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Investment Research

**Transcript of update interview with
Dr. Elias Samaras & Mr. Paul Hamblyn**



**Respectively Chief Executive Officer and
Managing Director of EuroSite Power Inc.**



OTCQB: EUSP

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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 Pleafs 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.

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: Welcome everyone to a new interview on Smallcaps Investment Research. We're very pleased to have two representatives from EuroSite Power Inc. with us. Mr. Paul Hamblyn, the Managing Director of EuroSite Power and also Mr. Elias Samaras, the Company's CEO joins us for the first time today. EuroSite Power is an on-site utility provider that generates electricity, heat, hot water and cooling for European customers. The Company is listed on the OTCQB market with ticker symbol EUSP. Elias and Paul it's a pleasure to have you with us, welcome.

Elias Samaras: It's a pleasure to speak with you too.

Since our initial interview, last June, the Company has made some significant progress. But before we go into more details about that, could you start by giving us a recap of EuroSite Power?

Elias Samaras: Sure. First, we offer On-Site Utility™ solutions to customers across the UK. Second, we own and operate Combined Heat and Power system. And finally we sell electricity, heat, and hot water on long term contracts to our customers. The EuroSite Power team in the UK consist of 7 people, including our managing director Paul Hamblyn.

We have 36 systems under contract, totaling about 3,760kW of installed capacity, and with

a total contract value of approximately \$100 million. 29 of the 36 systems are currently operating and generate about 20 gigawatt hours of energy every year.

Excellent! Elias, you were appointed CEO shortly after we conducted the initial interview with Paul and John Hatsopoulos, the Chairman of the Board. Can you tell us a bit more about yourself?

Elias Samaras: I came to the United States from Greece in 1978 to complete my Civil Engineer studies. After a while, I switched to Engineering Mechanics however, and then eventually to computers.

When I finished my studies, I started teaching at Columbia University. After eight years, I needed a new challenge though and I switched from the academic to the business world. I had an interest in security printing, and as I was travelling between the US, Greece and other countries, I looked at my passport and said to myself that it would be a great idea to apply security printing technologies to passports.

After an international tender, I was able to win a \$63 million contract from the State Department to produce the new US passports. Since then, over 200 million passports have been produced with this technology.

Then some time ago, John Hatsopoulos suggested that I become CEO of EuroSite

Power. I accepted, and it has been very interesting so far. I quickly learned about the business and I enjoy working with the other Company members.

That's terrific. Now, let's talk a bit about the developments that have taken place since June. A couple of weeks ago, you announced financial results for the third quarter, and September 30, 2015. Would you give us a brief overview of those results?

Paul Hamblyn: We were keen to build on the successes that we had achieved in the first and second quarters of this year. While we certainly saw progress throughout the third quarter, it's fair to say that we consider it to be a transitional quarter in our growth of the business.

Just looking at some headlines, our revenue increased by 20% to \$421,000 for the third quarter this year. This compares to about \$350,000 for quarter three in 2014.

Interestingly though that doesn't tell the whole story, because our energy production rose by 60% in the third quarter this year compared with the same period last year. In fact, our total energy production in the first nine months of 2015 has already exceeded the total energy production in the whole of 2014. This really represents the growth that we're seeing in our business.

In addition, there are some important changes that we've made within the business in the third quarter. For instance, we've appointed a new service technician. This is part of our process of bringing maintenance in-house.

We've also been working very closely with a couple of major financial institutions to provide project funding. We have looked carefully at how to procure gas moving forward as well. And then, finally, we've taken steps to expand the business within Europe.

To finish off the summary of the quarter, I'd like to briefly touch upon the Company's

margins. Our gross margins in the third quarter of 2015 were 13.5%, up from 8.9% in the same period last year. Although it's an increase, we fully realize that this is way below our expectations. However, it's important to realize that there were some one off events during the third quarter this year that lowered our margins considerably.

Excluding those one-time events, our margins actually increased to 27%, which compares favourable, to the 24% we achieved in both the first and second quarter this year. And for the current fourth quarter, it looks like the improvement in margins continues.

During the conference call, following the release of the third quarter financials, four important pillars of growth for the Company were introduced. So, let's go over them one by one. First, you announced pending agreements with two major banks. What are these agreements for?

Elias Samaras: EuroSite Power counted on equity financing during the past three years to fund the installation of its systems. As the Company grew and demand for installations increased, we needed to find a better solution.

So now we received terms from two major banks in the UK for debt financing, which we hope to finalize in the course of this quarter.

Basically, when the agreements with the banks are in place, we won't have to worry anymore about signing larger contracts for multiple systems, because of the availability of funds. We can now sign any size of contract, which the banks will 100% finance.

A second growth driver is that EuroSite Power reached an agreement with Corona Energy, an independent energy supplier in the United Kingdom, to buy natural gas. Why does EuroSite Power need natural gas and will this have an effect on the Company's financials?

Paul Hamblyn: Natural gas is a very important part of our business, as our

Combined Heat and Power units convert natural gas into electricity and heat, both of which we sell to our customers.

As a consequence, the price we pay for natural gas is a very important part of our operating cost. In fact, it constitutes around 60% of our total operating cost.

Currently we buy that natural gas directly from our customer and we pay the price that the customer pays to its supplier. And certainly in the early stages of our business, that was the most appropriate way for us to purchase that gas. However, the combined amount of gas that all our operating machines consume is now large enough to negotiate a much lower tariff with a single gas supplier. That's the agreement we've announced with Corona Energy.

