

EuroSite Power Inc. (EUSP) Company Report – September 5, 2015

EuroSite Power installs, owns, and operates Combined Heat & Power (CHP), and cooling systems at smaller industrial and commercial facilities in the United Kingdom. It provides these facilities with clean, reliable power, cooling, heat and hot water without any capital or start-up costs to the customer and at lower costs than charged by conventional energy suppliers.

Although the Company reported a small net loss in the second quarter, it was cash flow positive for the first time in its history thanks to a UK tax incentive of \$625,000 that it received in May. EuroSite Power will continue to receive such incentives annually, at least until 2018.

With a growing number of CHP systems in operation, EuroSite Power gets closer to becoming cash flow positive on a consistent basis. According to the management team, it needs 45 operating units to achieve that feat, while it has 36 contracts signed today. In addition, management expects to sign up several new contracts in the current quarter.

Based on the intrinsic value of EuroSite Power's shares derived from our model, we issue a buy recommendation for the Company with a price target of US\$2.09, which is 198% above today's stock price.



- ❑ By simultaneously generating electricity and useful heat, Combined Heat and Power systems reach an efficiency of greater than 90% while reducing carbon emissions by up to 30% and saving end users about 20% on energy bills.
- ❑ CHP is growing in popularity across Europe. It's widely supported by governments as it is viewed as a key measure to reduce greenhouse gas emissions.
- ❑ The market for small scale CHP units (<500kW) is still relatively young, so there is a vast untapped opportunity in hotels, hospitals, and recreational facilities.
- ❑ EuroSite Power intends to expand its services to mainland Europe as soon as it has established a solid operational CHP fleet in the UK.



THE COMPANY

EuroSite Power Inc. owns and operates clean, On-Site Utility™ systems that produce electricity, hot water, heat and cooling. EuroSite Power has developed an innovative financial solution that provides significant economic and operational benefits to properties, such as healthcare facilities, hotels, multi-family housing facilities, leisure centers, schools, and colleges.

It basically installs, pays, owns, operates and maintains highly efficient low carbon technologies such as natural gas fueled Combined Heat and Power (CHP) units, chillers, and heat pumps. These CHP systems produce electricity from an internal combustion engine that drives a generator, while the heat from the engine and exhaust is recovered and used for heating purposes at the site and to produce hot water.

Because these systems operate at up to 90% efficiency, versus less than 33% for the existing power grid, EuroSite Power is able to sell the produced energy at prices below the existing cost of electricity, heat and hot water.

On-site energy provided by EuroSite Power costs 5% to 15% less than the rate charged by a regular energy provider, saving customers between US\$250,000 and US\$3,250,000 per building over the term of the agreement.

Revenue from energy contracts is recognized when electricity, heat, and chilled water is produced by the systems on-site. Customers are billed monthly by EuroSite Power and benefit from a reduction in their energy bills without the capital costs and risks associated with owning and operating a CHP, or cogeneration, system. Also, by outsourcing the management and financing of an on-site energy facility to EuroSite Power, customers reap the economic advantages without the need to retain specialized in-house staff with skills unrelated to their core business.

The Company reached revenues of \$542,973 in the second quarter, ended June 30, 2015, up more than 30% versus sales of \$416,559 in the comparable period of 2014.

Although the Company still reported a small net loss for the quarter, it was cash flow positive for the first time in its history thanks to a UK tax incentive of \$625,000 that it received in May, 2015. EuroSite Power will continue to receive such incentives annually, at least until 2018 (also see Financials below).

Becoming cash flow positive is an important event, as it will enable the Company to initiate talks with banks to open a line of credit at much more favorable terms than in the past. Because the business is capital intensive, having a line of credit will eliminate, or at least reduce, the need to raise capital through equity finance.



UK map indicating EuroSite Power's 27 operating units.

The proven CHP systems offer the ability to enter into 15-year long contracts, assuring EuroSite Power of a guaranteed, steady income. With each additional unit installed, EuroSite Power edges closer to becoming cash flow and net income positive, making it an ideal time for investors to get on board.

By simultaneously providing electricity, hot water and heat, CHP systems have a positive impact on the environment as they reduce carbon dioxide or CO₂ production. In 2014, for example, the Company's operational fleet reduced UK carbon emissions by 2,047 metric

tonnes, equivalent to taking 431 cars off the road.

Finally, reliability is enhanced with a CHP unit because the customer also remains connected to the electric grid. Therefore, if the grid experiences failure, it won't result in a power outage.

