

Transcript of update interview with Mr. Benjamin M. Locke



Co-Chief Executive Officer of Tecogen Inc.



NASDAQ: TGEN

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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: A warm welcome everyone to a new interview on Smallcaps Investment Research. We're excited to have Mr. Ben Locke, the Co-Chief Executive Officer of Tecogen Inc, with us today. The Company recently announced its third straight profitable quarter. In addition, it closed the acquisition on American DG Energy. So more than enough reasons to sit down with today's guest. Tecogen is listed on NASDAQ with ticker symbol TGEN. Thank you for joining us Ben, welcome.

Benjamin M. Locke: Thank you, glad to be here.

Let's start with the most recent news, the acquisition of American DG Energy that was completed a few days ago. Could you first give us some background information on American DG?

American DG owns natural gas powered cogeneration systems that produce electricity, heat and cooling at customers' facilities. Ultimately, ADG would bill its customers each month, just like any other utility would do, for the energy delivered to them. The fee charged by ADG is guaranteed to be below conventional utility rates.

This model, called an "On-Site Utility", or OSU, is really an essential part of any distributed generation infrastructure, since not every customer has the capital or the financial flexibility to own the system outright.

ADG has mostly purchased Tecogen CHPs and chillers over the years. Then ADG installed the equipment and contracted with Tecogen to maintain the units. At the same time, ADG had its own technicians, who would monitor the rest of the site, such as the pumps.

American DG presently has 92 on-site energy systems. How many of those are CHPs, chillers, and heat pumps? And also are they spread all over the United States, or concentrated in certain areas?

Of the 92 systems, 21 are chillers and 71 are CHPs. They are all located on the east coast of the United States, as electric rates are quite high there.

I also want to add that ADG currently has a small backlog of projects, so the number of on-site energy systems will slightly increase.

What are your immediate plans for American DG? Is it, for example, the intention to rapidly increase that number of on-site energy systems?

Not presently. The main focus of American DG, in the past year-and-a-half, was to optimize its existing fleet in order to improve its returns. That effort has been tremendously successful, thanks in part to Tecogen expertise that was brought in. In fact, that was one of the largest reasons that the merger was contemplated and ultimately consummated.

Now that, thanks to the acquisition, Tecogen actually owns the fleet, the goal is to

optimize operations even more to maximize revenues. Once I feel comfortable with that, we will consider adding new projects.

What effect will the acquisition have on Tecogen's sales and earnings?

ADG currently produces around \$6 million a year of steady revenue. In addition, the company is cash flow positive, so it will contribute cash to Tecogen. Those are two very notable additions to Tecogen.

It's important to emphasize that ADG's revenue is consistent, because Tecogen's revenue, prior to the merger, was made up of sales and services. And while Tecogen's service revenue is very predictable, its sales revenue fluctuates. With the addition of ADG, about half of Tecogen's total sales will consist of steady, predictable revenue, softening the ebbs and flows of the sales cycle. That's a big advantage!

Will there be major changes to Tecogen's balance sheet after the American DG acquisition?

Absolutely. Several parts of the balance sheet will change as a result of the consolidation. A big one is an increase in Property, Plant & Equipment, which will increase with about \$15.8 million. In addition, there are several other merger related adjustments to the balance sheet, which are best described in the pro forma condensed balance sheet that's shown in the S4 document, filed with the SEC.

Tecogen recently announced first quarter financials for its fiscal year 2017. The turnaround, compared with last year's first quarter, was truly amazing. Could you give us some of the highlights?

Tecogen's revenue significantly increased thanks to the popularity of the InVerde e+ CHP that we introduced last year. The machine really has a tremendous technical superiority over any other product. People that we sell it to, such as ESCOs and engineering companies, truly appreciate that

and they also understand the economic benefits of our CHP. We also noted a solid increase in chiller sales.

Also gross margin showed strong progress compared with the first quarter of 2016. How did you achieve that, and how do you see gross margin evolving the following quarters?

An additional benefit of the InVerde e+ is that we were able to bring some of the manufacturing in-house. Consequently, we have a better control over our costs. Also the increase in service revenue was beneficial, as margins in that segment are higher compared with product revenue.

Moreover, our "turnkey light" offering has contributed nicely to margins. Our customers have the option to simply buy a CHP and install it themselves. Or they can opt for us to do the plumbing, the electrical, the mechanical, and so forth.

In between those two, is something that we call a "turnkey light" package. This is where we sell a unit and in addition we build a module that has all the proper pumps, valves and monitoring equipment which is sold and shipped along with the unit.

