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Call Participants

EXECUTIVES

Chris Colbert
Chief Financial Officer

John L. Hopkins
President, CEO & Director

Scott Kozak
Director of Investor Relations

ANALYSTS

Marc Gregory Bianchi
TD Cowen, Research Division
Operator

Good afternoon, and welcome to NuScale's Fourth Quarter and Full Year 2022 Earnings Results Conference Call. Today's call is being recorded. [Operator Instructions] A replay of today's conference will be available and accessible on NuScale's website at ir.nuscalepower.com. The web replay will be available for 30 days following the earnings call. A telephone replay will also be available for 7 days through a registration link, also accessible on NuScale's website.

At this time, for opening remarks, I would like to turn the call over to Scott Kozak, Director of Investor Relations. Please go ahead, Mr. Kozak.

Scott Kozak
Director of Investor Relations

Thanks, operator. Welcome to NuScale's Fourth Quarter and Full Year 2022 Earnings Results Conference Call. With us today are John Hopkins, President and Chief Executive Officer; and Chris Colbert, Chief Financial Officer. On today's call, NuScale will provide an update on its business and discuss financial results. We will then open up the phone lines for questions.

This afternoon, we posted a set of supplemental slides on our Investor Relations website. As reflected in the safe harbor on Slide 2, the information set forth in the presentation discussed during the course of our rooms and the subsequent Q&A session includes forward-looking statements which reflect our current views of existing trends and are subject to a variety of risks and uncertainties. You can find a discussion of our risk factors, which could potentially contribute to such differences in our SEC filings on Form S-1 and Form 10-K.

I'll now turn the call over to John Hopkins, NuScale's President and Chief Executive Officer. John?

John L. Hopkins
President, CEO & Director

Thank you, Scott, and good afternoon, everyone. 2022 was a year of increasing momentum at NuScale as we made important progress toward our mission of helping power the clean energy transition through the development of our safe, innovative and cost-competitive VOYGR SMR power plants. This momentum was evident in the fourth quarter as we delivered on our remaining 3 goals for the year, enabling us to accomplish all 5 of our 2022 milestones, as you can see on Slide 4 of our presentation.

With this progress, we have the ability to deliver NuScale power modules in 2028 to the customer order. Let me walk you through these important development points. First, turning to Slide 5. In December, we secured our second committed customer, Romania's RoPower, with a signing of a contract for Phase I of front-end engineering and design or FEED work. Activities completed during the first phase of the FEED work will define the major site and specific inputs for our VOYGR 6 SMR power plant, which will be deployed at the Doicesti power station in Romania, formerly the site of a coal-fired power plant.

As you may recall, President Biden touted our relationship with RoPower in his remarks at the G7 launch of the Partnership for Global Infrastructure and Investment, where the President committed to help raise $600 billion by 2027 for strategic investments critical to sustainable development and our shared global stability. President Biden noted that NuScale's first-of-its-kind SMR plant will help bring online zero emission [ nuclear ] energy to Europe faster, more cheaply and more efficiently. We couldn't agree more.

At NuScale, we believe that our agreement with RoPower illustrates our VOYGR technology presents a safe, economic and scalable solution, not just for Romania, but as the President mentioned, the broader European region and beyond as countries seek to diversify their energy portfolios and meet climate goals.

Second, moving to Slide 6. We're also pleased to have completed the Standard Plant Design, which I'll refer to as the SPD, ahead of schedule. This important step will help our customers save time, engineering resources and support licensing efforts providing them with a template VOYGR power plant design that
will serve as a starting point for an APC contractor site specific designs. The completed SPD also advances our overall commercial readiness, preparing us for facility construction, equipment procurement and manufacturing of long-lead major engineered plant equipment for the NuScale balance of plant. No other Western SMR developer has advanced this design work this far.

