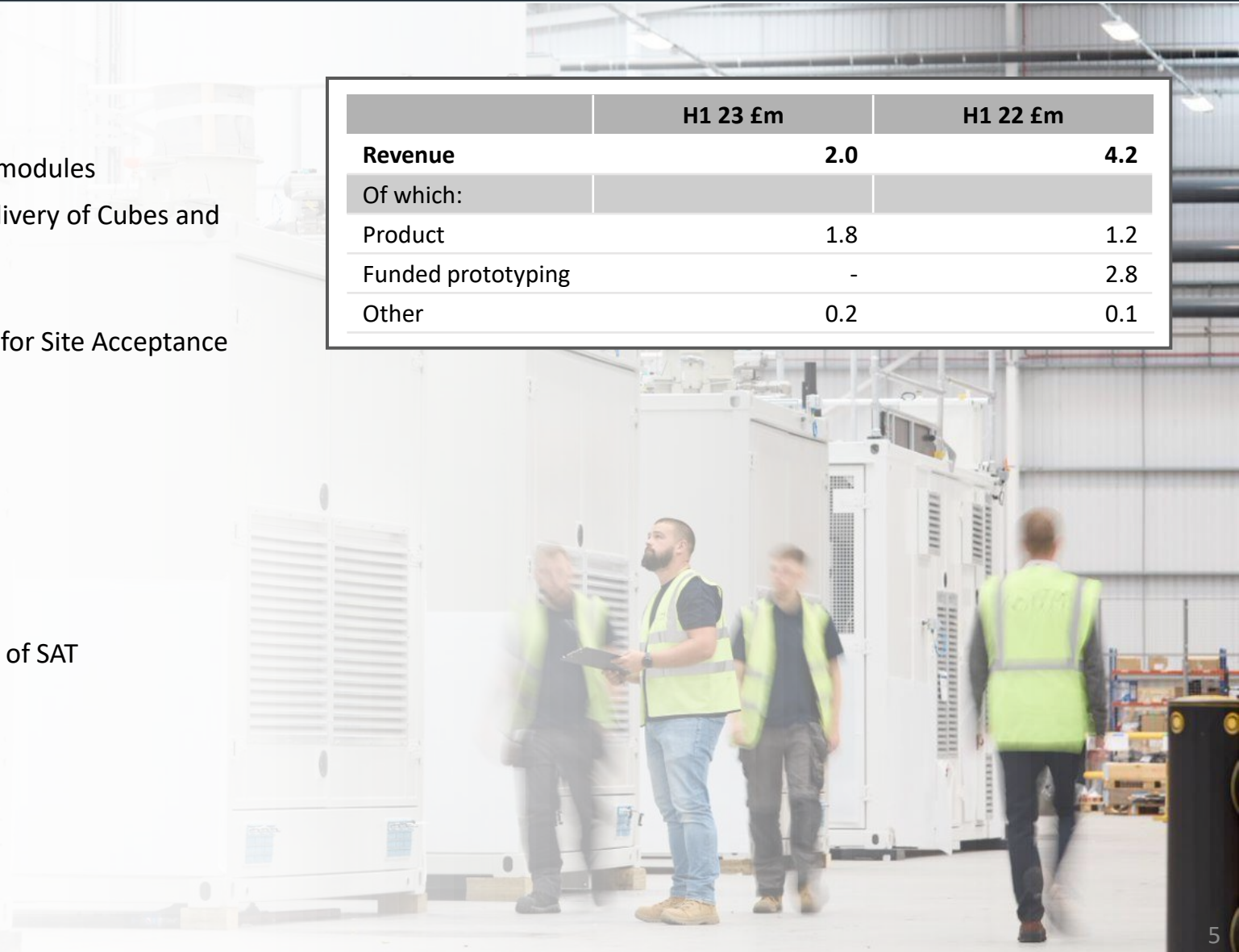
Revenue recognition

- Revenue is recognised on completion of obligations
- An obligation for Leuna project is “testing of a module”
- Originally on completion of FAT
- Now, with split delivery of Cubes and Stacks, on completion of SAT

Impact

- Revenue will lag against work completed for projects
- Wider plant SAT timing not fully in control of ITM
- May affect other Cube projects

