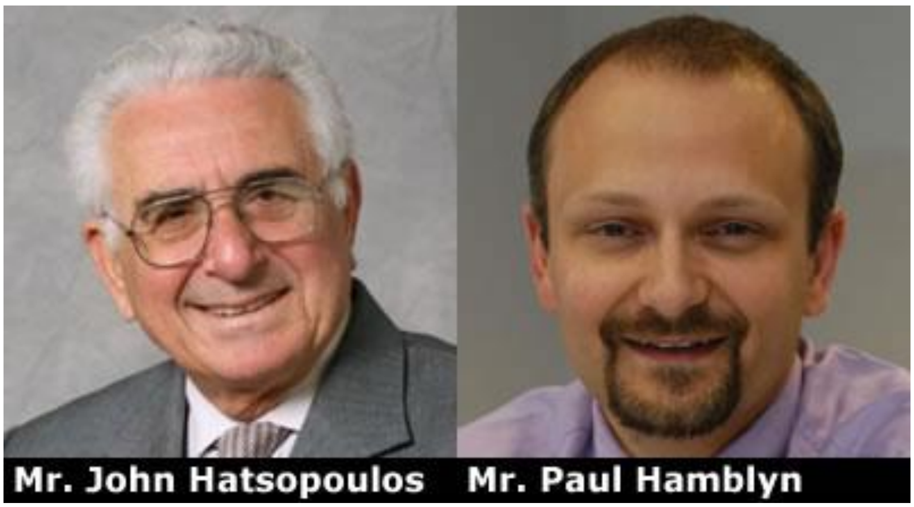
Smallcaps Investment Research

Transcript of initial interview with Mr. John N. Hatsopoulos & Mr. Paul Hamblyn



Respectively Chairman of the Board and Managing Director of EuroSite Power Inc.

EuroSite POWER

OTCQB: EUSP

June 13, 2015

Mr. John N. Hatsopoulos. Dr. John N. Hatsopoulos is Chief Executive Officer of American DG Energy. He is also Chairman of the Board of Glenrose Instruments Inc. and 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.

Mr. Paul Hamblyn – Managing Director. Paul 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, Paul was Head of Energy Services for Corona Energy, a major B2B gas supplier, where he directed the creation of their energy services offer. Paul 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.

Smallcaps Investment Research: A warm welcome everyone to a new interview on Smallcaps Investment Research. We're excited to have not one but two representatives from EuroSite Power Inc. with us today. We have Mr. John N. Hatsopoulos, the Chairman of the Board and also Mr. Paul Hamblyn, the Managing Director. EuroSite Power is an on-site utility provider that generates electricity, heat, hot water and cooling for the UK market. The Company is listed on the OTCQB market with ticker symbol EUSP. John and Paul thank you very much for joining us today. Welcome.

John N. Hatsopoulos: Thank you.

As this is our initial interview, can you please give us an introduction of EuroSite, its history, and its activities?

John N. Hatsopoulos: My brother and I started a company called Thermo Electron in 1956 after my brother had gotten his doctorate from MIT on thermodynamics, which is the study of energy. He stayed at MIT as a professor of thermodynamics, on top of being CEO of Thermo Electron, for 40 years until he retired. My brother and I retired in 1998 and the new management of Thermo Electron decided to distribute some of the subsidiaries to the shareholders and sell the smaller subsidiaries that were too small to go public.

One of the companies that were sold was Tecogen, that produced hot water and electricity using natural gas. My brother and I bought it and we soon discovered that customers were hesitant to use the Tecogen technology because they didn't know how to operate and run energy facilities. Usually it's the manager of a facility, such as a hospital, hotel, or nursing home, who makes the decision to install such a unit, but those people didn't know much about running those machines.

So we created a company called American DG Energy, which acted as an unregulated utility. We would put our equipment in the building and sell energy to the facility at a discount to what they would be paying to the electric company.

After a few years, one of our biggest shareholders encouraged us to expand our operations to Europe. He put in the capital for us to make a study and we discovered that the European market was an ideal market for us. So we started EuroSite Power. We were fortunate to find Paul Hamblyn to be the managing director of the company and we started operations in the UK. Our goal however remains to expand throughout all of Europe.

Paul Hamblyn: EuroSite Power sells heat and electricity and we call this an onsite utility solution, a name that is used both in the North American market and equally here in the UK. In practice, it means that we own and operate a range of different technologies that produce energy in the form of electricity, heat, hot water, and chilled water. We sell that energy to the customer through a long-term contract.

