

## Transcript of update interview with Mr. Benjamin M. Locke



**Co-Chief Executive Officer of Tecogen Inc.**



**NASDAQ: TGEN**

**December 10, 2016**

**Mr. Benjamin M. Locke - Co-Chief Executive Officer.** Benjamin M. Locke was named Co-Chief Executive Officer in October, 2014. Mr. Locke joined Tecogen in June, 2013 as the Director of Corporate Strategy and was promoted to General Manager prior to his appointment as Co-CEO. Previously Mr. Locke was the Director of Business Development and Government Affairs at Metabolix, responsible for developing and executing plans for partnerships, joint ventures, acquisitions, and other strategic arrangements for commercializing profitable clean energy technologies. Prior to joining Metabolix in 2001, Mr. Locke was Vice President of Research at Innovative Imaging Systems (IISI), a high-technology R&D company. At IISI, he drove the development and implementation of growth strategies for the funding of specialty electronic systems for the United States Government. Mr. Locke has a B.S. in Physics from the University of Massachusetts, an M.S. in Electrical Engineering from Tufts University, and an MBA in Corporate Finance from Boston University.

**Smallcaps Investment Research: Hello everybody and thanks for tuning in to another interview on Smallcaps Investment Research, since we last spoke with today's guest Mr. Ben Locke, the Co-Chief Executive Officer of Tecogen Inc, several exciting events have taken place at the Company, making it high time for an update interview. Tecogen is listed on NASDAQ with ticker symbol TGEN. Ben, it's great to have you with us again, welcome.**

Benjamin M. Locke: Thank you. I'm glad to be here.

**As a reminder, could you give us a brief recap of Tecogen?**

Tecogen manufactures, sells, installs and services small scale Combined Heat and Power, or CHP, systems. Those systems are in the 65 kW to 500 kW range, and are suited to be installed in buildings, such as apartment blocks and hotels. More recently however, we have started to expand our range to CHPs as small as 35 kW and much larger systems upwards of 4MW, which have applications in a much larger segment.

At Tecogen, we build most of our equipment, install it and service it. Service is a very important part of our business, as it provides a somewhat predictable revenue stream with high margin.

Next to CHPs, we also make a few other products, such as engine-driven chillers. These are similar to CHPs in that they're reducing the electricity cost by running an

engine-driven chillier instead of an electric chillier. In addition, we also manufacture gas heat pumps.

The overall correlation between all of our products is the gas engine-driven equipment instead of electrical equipment with the goal of saving money on electricity costs.

**Very interesting. Let's first talk about the major news. In the third quarter, which ended September 30, you reported the first positive net income in Tecogen's public history. What were the main drivers for this success?**

We are very happy to achieve that milestone. I'd say one of the main drivers is the successful rollout of our new improved flagship CHP, the InVerde e+. It has attributes that no other CHP equipment offers. For example, it can turn on very quickly if there's a power outage, meeting strict rules for emergency and standby power systems. This is important, because some states, such as New York, require that certain bits of equipment are energised within 10 seconds after a black out. It's very difficult for a CHP system to turn on in such a short time frame, but our e+ is able to do that.

In addition, our InVerde e+ reaches higher electrical efficiencies, meaning more savings for our customers. We also make a lot more of the components for the e+ now in-house. Consequently, we're able to control our costs much better.

The e+ rolled out at the beginning of the year and I think the acceptance of it is

growing. We're shipping more and more of these units and that was a big contributor for us in the third quarter.

**Terrific. Even more remarkable is that you mentioned during the third quarter conference call that the Company will continue to be profitable going forward.**

Well I'm not making any predictions or promises, but that's our goal. And I expect the trends of high electric prices, the need for emergency power and overall preferences for green technology are going to continue through 2017. So I'm very optimistic.

**Also during the third quarter, gross margin rose to an outstanding 41.9%, well above the Company's targeted range of 35-40%. How did you achieve that, and how do you see gross margin evolving the following quarters?**

Well it involved a lot of work by everybody here at Tecogen. Our finance and accounting department assisted by getting better pricing from our vendors. Also our manufacturing department stepped up and reduced the cost of manufacturing our CHPs. Basically, a number of factors, which we had been working on for some time, all came together.

Our gross margin guidance has been between 35 and 40%. Of course, that's going to go up and down a little bit in following quarters, but we are maintaining that same guidance.

**Also looking at the balance sheet the Company is doing very well.**

Yes, strengthening our balance sheet has always been a priority and it's nice to see the cash balance going up. Of course, we have a lot of equipment and inventory, which also goes up.

We're starting to see very good payment terms with a lot of our customers. Also the incentive programs have generally favourable terms for reimbursement to our Company. So I think we're going to continue to see a strong balance sheet as we head in the 2017.

**Let's take a look at some of the other exciting developments that took place at Tecogen during the past few months. In May of 2016, Tecogen formed TTCogen, a joint venture with the Czech company TEDOM, one of Europe's largest Combined Heat and Power manufacturers. What were the main motives to start this cooperation and what has happened at TTCogen so far?**

TTCogen is a very exciting development. As I mentioned earlier, the equipment that Tecogen manufactures ranges between 60 kW and 100 kW. However, for smaller buildings that equipment is oversized. And similarly, our sales team often came across opportunities that were too large for our CHP systems to handle.