The Company is active in the United Kingdom and aims to expand its services to other parts of Europe. It was founded in 2010 and is headquartered in Waltham, Massachusetts.

Kingfisher Leisure Center

The Company's business model, and benefits for all parties involved, will become even clearer on the basis of a recent agreement.

Late March, 2015, EuroSite Power signed a 15-year contract worth approximately US\$2.41 million with Kingfisher Leisure Center to install a 125 kW CHP system at its facilities in Sudbury, UK.

Kingfisher includes a large leisure pool, sauna, spa, 37-station gym, Power Plate studio, café and a children's play center, making it particularly applicable to CHP as it needs lots of electricity, heat, and hot water.

Estimated savings for the customer are in excess of US\$19,381 per year, with no capital or maintenance costs. During the 15-year contract term, even excluding inflation, Kingfisher is expected to save approximately US\$290,000.



Part of the Kingfisher Leisure Center.

The unit will produce up to 2,742,547 kWh of total energy per annum, while saving up to 234 tonnes of CO₂. This enables Kingfisher to benefit from one or two government incentives that are in place in the UK.

Kingfisher Leisure Center Chief Executive Officer Tracey Loynds said: "Controlling energy costs is of the utmost importance when running a large leisure center. A zero capital solution providing immediate, guaranteed savings means we can keep our costs down, risk free."

EuroSite Power will fund the entire installation, which will cost about US\$238,000, and it foresees to generate revenues of over US\$153,000 per annum from this one deal.

In its business model EuroSite Power foresees an internal rate of return (IRR) on investments of over 20%, which gives a payback of just over four years.

American DG Energy



AMERICAN DG ENERGY

American DG Energy (NYSE MKT: ADGE) can be considered the parent of EuroSite Power. It was founded in 2001, and basically has the same strategy as EuroSite Power, except that it offers its services in the United States.

After American DG Energy was in operation for a few years, it spotted an opportunity to implement its business model in Europe. It did so by founding EuroSite Power.

Today, American DG Energy owns approximately 48% of EuroSite Power's outstanding common stock and it provides management oversight to the Company. Additionally, a number of EuroSite Power shareholders are also shareholders of American DG Energy. American DG Energy also continues to guarantee certain debt obligations of the Company.

Finally, American DG Energy has two affiliated companies, Tecogen Inc. and Ilios Inc., which are the two major equipment suppliers of both American DG Energy and EuroSite Power.

Competition

EuroSite Power competes with utilities that provide electricity, with companies that provide similar services, and with other forms of alternative energy.

Companies that provide similar services include Siemens AG, Honeywell International Inc. and Johnson Controls Inc. In general, these companies seek large, diverse projects that include building lighting and controls, and electricity or cooling. Because of their overhead structures, these companies often solicit large projects rather than individual properties. Because EuroSite Power focusses on much smaller projects for energy supply, these giants are in most cases potential suppliers of equipment and not competitors.

In addition, there are a few local emerging cogeneration developers and contractors that are attempting to offer similar services as EuroSite Power. There's a relatively high barrier to enter the market though as they need to have the proper experience in equipment and technology, installation contracting, equipment maintenance and operation, site economic evaluation, project financing and energy sales plus the capability to cover a broad region.

TECHNOLOGY

Combined Heat and Power

Combined Heat and Power, or cogeneration, is the simultaneous production of two types of energy – electricity and heat – from a single source. Most of EuroSite Power's CHP units utilize a low-cost, mass-produced, internal combustion engine from General Motors, used primarily in light trucks and sport utility vehicles that is modified to run on natural gas.

The engine spins a standard generator to produce electricity, which is used by the

customer, with any additional electricity needed simply being delivered as normal from the grid.

The heat that's generated during this process is captured from the engine's water cooling circuit, the exhaust gases and even the engine oil. A heat exchanger is then connected to the existing heating system to supply space heating, heat domestic hot water, and to provide heat for swimming pools and spas.



Combined Heat and Power systems, such as this one at the Roko Health Club in Portsmouth, use fuel very efficiently, as they provide electricity and heat at a combined efficiency approaching 90%.

With these features, CHP units are ideally suited for organizations such as hotels, leisure centers, fitness clubs, and healthcare facilities, as they can supply nearly all of their hot water needs and simultaneously cover a considerable portion of the facility's electrical demand.

