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: Welcome everyone to a new interview on Smallcaps Investment Research. We're excited to sit down with Mr. Ben Locke, the Chief Executive Officer of Tecogen Inc. The Company's core business continues to grow with ever more installations and service agreements, while several of its blue sky opportunities are getting closer to fruition. Tecogen is listed on NASDAQ with ticker symbol TGEN. Ben thank you very much for joining us. Welcome.

Mr. Ben Locke: Thank you. Glad to be here.

Ben, it's been a few months since our previous interview. So, for our new listeners and readers, can you give us a brief recap of Tecogen?

Tecogen is in the business of creating energy and power that is cleaner and more reliable than traditional sources of energy. Specifically, we use natural gas as a way to generate electricity, heating, and cooling. We do so directly in-house as opposed to getting electricity from traditional sources like the grid and getting cooling from sources that are primarily electric.

By using natural gas to produce energy there are substantial savings that a customer, site or an industry can achieve versus the traditional approach. That is the core of Tecogen's business.

In addition to our core business we have a very marketable technology, which allows to significantly reduce emissions from the natural gas engines that we use. Ultera, the name of the technology, is not only successful in our deployed systems but it has demonstrated success in other third-party applications, such as stand-by generators.

More recently, we had good results fitting fork trucks with our Ultera technology. The case study of a retrofit of Caterpillar Mitsubishi fork truck was presented at the Propane Council meeting.

We are very excited about the progress of our core business and we are optimistic about the potential of our Ultera technology.

Thank you. Last year, you completed the acquisition of American DG Energy. How did the integration go, and where do you see growth potential for the on-site utility provider?

It has been a good year integrating the ADG assets. When we acquired them, there was potential for more profitability from these sites with little need for investment. We have successfully executed this plan. Over the past year we pushed a majority of those ADG sites to produce good revenues with solid margins on a consistent basis.

That is a real valuable commodity to the company. Not just for the recurring revenue but having an asset that produces regular predictable revenue is a very marketable thing. There is a tremendous financial appetite for it.

With that in mind, we have looked at developing other ADG type or, Power

Purchase Agreement (PPA) sites from our existing asset base. Tecogen has 1000 units we service. Some of those customers may want to sell their units for upfront cash. In this case we would create an Operating Site Utility (OSU) or PPA with those units. We would then continue with that model to create steady revenues for Tecogen.

All in all, I think the onsite utility model that we adopted when we acquired ADG is very strong. We demonstrated we can take these sites, rehabilitate them and get them to produce extra revenue. In general, I am quite happy with the acquisition of American DG Energy.

Both for the first and second quarter of the fiscal year 2018 you announced record revenues. Would you give us an overview of your financial results in the past few quarters?

Sure, the second quarter saw a nice bump in revenue. It was almost 11% over the second quarter of 2017, that bump in revenue happened across the board.

We saw increases in sales of our products as well as service and then of course our energy production revenue from ADG. We are happy that the revenues continue to grow.

Our product sales will always have a little bit of seasonality. That is why it is nice to have the ADG energy production revenue, which is steadier and dampens those up and downs in product sales.

And it doesn't stop there now does it, because mid-August you announced a record backlog?

Yes, that is right. Our backlog is very strong. Part of that backlog are our strong chiller sales. I typically don't break down our backlog by product, but our chillier backlog is the highest it has ever been.

That is representative of the growth we are seeing in the market. Not just from the indoor growing of cannabis, but from other facilities that are recognizing that natural gas chilling is an economical way to go forward.

Since Tecogen is the only manufacturer of these direct natural gas chiller systems, we are in a very good spot.

Yes, indeed. A major contributor to this backlog, was the legalization of cannabis in certain States and a subsequent boom in chillers sales. Would you give us some more information about this, and do you see this trend continuing?

Yes of course. We are learning that these indoor growing facilities are quite energy intensive in terms of heating needs, cooling and dehumidification. Perhaps more importantly, these growing facilities have to be located within the state due to the legislation. This means that the growers cannot be selective about where they put the facility in terms of electric rates.