And third, we submitted our second standard design approval application to the U.S. Nuclear Regulatory Commission, or NRC for our VOYGR 6 SMR power plant. This is another indicator of our unparalleled design readiness. No one else in the industry has made the licensing progress that NuScale has achieved to date. The design of this new application features the same fundamental safety case of features approved by the NRC back in 2020, now with a power upgrade to a 77-megawatt module that will support the capacity needs for a wider range of customers as well as improved economics.

The next step is for the NRC to accept the application for review, which I’ll discuss in a moment as part of our plan for 2023. In addition to closing out our 5 goals for 2022 in the quarter, we made other steps readying in the NuScale power module for deployment. As you’ll see on Slide 7, we announced an agreement with Framatome, an international leader in nuclear energy to design fuel handling equipment and fuel storage racks for our VOYGR SMR power plants. These are 2 important design components for the continued development of our plants.

This agreement also speaks to one of the many benefits of the NuScale design. Our technology uses existing and readily available fuel suppliers and supply chain infrastructure. We believe that many of our competitors who are not using light water reactor fuel in technology will have a longer and more challenging path ahead of them. NuScale also took actions in the quarter in line with our ongoing efforts to power the global energy transition.

We are proud to join the Ukraine clean fuel for SMRs pilot, a project we became part of alongside Special Presidential Envoy for Climate, John Kerry, and Ukraine Energy Minister, Herman Halushchenko. This multinational consortium will carry out a first-of-a-kind pilot plant study to assess the production of ammonia and hydrogen from the SMRs using solid oxide electrolysis. Among other ranges, the project seeks to support food and energy security goals in Ukraine.

We also joined a research collaboration with Shell Global Services and others to develop and assess the use of a NuScale VOYGR SMR power plant and supporting clean hydrogen production. Our off-grid capability and site boundary, emergency planning zone or EPZ, which I’ll discuss further, improves the ability to site our technology in close proximity to an industrial facility that is an end user of hydrogen, therefore, eliminating transportation costs. These 2 initiatives and features speak to the many potential industrial use cases of our SMR technology.

Finally, we also have become a signatory of the United Nations 24/7 carbon-free energy compact at COP27, and we urge all of you to consider joining the compact in advance of COP28 in Abu Dhabi. Indeed, our commitment to sustainability is fundamental of NuScale. We leveraged S&P Global sustainability once carbon service to calculate our 2022 emissions related to the climate change impact of Scope 1 direct natural gas emissions and Scope 2, indirect purchase electric emissions. The report is posted on our website and describes our nominal emission footprint, which is consistent with NuScale being a problem-solving technology company looking for a cleaner, brighter future.

Now before I hand the call over to Chris to walk through our financials, I want to speak about 2023 and lay out 5 new objectives for this year, which are on Slide 8. Similar to last year's milestones, these initiatives reflect our laser focus on both growing our business and ensuring readiness to deliver on our customer commitments.

First, we are focused on securing our next 3 committed customers, further diversifying our customer base and building on momentum with a sign-in RoPower and an ongoing work with a carbon-free power project or CFPP. In fact, already this year, we have made important strides with the project as participants recently reaffirmed their continued support for the project in a project's recent Class III cost estimate. As we advance on a path toward planned deployment in 2029, we begin the detailed work necessary to develop a Class II cost estimate for the project to be completed later this year. The Department of Energy, or DOE, has been an important, consistent supporter of NuScale in the CFPP. Going forward, sufficient
funding for the CFPP DOE award in fiscal year 2024 will be critical to maintain proposed schedules, as Chris also will discuss.

Looking ahead, our business development opportunities on Slide 9. There is a growing demand across the globe for solutions that address climate change as well as support enhanced energy security and independence. Nuclear and NuScale's innovative SMR technology fits at the intersection of these 2 issues. These dynamics are driving our expanding customer pipeline, which is a robust, diverse and includes domestic and international partners across both the public and private sectors.

We expect the Inflation Reduction Act or IRA to accelerate these trends in the U.S. as utilities, local governments and industrial companies better understand the benefits the act provides in the time lines they need to fully take advantage of the tax credits available. We believe the potential expiration of some IRA benefits as early as 2032 will increase demand for NuScale SMRs throughout 2023, which projects likely need to begin moving forward in earnest by 2024 to ensure they can maximize their benefits under the IRA.