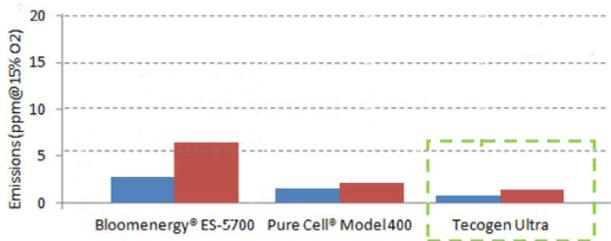
Combined heat and power systems use fuel very efficiently, as it provides electricity and heat at a combined efficiency approaching

90%. This is a significant improvement over the 30 to 35% efficiency of electricity generated by a power station.

Conventional power stations are in effect CHP systems as they also produce electricity and heat. Unfortunately power stations are inherently inefficient as most of the heat is wasted in cooling towers and chimneys. In addition, as power stations are located away from where the electricity is used, further energy is lost simply by transmitting the electricity over high voltage cables and across pylons to our cities and towns.

Next to being more efficient, a CHP unit also provides a greener, lower carbon solution than conventional electricity from a utility provider and heat from a boiler. In compliance with some of the most stringent emission control standards in the United States, Tecogen, the manufacturer of EuroSite Power’s CHP systems, obtained a patent for its Ultra low-emissions technology.

With this technology, Tecogen’s cogeneration products are able to reduce pollutant emission, such as NOx, CO, and VOCs to a level comparable to fuel cells at a much lower cost and higher efficiency. **By having access to Tecogen’s exclusive technology, EuroSite Power separates itself from all of its competitors.**



CHP systems used by EuroSite Power emit significantly less NOx (blue) and CO (red) than other leading systems.

Chillers

EuroSite Power also offers a number of gas-engine driven chillers across a range of outputs from 90kW to 1,400kW. Unlike conventional chillers that use an electric motor to power a compressor, a gas-engine driven chiller uses an internal combustion engine to power the compressor.

The change in how the chiller is powered creates not only high efficiency but also the opportunity to recover the heat from the engine itself. As such a gas-engine driven chiller can provide both chilled water and hot water simultaneously for greater energy efficiency. In effect this becomes a form of cogeneration that’s called Combined Heat and Cooling (CHC).

Although an electric compressor driven chiller is a very efficient system for cooling a building, using a gas-engine to drive the compressor makes it 2.5 times more efficient than the most efficient absorption chiller.



A gas-engine driven chiller can provide both chilled water and hot water simultaneously for even greater energy efficiency.

Heat Pumps

A third system that EuroSite Power offers is high efficiency heat pumps which use a combination of technologies designed to boost efficiency, save money, and reduce impact on the environment. Comprised of a natural gas fueled hot water heater, the heat pump systems combine traditional boiler technology with the power of the heat pump to make a dramatic leap in heating efficiency.

This clean technology equipment extracts thermal energy from the atmosphere and uses a cutting edge natural gas fueled engine to “pump” this heat to useful temperatures. The synergy of advanced heat pump and engine technology results in twice the efficiency of a gas fired boiler.

For locations with substantial hot water requirements the cost savings and

environmental impact is significant, reducing the carbon footprint with an average of 50% in greenhouse gas emissions.

THE MARKET

The delivery of energy services to commercial and residential customers has evolved over many decades into an inefficient and increasingly unreliable structure. Power for lighting, air conditioning, refrigeration, communications and computing comes almost exclusively from centralized power plants serving users through a complex grid of transmission and distribution lines and substations.

Even with continuous improvements in central station generation and transmission technologies, today's power industry discharges to the environment roughly twice as much heat as the amount of electrical energy delivered to end-users. Since coal accounts for a large part of electric power generation, these inefficiencies are a major contributor to rising atmospheric CO2 emissions.

Most thermal energy for space heating and hot water services is produced by on-site boilers and furnaces that burn either natural gas or petroleum distillate fuels. The separation of thermal and electrical energy supply services has persisted despite a general recognition that CHP is significantly more energy efficient than central generation of electricity only.

While CHP systems have been used in pulp and paper mills for years – the heat recovered is used to process steam or drying duties – the technology has yet to reach critical mass across all industries. This is due, in part, to the long-established monopoly-like structure of the regulated utility industry. Also, the technologies previously available for small on-site cogeneration systems were incapable of delivering the reliability, cost and environmental performance necessary to displace, or even substantially modify the established power industry structure.