	H1 23 £m	H1 22 £m
Revenue	2.0	4.2
Of which:		
Product	1.8	1.2
Funded prototyping	-	2.8
Other	0.2	0.1



Gross margin: Project cost overruns

	H1 23 £m	H1 22 £m
Gross loss	(45.6)	(6.8)

Redesign work

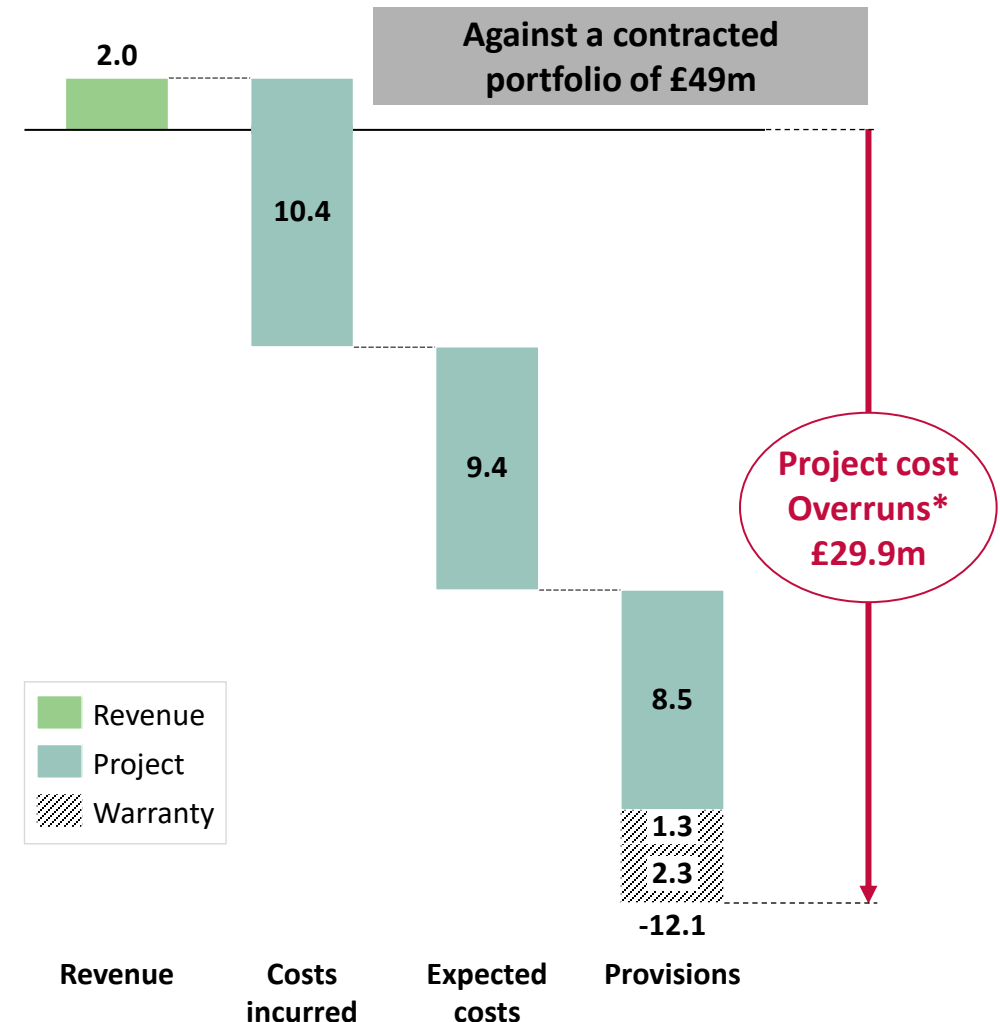
- Products built to an unfinished design
- Subsequent design changes required rework of built product
- Product customisation impact underestimated

Change to scope

- Agreed split delivery of Cubes and Stacks led to increased on-site work, both ITM and subcontracted

Energy and labour costs

- Planned reduction in testing hours did not materialise for current product
- Costs relating to longer test durations are compounded by higher energy prices