Very important to know is that our customers don't have to invest any capital into developing the solution on their site. They simply buy the energy on a pay as you go basis and the energy that we produce is guaranteed to be cheaper. So in the long run they save money and obviously that delivers some operational benefits and some lower costs to their business or their organization. In addition, it removes the technical and some of the commercial risk that is often associated with operating this type of plant within a building environment.

In order for our listeners to completely understand the Company's business model, can you, for example, on the basis of the recently announced agreement with Kingfisher Leisure Centre explain what is going to happen there and what the benefits are for Kingfisher and EuroSite?

Paul Hamblyn: Absolutely. Kingfisher Leisure Centre is a very good example of a typical project for an onsite utility solution. The building, as the name suggests, is a leisure facility, which is owned by the local municipality in the Southeast of England.

The center provides both wet and dry sports. That's important because they have a swimming pool on the site, and this makes the building particularly applicable to a certain type of technology called Cogeneration or Combined Heat and Power (CHP).

So we are going to install a 120 Kilowatt CHP unit in this building that converts natural gas into heat and electricity. It does that using an internal combustion engine linked to a generator. Once the unit is operating, the customer will begin buying the produced electricity, heat, and hot water.

Kingfisher does this, in the first place, because its energy is going to get cheaper. We anticipate that across the first 12 months of operation this customer is likely to save some 12,500 pounds, or about 18,000 dollar. During the 15 year contract term, even excluding inflation, we expect Kingfisher to save approximately 200,000 pounds, or roughly 300,000 dollars.

We expect to generate revenues of just over 100,000 pounds per annum, and across the 15 years, we estimate total revenues from the Kingfisher project to be in the region of 1.5 million pounds.

Also important to know is that Kingfisher doesn't have to pay capital upfront. We fund the entire installation, which will cost us about 155,000 pounds. In our business model we foresee an internal rate of return on our investment of over 20%. That gives us a simple payback of just over four years.

Our customers are also very interested in their carbon footprint. By deploying this technology, Kingfisher will reduce its carbon footprint by some 234 metric tonnes per annum, which is the equivalent of taking roughly 50 cars off the road. This enables them to reduce their carbon tax burden as well and benefit from one or two incentives that are in place in the UK.

A couple of weeks ago, you announced financial results for the first quarter, ended March 31, 2015. Would you give us a brief overview of those results?

John N. Hatsopoulos: Yes, we had a very good quarter and hopefully we will continue to have such quarters over the next few years as we keep adding new facilities. Our revenue increased by 27% to almost $550,000, and our productivity increased by 24%.

In the first quarter, we were also granted an amount of $640,000 from the British Government under the Enhanced Capital Allowance (ECA) program. ECA basically stands for a cash energy tax incentive for energy saving plants and machinery. Our Combined Heat & Power machines fall under this program. We didn't include that grant in our first quarter financials, because we hadn't received the money yet. We received the money in the second quarter, and so it's going to be included in our upcoming financials.

This $640,000 is a little better than twice as much as the non-GAAP cash that we lost during the first quarter. This would suggest that there is a very good possibility that the company will be cash flow positive for the first six months of the year.

Paul Hamblyn: I would like to add that our revenue increase in the quarter is primarily the result of an increase in total energy production, which rose by 47%. We actually generated 7.1 million Kilowatt-hour of energy. The other thing that is important is that we are seeing a 16% improvement in fleet availability through the quarter. And of course during the first quarter, we also closed two additional deals adding 250 Kilowatts of capacity.

You already mentioned that EuroSite received a couple of Enhanced Capital Allowances from the UK government. Do you think the Company will continue to receive more of those Enhanced Capital Allowances?

Paul Hamblyn: Yes. The Enhanced Capital Allowance is a tax break provided by the UK Government that currently runs through the end of tax year 2018. So we expect to continue to benefit from enhanced capital allowances at least through the end of April 2018.

John N. Hatsopoulos: I would like to say that $640,000, which we received a few weeks ago, was for the years 2012 and 2013. We should get an additional funding for 2014 and that will keep going at least through 2018 when the law expires.

This is actually a very interesting moment for investors as EuroSite is on the brink of becoming cash flow positive. How many units do you need to have up and running to reach that goal?

Paul Hamblyn: There are a number of factors that come into play in terms of profitability, but we need to have about 45 units operating to reach a positive cash flow.

Today, we have 34 contracts signed, of which 25 units are already installed and operating. So to go from 34 to 45 is not too much of a leap and that's why we are very confident that we can achieve that goal to become 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.