NuScale's competitive positioning for new business drivers by IRA tax credits was bolstered in the fourth quarter when we received NRC approvals of our emergency planning zone methodology, enabling a significantly smaller site boundary zone in most locations. This approval not only underscores the unparalleled safety of our design but also significantly reduces planned ownership costs and enhances plant siting options from where power is needed the most. For example, our VOYGR SMR power plants can be installed at retired coal facilities near high population zones while other technologies may not. As I mentioned earlier, we are already seeing this benefit confirmed by RoPower who will site their first plant at a retired coal plant site. We're looking forward to sharing our progress on this front in the coming quarters.

For our second milestone in 2023, we'll continue to make progress on advancing the design for key components of our SMR technology. NuScale is maturing the design through approximately 90 equipment packages in a scope of supply. Significant focus areas for this year include the reactor building crane mechanical design, reactive vessel internals, plant protection system in both in equipment integrated design. The completion of these key component designs is critical to our timely transition to the manufacturing and procurement activities that will ensure the delivery of our product on schedule. We are indisputably ahead of peers in this critical respect.

Our third goal for the year, as I mentioned earlier, we submitted our application for standard design approval for SDA to the NRC last year. In 2023, we expect to see the SDA application accepted for review by the NRC. This review is a process by which we can obtain NRC approval for upgraded 77-megawatt design. We are undertaking this effort because NRC approval represents, in our view, a thorough validation of a design in commercial readiness and will, therefore, enhance the commercial prospects of the NuScale VOYGR SMR.

Fourth, we plan to start manufacturing the reactor pressure vessels for our NuScale power modules. As recently announced, we placed our first long lead material order with our partner Doosan and their ability to produce forgings in materials essential in the manufacturing of first NuScale power modules. Commencing the manufacturing of key component marks a significant transition from singing to the execution of our product delivery, further differentiating NuScale from the competition as we are one of a few select SMR providers to have advanced in the manufacturing space. This is one of the more complex pieces of the NPM design. And the manufactured materials will mark important progress in fabricating this key element of our modules.

And finally, our fifth 2023 goal is to secure long-lead material orders for 10 additional NuScale power modules. We’re aiming to have 16 NuScale power modules in operation by 2029 and have already made progress towards 6 of them with our order for the carbon-free power project. Our work to advance our design as well as expand our customer ecosystem, will be critical to ensuring we can meet these objectives.

Taking a step back, these 5 goals for 2023 and the progress we have committed to making against them will demonstrate our continued advancement towards commercialization and meeting the needs of our
customers. We are excited about the year ahead and the tremendous opportunity in front of us. I’m confident that NuScale will continue to build off the progress we made in 2022. Now I will hand it over to Chris to provide our financial update for the quarter and the year as well as share some guidance for 2023.

**Chris Colbert**  
*Chief Financial Officer*

Thank you, John, and hello, everyone. Our financial results are available in our press release and filings so my focus will be our performance drivers. I’ll start by discussing our fourth quarter results found on Slide 11 and touch on 2023 full year. All figures following our fourth quarter 2022 unless I state otherwise.

NuScale ended the year with a cash balance of approximately $268 million. As you would expect, most cash usage is related to operating expenses as we pivot into production and commercialization. R&D increased due to higher professional fees associated with standard plant design completion as well as the increased headcount to support ongoing licensing efforts. CapEx was minimal and again, mostly comprised of software and computer hardware to support R&D, which is consistent with our asset-light model. Offsetting expenses and CapEx was the Department of Energy cost sharing of revenue. Our revenue is limited but growing as we would expect with the company’s current phase of development. As a reminder, at this stage in light of our partnerships, we mainly generate revenue by providing consulting services to customers.

