



PureCycle Technologies, Inc. (PCT) CEO Mike Otworth on Q4 2021 Results - Earnings Call Transcript

Mar. 09, 2022 4:01 PM ET | PureCycle Technologies, Inc. (PCT), PCTTW, PCTTU



SA Transcripts

124.99K Followers

Play Earnings Call

PureCycle Technologies, Inc. (NASDAQ:[PCT](#)) Q4 2021 Earnings Conference Call March 9, 2022
11:00 AM ET

Company Participants

David Brenner - Chief Commercial Officer

Mike Otworth - Chairman and Chief Executive Officer

Dustin Olson - Dustin Olson

Larry Somma - Chief Financial Officer

Tamsin Etefagh - Chief Sustainability Officer

Conference Call Participants

Noah Kaye - Oppenheimer

Gerry Sweeney - ROTH Capital

Aaron Spsychalla - Craig-Hallum

Hamzah Mazari - Jefferies

Hassan Ahmed - Alembic Global

Thomas Boyes - Cowen & Company

Operator

Welcome to the PureCycle Technologies Fourth Quarter 2021 Corporate Update. At this time all participants are in listen-only mode. After the speakers' presentation there will be a question-and-answer session. [Operator Instructions]As a reminder today's conference call is being recorded.

I would like to turn the conference to your host Mr. Larry Somma, Chief Financial Officer, PureCycle Technologies. Sir you may begin.

Larry Somma

Thank you. Good morning, and welcome to PureCycle Technologies fourth quarter earnings update conference call. I'm Larry Somma, Chief Financial Officer and joining me today our Chairman and Chief Executive Officer, Mike Otworth; and our newly appointed Chief Operating Officer Dustin Olson.

This morning, we will be highlighting our corporate developments for the fourth quarter. The presentation we will be going through on the call can also be found on the IR page of our website at purecycle.com. Many of the statements made today will be forward-looking and are based on management's beliefs and assumptions and information currently available to management at this time. These statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control, including those set forth in our safe harbor provisions for forward looking statements that can be found at the end of our fourth quarter 2021 corporate update press release and in our filed annual report on form 10-K as well as in our other reports on file with the SEC that provide further detail about the risks related to our business.

Additionally, please note that the company's actual results may differ materially from those anticipated and, except as required by law, we undertake no obligation to update any forward-looking statement.

Our remarks today may also include preliminary non-GAAP estimates and are subject to risks and uncertainties including among others changes in connection with quarter end and yearend adjustments. Any variation between PCT's actual results and the preliminary financial data set for yearend maybe material.

You are welcome to follow along with our slide deck or if joining us by phone you can access it at any time on purecycle.com. We are excited to share updates from the previous quarter with you. And I will now turn it over to Mike Otworth PureCycle Chairman and Chief Executive Officer.

Mike Otworth

Thank you, Larry. Welcome. And thank you for joining us this morning. If you're following us on our slide deck, we're now on slide 3. It's now been nearly a year since PureCycle became a public company and in that year, we've shared with you our mission to revolutionize plastic waste into a renewable resource that enables our vision of creating a more sustainable planet. Through steadfast support and commitment from our partners, PureCycle continues to execute on that mission and vision and remains committed to expanding access to our revolutionary product. This is underscored by our U.S. and global expansion efforts.

In the fourth quarter of 2021, PureCycle advanced our strategic plan. Our first commercialized purification facility in Ironton, Ohio is progressing on schedule. We recently passed partner tests that our feedstock evaluation unit for impact polymer which opens for the first time the automotive feedstock market. We've signed new letters of intent accounting for an additional 60 million pounds of feedstock. This brings our contracts and letters of intent to an aggregate volume for Ironton and Augusta of 438 million pounds annually.

Last quarter, we outlined how regional facilities help open access to new feedstock sources. This regional life strategy builds strong local relationships while minimizing our carbon footprint. We expect the Ironton feed PreP facility to be operational in the second quarter of 2022 and our first regional facility in Central Florida is slated for startup in the third quarter of this year to supply the Augusta plan.

Our PureZero program launched in November and since then we've progressed in multiple conversations with teams and organizations across the country. This week, the plastic recycling conference was the first sustainability conference to adopter zero. And we look forward to this being the first in many.

The interest in having a true sustainability program has skyrocketed since we launched this program and we expect to announce additional partners soon. We clearly see PureZero as a groundbreaking component of our feedstock acquisition strategy. I'm pleased to report that we have expanded our converters network to now include Aptar very global and announced today Winpak. These agreements represent more than commercial agreements. They underscore our role in connecting brands with high quality recycled plastic to truly deliver sustainable products.

As you saw in our filing, we closed the 250 million private capital raise led by several existing shareholders along with one new strategic partner FK Geocentric. This demonstrates significant support from our shareholder base and our long term strategy. Importantly, this capital when paired with project debt financing is expected to support the build out of our Augusta facilities first two lines. Project debt financing discussions are underway and we look forward to updating the market on those future developments.

Moving now to slide 4: We expect our North American facilities to initially account for more than 80% of the billion pounds of capacity we are aggressively working towards. We also recently announced the location of our first facility in Asia, in Busan, South Korea, which we expect to add another 130 million pounds of capacity initially, will also provide a foundation for future growth. The site selection moves to its final stages for our first European location. Our goal is for this facility to account for 130 million pounds of capacity with an anticipated completion by the end of 2024.