What's the total size of the Combined Heat and Power market in Great Britain? And also, are there specific segments of the market that EuroSite focuses on?

Paul Hamblyn: The UK market currently has about 2,500 Combined Heat and Power units of the sort and size that we specialize in. We focus on systems of up to 500 Kilowatts in capacity.

In terms of the sectors, we have already mentioned leisure facilities, which are and will always continue to be, a very big part of our business. Other sectors include hospitality, principally hotels, and then the healthcare sector. We already have a contract with a hospital operating in the UK within the National Health Service (NHS). We have identified over 300 similar sites that exist just in the UK alone.

Important to remember with these numbers is that these are just in the UK. If we turn our attention to the European market, we see $1.5 billion worth of market potential.

John already mentioned that you're only active in Great Britain at this moment, but are you looking at other countries in Europe as well to install Combined Heat and Power units?

Paul Hamblyn: Well, we look for a number of conditions within a particular country. The first thing we focus on 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 our case is natural gas. So in countries where the Spark Spread is high, the commercial viability for Combined Heat and Power is good. If we look at the top ten European countries in terms of Spark Spread, the United Kingdom is in second place. The list also includes countries such as Romania, Italy, Spain, Ireland, and Lithuania.

The second condition we look for is the amount of government support for the type of technology that we are deploying. We look at the incentive schemes and other benefits the clients might be able to benefit from by using these type of local carbon technologies.

Those approaches vary quite dramatically across Europe. For example, Germany has a very favourable environment for combined heat and power, but its Spark Spread is not in the top 10. So we need to look at a range of different factors before choosing to move into other territories.

Having said all of that, my view is that we first need to consolidate our position in the UK. That should move us to a point where we are profitable, so that we have a good firm foundation to grow our business elsewhere in Europe.

And what about competition? Who are the major competitors in EuroSite's line of business?

Paul Hamblyn: Just one thing perhaps neither John nor I said so far is that we're not an equipment manufacturer. We are a solution provider, we provide financing, we provide the technical capability to install the unit, and we provide the expertise to operate and maintain a plant. From time to time we compete against manufacturers of Combined Heat and Power units, but we are a solution provider.

Today most of the business is being secured without going into a competitive tender. We approach potential clients, set out our proposition and then convince them to sign a deal with us. The way that we package our solution and the way that we go to market is unique, which puts us in a very strong position. As a result, I see no reason why that can't continue elsewhere across Europe as well.

With all the projected growth, do you foresee the need to raise money in 2015?

John N. Hatsopoulos: Our goal is to see if we can borrow money from banks or institutions to finance our operations once we're cash flow positive. Now that doesn't mean that someday we might not raise money through equity, but ideally we would like to borrow money to finance our growth.

Next to signing more agreements and installing more Combined Heat and Power units, a third focus point of EuroSite this year is to increase the performance and up-time of the existing units to grow your margins. How are you accomplishing that and what are the results so far?

Paul Hamblyn: Great question. It actually starts when we sign a new contract. We need to make certain that we lock in a healthy margin from day one.

The second part is looking at the availability of our operational fleet. There are several reasons why a unit doesn't have a 100% up-time. It might have something to do with the building's amount of heat load or even the electrical load, it may simply be because the electricity tariff is such that we can't make sufficient margin at certain times of the day or certain times of the year, or it may be that we need to do some maintenance on the equipment.

The next item is to make sure that we maintain efficiency of the equipment. Combined Heat and Power solutions are a low carbon, highly efficient solution, but like any piece of equipment they need to be maintained and operated correctly. Focusing on that operation and maintenance will enable us to keep the efficiency high, which will help us to maintain and drive up the margins as well.

To achieve both higher availability and efficiency, we're working very closely with our equipment suppliers Tecogen and Tedom.

And we're achieving great results. In the first quarter, our fleet efficiency improved from about 76% to 80%. And in the first part of the second quarter we continue to see improvements.

In terms of fleet availability, we've also seen some dramatic improvements in the first quarter. In January 2015, our fleet availability was 71%, but after some very detailed work we managed to achieve 80% in February and 82% in March. We're confident those numbers will continue to grow in 2015.

American DG Energy, which is listed on the New York Stock Exchange Market, is the majority shareholder of EuroSite Power. How would you describe you relationship with them?

John N. Hatsopoulos: American DG Energy owns 48% of EuroSite Power, and therefore consolidates their numbers. American DG Energy provides some services to EuroSite, such as accounting, audit, filing with the SEC, management, and so forth. These services are provided by American DG against a small fee that EuroSite pays to American DG.