So we set up a partnership with the European company TEDOM. This gives us access to their product line, which goes as low as 35 kW and as high as 4 MW. Consequently, with very little incremental sales effort - we get these sales leads anyway - we're able to quadruple our addressable market for CHP.

TTCogen is a 50/50 joint venture. TEDOM is providing some upfront capital for marketing and sales activities. Once that has been paid back, the profits will be split 50/50. Tecogen will maintain all systems, which will boost our long-term service revenue.

The partnership really makes TTCogen one of the foremost CHP providers in all size ranges. Although it only started in May, we've already seen substantial sales activity, particularly with smaller units. Larger projects take a bit longer, but they are starting to develop as well.

**That's great to hear. What do you expect from TTCogen going forward?**

One area where I expect to see substantial growth is in the biogas segment. Biogas facilities are becoming increasingly prevalent as people look for waste-to-energy solutions, whether it be agricultural waste or food waste. They often have these anaerobic digesters that yield a gas stream. And cogen

equipment is perfectly suited to turn that gas into useable electrical power.

Unfortunately, our systems are not appropriate to consume biogas. But TEDOM's engines are. As a result, I expect a significant market to open up for us. For example, in rural areas that have farms and agricultural waste.

**Of course we also have to cover the remarkable developments at the Company's other joint venture ULTRATEK. What progress has been made there since our previous interview?**

That is indeed quite an exciting technology. The Ultera emission system that we developed for CHP as well as other stationary engines has proven to be very robust at reducing the criteria emissions CO and NOx.

We have always believed that official emissions of vehicles were not really accurate when tests were to be conducted under real-world driving conditions. Our idea was to test these vehicles with the Ultera emission systems. Therefore, we formed the joined venture ULTRATEK.

We completed the first round of testing at AVL in California earlier this year on a light duty type truck. The tests showed very good results with dramatic decreases in CO and NOx.

More recently, another round of testing with a smaller vehicle again showed good results. For second round testing, we opted for a smaller type of vehicle, because although their fuel economy is very good, these engines are often underpowered, resulting in higher emissions.

We are still in the process of collecting and analysing all the test data to make sure that we've got it all understood.

In 2017, we will start looking at ways to commercialise the technology. We haven't figured out yet whether that will be done through a partnership or joint venture.

**That's excellent. What are some of the next steps for ULTRATEK, will there be additional testing?**

Yes, I believe there's going to be another round of testing at AVL. Important to know is that ULTRATEK is partly owned by a group of European investors, who have lots of knowledge about the auto industry in Europe. They will come up with a plan to introduce the technology to car manufactures and affiliate industries related to the car industry. I expect to have some announcements in 2017 about how we're going to go forward with that.

**A very recent development is that Tecogen received a grant to develop the Ultera for propane-powered fork trucks. Could you give some colour on this potentially lucrative opportunity?**

We were very fortunate to be selected by PERC, the Propane Education & Research Council, for this. When propane powered fork lifts are used in warehouses, their emissions are not just annoying, but also harmful to the people inside of that building. Consequently, there has been an effort for some time now to improve the emissions of propane fork trucks.

A partner of the project will provide us a propane powered fork truck on which we'll conduct tests during a six to nine months period. Hopefully in the course of 2017, we'll have some good results to show.

The fork truck market is a billion dollar industry, so significantly reducing the emissions could be a substantial opportunity for us.

**Early November 2016, Tecogen announced that it would acquire American DG Energy, which offers On-Site Utility solutions. Would you first explain what an On-Site Utility solution is?**

An On-Site Utility solution is offered to customers who are good fits for CHP, but that don't have the capital resources to purchase

a system. In that case, American DG pays for the system and installs it at no cost to the customer. The customer only pays for the generated energy, which is sold at a discount to the grid.

By doing that, American DG has a number of CHP systems that provide a steady revenue stream to the company. In addition, margins are very good when the CHP systems are managed in a good way.

If we are successful in acquiring American DG, Tecogen would get that steady annualised income for the next many years, as On-Site Utility agreements typically are 15 year contracts. All in all, we believe American DG would be a great fit for our Company, which would give a good boost to our balance sheet.

**Very interesting. What exactly are the benefits for Tecogen to acquire American DG Energy? And also, are there potential synergies and cost savings?**

Absolutely. We have a large inventory of parts, a fleet of experienced service technicians, vans, dispatch, etc. Basically,

all the things that are needed to keep a CHP fleet in optimal condition. Consequently, I think we'll be able to increase the margins and cash flows of the CHP fleet once we acquire American DG.

**As a final question, what are some of the milestones that investors should look out for in the next 12 months? What can we expect?**

The biggest milestone is to complete the American DG merger. We don't see any major hurdles to accomplish that. Continued success with our InVerde e+ is another milestone that we aim to achieve. And I think a third milestone would be to generate more sales from the TTcogen joint venture. Not just of the small units, but also from the much larger megawatt units. That will really demonstrate that Tecogen is now a fully integrated CHP company.

**Fantastic. Ben, it's been a pleasure speaking with you. We'll be keeping track of the Company's progress and look forward to having you back for an update.**

Always a pleasure glad to speak with you too.

## **Interview Feedback**

We welcome your questions and feedback regarding this interview at:

<http://www.smallcaps.us/growth-plans-discussed-with-tecogen-ceo-after-first-profitable-quarter>

Transcripts are edited for clarity.

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