*P&L view

Gross margin: Inventory losses

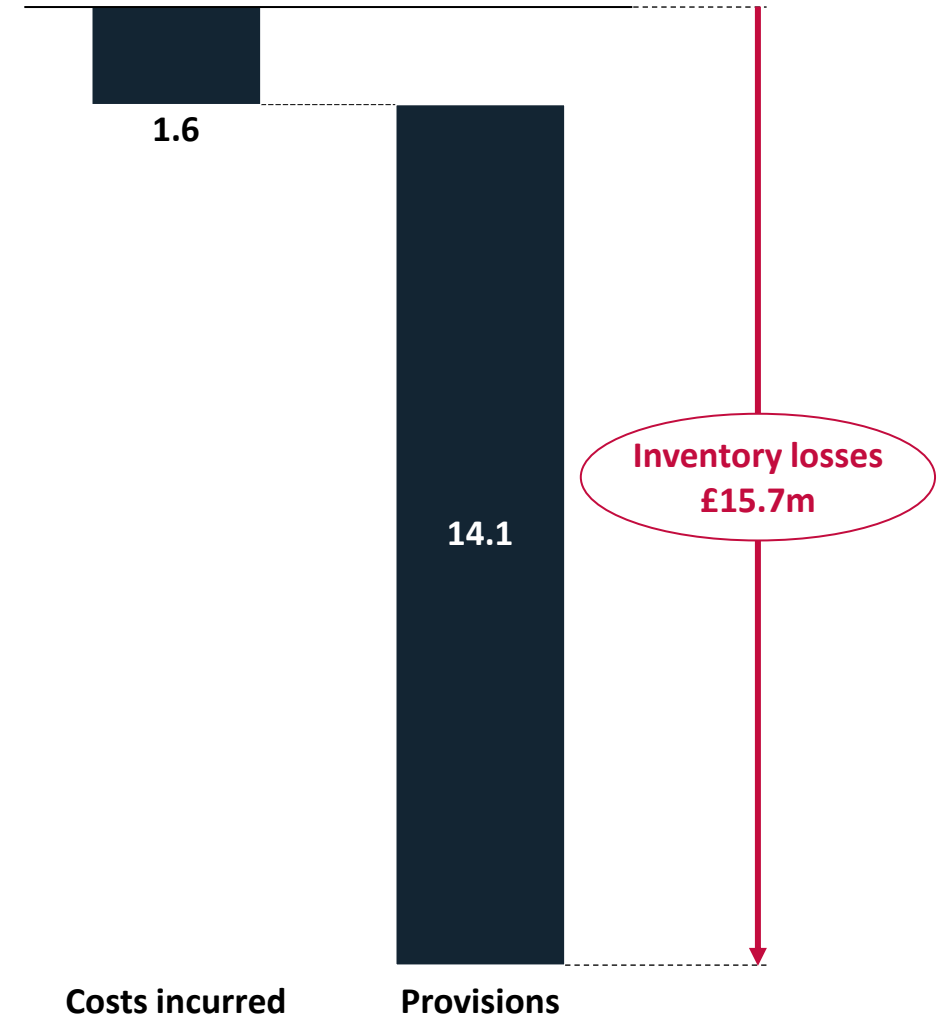
	H1 23 £m	H1 22 £m
Gross loss	(45.6)	(6.8)

Inventory losses, made up of:

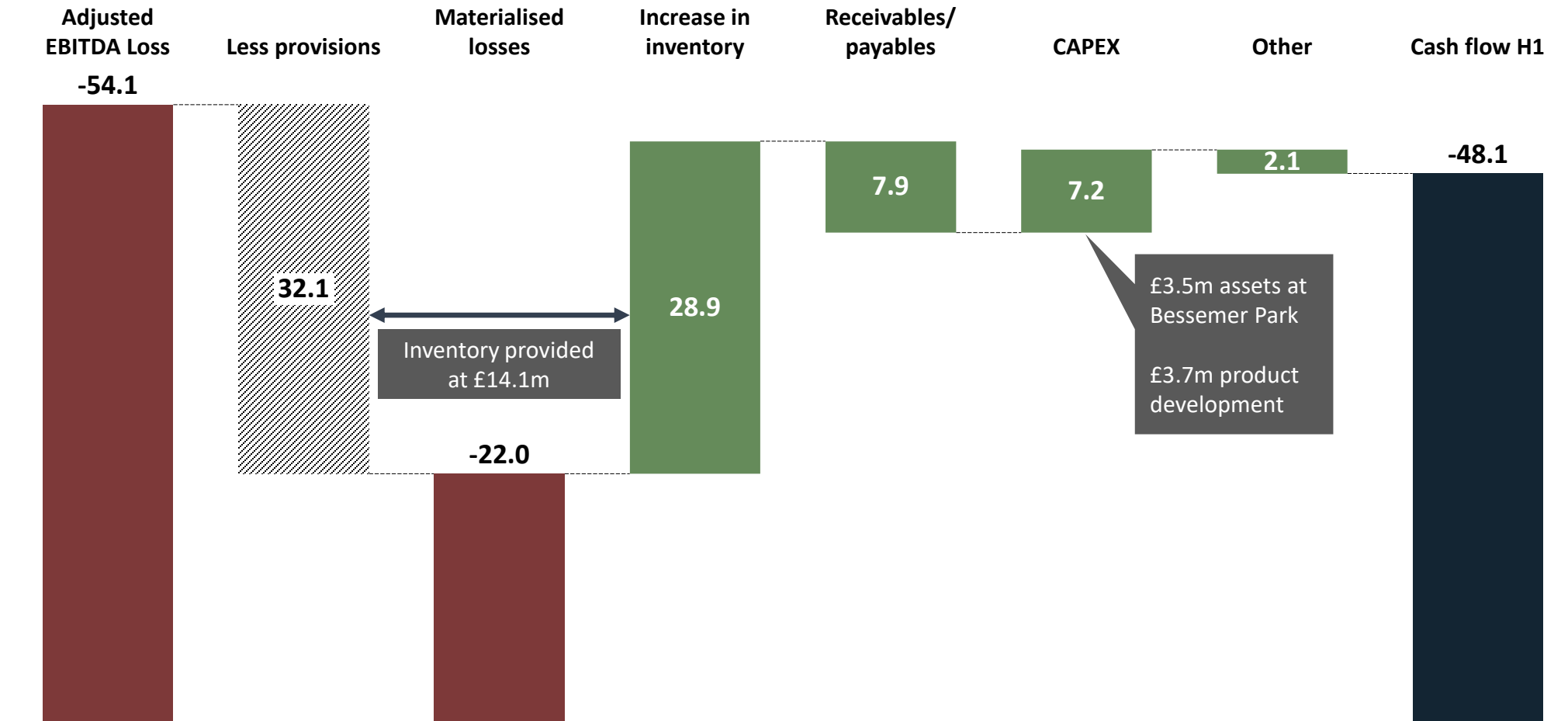
- Obsolescence & write off £1.6m
- Provisions against stacks manufactured to legacy design provided at 100%: £14.1m

Legacy design

- Prompted the need for modification of an existing injection moulding tool (manufacturing delays RNS)
- New tool modification completed in December 2022 and validation ongoing with expected start up 30 January for production
- Potential to recover some components but subject to further analysis: upside not factored in



Cash flow in period £m



FY23 outlook



Revised full year guidance

- The result had been 'baked in' from decisions made in the first half of the year
- Benefit of the 12-month priorities to be recognised in FY24

Revenue guidance £2.0m

- In line with change of project delivery (recognition on SAT)

EBITDA loss guidance £85-95m

- Inventory losses dependent on FAT success & volume of new stacks produced
- Project costs vs known plans, with a contingency applied, and includes RWE 2x100MW
- Includes H2 overheads, and one-offs of redundancies, impairment of discontinued product

Cash flow guidance: Expected cash at year end unchanged at £245-270m

- Expected towards lower end of range
- Inflows from customer contracts deferred in line with delivery profiles
- Outflows impacted by project overrun spend and one-off costs (restructure)

FY24 outlook



Revenue

- Underpinned by focus on Site Acceptance Testing (SAT) at Yara and Leuna

Cash flow from operations affected by

- Will start to see benefit of 12-month priorities
- Headcount reductions and cost management
- Working capital: unwind of inventory to begin gradually in period

Investments for future (one-off, not recurring) driven by



- Investment in power upgrade and fit-out of planned new unit
- New incremental automation machinery