Stepping back and looking at the full year, NuScale's with strong foundation both to transition our business into commercialization phase. When we went public last year, the company raised an additional $342 million. During the year, our cash position was augmented by the exercise of warrants and options that raised a further $29 million. Together, these actions strengthen NuScale's balance sheet and provided the business with considerable financial flexibility to support the advancement of our strategic and operational objectives in 2023 and beyond.

On Slide 12, looking ahead, we provide insight on drivers for higher than previously anticipated cash use in 2023. Please keep in mind that the company with an asset-light model in the early stages of commercialization, like where NuScale is today, investment growth mainly through cost and expenses. We are building our business by investing in R&D, marketing and corporate infrastructure, even though it is not reflected as an asset on our balance sheet. So what we are talking about is investment.

Next, I will briefly describe the key factors driving our expectations for 2023. First, the DOE cost share program. The fiscal year 2022 appropriations available from NuScale are lower than anticipated. Consistent with our DOE award agreement, we have requested an amount in the fiscal year 2024 appropriation to make up for the shortfall in fiscal year 2023 and support our continued participation in the CFPP. As John mentioned, our funding plan rely on cost-share funding provided through a cooperative agreement with the DOE with funding that we have requested.

The second factor is a shifting out of payments to suppliers to fulfill our first customer order, refining the scope and payment terms with our suppliers and shipping out projected spending without impacting our first customer delivery schedule. Because we receive payments from customers for equipment and advance the current cost to procure equipment, we now anticipate a shift out in revenue, costs and associated margin to us on the CFPP. Essentially, we ended up with more favorable payment terms and schedules, which gets passed through to CFPP. We continue to believe that the typical plant economic model, including revenue and margins is valid. This update simply shifts out the CFPP spending profile.

The third factor is an increase in R&D spending to catch up on more deferred from 2022 to 2023, an increase in the cost of planned work and the increased work added to mitigate future execution risk. For 2023, this equates to an anticipated negative cash flow from operations range of $102 million to $142 million.

Before I conclude, I also want to touch on the financial impact of higher inflation in the U.S. and around the world. For NuScale, the most immediate effect is upward pressure on our operating expenses. While unwelcome, we are managing this pressure and have adjusted our projections accordingly. The other
challenge is the impact of inflation on the estimated cost of the VOYGR SMR power plants. As referenced earlier in regard to UAMPS from a financial perspective, we are staying on top of cost estimate changes, communicating these to existing customers and incorporating them to discussions with prospects. Higher projected Levelized Cost of Electricity may impact the decision-making for some customers. But it’s important to bear in mind that this is not happening in a vacuum nor is it a phenomenon unique to NuScale or the nuclear industry. Energy providers and customers in the U.S. and around the world are all experiencing the same pressure. NuScale is confident that our value equation will not be materially disrupted by inflationary forces, and that we will continue to see considerable demand for our modules. Overall, because of the capital we have raised and diligent stewardship of our financial position, we continue to be well positioned to navigate this dynamic environment, meet our near- and longer-term milestones and create value over time. Operator?
Question and Answer

Operator

[Operator Instructions] We'll take our first question today from Marc Bianchi, TD Cowen.

Marc Gregory Bianchi
TD Cowen, Research Division

I want to first ask about the cash update here and just trying to understand the moving pieces. Like how much of a DOE -- what were you expecting? And what are you getting? And kind of what gives you confidence that you’re going to be able to recover that in ’24?

Chris Colbert
Chief Financial Officer

Thank you, Marc. This is Chris Colbert, CFO. So we presented a range for cash flow from operations of $102 million to $142 million to bracket the range that we would expect from the DOE, getting what we request or not getting what we request from them. That's what brackets the range that we're seeing for them.

In terms of the level of confidence, every year, we go through the same drill where there is a request put in. And then we work with our folks explaining what we use the money for in the past, what we would use it for in the future. And then we receive at the end of the year a budget request or an enacted budget. For example, last year, budget request was for $30 million. The final enacted budget was for $165 million. And that's been a very typical sort of evolution through the last several years, where there isn't very much correlation between the President’s budget request and what gets enacted. So we'll continue to monitor this and work through it. And if we have a sense of confidence on how things are moving forward, we'll be certain to update folks. But right now, we're just working with what is the very first step in the process, which is the President's budget request.