With that, I'd like to turn it over to our Chief Operating Officer, Dustin Olson to discuss our manufacturing, commercial and feedstock updates.

Dustin Olson

Thank you, Mike. Our first commercial facility in Ironton, Ohio is well underway and is expected to be operational in the fourth quarter of 2022. We have between 150 and 220 craftsmen on site daily working diligently to keep Ironton on schedule. Approximately 90% of the utility equipment is on site and we expect to energize the facility this month. With 65% of the PreP equipment also on site, we expect a soft startup for this pre-processing facility in August ahead of the purification facility. Currently, all 26 modules are on site at Gulfspan with construction pacing material deliveries. There are 60 to 90 craftsmen on this site daily, and we expect our first module delivery to Ironton in April. We have discussed how our partnerships with Koch Modular Process Solutions and Gulfspan allow PureCycle to build our facilities more safely and with more time and cost efficiencies.

We estimate that between the KMPS Module Design and the Gulfspan construction capacity has eliminated 6 to 12 months of potential delays in Ironton. Our work with these strategic partners set the foundation to replicate construction of PureCycle's purification plants both domestically and internationally. While we do see continued pressure on cost and schedule we currently anticipate holding our project timeline despite the elevated risk of delayed equipment deliveries due to global supply chain disruptions.

Moving to slide 6. In just two weeks on March 22, we will break ground in Augusta, Georgia for PureCycle's second purification facility. Our head start engineering plan is on track and the early phase procurement activities are completed. Our long lead purchases are awaiting final purchase order by the end of March. While all components have been evaluated, the initial key long lead critical items are rotating equipment, high pressure vessels and specialty valves and instrumentation. As with Ironton, we understand that supply chain disruptions may impact our building process. But we have a creative team and dedicated strategic supply partners trying to solve these problems every day.

Augusta Phase 1 will include building two lines, each with a capacity of 130 million pounds per year and with a total capacity of 260 million pounds of capacity per year. We believe this strategy will create substantial construction, procurement and operational efficiencies. We anticipate these first two lines to be operational in Q4 of 2023. Our committed spend to-date is \$29 million. As with Ironton and all future facilities, our copy/paste design should allow us to build our facilities faster. For Augusta, we expect to be able to build two lines every six months.

Additionally, our engineering teams designed the infrastructure such that our space can support at least eight purification lines. This would create a multi line production facility capable of producing more than 1 billion pounds of ultra pure recycled resin at a single location. We are four months into our 24 month project schedule for phase one. We will continue to leverage Gulfspan to scale more efficiently and prior quarter releases we have discussed the concept of a second multi line facility and domestic U.S. with a primary target of a West Coast operation.

This is still in our long term planning. But the facility supply chain economics would have to outweigh the scale economy efficiencies in Augusta. We remain firmly committed to being born digital and value our collaborative relationship with Emerson. This program should allow us to compress our commissioning timeline, enhance our training and ultimately streamline our global operations. When you build smart facilities on a technical infrastructure design for future improvements, all aspects of the operation can move faster and more efficiently.

Lastly, like everyone else in the industry specific areas of CapEx forecasts are trending approximately 10% to 30% over estimates conceived two to three years ago. However, we believe our projects supply chain economics and our variable and fixed costs at Augusta will help us stay on track. Currently, Augusta variable and fixed costs are modeled at 15% to 30% below Ironton.

Moving to slide 7. Last quarter we laid out the strategy behind our pre-processing facilities. We call them PrePs with two capital Ps. These regional facilities allow us to not only build strong regional relationships with feedstock suppliers and partners, but open up access to more feedstock and further reduce our own carbon footprint. Our Ironton PreP facility is co-located with our purification line and we anticipate a soft launch date in the third quarter of 2022. This facility will be dedicated to the Ironton purification operation.

Our first regional facility located in Central Florida, which we expect to supply feedstock to Augusta is expected to start up in the third quarter of 2022 also. This central Florida facility will have the ability to advanced sort and wash at least 75 million pounds per year, and we expect to grow to more than 150 million pounds per year in the future.

We are advancing our discussions with Titus in California. This facility will have the capacity to advanced sort 10 million pounds to 25 million pounds of feedstock. PureCycle will not actively operate this facility. But we will receive all the polyolefin feedstock and we intend to use this facility as a model for future West Coast feedstock development. We expect this facility will supplement feed and Augusta while building a supply source for a third U.S. location.

Site selection for PreP facility Northeast is underway. We are working on identifying a location that would allow us the capacity to sort and wash between 75 million pounds and 150 million pounds of feedstock each year. This facility will be very similar to our facility in central Florida. These facilities will be used to capture the polypropylene volume from number one to seven bales number three to seven bales and also low quality number five bales. We will also plan to use these facilities to add incremental operations to enhance the processing of specialized feedstock opportunities. These facilities play a key role in our overall strategy and will ultimately serve to diversify our feed system.

Moving to slide 8. Next, we would like to share with you our progress on securing feedstock for our business plan. We continue to strengthen our relationships in the marketplace and that has resulted in new Letters of Intent signed in the fourth quarter for an additional 60 million pounds per year of feedstock, bringing our total feedstock secured via contract or in Letters of Intent to an aggregate of 438 million pounds per year for Ironton and Augusta. We are executing against our strategy to secure feedstock from a diverse suppliers across United States and continue to identify feedstock from three diverse waste streams. As you can see on the slide, 60 million pounds of feedstock in the fourth quarter comes from post consumer non-curb side.