12-month priorities

Introduction



- 
- 1. Does ITM have a cutting-edge electrolyser technology with the potential to outperform its competitors?*
 - 2. Does ITM have a strong enough balance sheet to support the necessary strategic and operational changes required to strengthen the company's foundations?*
 - 3. Does the market give us the time window needed to solve the growing pains ITM is encountering?*
- 

High-level business update

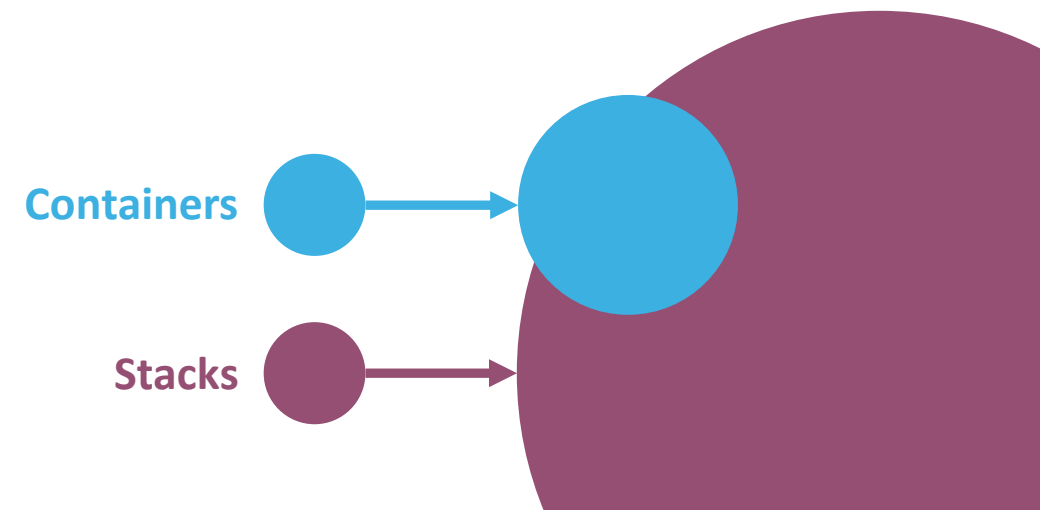


Market environment:

- Climate, decarbonisation and energy independence imperatives are **further fuelling projected hydrogen demand increase**.
- Today, >95% of hydrogen produced is grey. **Demand rise is higher than can be supplied via (announced) electrolysis capacity**, let alone **availability of green electricity as bottleneck**. Especially for the already installed base, CCS for converting grey to blue hydrogen is an important interim step to reach net zero goal, while **new installations likely to trend towards green**.
- **Hydrogen infrastructure** likely to become **additional bottleneck**, from transport (pipeline, last-mile handling) to storage (cavern).
- Current **peak electricity prices and inflation** put electrolysis business cases under pressure, **leading to delayed investments**. This gives ITM breathing time, as it allows us to focus on resolving our issues without missing out on many opportunities. **The big demand spike is yet to come**.
- While ITM is solidifying its foundations, **competitors are facing (similar) challenges**. The race has just started.

Product demand projection:

- Order intake weighted, **container and stack business is rather even today**.
- Going forward, while **container sales is expected to see a moderate increase** with hydrogen demand picking up, project sizes will tend to become substantially larger. This will lead to an **exponential demand growth for stacks**.
- Therefore, **product and service focus will be on stacks going forward**.
- For **containers**, we strive to narrow **ITM's scope to where we can create highest value**. We will review options for partnering for non-core scope to increase product competitiveness.



12-month priorities plan



- ITM needs to **transition from an R&D company to a professional delivery organisation** with **volume manufacturing** capabilities. This relates also to **superseding previous overconfidence** with industry realism.
- The next 12 months will be decisive to **solidify foundations**:
 - 1 **Concentrate on a core product suite to finalise engineering of our technology, which is performing well, into repeatable and reliable volume products.** While issues materialise during manufacturing, most originate from engineering today.
 - 2 **Stop the financial bleeding** of ITM by a stringent short-term **cost reduction programme** which addresses the key cost drivers, and by introducing professional processes for the future. Reviewing strategic options for Motive Fuels Ltd to realise a **saving of £28m in favour of ITM's core business**. Substantially improve forecasting quality to build back confidence in ITM.
 - 3 **De-bottleneck** and ramp-up **fabrication and testing** and invest into **incremental automation**.
- In parallel, we need to **deliver on our project commitments**, thereby completing important reference plants.
- We will re-tell ITM's story with **more transparency** and focus on our **innovation and delivery journey** whilst learning from mistakes and **sustainably growing into a profitable business**.



