

John Henderson

And in terms of the first couple framework agreements, it's logical to assume that at least one or two of these guys is most likely a very big player in the open loop area. I'm assuming it would be logical to expect orders from these guys to filter through as well as part of the third vertical, right?

Sune Mathiesen

Absolutely. We think all the players in the industry will be met with this challenge. The existing open loop systems will have to be converted into closed loop systems, and it opens up this new attractive opportunity for us. It's still early stages, I think China implemented the ban in January, Singapore did it in November last year, it's early stages. But we see a tremendous amount of interest for open loop conversions, and I'm sure it will be a big part of our business in, let's say, the second half of 2019 and 2020.

John Henderson

And maybe a final question, maybe one for Claus. At scale, I think three quarters ago you guys mentioned that the incremental margins on the new Mark 6 product were around 70%. Are you guys still feeling good a couple quarters out as you iron out the kinks with the ramp that the incremental flow through will be along those levels that you mentioned three quarters ago?

Sune Mathiesen

Claus is not on, I'll try and answer that, John. Yes, we feel very positive that we'll see margin improvements as we move forward. As you know, we have a lot of the depreciation in the margins that we are reporting today and as we grow our businesses, and as we grow revenue we're seeing margin improvements alone, for that reason. But also because the more you build the better you get, the lower prices you get from your suppliers, and you will be able to improve your margins that way. That is a continued focus from our side and something we are working on every day.

John Henderson

Great. Congrats on the progress. Thanks.

Sune Mathiesen

Thank you so much.

Operator

Thank you. And the next question comes from Roger Liddell with Clear Harbor Asset Management.

Roger Liddell

Hello, Sune.

Sune Mathiesen

Good morning, Roger.

Roger Liddell

Hi. I realize I don't fully understand the propulsion system, the different propulsion system installations out there, and just help me understand that there are boilers and diesels, and I don't know the mix that you're selling into and they are obviously in different aspects with each. Can you just ballpark what your markets are out there between boilers and diesels?



Sune Mathiesen

Yes. Basically, we are selling into everything diesel, and the only alternative to that is LNG. I would say that probably 95% to 96% of the fleet is diesel currently. We are seeing more and more LNG. We think that maybe the 3% to 4% of the market it is today will grow to about 6% to 7%. But long-term we are addressing 93% to 94% of all vessels.

Roger Liddell

There is an interesting aspect to low sulphur diesel fuel, and perhaps this has been addressed and resolved by the industry, my knowledge may be a little stale. But there have been meaningful questions about the lubricity of diesel fuel when you get into the low sulphur or ultra-low sulphur area, a loss of some of the lubrication quality of the fuel. I don't think it's productive to go any further with that point other than the noted and that could be if the issues aren't resolved, an incentive to go with the higher sulphur fuel and use LiqTech for addressing the other issues. On NOx control I take it that urea or some compound like that is added to what would have been sprayed inside the scrubber and that's what captures the NOx. Is that basically correct?

Sune Mathiesen

Yes. Let me give a little comment on your first comment regarding the low sulphur of fuel. You are absolutely correct, if you change into low sulphur fuel, you will also need to install other lubricants for the engine. And there are not so many lubricants in the low sulphur fuel and that could hurt your engine if you don't do something about it, that's an added cost for the ship owner.

From an environmental perspective, what makes the best sense is really to continue to use the high sulphur fuel and install a scrubber with water treatment, because also the engine efficiency is lower with low sulphur fuel, it has a higher environmental impact actually. You are absolutely correct.

On to the NOx product, what we do today with scrubbers is SOx reduction and a NOx reduction is what we know from passenger diesel cars, trucks and buses, a completely different issue that needs to be addressed. There is significant NOx pollution from shipping industry and we think it will be heavily mandated in the future.

From discussions with our customers, we know that they are looking for good NOx reduction products, and with the experience we have from the automotive industry and the experience we now have with the marine industry, we think we could be quite successful in this market.

Roger Liddell

Finally, is there any other pollutant screens from shipping that your installation can address, as it were, a freebie capability to address other issues?

Sune Mathiesen

Absolutely. The shipping industry is one of the most polluting industries in the world, and we know that it is moving towards a zero emissions industry. There is a lot of focus on it and we think we will see a lot of mandates in the future in this industry.

The other areas that we're looking into NOx reduction, another area we are looking into and we actually just sold the first systems is treatment of gray and black water from ships, and we are also looking into bilgewater treatment systems, which is also a big problem, where you discharge oily water into the sea.



We think all of this will be further mandated in the future, and we think we are ideally positioned to deal with some of these problems.

Roger Liddell

Okay. Thank you.

Sune Mathiesen

Thanks a lot.

Operator

Thank you. Once again, please press star and then one if you would like to ask a question. And the next question comes from Andy Preikschat with Edgebrook Partners. Please go ahead, sir. Your line is open.

Andy Preikschat

This is Andy Preikschat with Edgebrook Partners. Good morning, Sune.

Sune Mathiesen

Good morning.

Andy Preikschat

How are you able to convince the marine scrubber makers to go with your silicon carbide filter versus a high speed centrifuge? I think the cost is about the same. Can you explain technically why it's so much better?

Sune Mathiesen

Yes, the cost is about the same, you are absolutely correct. We offer significant advantages over the centrifuge technology. One, we are less footprint. Two, we have a fully automated system, which means that it has less maintenance. But the most important difference between the two technologies is that we offer a guaranteed output from the systems, a discharge that is guaranteed to be within the discharge limits, and you're not able to get that same guarantee with a centrifuge.

To give you an example, the framework agreement we signed in October last year is with one of the big scrubber manufacturers in the world. They also happen to be one of the largest manufacturers of high speed centrifuges. They have now taken the decision no longer to use the centrifuges but to include filtration in their offering just for this, because they know that they're not able to stay within the discharge limits. I think that proves our point that we have a different technology offering this guaranteed output and security for the ship owner.

Andy Preikschat

Okay. Great. And how many companies are selling centrifuges versus how many companies other than yours are selling the silicon carbide filters?

Sune Mathiesen

If we go back to 2018, we thought we had about 45% market share of the closed loop systems, we think that market share is growing. More and more scrubber manufacturers are seeing the benefits from this, more and more ship owners are seeing the benefits, and my guess is that we are more than 50% market share today.



Andy Preikschat

Are there other companies that offer the silicon carbide filters this year?

Sune Mathiesen

We are still seeing the competition as being high speed centrifuges. That's really what we are competing against in the market.

Andy Preikschat

Okay. Great. In other words, you haven't really seen anyone with a competitive offering in the silicon carbide filter?

Sune Mathiesen

We have seen some small companies try to break in. There will always be somebody who tries to copy what you're doing, but so far we have not seen it very successfully.

Andy Preikschat

Okay. Great. Thank you very much.

Sune Mathiesen

Thank you.

CONCLUSION**Operator**

Thank you. And as there are no more questions at the present time, I would like to turn the floor over to Sune Mathiesen for any closing comments.

Sune Mathiesen

Thank you very much, operator, and thank you, everyone, for joining us today on the call. We look forward to speaking with you again soon, and that will likely be on a conference call in May. Thank you very much. Have a good day.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