The feedstock team is targeting both traditionally recycled feedstocks as well as more complex opportunities that based on our understanding, other recyclers are not targeting. We continue to show that our technology can purify polypropylene from a wider variety of feedstock, which allows us to access waste streams that were previously landfilled or incinerated. An example of this is with impact copolymer. In Q4 PureCycle was able to purify this feedstock into base components of PP homopolymer and EPR, a rubbery additive. While our technical evaluation of this polymer is still in development since this feedstock is extensively used in automotive applications, we intend to evaluate the use of automotive plastic residues as a potential feedstock source.

Moving to slide 9. The commercial team continues to build our pipeline and active discussion accounts for 822 million pounds per year of our ultra pure recycled resin. We have grown our pipeline significantly from Q3 to Q4, with an increase of 80% increase in deals and negotiations with either term sheets or sales agreements. We continue to build our funnel with early discussion volume increasing 38% compared to last quarter. With our wind pack announcement, we have now expanded our converter network to include Aptar, Berry Global and Winpak.

PureCycle is well positioned to connect brands with high quality resin to deliver products that are truly sustainable to their customers. We've already scratched the surface on what is out there and we believe we will continue to see increases each quarter. We know that our ultra pure recycled resin can be a game changer for companies looking to replace fossil fuel derivatives, fossil fuel derived resins and reduced their carbon footprint. We continue to execute the objectives we need to expand our pipeline and ultimately help companies achieve their highest sustainability goals.

Moving to slide 10. The past five years have been remarkable across the board. We have experienced a global pandemic, a commodity boom and market volatility [add] inflation and instability overseas this created a volatile market and a volatile business environment.

Amid supply chain disruptions and pandemic driven economic shutdowns PureCycle has built a resilient business model to help insulate our business from significant disruptions in the global markets and supply chain inefficiencies. As you can see from the slide, we have modeled multiple scenarios that have transpired across the last three years relative to our original business plan. There are two key takeaways.

One, despite disruptions the previous unit EBITDA projections remain largely intact. And two, we believe the introduction of the feedstock plus pricing program has currently modeled reduces earnings volatility created between the virgin PP and number five feedstock spread.

Moving to slide 11. I'm also pleased to provide you with the latest data from our third party independent lifecycle analysis. Their review was based on the final design of our Ironton, Ohio facility and resulted in 35% lower carbon emissions as compared to fossil fuel derived polypropylene. Nearly 80% lower energy usage and water consumption being on par with fossil fuel derived polypropylene. It's important to note that our carbon emissions are heavily impacted by the high concentration of coal in the Ohio grid compared to those and other regions in the country. This assessment was conducted to understand initial baseline environmental impact of our process, and we will update with operational data post startup.

The third party preliminary LCA confirms that our purification technology not only creates a good outcome for our world, but also a strong value proposition for our customers. With this carbon footprint analysis estimated to be below virgin polypropylene production. We believe our product provides an alternative to the high cost carbon credit purchasing programs for our customers. We understand the complexity of this analysis and the nuances that can swing the numbers. Rest assured, however, PureCycle will continue to study alternatives to further improve our numbers through renewable energy supplies at both Ironton and Augusta.

Moving to slide 12. We also want to provide you an update on our FDA letter of no objection. In September, we submitted our LNO request to the FDA and in January of this year, we received a follow up inquiry from the FDA in response to our submission. This is the first time we have engaged the FDA in discussions about our process, and it required substantial collaboration to create mutual understanding.

We expect this to be the first of many submissions to the FDA as we find new feeds, new operating conditions and as we scale the technology. Through the discussions and in reply to the FDA, PureCycle revised and finalized our letter of no objection submission for categories C through G, which covers many of the products that consumers use on a regular basis. This is a good first step in the approval process. As always PureCycle will continue to optimize the process across new feeds, and process conditions and resubmit to the FDA periodically for use of purified resin in additional cases.

I will now turn it over to our CFO, Larry Somma to provide details related to the private equity raise and our current liquidity position. Larry?

Larry Somma

Thank you Dustin. I am thrilled that my first corporate update includes a major financing announcement. PureCycle just concluded a \$250 million private equity capital raised in a very difficult market environment. Moreover, strong support from investors resulted in over-subscription with PureCycle electing to take proceeds of only \$250 million. The deal was priced at \$7 per share, resulting in approximately 35.7 million new shares issued and warrants to purchase an additional 17.9 million shares at a strike price of \$11.50 per share.

We expect the transaction to close on March 17, with net proceeds being approximately \$250 million. This offering was anchored by a combination of existing long term investors, including Sylebra Capital and Samlyn Capital, amongst others, as well as support from our board of directors.

More importantly, the capital raise included a new strategic investor, SK Geocentric. As a reminder in January, SK and PureCycle announced a term sheet for a joint venture to open Asia's first recycled polypropylene plant in Olson, South Korea. The \$250 million cash raise bolstered a strong balance sheet and allows PureCycle to fund a business plan that will include the first four purification lines in Augusta, the supporting PreP facilities, and other strategic and general corporate purposes. The fresh equity is also integral to our project debt raise which is underway. We expect to update the market as soon as we have additional information on that process.