This has radically changed in recent years due to reduced reliability of the utility grid,

increasing cost pressures experienced by energy users, advances in new, low-cost technologies, and favorable legislation.

As a result, Combined Heat and Power systems are growing in popularity across Europe. By simultaneously generating electricity and useful heat, CHP systems have the capability of reducing carbon emissions by up to 30% and saving end users about 20% on energy bills.



The Syon Park Waldorf Astoria in London was recently equipped with a 100kWe CHP unit.

Because the market for small CHP units – less than 500kW – is still relatively young, there are plenty of opportunities in hospitals, hotels, schools, recreational facilities, etc.

A study, conducted by American DG Energy in 2010 analyzed the entire European market, and particularly focused on the United Kingdom, Spain and Belgium as the primary markets. The study estimated that there were over 13,700 potential sites in those three countries providing a US\$900 million annual electricity market plus a US\$600 million heat and hot water energy market, for a combined market potential of US\$1.5 billion.

European Expansion

Although EuroSite Power is currently only active in the United Kingdom, it certainly

recognizes the opportunity to expand its services to mainland Europe. It most likely will do so when it has a solid operational CHP fleet in the UK.

When looking for expansion options, the first thing to look for is the so-called Spark Spread. The Spark Spread stands for the ratio between the price charged for electricity and the price charged for the fuel used to generate that electricity, which in EuroSite Power's case is natural gas.

So in countries where the Spark Spread is high, the commercial viability for Combined Heat and Power is good.

Country	Spark Spread
Romania	3.53
Ireland	3.46
Italy	3.13
Slovakia	3.10
Turkey	3.05
Latvia	2.71
Estonia	2.34
Lithuania	2.31
Poland	2.10
Germany	2.07

Top 10 European Spark Spreads. Source: Company Presentation.

Note that United Kingdom is intentionally not included in the table above, as it lists the countries in which EuroSite Power could potentially start offering its services.

The second condition to look for when expanding into mainland Europe, is the amount of government support for CHP technologies.

So finding countries with a high Spark Spread and an attractive incentive scheme is key for the Company's expansion in Europe.

Incentives

CHP is already widely supported by governments in the European Union with many forms of government assistance provided to promote its use.

In the European Union countries, CHP is viewed as a key measure to enable achievement of target reductions in

greenhouse gas emissions. Legislation forcing companies to reduce their carbon footprint is having a large impact on CHP sales; and there are also planning laws which force new building owners to provide at least 10% of their power supply from renewable sources (see Recent Events).

ENHANCED CAPITAL ALLOWANCE

Enhanced Capital Allowances (ECAs) are a straightforward way for a business to improve its cash flow through accelerated tax relief. The ECA scheme for Energy Saving Technologies encourages businesses to invest in energy-saving plant or machinery specified on the Energy Technology List which is managed by the Carbon Trust on behalf of the UK Government.

The ECA scheme allows businesses to write off the whole cost of the equipment against taxable profits in the year of purchase. This can provide a cash flow boost and an incentive to invest in energy-saving equipment which normally carries a price premium when compared to less efficient alternatives.

So if a business pays income tax at 20%, every US\$10,000 spent on qualifying equipment would reduce its tax bill in the year of purchase by US\$2,000.

In the European Union countries, CHP is viewed as a key measure to enable achievement of target reductions in greenhouse gas emissions. Legislation forcing companies to reduce their carbon footprint is having a large impact on CHP sales; and there are also planning laws which force new building owners to provide at least 10% of their power supply from renewable sources (see Recent Events).

In the UK, EuroSite Power is already enjoying a government incentive related to the energy efficiency of its equipment. Enhanced Capital Allowance (ECA) allows customers to avoid certain taxes associated with CO2 emissions and energy use. Part of this avoided cost is passed onto the Company in the form of revenue.

In May 2015, EuroSite Power received its initial ECA funds for the years 2012 and 2013 in the amount of approximately US\$625,000. The tax break currently runs through the end of tax year 2018. So EuroSite Power expects to continue to benefit from Enhanced Capital Allowances at least through the end of April 2018.

RECENT EVENTS

First CHP Unit in New Leisure Center

In July 2015, EuroSite Power signed an agreement worth approximately US\$1.97 million with Stevenage Leisure Limited to provide a solution for the new Flitwick Leisure Centre currently under construction in Flitwick Bedfordshire, UK.