So by selling the unit plus all the equipment necessary to install the unit, we've found a nice middle ground, which adds a good margin to our product sales.

Let's also take a look at the progress of Tecogen's joint ventures. Would you first give us a short recap of the ULTRATEK JV and then give us some more details about what we can expect from it the coming months?

The ULTRATEK JV was started in January of 2016 to test the applicability of our Ultera emission systems for gasoline fuelled vehicles. This came in wake of the Volkswagen emissions scandal, which included the notion that not just Volkswagen diesel cars were affected, but that perhaps also gasoline cars exceeded the officially reported emissions when put through drive

cycles that are outside of the prescribed testing cycles. The so-called real time driving situations, which measure emissions when a car is going uphill or accelerating rapidly, are currently not part of the emissions testing protocols, but Europe is discussing to implement them.

In 2017, we did a couple of test programs at a prominent automobile testing facility and showed some very good results. We would first test a vehicle, that passed all of the prescribed emissions programs, before the Ultera retrofit. We tested it under real-time driving conditions, and noted a strong increase in emissions of criteria pollutants, such as carbon monoxide and NMOG, which is the combination of VOCs and NOX.

Subsequently, we retrofitted the vehicle with our Ultera emission system and ran it through the same test program. Results showed a significant reduction on those criteria pollutants CO and NMOG with our Ultera system.

With those test results in hand, we're now entering into business discussions with people in the automotive industry that would be interested in this technology.

Another interesting joint venture is TTcogen, a cooperation between Tecogen and Czech CHP manufacturer TEDOM. According to your first quarter conference call, some serious progress is being made there.

We're quite pleased with that joint venture and how it allows us to expand our product offering. TEDOM manufactures smaller products, such as a 35 kW CHP, which are ideal for buildings that are undersized for Tecogen's products. In addition, TEDOM has systems as large as 4 MW, which are suited for projects that Tecogen wasn't able to address in the past.

I think the most immediate impact of TTcogen has been in the smaller systems. In our core markets, we routinely come across buildings that are perhaps too small for our 75 kW or 100 KW CHPs. But having a 35 KW

system available through TTcogen, makes it a great fit. Most of TTcogen's sales to date have been 35 KW systems.

Another area that we're starting to get traction in is the biogas market. Earlier this year, TTcogen attracted Walter Gray to lead the development of biofuel-powered CHP projects. He has significant experience with biogas projects and the biogas market. We're looking for customers in, for example, rural areas that have lots of agricultural waste.

As you mentioned, initial sales at TTcogen were for smaller CHPs. Do you also see opportunities for big megawatt CHP sales?

Absolutely! We're starting to get connected with these projects, which typically go through a much more regimented contracting process. In most cases, a very large engineering company is involved that prescribes exactly what type of CHP system they want to use.

It's a much more rigorous and time consuming process for larger systems, but we're hopeful to see add some sales of them later this year.

Could you give us an update about the development of the Ultera technology for propane powered fork trucks? And also, what are your plans in this area the next few months?

That program is funded by the U.S. Propane Council or PERC. We had a fork truck donated by a leading fork truck manufacturer for us to do the retrofit on. The milestones for the program are first to test the fork truck without the Ultera emissions technology to get some baseline data. Subsequently, we will retrofit the fork truck with our Ultera system and put it through all the tests again so that we can evaluate.

Right now, we're in the process of doing those baseline tests. Hopefully we have results later this year that we can share.

Before we go, what are some of the important milestones that investors should look out for the next 12 months?

I'm certainly very confident about our CHP sales with new and repeat customers. So you'll certainly continue to see growth in the CHP segment. I think we're also going to see increased chiller sales. I mentioned in the latest earnings call that we're starting to explore new markets for chiller systems, such as indoor growing facilities.

Later this year, we'll probably have a business update on ULTRATEK on where we stand in terms of strategic discussions.

Of course, towards the end of the year we'll have the results from the fork truck program that we'll be sharing with our investors.

And lastly, we'll have the improved revenue and cash flow from the ADG merger contributing to our financials. So we're looking forward to seeing the benefits of the merger as the year progresses.

That's great. Ben, we really appreciate the time you've taken to speak with us today. All the best to you and Tecogen, and I look forward to speaking with you again soon.

Thank you so much. I appreciate it.

Interview Feedback

We welcome your questions and feedback regarding this interview at:

<http://www.smallcaps.us/tecogen-ceo-ben-locke-discusses-american-dg-acquisition-and-2017-growth-opportunities>

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