So, we've recently embarked upon the process of transitioning our customers from their current gas supply contract into a contract that is managed by EuroSite Power. That process has begun, and we expect to have our first customers signed up and operating in the current quarter.

What this means to our financials is very simple, our margins will increase. In fact, we expect our margins to increase by about a third by switching all our customers into our natural gas procurement program.

Very interesting. A third pillar, and another very important one, is the fact that you identified a strategic partner that will help expand EuroSite Power into mainland Europe. Could you give us some more color on that deal?

Paul Hamblyn: At this moment, our business only operates here in the UK. But we're very keen to expand EuroSite Power into the rest of Europe, after all that's why we're called EuroSite Power.

What we've been looking at very carefully is which specific countries should we expand our business into. And we looked at a number of different criteria.

What became obvious was that we needed to find a strategic partner to help us in this endeavor, and we soon identified one specific company. I can't announce the name of our partner at this moment, but it's a major equipment provider that we have an existing relationship with. So we know them well.

They already have an existing dealer network around Europe and we have reached an initial agreement with them to operate and provide our own utility solutions through that dealer network.

Initially, we'll be targeting some specific countries in order to make sure that the process works. But then we would quickly expect to be able to expand that operation in other territories throughout Europe and maybe even further as well.

And, how fast do you think you'll be able to expand into mainland Europe? Do you already have some prospects?

Elias Samaras: We've started very aggressively doing this. In fact, we've already set up meetings early January in Poland to discuss two fairly large projects. One in a hospital and the other in a hotel. We'll probably team up with a local generator manufacture in Poland for these projects.

In addition, we're discussing a potential project with a big conglomerate in Turkey. They're very interested in our technology and On-Site Utility™ solutions.

And the fourth and final pillar of growth, is that as of December 1st EuroSite Power has its own maintenance service team. How was this handled in the past, and what are some of the benefits of handling maintenance yourself?

Paul Hamblyn: When we first started the business and began installing our systems, it was appropriate for us to use an external partner to provide maintenance. So, we have a relationship with a company that is providing planned maintenance services across a good portion of our installed fleet of equipment.

We always knew that at some point it would become more cost effective to bring that maintenance operation in-house and to manage it directly with our own staff. That process began in September of this year and as of the end of November, we are maintaining all Tecogen equipment within our fleet ourselves.

We now have a service technician managed by an operations manager and we are undertaking all the planned preventive maintenance of that fleet, together with any fixes of breakdowns. The key point is that this reduces our cost and therefore increases our margins.

In addition to the Tecogen equipment, we also have some Tedom equipment within our fleet. That portion is still maintained by an external partner, but as those units come towards the end of their warranty, which is in about 12 months time, we will consider bringing the maintenance of that equipment in-house as well. This will again reduce costs and improve our margins.

I remember from our initial interview that one of Company's focus point in 2015 was to increase the availability and the efficiency of the operating units. Has progress been made in those areas?

Paul Hamblyn: Definitely. First, let me explain what those two things actually mean. As for availability, there are 8,760 hours in every year. And it is the goal to have our equipment available to run for as many of those 8,760 hours as possible.

What we then have to consider is if it's appropriate for the equipment to run. Is there an appropriate load? Are the margins sufficient, for example, to run during the night period when there is a lower electricity tariff?

So availability is simply a percentage of the number of hours the machine has actually run, compared to the total number of hours that we set machines to run for.

In 2015 we've seen a solid improvement in

availability. For example, in the third quarter of 2015 we achieved an availability across the fleet of 69%. Note that during the summer, the amount of output that we are able to produce reduces due to the warmer weather. In October 2015, our availability has risen to 82%, which compares very well with 77% that we achieved in the first quarter of this year.

Allied with availability is the average kilowatt output from the fleet. For example, again in the third quarter, we achieved 88 kilowatt output. So far, this quarter we've achieved 91 kilowatt.

The other item you mentioned is efficiency. This is really a measure of how much of the gas that we put into the machines is converted into energy that we can sell. And really what we're interested in here is the electrical efficiency of the equipment. How much of it can we turn into electricity, because that's where the most value is actually gained.

What we've seen is a steady increase in efficiency throughout 2015. I expect that quarter four will end up with an efficiency of between 80% and 81%, which is in line with the targets that we seek to achieve.

Let's take a look at the future. Where would you like EuroSite Power to be 12 months from now in terms of number of units installed?

Paul Hamblyn: At the moment we have 36 systems under contract, of which 29 are installed and operating. 45 systems installed and operating is the key number for us, because at that moment the business will be generating positive cash flow. I expect that we'll achieve having 45 systems installed and operating in 2016.

And as a final question, what are some of the milestones that investors should look out for? What can we expect?

Elias Samaras: As Paul said, we only need to reach 45 systems in operation in order to become cash flow positive. So that's positive

news for our shareholders.

At the same time we're working very hard on the four pillars that you mentioned before. We're finalizing the agreements with the banks, and we now conduct all maintenance in-house.

In addition, we're expanding in Europe for which we have several trips planned, and we've started working with Corona Energy.

We will try our best to succeed, and I hope

that all of this will make our shareholders happy.

Fantastic. Well Paul and Elias, thank you very much. It's been a pleasure speaking with the two of you and we appreciate your time and insights. We wish you and the Company all the best.

Elias Samaras: Thank you!

Paul Hamblyn: Thank you!

Interview Feedback

We welcome your questions and feedback regarding this interview at:

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