In a first for EuroSite Power, a 100kW Combined Heat and Power system will be installed as part of a new build project. In delivering a CHP in this way, EuroSite Power is helping both its customer and the building's developer, Central Bedfordshire Council to achieve the Target CO2 Emissions Rate (TER) defined by Part L2A of the Building Regulations 2010 in England and Wales. These regulations specifically require building designers to consider the technical, environmental and economic feasibility of using high-efficiency alternative heating systems including CHP as part of their design in order to meet the TER.

Equipment	100kW CHP System
Initial EUSP Investment	US\$212,000
Yearly Revenue	US\$129,000
Term of Contract	15 years
Total Revenue	US\$2,716,500
Gross Margins	US\$46,000
Total Gross Margins	US\$983,000
EUSP Payback	4.4 years
EUSP IRR	20.50%

EuroSite Power recurring revenue model. The above example is a contracted and operating project. Note that 15 year figures include 5% annual energy price inflation.

Under the terms of the 15-year agreement, a highly efficient CHP system will be funded, owned and operated by EuroSite Power at the leisure center. Flitwick will then buy the

energy produced from EuroSite Power at a guaranteed lower rate than if it were to buy directly from the grid.

The 100kW CHP system will produce up to 1,373,787 kWh of total energy per annum, while saving up to 249 tonnes of CO2. The facility's annual energy costs savings are estimated to be over US\$25,600, with no capital or maintenance costs, thanks to EuroSite Power's CHP unit.

FINANCIALS

Revenues in the second quarter of 2015 increased considerably mainly because there were more units in operation compared with last year. The net loss for the second quarter of 2015 was 254,789, or \$0.00 per share, a reduction of 28% compared with the net loss of \$353,471, or \$0.01 per share, in the same period last year.

Gross margins were 24.1% in the second quarter of 2015 compared to 22.1% in the 2014 period. The gross margin improvement was primarily due to the availability and efficiency improvements of the operational CHP fleet (also see Solid Margin Growth below).

Net sales for the six months ended June 30, 2015 were \$1,091,027, compared to \$848,743 in the same period in 2014, an increase of 28%. Net loss for the six months ended June 30, 2015 was \$685,186, or \$0.01 per share, compared to \$1,388,140, or \$0.02 per share, in last year's period, a 50% reduction in net loss.

The Company achieved non-GAAP cash inflows of \$512,466 for the second quarter of 2015 and \$213,479 for the first six months of 2015. This includes the collection of UK energy tax incentives.

Note that in May 2015, EuroSite Power received its initial Enhanced Capital Allowance (ECA) funds for the years 2012 and 2013 in the amount of approximately US\$625,000. ECA allows operators like EuroSite Power to receive enhanced tax breaks when investing in specific technologies that deliver reduced CO2 emission and energy efficiency. The tax

break currently runs through the end of tax year 2018. So EuroSite Power expects to continue to benefit from Enhanced Capital Allowances at least through the end of April 2018.

Amounts in US\$000's	06/30/15	06/30/14
Net Sales	543	417
Cost of Sales	509	397
Operating Expenses	281	381
Loss From Operations	247	361
Interest Income (Expense)	(10)	8
Net Loss	255	353
Diluted Shares Outs.	65,747	56,747
Diluted EPS	(0.00)	(0.01)
Most important income statement data for the quarters ending June 30, 2015 and June 30, 2014. Source: Company Filing		

Also noteworthy is the decline in operating expenses during the quarter from \$381,268 in 2014 to \$280,865 in the second quarter of 2015, a reduction of 26%.

During the second quarter, EuroSite Power brought two additional CHP systems in operation. In total, the Company now has 27 units up and running, totaling 2,705kW of installed capacity. At the end of the second quarter, there was a backlog of 9 units, for an additional 909kW installed capacity. The total revenue that the Company aims to generate from these 36 On-Site Utility™ agreements, is approximately \$101,120,600.

In order for EuroSite Power to reach positive cash flow without the benefit of ECA funds, it needs about 45 operating units.

Paul Hamblyn in a Smallcaps Investment Research interview commented: "To go from 36 to 45 is not too much of a leap and that's why we are very confident that we can achieve becoming cash flow positive within the short term. Within our current pipeline, we have about 68 so-called hot opportunities, that is parties that we are actively negotiating with. In our much broader pipeline, there are over 1,300 potential clients. So that certainly puts our target of 45 in perspective."

Management even expects to sign up several new contracts in the current quarter. Some

potential contracts could be very lucrative for EuroSite Power. For example, it's negotiating with a major private healthcare provider to install CHP units at a large number of hospitals and health clubs. The Company is also talking with a mid-sized hotel group in the UK that has 28 properties. Decision points are expected before the end of the year.

