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Investment Research

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



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



OTCQX: EUSP

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Dr. Elias Samaras – Acting Chairman & 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 and thanks for tuning in to another interview on Smallcaps Investment Research. We're thrilled to sit down with two representatives from EuroSite Power Inc. as the Company has made some significant progress over the past few months. Joining us today is Dr. Elias Samaras, the Company's Acting Chairman and Chief Executive Officer and Mr. Paul Hamblyn, the Managing Director of the Company. EuroSite Power is listed on the OTCQX market with ticker symbol EUSP. Elias and Paul thanks so much for joining us again, welcome.

Elias Samaras: Thank you. It's a pleasure to be here.

As I mentioned in the introduction, the Company has made outstanding progress in many areas over the past few quarters. And that progress is starting to show in the financials. You recently announced significantly improved first quarter results for the period ending March 31, 2016. Would you give us an overview of those results?

Elias Samaras: I'd be happy to. In simple terms, compared to the first quarter last year we saw increased revenues, which was mainly driven by increased energy production. But perhaps more importantly, we also saw a marked increase in gross

margin performance. In fact, our gross margin improved from just 7.8% in the first quarter of 2015 to 20.8% in the comparable quarter this year. If we exclude depreciation, we even achieved gross margins of 37.2% in the quarter just ended compared to 24.3% in the same quarter last year. In terms of revenue and energy performance Paul can explain more.

Paul Hamblyn: Thank you Elias. Our total revenue in the first quarter of 2016 increased by 25% to \$687,032 compared to the same period last year. Revenue growth reflects the increase in the number of operating systems within our fleet, increasing from 25 to 30 by the end of Q1 2016. In addition, it reflects the fact that many of the CHP systems added over the past 12 months were larger capacity TEDOM units ranging between 125kW to 200kW.

These changes to our fleet helped to push up total energy production for the quarter to 9,940,307kWh, up about 40% compared with the first quarter of 2015.

Interesting to note is that the rise in energy production – up 40% – doesn't match the increased revenue – up 25% – for the period. The reason for this is that revenue growth was depressed by falling utility tariffs year on year. In addition, revenue was reduced because the pound weakened against the US dollar compared to a year ago.

First quarter financials benefitted from a notably increased fleet availability.

Could you first remind us what that concept entails and also how you were able to improve it?

Paul Hamblyn: Sure. Fleet availability is a measure of overall reliability. It compares the number of hours a machine actually operates to the number of hours it's expected to operate. For example, there are 8,760 hours in a year. If a unit were to operate 8,760 hours in a year, its availability would be 100%.

Clearly a mechanical device, like a CHP unit, cannot operate without maintenance and can also break down, or simply be unable to run due to the low energy demand from the host site. EuroSite Power's goal for its fleet is to have an availability between 90% and 100%.

In the first quarter, which just ended, our overall fleet availability was 88%. The best we have ever achieved, and a dramatic improvement over the 72% availability posted in the first quarter of last year. Breaking this down further our Tecogen fleet availability was 83%, a rise of 10 percentage points over Q1 2015, and the TEDOM fleet availability was 97%.

We achieved this through a combination of hard work and attention to detail. For example, we have worked with Tecogen to identify and complete a series of upgrades to our CHP units over the past year. We also brought maintenance of our Tecogen systems in-house in the last quarter of 2015. Having direct control of service engineers has allowed us to improve the efficacy of both service work and any repairs. It's also true to say that the TEDOM units are more reliable. So as the number of TEDOM units in our fleet increases, overall availability will improve.

Moving forward we plan further upgrades to the Tecogen fleet in order to both further increase availability and help boost gross margin. For example, tests with electronic ignitions have proven to be very successful. Five of our units already have the new ignition and we target to complete this upgrade across the Tecogen fleet by the end of the current quarter.

We have also been testing the use of an extended oil tank. The increased oil capacity has two aims. Firstly, to further improve the reliability of the units by improving oil quality and secondly, to extend service intervals so we can improve margins yet further. To date, results have proven successful although we have not yet taken a decision to implement this upgrade across the fleet as we are awaiting key results to discuss with Tecogen.

Another major event is the Company's recent private placement of \$7.25 million. How do you plan on using these funds?

Elias Samaras: The primary purpose of raising these funds was to provide working capital to install future CHP units. The banks, with which we have finance agreements in place, don't release any funds until a system is commissioned. Consequently, we first must fund the construction of a CHP unit ourselves. The secondary aim was to repay an outstanding \$2 million loan.