Turning to slide 14. As of December, we had \$431.2 million of liquidity. We think about our liquidity in terms of restricted and unrestricted cash and investments. Before considering the private equity capital raise proceeds, we had \$230.5 million of unrestricted cash and investments. Included in our Q4 operating and SG&A spend of \$12.2 million is cash that is being used to fund payroll as we continue to ramp up our staffing needs as a public company and prepare for Ironton, feed PreP, Augusta, Europe and Asian investments.

We are also investing in systems and technology for the plant and corporate functions and various other needs. Further to stay on track with our Augusta strategy we have started to invest in Augusta plant engineering and the build out of our central Florida feed PreP facility. For Q4 that spend was approximately \$3.2 million.

The other part of our liquidity position is our restricted cash. As a reminder, the restricted cash can be broken down into several buckets. One, Ironton plant billed, two future interest in principle payment reserves for Ohio bonds and three, equity reserves that are required to be set aside for the Ohio bonds. As the Ironton plant progresses towards completion in Q4 of this year, you can expect to see cash draw downs related to that plant build. In Q4 we spent \$34.6 million on the plan. We also have semi-annual interest payments that are due in June and December of each year. Those interest payments are currently funded in the restricted cash balance for 2022 and 2023.

Finally, during the fourth quarter, the Magnetar and Note Payable conversion removed over \$60 million of liabilities from our balance sheet. And it's one more step that has been taken to continue to improve upon the strength of our financial position.

Overall, we feel good about the strong liquidity of the company. With the combination of the \$250 million private equity offering and unrestricted cash balance, we believe there is sufficient capital to execute our business plan. This includes the remaining build out of Ironton, the future build plans in Augusta, our feet PreP facilities, and investments in Asia and Europe.

Now let's move to slide 15. We continue to closely monitor the impacts of the pandemic, general economic volatility on our business operations, and now the war in Europe. These factors put pressure on material and supply chain costs and have a significant impact on our stakeholders and partners. But we are not just monitoring these impacts. We have made strategic updates to our business plan to help insulate our business from risk factors. These updates demonstrate our ability to adapt to market conditions. On this slide we've named a few of them and I'll call them out. One, we made the decision to regionalize our PreP facilities to increase our access to feedstock and decrease logistics and transportation costs. We have seen market acceptance of our feedstock plus pricing model, as it aligns with true cost of production, hedges against feedstock price volatility and disconnects pricing from Virgin polypropylene volatility.

We have made strategic decision to market co-products from our PreP facilities. This includes a margin capture from poorly sorted mix bales, which we anticipate at up to \$10.0 per pound of polypropylene with a co-product sales improvement. What we once identified as waste streams in our purification process we now see as highly valued recycled co-products.

Further, our partnership with Gulfspan enables us to build three plants concurrently while reducing costs and construction time. This helps hold our schedule for Ironton, which make PureCycle unique in this current environment. Dovetailing off our replication model, our cluster site model also reduces the cost per facility by spreading costs associated with overhead, the site selection process, and startup costs across more production capacity.

Finally, our model of 130 million pound purification line capacity helps us remain consistent and use the same framework as the Ironton production line. This also improves our energy and labor costs at a reduction of about 15% to 30%. We have demonstrated our resiliency across all business lines, and these strategic business plan updates further underscore our ability to be nimble and adjust to the market. We also believe that these strategic decisions will drive a more profitable business model.

Now I'll turn it back over to Mike Otworth, our CEO.

Mike Otworth

Thank you, Larry. We're now on slide 16. PureCycle remains intently focused on executing against the strategic work plan and advancing the sustainable plastic revolution through our unique purification process. That growth plan is now further supported by the additional \$250 million investment from our long term shareholders and a new investor SK Geocentric.

With the support of stakeholders and partners, we executed a \$250 million private equity raise. Ironton is on track for completion by the end of this year, and we will break ground on Augusta on March 22. We've signed letters of intent for 60 million pounds of untapped feedstock increasing our total to an aggregate of 438 million pounds of feedstock for Ironton and Augusta annually. This is from waste streams that would typically end up in landfills or would be incinerated. Our first regional PreP facility in Central Florida will begin operations by the third quarter of this year and will provide supply to our Augusta facility. We have a strong offtake pipeline with 822 million pounds of our ultra pure resin and active discussions. We've added Winpak to our list of leading converters including Aptar and Berry Global.

Our first independent LCA assessment shows Ironton facility is below new fossil fueled, derived polypropylene across both carbon emissions and energy consumption. This is especially significant as this assessment was conducted prior to having any operational data. We expect this data to continue to improve.

Finally, we announced the location of our first facility in Asia and also in South Korea. There's no doubt that 2022 is the year of sustainability from consumer trends and data to companies aggressively making sustainability their priority we're seeing it across the board.

As consumer demand for sustainable products continues to surge people expect that plastic products they use are made from and packaged in a recycled material that will stay out of our oceans and landfills. We know that new plastic production made from the extraction of fossil fuels is the driver of our plastic waste crisis, and consumes too many resources. PureCycle is incredibly well-positioned to not only connect consumers with high quality recycled material, but also to help companies achieve their highest sustainability goals.

We appreciate your time today. And we'll now open it up for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Eric Stine of Craig-Hallum. Your line is open.

Aaron Spychalla

Yes, good morning. It's Aaron Spychalla for Eric. Thanks for taking the questions. Maybe first on the off takes congrats on Winpak and continued progress on the sales pipeline. Can you just maybe talk about the markets that are driving that? Sounds like you're targeting more in auto and medical. And then with the acceleration of contracting, just what steps are needed there to kind of finalize those and move them to volume obligations?