Solid Margin Growth

EuroSite Power's gross margin target is 35%. Although that's still a long way from the 24.1% it achieved in the second quarter of this year, the Company is implementing a number of measures to reach that goal.

EuroSite Power continues to work hard to increase the availability and efficiency of its operational fleet, as it helps to drive up the Company's margins. For example, all units will be receiving a new exhaust gas heat exchanger and trials have started to replace the mechanically timed ignition systems on the CHP units with a new electronic ignition system.

A CHP unit's availability, or up-time, can never reach 100%. Sometimes the equipment fails, it needs maintenance, or it might even be temporarily shut down because the electricity tariff from the grid is too low at certain times of the day or year to make sufficient margins.

EuroSite Power's fleet availability has seen some dramatic improvements in the first part of the year. In January 2015, the average availability was 71%. After conducting some detailed work, the availability reached 81% in the second quarter.

Efficiency, on the other hand, measures how much of a unit's input fuel is converted to energy which can then be sold to the customer. In the second quarter the average efficiency was 78%, compared with 74% in the same period last year. In the first quarter of 2015, the average efficiency was even higher, but that's logical because in the winter there's more need for thermal energy than during the spring and summer.

In addition, EuroSite Power also aims to improve its margins as of the fourth quarter

2015, as it will begin purchasing the natural gas, on which all CHP units run, at a much cheaper rate. Currently each customer buys gas from a gas supplier and EuroSite Power pays the exact same amount to the customer.

Because the Company now has 27 operational units, the amount of gas that all these units combined now use is large enough for EuroSite Power to go directly to a gas supplier to negotiate a much lower tariff. It's basically the difference between buying at retail price versus at wholesale price. This deal has the potential to considerably improve the Company's margins.

Balance Sheet As Of June 30, 2015

As EuroSite Power develops, installs, and owns the energy-producing equipment at its customer's sites, its business model is capital intensive. So as the Company continues to add more energy systems, its cash requirements will also increase.

The Company finished the first quarter of 2015 with approximately US\$2 million in cash. However, because EuroSite Power is getting closer towards being cash flow positive, the Company is confident that its existing cash, future cash flow from operations, and its ECA tax incentives will be sufficient to meet its current working capital requirements.

In addition, the Company has proven in its recent history that it's able to finance its growth.

On April 15, April 24, May 20 and June 9, 2014, the Company entered into a subscriptions agreements with European investors, American DG Energy, and John Hatsopoulos, the chairman of the Company's Board of Directors, for the sale of US\$1,450,000 in aggregate principal amount of 4% Senior Convertible Notes due 2018. In October 2014, the notes were cancelled and the holders were issued shares of common stock at a conversion price of US\$.50 per share.

EuroSite Power also obtained a five year, \$3 million loan from John Hatsopoulos. Also, during the final quarter of 2014 an additional

US\$3.0 million was secured through a commitment and a placement of common stock.

Amounts in US\$000's	06/30/15	12/31/14
Cash and Cash Eq.	2,187	3,777
Accounts Receivable	181	153
UK Tax Incentive Receivable	-	649
Total Current Assets	2,576	4,784
Property & equipment	6,996	6,349
Total Assets	9,586	11,150
Accounts Payable	383	338
Note Payable	2,000	-
Total Current Liabilities	2,582	468
Convertible Debentures	2,585	2,633
Note Payable	-	3,000
Total Liabilities	5,166	6,101
Total Stockholder Equity	4,420	5,049
Most important balance sheet data for the periods ending June 30, 2015 and December 31, 2014. Source: Company Filing		

In addition, early discussions have started with several banks to obtain a line of credit. There's no rush though, as EuroSite Power still has enough cash. Of course, if one of the larger contracts, described above, are awarded to the Company, then the line of credit would be welcome.

OUTLOOK & VALUATION

More and more hotels, leisure centers, and fitness clubs are seeking energy- and environmentally friendly solutions for their electricity, hot water, heat and cooling needs. Because capital budgets have shrunk or disappeared, EuroSite Power's On-Site Utility™ approach, requiring no customer capital, fits today's market needs very well.

EuroSite Power truly has a compelling offer for potential clients, as it takes full responsibility for all expenses, from the cost to install a unit, gas to run it, through to maintenance. There is no impact on a customer's overhead and no additional staff required.