Important to note is that the \$7.25 million is more than we originally set out to raise. Therefore, we plan to use the additional monies to fund strategic growth initiatives, such as our European expansion, or to fund acquisitions of operating projects from current owners.

In our previous interview, which we conducted only a few months ago, you introduced the four pillars of growth. In the meanwhile those pillars have been executed and are in full place. Let's go over them one by one. First, you closed finance arrangements with Macquarie and Societe Generale, two major banking groups, to provide finance for future projects. Would you briefly explain how that works and what the benefits are for EuroSite Power?

Elias Samaras: I'll let Paul explain the funding agreements in more detail. But to recap our four pillars first, these were:

- Reaching agreements to finance future projects with both Societe Generale and Macquarie.

- ▣ Finalizing our collaboration agreement with TEDOM, the Czech based CHP manufacturer, to offer On-Site Utility solutions via its dealers across the EU and Turkey.
- ▣ Bringing maintenance of our Tecogen fleet in-house; and
- ▣ Completing arrangements with Corona Energy to provide lower cost gas on a site by site basis. An arrangement that has now secured its first customer, Abbeycroft Leisure and its three sites.

Paul Hamblyn: Both agreements use a so-called assignment of receivables concept. This allows each bank to look to our customer, their credit rating and the cash flows achieved by the project being funded.

Typically a 15 year contract will be funded by the bank over a 5 to 7 year term at an interest rate matched to each particular project and the risk presented. Importantly each bank provides 100% funding and there is no practical limit on the funding available.

As Elias explained earlier, we must initially fund construction of each system and once its commissioned and operating the bank will release the funds. The title of the asset remains with EuroSite Power although each bank takes a charge of the project and its assets as security. But this only applies through the term of the funding agreement.

EuroSite Power also reached a gas resale agreement with Corona Energy, a leading independent energy supplier in the UK, to buy natural gas at very favorable prices. What does that exactly entail and have you already signed up customers for it?

Paul Hamblyn: Yes, we have signed our first deal under this new gas resale arrangement. In fact, our first sales invoices resulting from this contract will be issued in a few days.

The aim of these agreements is to transfer the procurement of gas on our customers' sites from the customer to EuroSite Power. In the process, we gain control over the

commodity that impacts our gross margin the most. So we save our customers money and improve our own gross margin. It's a win-win and in many respects a no brainer for most customers.

In addition, we sell gas to our customers for other applications, such as the kitchen, but charge a small margin to ensure the customer sees a saving.

In the long term as more customers sign up we plan to further lower the price and manage risk by taking advantage of flexible buying strategies that allow us to benefit from wholesale price changes while hedging risk.

Late last year, EuroSite also set up its own maintenance team to handle preventive maintenance of its cogeneration fleet, together with any fixes of breakdowns. Is this initiative already bearing fruit and can it still be expanded?

Paul Hamblyn: As I explained earlier, moving to in-house maintenance for our Tecogen fleet has resulted in improved reliability, greater energy production and most importantly improved gross margin as our costs are lower.

Moving forward, we are also taking a close look at bringing the maintenance of our TEDOM fleet in-house. Currently, we use TEDOM's UK dealer to maintain these units in order to protect the 2-year manufacturer's warranty.

With some of these units now exiting their warranty period the need for dealer servicing falls away and initial assessment indicates in-house service would be less expensive. At this stage we have not decided to switch TEDOM servicing but this is a decision we plan to make within the next few months.

As a fourth and final pillar, the Company started offering its on-site utility services across Europe in cooperation with Czech CHP manufacturer TEDOM. How does this collaboration work and

have you already identified initial potential customers?

Paul Hamblyn: The collaboration is specifically designed to provide a route to market our bank funded solutions through TEDOM's 31 dealers in the EU and Turkey. It provides a quick way for us to enter multiple markets simultaneously. The aim that we've set ourselves is to secure our first project outside the UK by year end.

The collaboration is truly exciting because everyone stands to benefit from the deal. We win as we gain new customers in new territories. TEDOM's dealers win as they can sign up a customer that may otherwise have been lost because its didn't have the capital budgets to install a CHP unit. The dealers gets the contract to install the system and most likely the initial maintenance contract too. And TEDOM wins as they sell another system.

At present, it's still early days. But initial targets are Germany and Italy as market conditions there are most suited to our offer. Dealers and projects have been identified, but more work needs to be done before I can share anything more concrete. Needless to say the opportunities look very interesting.