The **two Lingen 100 MW projects announced today** are an **opportunity to scale up fabrication** with the certainty of having a contract in place. 268 MW of latest stack generation are in actual project delivery today.

1 Product portfolio: Focus must be narrowed

Product	Description
Hpac	LAM 15bar stack, 5 KW, Cabinet
LEP 1 Container 20 bar	LEP 20bar stack, 100 KW, Plug & Play
LEP 1 Container 30 bar	LEP 30bar stack, 100 KW, Plug & Play
LEP 3 Container 20 bar	LEP 20bar stack, 300 KW, Plug & Play
LEP 5 Container 30 bar	LEP 30bar stack, 1 MW, Plug & Play
LEP 4 Distributed 30 bar	LEP 30bar stack, 700 KW, Building-integrated
1MEP20EU Container	MEP 20bar stack, 700 KW, Plug & Play
2MEP20EU Container	MEP 20bar stack, 1.4 MW, Plug & Play
3MEP10EU Container	MEP 20bar stack at 10bar H2, 2MW, Plug & Play
3MEP20EU Container	MEP 20bar stack, 2MW, Plug & Play
3MEP30UKCA Container	MEP 30bar stack, 2MW, Plug & Play
3MEP20 Cube	MEP 20bar stack, 2MW, Stack Module
3MEP30 Cube	MEP 30bar stack, 2MW, Stack Module
3MEP30EU Container	MEP 30bar stack, 2MW, Plug & Play
3MEP30 Stack Skid	MEP 30bar stack, 2MW, Stack & Skid
3GEP30 Stack Skid	GEP 30bar stack, Stack & Skid

Legacy products:

- › The services we provide to support older generation technologies are disruptive to our engineering and manufacturing processes and have become too costly.

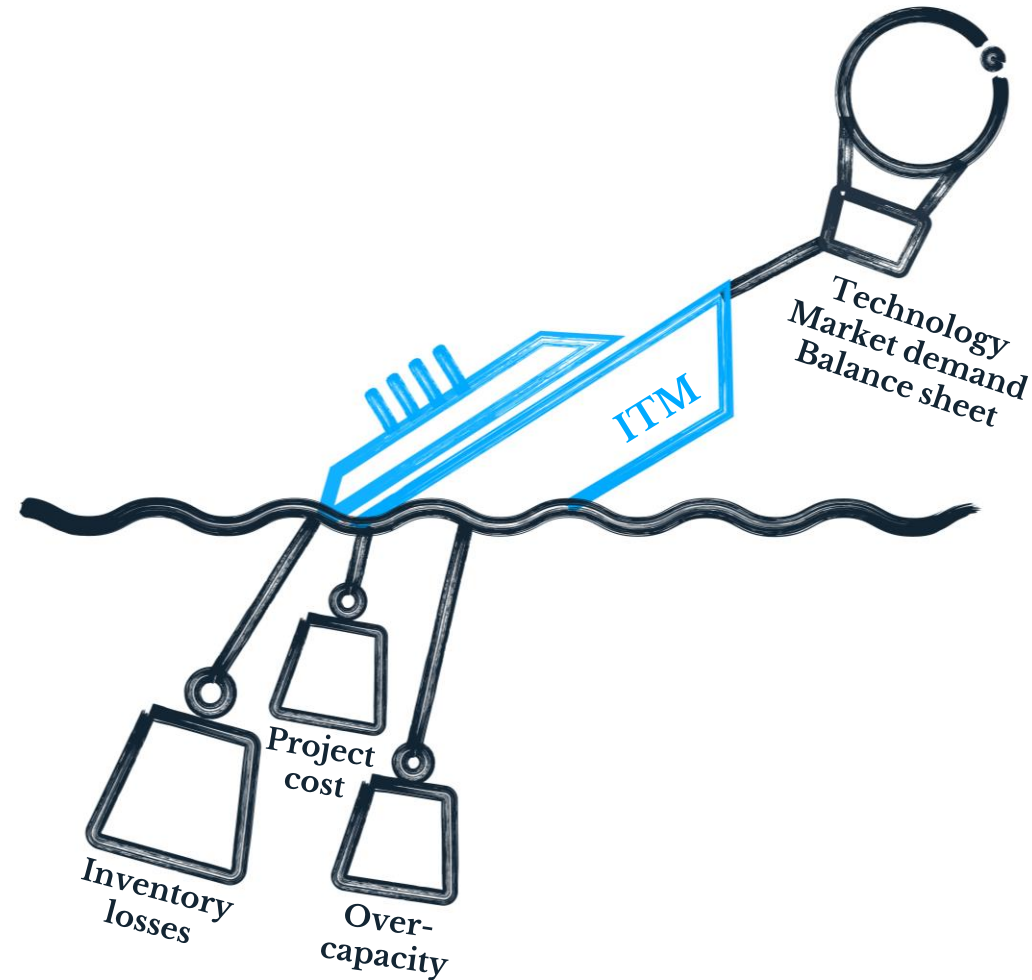
Actions:

- › Discontinue product development and ongoing design improvement work
- › Stop marketing and selling
- › Fulfil remaining contractual commitments and warranty obligations
- › Provide aftersales for later product generations only selectively to avoid distracting the organisation

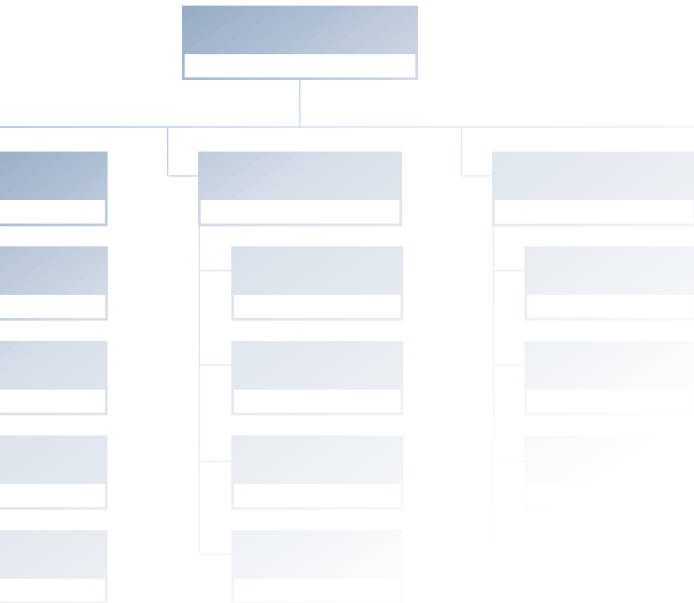
Focus products

Paused

2 Key cost drivers



2 Restructuring and rightsizing



- › Leaner and flatter in hierarchy, **new structure** reflecting the nature of the business
- › Strengthened technology, **engineering and product validation focus**
- › Bundled **customer interface** from sales to delivery
- › **Closer integration** of Manufacturing and Procurement
- › Increase of **oversight and governance** nature of CFO organisation
- › Reduced number of **statutory directors** by one
- › Over-proportional reduction in non-scaling functions
- › **Reduction of personnel cost** by **£9m (30%)** from £30m to £21m¹
- › Implementation **starting immediately**²

1) Annualised cost based FTE per Dec 2022

2) Employee consultation period will start in Feb 2023

2 Solidifying our foundation (selected examples)

Mitigation of future inventory losses

Design

- Professionalise engineering (capabilities and processes)
- Introduce design freezes and stringent management of change
- Strengthen compliance and validation with veto/sign-off right to challenge engineering status
- Formal validation-based product (generation) release for sales, procurement and fabrication
- Introduce state-of-the-art calculation/simulation tools

Sourcing

- Improve supplier audits and oversight incl. on-premise inspection and witness testing reflecting risk profile
- Strengthen standard T&Cs, incl. volume and specs flexibility, and back-to-back warranty with suppliers

Fabrication and warehousing

- Enhance parts traceability from incoming to shipping
- Work to newly implemented ERP system

Mitigation of future project cost overruns

Product portfolio and sales governance

- Enhance discipline around selling standard products as opposed to customised solutions
- Comprehensive costing and pricing incl. realistic schedule and risk estimation
- Review contract terms, incl. liabilities, performance guarantees, warranty, etc.