On top of it, I am the CEO of American DG and Chairman of EuroSite, therefore I can keep an eye on both companies to make sure that everything is working out properly.

Would you mind sharing a bit about EuroSite's management team and the other key members of the Company?

Paul Hamblyn: My career has been spent much within the energy sector since I started work in the mid-1980s. Prior to joining EuroSite Power and setting up the business in 2011, I had worked for one of our principal competitors here in the UK market for a period of 10 years and in fact ran one of their business units offering energy efficiency and energy saving solutions. I am very active in a number of trade associations that operate in the UK market both for Combined Heat and Power but also in a more general sense in terms of energy services.

As for the other members of our management team, there is Ben Locke, who is co-CEO of American DG Energy. He is running the business in the US which is effectively delivering the same solutions as I'm over here. It's extremely useful to share our experiences and we both benefit from being able to do that. Ben has been with the business about 24 months now and prior to that he served as general manager at Tecogen. He has a really good sense of what our business is about and the technologies that we are deploying.

Our CFO, Gabriel Parmese brings over 20 years of experience from within senior financial positions, particularly within fast growing and successful public and private technology companies. And he served in a range of different senior positions in financial management and has great experience of bringing businesses to the market as well.

When we founded the Company in the UK, we also decided to set up an advisory board. That board is headed by Adrian Fawcet, who at the time when he joined our business was the CEO of General Healthcare, the largest operator of private hospitals in the UK. Since then he has moved on within his own career and he is now heading a business that's involved in bed manufacturing. But Adrian's experience in the healthcare market, and prior to that the hospitality market, has proven to be extremely valuable to us in terms of opening networks of potential clients.

Another member of our advisory board is Ian Durant, who is currently the non-executive chairman of Capital and Counties Properties PLC. They are a British based property company. They are the largest private land owner in London and they operate for example the Covent Garden Retail Centre. Ian's previous experience lies in the hospitality market and also in large scale residential developments, both of these are sectors which we are targeting. It has been very useful to be able to tap into Ian's network in addition to those of Adrian's.

The final member on our advisory board is Gary Parke, who is the owner and founder of Breathe Energy. Prior to that, he worked for Centrica, setting up a subsidiary business in Canada. Gary understands the energy sector very well and he and I often are able to debate particular points of interest or just strategic directions of the business because we both understand the UK market very well.

Before we go, what would you say are the two or three most compelling reasons for a long term investor to consider EuroSite Power today?

John N. Hatsopoulos: EuroSite Power is an exciting business opportunity because we have an almost unlimited market. The size of the market and our continuous improvement in margins and profitability, make us very attractive to invest in.

Because we are small, very few people know about our existence, which makes our stock so underappreciated that if somebody invests in it, it will be almost like a start-up. So that's a very exciting opportunity. I should say that my family has been buying throughout the past few months whenever shares show up in stock market.

Paul Hamblyn: We are ultimately providing a long term annuity style set of contracts and relationship with our customers. We are very fortunate that having installed those Combined Heat and Power units with long term contracts, each January we start the year with knowing that there is a certain amount of revenue going to be coming in from those customers.

There are also some important drivers in the marketplace. Security supply sounds a bit technical, but customers have concerns about potential power cuts here in the UK. We are beginning to see a narrowing between generation capacity and demand for the first time ever. Customers are becoming concerned about that and CHP solutions help customers manage that risk. We are seeing governments continually legislate on carbon taxes particularly in Europe and increasingly I think we are going to see tightening of air quality standards as well.

We haven't spent much time talking about technology, but some of the technology that we use has some unique patented emissions technology that we have exclusive access to.

All these factors combined give EuroSite a sound future, making it a very compelling reason to invest in our business.

Excellent. John and Paul, thank you so much for taking time out of your schedules. We wish you and EuroSite all the best and we certainly look forward to having you back to give us an update on the progress of EuroSite Power.

John N. Hatsopoulos: Thank you very much.

Paul Hamblyn: Thank you.

Interview Feedback

We welcome your questions and feedback regarding this interview at:
http://www.smallcaps.us/interview-details-how-eurosite-power-is-winning-in-on-site-utility-market

Transcripts are edited for clarity.

About Smallcaps.us

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 $100 million, and we have a special interest in stocks with a high potential, innovative product or service.

Contact Smallcaps.us

Twin Squares
Culliganlaan 1
1831 Brussels
Belgium
Tel. +32 (0)2 808 58 41
E-mail: contact page

Copyright

Legal Notice Regarding Forward Looking Statements

The interview referenced herein 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.