The customer simply has to pay for the generated energy, which is guaranteed to be

cheaper than the displaced energy from the grid. In addition, while saving money, EuroSite Power's systems help to conserve energy, reduce emissions and improve the environment.

Customers are also concerned about electricity prices that are expected to increase significantly in Europe in the coming years and about potential power cuts, as there is a narrowing between generation capacity and demand for the first time ever. This makes CHP units even more attractive as they can operate independently of the grid.

As a bonus, significant incentives, rebates and support are available for the installation and operation of CHP systems in Europe, as government policy in Europe favors energy-efficient and environmentally friendly technologies and businesses. In May, EuroSite Power received over US\$625,000 as a UK tax incentive.

Thanks to the UK tax incentive EuroSite Power was cash flow positive for the first time in its history. This should enable the Company to get a line of credit at a competitive rate.

While the competition is focused on larger systems, both in footprint size and in kilowatts, EuroSite Power's 100kW CHP system is small enough to fit into smaller buildings and has sufficient energy production. In addition, The Company is able to distinguish itself from its competitors thanks to its exclusive access to high efficiency water heater components introduced by Ilios and the unique patented low emissions technology developed by Tecogen.

With a growing number of CHP systems in operation, EuroSite Power gets closer to becoming cash flow positive. According to the management team, it needs 45 operating units to achieve that feat, while it has 36 contracts signed today.

Once the Company is cash flow positive, it will more than likely remain so, as it closes long-term contracts that provide a predictable and reliable income.

It continues to attract new customers and has plenty of room to grow in a European market that's becoming more and more aware of the technology's significant cost savings and environmental benefits.

In addition, operating margins are set to continue improving in the coming months. We also expect a great deal from the negotiations to attract one gas supplier for all CHP units.

Moreover, the Company is financially backed by its parent American DG Energy and its founders Dr. John and Dr. George Hatsopoulos, the founders of Thermo Electron Corporation which is now Thermo Fisher Scientific (NYSE: TMO), a US\$52 billion company.

Valuation

Given the still emerging nature of EuroSite Power's earnings, a multiple-based valuation is challenging. Instead, we apply a Discounted Cash Flow (DCF) model.

Based on our estimate of 78 million shares outstanding, the intrinsic value of EuroSite Power's shares derived from our model is US\$2.09.

Based on these numbers, we issue a buy recommendation for EuroSite Power Inc. with a price target of US\$2.09, which is 198% above today's stock price.

SHARE DATA & OWNERSHIP

As of August 13, 2015, EuroSite Power had 65,747,100 common shares outstanding.

In addition, the Company has 3 million warrants outstanding with an exercise price of US\$0.60 and 4.3 million options mostly with an exercise price of US\$0.90. Finally, EuroSite Power has 4 million convertible debt, which is convertible at US\$0.60 per share.

The principal owners of the Company's common stock are American DG Energy (48.0%), RBC Holdings (12.7%), Nettleson Enterprise (9.4%), John Hatsopoulos (4.7%), and Joan Giacinti (2.6%).

Note that EuroSite Power and American DG Energy are affiliated companies by virtue of common ownership and leadership. Specifically, as of December 31, 2014, John N. Hatsopoulos who is the Chairman of the Company is also the Co-Chief Executive Officer and a director of American DG Energy and holds 9.3% of the latter's common stock.

MANAGEMENT

▣ **DR. JOHN N. HATSOPOULOS - CHAIRMAN OF THE BOARD**

Next to being Chairman of the Board at EuroSite Power, Dr. Hatsopoulos is also Co-Chief Executive Officer of American DG Energy. In addition, he is Chairman of the Board of Glenrose Instruments Inc. and Co-Chief Executive Officer of Tecogen Inc. Dr. Hatsopoulos was the President, Chief Financial Officer and Vice Chairman of the Board of Thermo Electron Corporation which is now Thermo Fisher Scientific (NYSE:TMO). He is a member of the Board of Directors of TEI Biosciences Inc., Ilios Inc., and a former "Member of the Corporation" for Northeastern University.

▣ **DR. ELIAS SAMARAS - CHIEF EXECUTIVE OFFICER**

Dr. Samaras is the founder, president and managing director of Digital Security Technologies S.A. He was also the founder and president of Plefsis Information Systems S.A. and City Messengers. Dr. Samaras holds

a Master of Science degree from MIT, a Doctor of Philosophy from Columbia University in New York, where he was also a professor for several years and an OPM from Harvard Business School.