Project governance

- Introduce stringent phase gate process strictly adhered to
- Strengthen accountability across the business, and reset project managers role profile and expectations
- Substantially improve quality of project cost and risk reporting
- Advance core project management processes and governance
- Improve contract change management

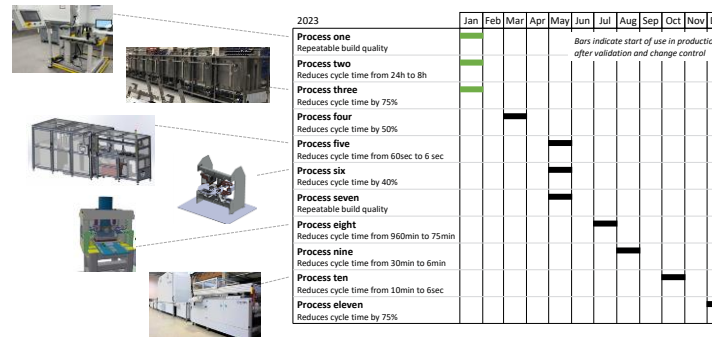
3 De-bottlenecking

Testing and power supply



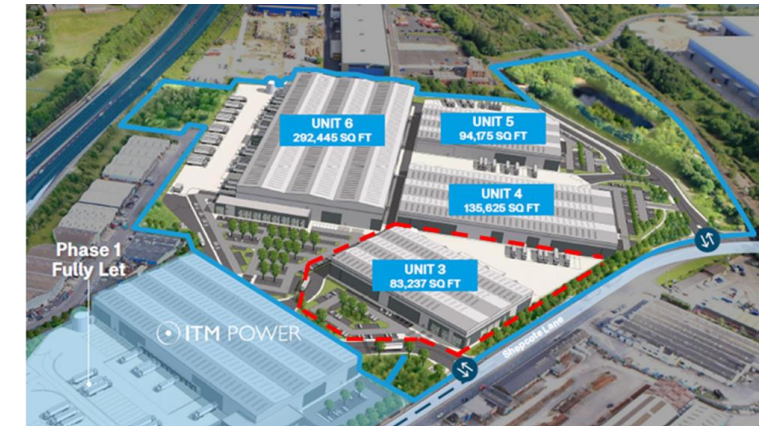
- › Phased approach to **increase test bay capacity** to satisfy project needs; more than doubling in 12 months from Dec 2022
- › **50% increased electricity supply** from 5 to 7.5 MVA ready in April 2023
- › Further **increase to 30 MVA** secured; will be available in 2024

Fabrication and automation



- › **Automation roadmap** developed and in **implementation**, improvements will affect **cycle times and build quality**
- › Incremental deployment into live production after **robust validation**
- › Example: **automated screen printing** of catalysts onto the membrane: **Reduction in process waste and cycle time from 10 min to 6 sec**. 300% increase of production capacity

R&D and validation



- › Expansion planned to make additional space for a **dedicated R&D and product validation centre** incl. science labs and first-of-a-kind product testing facilities
- › Options in close proximity to Bessemer Park are **currently being assessed and negotiated**
- › Decision expected in Q1 2023

Outlook



I know many of you are keen to learn about our longer term strategic plans:

› ***More production volume?***

Ramping up stack output is not difficult but requires robust product validation

› ***More factories and markets?***

Building additional factories (abroad) is straightforward once we have a suitable blueprint

› ***Path to profitability?***

Requires mature, competitive product designs, automation, rigorous cost management, aftersales, and most importantly volume

› ***We will get there!***

But what counts now is that the business stays fully focussed on the implementation of our **12-month priorities**, which will make **ITM a stronger, more reliable and capable company**.

› The large-scale opportunities in the market are yet to come, and by putting these foundations in place **ITM will be ready for the significant market demand ahead**.

Thank you for your attention