Mike Otworth

Yes. Thanks for that question. I will let Dustin answer. And then David, if you have anything you'd like to add additional, you can add your comments as well. Dustin?

Dustin Olson

I think the first point on the offtake is that we're seeing pretty broad acceptance of the feedstock plus pricing program which has helped us quite a bit across the board. And then as we continue to fill out the capacity for Augusta there's just less and less available capacity available to sell to other folks and that's accelerating the adoption of our contracts in our position for the market. We continue to look for opportunities to grow beyond the primary CPG market because our resin can be used in multiple markets, and there are specific customers inside of each segment that has a high appetite for sustainable material. And so we're starting to reach out to them to say, start to carve that path as well.

Aaron Spychalla

All right and then just maybe a little more on the customer side. I am not looking for anything specific. But just broadly, can you remind us maybe what percentage of a customer's overall PP use a typical agreement might cover? I'd imagine it kind of starts small and there's a lot of opportunity to expand and just what those steps might be as a just continuing to kind of bring capacity online and prove things out?

Mike Otworth

David, would you like to answer that?

David Brenner

Absolutely. So I'd say at a high level, most of our contracts and agreements are somewhere in the 10% range of total demand. As we build in additional capacity and those grow we anticipate that volume mirroring more closely to the Ellen MacArthur Foundation guidelines or targets that are closer to 25% or 50%, by 2025 and 2030.

Aaron Spychalla

All right, thanks for the color, and then just maybe last for me on feedstock. Good to see the 60 million of new LOIs and kind of the pipeline of potential now to 2.2 billion pounds. It seems like you're seeing the most traction and post consumer non-curbside. Can you just talking about the dynamics across those three markets and what that might mean for economics, and just the gating factors we need to see there for kind of further progress on closing those?

Tamsin Etefagh

Sure, this is Tamsin, the Chief Sustainability Officer. And what we found was most of the polypropylene that was out there that's been landfilled are literally post consumer polypropylene just not being aggregated. And so we were finding systems where we could aggregate it. A good example is in the packaging industry, a lot of the resins were stored in Gaylords in the past, and they've been moved into being stored in woven polypropylene bags. A lot of those bags are one time use unfortunately. People lift the bags up and they empty the resin into their hoppers for feeding their production lines. And they do it by cutting the bottom of the bag, and then they can't be reused.

And so we're working with a lot of these processors to bail those bags up and then we can recycle them. So that would be an example of its intended use and we can recycle that polypropylene to go back into either a packaging system again, or back into a woven polypropylene.

And then if you look at what's happened with COVID, there's been a huge consumption of an increase of medical protection with both gowns and masks. And those are made out of polypropylene as well. And there's been a big push by other systems to collect those in separated systems. And so we've been working with those companies to separate that material out and collect those materials where they've been just like a onetime use, used to protect clothing when they go in and visit relatives in the hospitals and things like that, so that we can recycle those as well. And those are considered non woven polypropylene.

And then Dustin mentioned earlier on the call that we found that we can remove elastomers out of certain automotive applications. And right now, the automotive industry does a great job of reclaiming the heavy metals in automobile cars which can become less and less each year as we make more and more plastics but those plastics are highly used polypropylene. But the problem is, is they're compounded with elastomers, and now we know we can remove those. If we can sort the polypropylene out from the other plastics which we find we can -- we can remove the elastomer through our purification process. And so to-date, those have either gone into waste to energy production plants or they've gone as landfill covering events. And so that's a great source of material that's really had no real economical home until us.

Aaron Spychalla

That's great color. Thanks. I'll hop back in the queue.

Operator

Thank you. Our next question comes from Hamzah Mazari of Jefferies. Your line is open.

Hamzah Mazari

Hey, good morning. Thank you. My question is just around the Augusta variable and fixed costs being modeled down 15% to 30% below Ironton. Maybe just walk us through the confidence level in that and maybe any other color as it relates to how those costs are down relative to Ironton as part of yours sort of process of scaling up?

Mike Otworth

Thanks, Hamzah. I will have Dustin answer this question.

Dustin Olson

Yes, thanks. Hamzah, the first point is just comparing market available data of utility providers between the two regions. There's a delta, where Georgia is a lower cost point than Ohio. But then the second point, which you rightly point out is, as we scale into Augusta, we're going to see a lot of, let's say, fixed cost efficiencies associated with that activity. And so both of those components are built into the model.

Hamzah Mazari

Got it. And just my follow up question, I'll turn it over. I think could you, I guess, could you maybe talk about your relationship with some of the large public waste companies? Waste management has unveiled sort of significant CapEx over the next couple of years going to recycling, a lot of that is around automation. I think you just saw Republic announcement, integrated plastics facility where they are not just going to collect the plastics, but also supply recycled plastics to CPG companies. I know those companies don't have your technology. So maybe just talk about your relationship there. Is that an opportunity for feedstock? Is that a competitive threat? Can you work with them? Just the dynamics that would be helpful to understand. Thank you.

Mike Otworth

Go ahead, Tamsin.

Tamsin Etefagh

Absolutely a relationship. So I've dealt with those companies for over 30 years to-date and we definitely have a relationship with them. I will say that most of those companies are very interested in having concrete contracts. They like to play the markets and the ups and downs. But as long as you're competitive in the market, they'll sell to you. And we do feel very strongly that they'll be supplying us. They've all agreed, all the big ones have agreed that they will supply us as long as we're competitive, and we feel like we will be.