As of 2019 we will see tightening emissions regulations in Europe. Is EuroSite Power's fleet prepared for those restrictions?

Elias Samaras: Currently air quality regulations in Europe don't greatly impact the CHP units we use. However, as you have hinted, this is about to change at a European level in 2019. Also several cities across Europe are tightening emission requirements to better protect public health and improve air quality.

At present, all our systems are fitted with catalytic convertors and meet the necessary standards. The Tecogen product can also be retrofitted with the Ultera emissions control technology. Originally designed to meet strict Californian standards, this unique technology not only exceeds the European 2019

requirements, but also reduces CO and NOx to near zero levels.

As Tecogen recently signed a joint venture agreement with TEDOM to exploit market opportunities in the US market, we can reasonably expect TEDOM's unit to benefit from the Ultera technology in due course.

It's also worth taking a few minutes to discuss the Ultera technology and its wider potential. Most of your readers probably know that Tecogen developed the Ultera technology between 2009 and 2010 to bring emissions from natural-gas stationary engines and CHP systems into compliance with California's standards, which are now the most stringent in the United States. Since then, the Ultera has been sold along with hundreds of CHP units and is proving its exceptional value day in and day out.

Because of the Volkswagen emissions scandal, Tecogen created a Joint Venture company with a group of Swiss investors - Ultra Emissions Technologies (Ultratek) - in order to advance the Ultera for transportation applications powered by spark-ignited engines.

Recent test results conducted at AVL, the world's largest independent lab for the development, simulation, and testing of powertrain systems, show that the non-invasive Ultera system reduces levels of carbon monoxide emitted from a gasoline powered test vehicle by as much as 90 percent during simulated driving cycles prescribed by federal regulations for vehicle certification. In addition, the Ultera decreases levels of non-methane hydrocarbons (NMOG) by as much as 80 percent.

Eurosite may also benefit from this initiative, as it has received the exclusive rights from Ultratek to install the new system - if successful - in all cars manufactured in the UK and Ireland.

How many operating CHP units do you have in place at the moment and how many do you estimate that you'll need to become cash flow positive?

Paul Hamblyn: As of today our operating fleet numbers 31 systems with an installed capacity of 3,182kW. We also have 6 systems in our backlog, two of which have already entered the construction phase.

As for positive cash flow, our non-GAAP EBITDA is within our grasp as the number of systems in operation needed to achieve this milestone is 45. This means we have to sell a further 8 x 100kW systems or about 800kW in total capacity.

However, thanks to the bank financing arrangement, we can handle the installation of larger units. For example, a few weeks ago we signed an agreement for a 331kW CHP system. Consequently, we could reach our goal sooner when we sell larger units.

Let's talk about how to get to that magic number. How does your sales pipeline look like at the moment?

Paul Hamblyn: Our pipeline currently looks strong and with the help from both Societe Generale and Macquarie we can see this improving further.

Also our recent financing was very helpful. For example, we took on an additional sales executive in March of this year and our pipeline has already started to grow.

Our immediate sales pipeline includes:

- A 400kW system for a major hotel in south Wales. We have already signed a term sheet with this customer and gained credit approval from Societe Generale;
- Two systems, a 125kW and a 70kW unit for a local authority. And an additional 70kW system for an existing customer. Also for these three projects credit approval is in place;

- We are competing for a 330kW installation at a major British university;
- A National Health Service (NHS) Trust; and
- A number of public tender opportunities.

Additionally we are pursuing a number of much larger opportunities for multi-site customers, such as hotel groups, private health club operators and healthcare providers. Three of these have over 300 different sites.

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?

Elias Samaras: For the first time we have reached a critical mass of operating installations. We have succeeded in putting our four pillars concept in place and we now stand at the start of a new phase of developing and growing the Company further.

This brings me to the second point and that is our acquisition strategy to buy projects or companies that will allow us to grow more rapidly.

In short, EuroSite Power is ready to take off. So existing investors should remain, while any new investors would be joining at an exciting time that should deliver real value.

Fantastic. Paul and Elias, we really appreciate the time you've taken to speak with us today. All the best to you and EuroSite Power, and I look forward to speaking with you again soon.

Elias Samaras: Thank you!

Paul Hamblyn: Thank you!

Interview Feedback

We welcome your questions and feedback regarding this interview at:

<http://www.smallcaps.us/eurosite-power-representatives-share-plans-for-further-revenue-and-margin-growth>

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