▣ **PAUL HAMBLYN - MANAGING DIRECTOR**

Mr. Hamblyn is Managing Director of EuroSite Power Limited. He is also a Council Member of the Energy Services and Technology Association (ESTA). Prior to joining EuroSite Power, Mr. Hamblyn was Head of Energy Services for Corona Energy, a major B2B gas supplier, where he directed the creation of their energy services offer. Mr. Hamblyn previously held a series of positions with the ENER-G Group including 3 years as the Managing Director of ENER-G Efficiency, a company he took from a simple idea to become a leading provider of energy management solutions based on BEMS technology.

▣ **BONNIE BROWN - CHIEF FINANCIAL OFFICER**

Ms. Brown is a senior level executive with over 20 years of hands-on experience in finance, management, tax, information systems and business leadership. She earned a B.S. in Accountancy from Bentley College, a M.S. in Computer Information Systems from Boston University, and is a Chartered Public Accountant (CPA).

ANNUAL INCOME STATEMENT FY 2012 – 6M 2015

All numbers in thousands

PERIOD ENDING	FY 2012	FY 2013	FY 2014	6M 2015
Total Revenue	81	839	1,578	1,091
Cost of Revenue	70	763	1,799	1,014
Gross Profit or (Loss)	11	76	(221)	77
Operating Expenses				
General & Administrative	1,088	964	877	434
Selling	609	522	492	236
Engineering	94	157	112	74
Total Operating Expenses	1,790	1,644	1,481	744
Operating Income or (Loss)	(1,779)	(1,568)	(1,702)	(668)
Other Income or (Expense)				
Interest & Other Income	13	5	13	4
Interest Expense, net of debt premium amortization	-	(106)	(47)	(24)
Debt Conversion Inducement	-	-	(508)	-
Loss on Extinguishment of Convertible Debt	-	-	(714)	-
Total Other Income (Expense)	13	(100)	(1,256)	(19)
Benefit for Income Taxes	-	-	649	2
Net Income or (Loss)	(1,765)	(1,668)	(2,309)	(685)

Annual Income Statement FY 2012 – 6M 2015. Source: Company Filings



OTCQB: EUSP

Company Headquarters

45 First Avenue
Waltham, MA 02451
United States

Company Contact Information

John Hatsopoulos, Chairman
Phone: + 1 781-622-1120
Fax: +1 781-522-6050
Email : john.hatsopoulos@EuroSitePower.co.uk

About Smallcaps Investment Research

We're proud that Smallcaps Investment Research is recognized as one of the most trusted online sources on U.S. and Canadian small cap stocks. We've earned that trust because we only highlight stable, ethical companies to our visitors and newsletter subscribers. We focus on fundamentally undervalued companies with a market cap below US\$100 million, and we have a special interest in stocks with a high potential, innovative product or service. Read our [About](#) for more information.

This Company Report is prepared and distributed by Smallcaps Investment Research.

Contact: editor@smallcaps.us

DISCLOSURES

This publication has been prepared by Smallcaps Investment Research, which owns and operates the website <http://www.smallcaps.us>. Smallcaps Investment Research is not a registered financial advisor, nor is it a stockbroker or investment advisor.

This publication is provided for information purposes only and is not intended to be an offer, or the solicitation of an offer, to buy or sell the securities referred to herein.

Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. Past performance is no guarantee for future results. Smallcaps Investment Research nor any of its employees shall be responsible for any investment decision.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. However its accuracy and completeness is not guaranteed. All opinions, forecasts and estimates herein reflect the judgment of Smallcaps Investment Research on the date of this publication.

This Company Report may contain certain "forward-looking statements" within the meaning of applicable securities laws, including without limitation, statements related to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) the Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of the Company; (ii) the Company's plans and results of operations will be affected by the Company's ability to manage its growth, and (iii) other risks and uncertainties indicated from time to time in the Company's public filings.

Smallcaps Investment Research has been compensated by EuroSite Power Inc. to develop and execute a communication plan to enhance the Company's exposure to the investor community.

Smallcaps Investment Research and/or its employees may hold positions in companies mentioned. However, it is prohibited for Smallcaps Investment Research and/or its employees to trade in financial instruments of companies one week prior to publication of the initial Company Report or a rating change until one week thereafter.

No part of this publication may be reproduced in any manner without the prior written consent of Smallcaps Investment Research. © 2003 - 2015 Smallcaps Investment Research.