So in some cases, they will be able to take in mixed materials, and sort them just like we planned to do down in Augusta, Florida, and we'll work with them on that. And that will probably keep us from wanting to put in a PreP facility within the region. So the announcement of Republic industry is doing one in Vegas it doesn't make sense for us to put one in that region. Having one out in California a lot five hours away makes a lot more sense. But having one over in that desert region of Vegas doesn't make sense when they could supply a segregated material. But with that, there's still going to be contamination. There is still contamination and all segregated bales that come in from mechanical recycling anywhere from 20% to 30% contamination. And so we'll still have the technology to remove those things. And we'll still make a higher grade material. But as far as the waste management and the Republic industries and the waste connections of the world, yes, we have, I feel very strong relationships with all of them.

Larry Somma

Thanks, Tamsin. And I would add as we look at our relationship with generators of plastic waste and the role of the existing waste management companies, we think about the compelling value propositions for all of us. And as we through PureZero program taught to large venues that are generating a lot of waste they're showing interest in switching over to polypropylene, for all of the concessions plastic in a way that they can create a true circular economy.

And for a waste handler who has a relationship with us, that actually creates a differentiator for them, because they can say to the venue, hey, we have a relationship with PureCycle we can work with them to route all the plastic waves coming from this venue. They can purify it. Can go to converters, and go right back into new Nacho trays and new cup beer cups, etc. So it is an opportunity for the waste haulers to actually differentiate themselves from their competitors by virtue of their participation in this creation of a true circular economy for plastic waste. And we're seeing a lot of enthusiasm for that.

David Brenner

Yes. And maybe one last point Hamzah is just that as we contemplate our PreP strategy, we are not singularly focused on sort plus wash. We are going to build the PreP facilities with optionality. So we can either receive the one to seven, the three to seven, the low quality fives or we can receive the high quality fives that don't require sort and we can just route to wash, or we can receive the washed flake as discussed with the Vegas opportunity with Republic. We could receive that directly into the purification facility. So what we're trying to build as an ecosystem of high optionality because we know that many people will begin investing in this over time and we want to be prepared to take the polypropylene from whoever has it.

Hamzah Mazari

Got it. That's very helpful. Thank you so much.

Operator

Thank you. Our next question comes from Hassan Ahmed of Alembic Global. Your line is open.

Hassan Ahmed

Morning, guys. Question around, feedstock again. Sorry to be a bit boring. But look, I mean, the more work I've done on you guys, and the more I've talked to sort of people in the industry and the like, the more comfortable I am with the technology you guys have, the more comfortable I am on the demand side of things. I mean, that's obviously a no-brainer. The more comfortable I am with the scaler process. I think all of those things, you guys have a really good handle on and they will work, at least in my mind. The real question, really, that I have is around feedstock. I mean, everyone is trying to go and find that raw material at a reasonable price as well. And I think that as you sort of march towards your billion pounds of production, that may get more and more strained. So I guess my strategy is in you guys are very eloquently sort of talked about the strategy over there. But the question is, will you particularly as you start going into these overseas markets, will you at some stage actually get into the collection game yourself just to secure that feedstock supply, particularly as like I said it gets more and more sort of constrained?

Mike Otworth

Yes. So they're, I guess, two components to your question, kind of the situation with regard to what we're doing today in North America, and then what you're asking about going to markets outside the U.S. As we look at the U.S. it's really kind of the opportunity that PureCycle represents to suppliers for feedstock is rather unique. In that one world, we're going to be a large volume buyer of feedstock and we're going to be doing it consistently over time.

So as we first started talking to suppliers, the feedstock across the board, we saw the surprise, when we talked about volume, and we talked about consistency. And we talked about the breadth of feedstocks that we can accept. What many of these suppliers are used to is having one, being a very intermittent in terms of their buyers. They are here this month, and they're gone next month. And also, they're used to having a large percentage of what they ship being rejected by the buyers because of the fact they're supplying to mechanical recycling, which has severe limitations and what they can use. And even if they're starting to supply to chemical recyclers, there can be severe limitations in terms of what we can, what they can use.

And in our case, if it's polypropylene, it generally will work for us. So that's a significant change, that that makes us a kind of a preferred place, a preferred customer in the world of purchasers of waste stream polypropylene. But beyond the U.S. look, it's a complicated environment and we spend a huge amount of time on global feedstock strategy. And we spend a lot of time on identifying partners who can help work with us. And as you know, the vast majority of waste stream polypropylene that's ending up in the environment and ending up in our oceans is not coming from North America.

It's coming from other geographies where a lot of it is leaking out and there's a very keen desire to aggregate that plastic waste and have it to be recycled. But the economics need to work for that that really happened. And so that's why we talk to a lot of our partners about how do we make it work. And I think Dustin wanted to make a couple of comments. I'll let him weigh in here as well. But we think very carefully about all this. There's a lot of waste stream polypropylene out there. We just have to have a very thoughtful strategy about how we work in the existing ecosystem, not only in the U.S. but globally to make sure that we're doing everything possible to make sure it gets in our hands.

Dustin Olson

Yes, I mean, I guess the only add to that, I mean, I totally agree with Mike says and the idea of using polypropylene is highly valuable to the market. I mean, polypropylene is lighter. It has lower density, it's got more adaptability. It can be used in lots of applications. And so generally speaking, people love using polypropylene. The issue in the past it's been it's recyclability has been limited. And so that's an area where we can fix that. And then it ultimately comes down to the economics, who has the best economics to buy the feed, and to upgrade the feed. I think ultimately, that comes down to product quality, which we feel very confident about.