Marc Gregory Bianchi
TD Cowen, Research Division

Okay. Great. And the prior outlook was to be free cash flow positive in ’24, I believe. Is that still the expectation because there’s some other stuff going on here, right? The progress payment shifting around, inflation. I’m just wondering, in light of those, are you still anticipating free cash flow in ’24?

Chris Colbert
Chief Financial Officer

We haven’t really forecasted out to 2024 at this point in time, but there’s nothing for us to believe if we continue in the process we’re on in terms of both the customers we have in hand and the customers we want to get in hand this year that, that objective could not be met. But that’s something that will play out through the year, and we’ll update it as we have a better understanding as to both how our markets are developing. And our first customers are moving forward through their process of engaging us on work to move forward with their plants.

Marc Gregory Bianchi
TD Cowen, Research Division

Yes, okay. One thing that hasn’t been discussed that kind of came up with UAMPS latest cost estimate and competitive test was that there was a 80% subscription requirement, I believe, put into the agreement there. So my read on that is basically the project needs to go from, say, 25% subscribed today to 80% by February of 2024 or you could be responsible for reimbursing UAMPS for the cost. Can you maybe talk about the update to the agreement there? And what level of confidence you have in being able to see the subscription levels up to that level?

Chris Colbert
Chief Financial Officer

So I think you got it very well, Marc, so good on reading the report and following through that. But what you stated is actively correct, that would go from 25% to 80%. We'd be liable for potentially reimbursement if they chose to terminate for failure to reach that point. In terms of our confidence of gain at that point, we are working with UAMPS in the carbon-free power project to bring in that additional subscription. And we'll be monitoring that throughout the year as we move forward with them.

The news is that as you saw with them coming forward with 26 or 27 members voting to move forward with the project earlier this year at the $89 per megawatt hour price, that's very much indicative of a market that's changing and tightening in that area. And depending upon those factors going forward, we think that will continue in the Western region, particularly as coal plants continue to retire at a faster pace than expected, as we see people looking to get benefit from the Inflation Reduction Act we're making investments now as opposed to later on.

Marc Gregory Bianchi  
TD Cowen, Research Division

Is it more likely that the increased subscription comes from the existing members increasing their level? Or are there other parties that are more likely? I don't know if it's a power producer that would be looking to take a piece of the project or -- what are the likely candidates there?

Chris Colbert  
Chief Financial Officer

All of the above. But to give you a data point, at one point, the U.S. members had signed on to 250 megawatts of electricity from the project, which could be a proxy of what they need. So they could do that at some point. We're also seeing interest from investor-owned utilities and increasingly, folks that have large energy needs and they need reliability are also interested in it, particularly data centers and the like moving forward. So those are all opportunities that we see that aperture opening, not narrowing and more people becoming interested in it.

Operator

At this time, everyone, there are no further questions. I'll hand the call back to NuScale CEO, John Hopkins, for any additional or closing remarks.

John L. Hopkins  
President, CEO & Director

Thank you, operator. We're the only SMR design certified by the U.S. Nuclear Regulatory Commission. NuScale is well positioned to commercialize and deliver clean energy at scale. NuScale technology is essential to powering the global energy transition. And we are at the forefront of that effort with our work to deliver safe, scalable and reliable carbon-free nuclear power. I could not be prouder of our team for delivering on each and every one of our important goals over the past year. And we appreciate the support of our investors and partners around the world who are enabling us to deliver on the opportunities ahead. I look forward to what we will accomplish together in 2023. I'd like to thank all of you for your interest in NuScale and for participating in our call today. Operator?

Operator

And once again, everyone, that does conclude today's conference. We would like to thank you all for your participation today. You may now disconnect.