With respect to your question on overseas. Look we do not intend to get into the waste collection business, per se, overseas. And that's why we choose our partners so carefully. We expect our partners to bring that local expertise to the game and then we bring the rest. And I will tell you that as we talk to many people around the world, with respect to different opportunities for partnership, they're all learning about the waste game, and what can they do to get into it and how to sort and how to wash and different applications work.

And so we bring actually a level of expertise to the discussion, that's very helpful for them. And then between the two parties, we execute and then ultimately, we bring the purification to take that feedstock that we've worked together on. So it's for sure a local game when it comes to waste and the partnerships that we choose in the region are very important.

Hassan Ahmed

Very helpful color. As a follow up now I mean could you provide any sort of update on the SEC investigation? I kind of find it a bit ironic and comical that, this is a short seller that sort of came up with that ragtag sort of pieces around you guys themselves seem to be under SEC investigation. So any updates there would be helpful.

Hassan Ahmed

As a follow up now, I mean could you provide any sort of update SEC investigation represents all the material developments there. To the extent it changes in the future we'll update the market at that time.

Hassan Ahmed

Understood. Thank you, guys.

Operator

Thank you. Our next question comes from Noah Kaye of Oppenheimer. Your line is open.

Noah Kaye

Good morning. Thanks for taking the question. Look, just put this in a big context of the global energy crisis that we're experiencing right now. I mean, upstream crude oil and other feedstock prices are multi year highs, margins for your traditional PE and PP producers have to be really compressed. So I guess my first question is, at a strategic level how do you see this impacting the business and to what extent are you getting any kind of expanded dialogue or interest from some of the traditional players in the resin markets?

Dustin Olson

Yes. Thanks. Thanks Noah for that question. I mean, we're keenly aware of what's happening in the world. And we're watching the oil price like everybody else, as well as the spread between PP oil and in our case, the number five bale. And so as we watch that, I think there's a couple of points. A) The spread between polypropylene and bale price is a key indicator for our overall performance. I think we showed that in the package today. So I think that can be indicative of how to answer that question.

But the second is, with respect to our feedstock plus pricing program, that's really an indication of the commitment to our product quality and what we bring to the customer. That's why that's been successful in the market. And that ultimately insulates us from a lot of the swings that we're seeing across the market. That said obviously utility prices and variable cost implications we're watching that also. But we don't see that as a major needle mover on our overall economics at this point.

Noah Kaye

Thanks. Dustin I think during the prepared remarks, you mentioned that y your own estimates, it saves 6 to 12 months off of the potential time to stand up these plants. Keeping them on schedule, just through sort of the modular approach. I wonder if you could A, expand on that a little bit. explain for us, how exactly you've been somewhat inoculated against risks of delays and then B) Talk about in an environment of escalating base materials prices and other supply constraints, what your expectations are for CapEx intensity at these facilities?

Mike Otworth

Thanks, Noah. I'm just going to add one comment, and then I'll let maybe Dustin follow up. But I would say that Dustin very smartly starting almost immediately after he began with the company, started looking at who the critical suppliers were going to be for critical components for us. Given supply chain challenges in a lot of cases, there's a lot more global demand for some of these products than there is supply. And so these suppliers actually had to make strategic decisions about who they were going to sell to, based on their belief in those companies and what the potential growth would be in the future.

And Dustin actually got on planes and went and visited with a lot of these people that can sell them on the fact that although we may not be a major customer of theirs today, we're well-positioned to become an important force in plastics going forward. And based on his success in selling that vision to them, it really mitigated our risk significantly, because they started to buy in and started to move up in their schedules, their intended supply of major components to us.

So this was a very smart move that Dustin decided to devote time to. And so we don't know what's going to happen in the future that could further impact the supply chain in a negative way. But at least now with many of these critical components, the suppliers view us as important and valuable customers who deserve serious consideration when they look at our order list and how these orders get placed and filled?

Dustin Olson

Yes. Thanks. Thanks for that, Mike. I would say also, in addition to that, Noah, with respect to the 6 to 12 months off of the construction time, that's a comment specific to Ironton. We are not saying that we're taking 6 to 12 months off of the Augusta build. We expect some, let's say scheduled contraction in the Augusta timeline, which we've already modeled in but not to the extent of 6 to 12 months. The reason that Ironton 6 to 12 months, is really a function of our decision to invest in the Gulfspan construction site in Beaumont.

That facility allows us to build multiple modules at the same time and also at straight time. So it doesn't incur a lot of extra costs to do what we need to do to raise the schedule or to preserve the schedule, and we have space to do what we want to do there. But I would say that the bigger reason that we're able to hold Gulfspan is clearly an important component to holding schedule.

But I would say another important component is the creativity that's coming from our team and our strategic partnerships. I mean there are just countless stories of times where we're faced with a potential delay, and our team in collaboration with our key suppliers like KMPS, [indiscernible] Emerson, Gulfspan that these folks that they come to the table and they work with us. KraussMaffei is another, they come to the table. They work with us to help solve the problem. And I think that our scheduled contraction is also strongly represented because of the partnerships that we've chosen to create to build this company.

Noah Kaye

Great. Thanks very much.

Operator

Thank you. Our next question comes from Gerry Sweeney of ROTH Capital. Your line is open.

Gerry Sweeney

Hi, good morning. Thanks for taking my call. I did have some more nuanced feedstock questions, but I'll save that for the follow up because I think people are tired of those. But on the letter of non objection, it sounds like a broadening the scope of that letter. But do you have a timeline on maybe next steps when we can see some more information on that or at least the C through G being approved or potentially approved?

Mike Otworth

Yes. Thanks Gerry. David, would you take that question, please?

David Brenner

Absolutely Mike. So from our standpoint, there's not a definitive timeline on when we'll hear back from the FDA. We are hopeful that we'll hear a response in the upcoming weeks and we'll provide an update as soon as we receive that response.

Gerry Sweeney

Got it. Then just a couple quick follow ups. Polypropylene, you're looking at different materials. Does this, in the script you mentioned I think the elastomers in the automotive segment end market. Does this change any of the economic or is this require additional investment obviously involves searching for the best price feedstock or the most readily be available feedstock, but this does this acquire more investment, different economics, etc?

Dustin Olson

So thanks for the question there. With respect to the PreP facilities. There is let's say a small increment of increased CapEx required to add sort to the overall facility. But quite frankly, as we evaluate the economics of those operations on a standalone basis in many cases, the economics are very positive because you're starting to throw off other co-products from the PreP that has value in the market as the desire for recycled material increases. So from increased CapEx, we're not concerned about that because they have standalone economics. With respect to –

Gerry Sweeney

Sure.

Dustin Olson

No, it's okay. With respect to the co-products that we're creating off of the purification facility. Now this is a real indication of the appetite that the industry has for sustainable materials, because even the two streams off of our plant that we have modeled as a waste stream that would originally go to the landfill we're actually finding people interested in buying that material and putting it into their slate. And so I think that as we broaden our team, get deeper in the bench with respect to our engagement with offtake in the market, I think we're going to find a lot of opportunities where we can continue to upgrade all of the products that come out of PureCycle.

Gerry Sweeney

Two, maybe in a different way just to make sure I understand it. And this was really the gist of the question is not so much the PreP side, but the material going through the filtration process. The yield doesn't change. The material comes out within a certain spec but the waste stream is where some of that off-taker value gets could potentially be captured on some of these other materials. Is that a sort of –

Dustin Olson

Yes. That's a right way to think about it. I mean, in the past, we have always said that there is this concept of around 90% to 92% polypropylene coming into the facility and basically we said that nearly all of that polypropylene was recovered as ultra pure polypropylene resin. Okay? But then what happens with the remaining 8% to 10%? And the way we have modeled it in the past is that would be considered a waste stream and would go to the landfill. But what we're saying today is that those products, the other 8% to 10%, they have value because those are also products created out of waste. They are sustainable and as we introduce those products to the market we are finding pretty good acceptance there. Now we don't have any announcements yet for a sales contracts on those on that side, but we're very optimistic that there's going to be positive value, positive resin revenue generation created off of that 8% to 10% and to the value for what we to think about in terms of those streams, I think that's up in the air at this point and ultimately we'll probably grow overtime.

Gerry Sweeney

Got it. Final question Irontron. It sounded like obviously the world's changing every day. We're seeing it and everybody understands it, but it sounds as though on track completion 3Q my assumption. This is my assumption was that production would have or at least commissioning would start very early fourth quarter. Is that still on track as of today? And am I correct in that assumption? And is that if you have, it's still on track as of today?

Dustin Olson

Yes. No, that's a great question. I mean, we're tracking this literally on a daily, basis and we have a very sophisticated schedule that helps us evaluate the critical path across let's just say many-many different activities. And so the date we were still pretty confident in that we will be commissioning in the fourth quarter. And so our, our goal and our stated goal to the market is that we will be producing pellets in the fourth quarter of this year. With respect to when we mechanically complete or start commissioning or the ramp up time we have a nine month ramp up time planned in the schedule and we think that that's going to provide a nice amount of buffer for us to get our sea legs checked out and get this plant up and running.

Gerry Sweeney

Got it. And this is a tough world right now. I think we all understand that. So I appreciate the update. So thank you.

Mike Otworth

Yes. Thank you.

Operator

Thank you. And the next question comes from Thomas Boyes of Cowen & Company. Your line is open.

Thomas Boyes

Great. Thank you. Most of the questions that have been asked and answered, but just maybe one last one. Last quarter you had announced an investment to increase the percentage of feedstock contaminants that you could process. I was just wondering if you give us a status update there. Thanks.

Mike Otworth

Yes. No, that progress is well underway. It's decided. It's invested. The equipment is let's say on its way and effectively what we have done is we have widened the acceptance level for non-polypropylene contaminants in the feed which basically opens up our aperture to take a wider stretch of feedstock into the plant. And so that project is good. It's on the way and invested in. So as far as I'm concerned, that's water under the bridge. That's waiting for execution later this year.

Thomas Boyes

Excellent. Appreciate it. Thank you.

Operator

Thank you. I'm showing no further questions at this time. I am going to turn the call back over to Mike Otworth for any closing remarks.

Mike Otworth

Thanks everyone for your time. I hope this was helpful. We remain extremely excited about progress. We stay very focused on knocking down the key milestones and doing everything we can to stay on schedule. And you can expect more exciting updates from us in the future.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may now disconnect. Have a great day.

Comments

Sort by

Newest