For example here in Massachusetts, these facilities find themselves in places where electric rates are quite high. In other cases, the capacity of the utility that supplies the site might be constrained.

Whereas some of these groups will look to cogeneration perhaps as a solution to this issue, a much more thoughtful approach leads to the Tecochill. By taking the electric load off of that facility by using natural gas Tecochills, the remaining electric load becomes much more manageable both from a cost and a utility standpoint. We believe Tecochill is therefore the first most economical method of getting the electric energy cost down for these grow facilities.

It should be mentioned that Tecochill also provides hot water. Many of these sites use the recovered waste heat similarly to cogeneration when you have heat off of the chillers. This adds to the economics and further supports the advantage of our product.

We are expecting to see similar opportunities in different states. The cannabis development that we are seeing here in Massachusetts is going to be similar in New York, New Jersey or California as each of these states develop their own infrastructure for growing.

Finally, I am particularly happy we have been able to get the engineering community to understand the value of Tecochill. As a result, we get specified into technical drawings. Once you get specified in the drawing packages the sales become more predictable.

Also, your Combined Heat and Power (CHP) systems are doing extremely well. Could you first of all tell us what makes your top line, the InVerde e+ cogeneration units, stand out?

Sure, the utility industry is changing in many ways. Distributed generation, such as solar, wind, and CHP is rapidly changing the way the utility operates. For example in California, there is so much solar on the grid that when it is curtailed briefly, by adverse weather, for example, the grid has to make up that lost power instantaneously. Once the bad weather passes, the grid has to again respond. These up and downs of demand and supply then become a challenge for the whole grid.

CHP can play a very important role in that. That is also where we positioned Tecogen with our InVerde product. This piece of technology has been certified to a new standard in California, the Smart Inverter Certification.

This not only allows our InVerde to exist on the network, it also interconnects with the utility as it allows the utility to reach out to this CHP asset in time of high demand. This then stabilizes the grid in a moment of need, like the aforementioned case of adverse weather. In the past, this was not possible.

We are the only engine CHP manufacturer to have this certification at this point. This means we can help the broader grid and generate extra revenue. There are very good incentive schemes out there for the grid to call upon our products in critical moments.

This feature not only makes the product more appealing to our customers, but it can play a crucial role in project planning. InVerde can push some projects beyond the viability point. If a project has a six or seven year ROI you can push that down to three or four with InVerde and the certification for grid support.

All of this positions Tecogen at the forefront of the Combined Heat and Power system technology specifically as it relates to the smart inverter requirement which exists in California. We expect it will spread from state to state to some of our more prime markets like New York.

One sales agreement after the other is being announced for the InVerde e+. Although sales occur all over the United States, especially New York City is very hot. Why is that?

Many of the reasons I just mentioned occur in New York. There were eight demand days in New York this summer. What that means is there were eight days when the grid needed support. The utility could not provide more supply. Thus, they had to reach out to Demand Response subscribers and ask them to curtail the electricity usage for which they were compensated.

Many of our customers are enrolled in that program as the CHP is a reliable source in this scenario when the grid needs support. There is a tremendous infrastructure investment needed in New York to avoid these types of demand days. Until that incredible investment happens, CHP in particular will continue to be called upon to help out.

New York is only one example, here in Massachusetts we also see days when the grid is particularly taxed. That is the exact time when CHP can provide the most benefit to the grid. I do not see that changing soon.

Tecogen has been developing a number of applications for its Ultera technology, which dramatically reduces a natural gas powered engine's harmful emissions. Let's discuss those potential applications in more detail. First, we have the application for propane fueled fork trucks. Can you describe that for us, and also give an overview of the results so far?

We think about validation of our Ultera technology in terms of the different engines and platforms that it can used upon.

First, we developed the Ultera for the General Motors engine that is used in our cogeneration units. We also have our Ilios product that uses a Ford engine, and we have our InVerde e+ which carries GM motor derivative. We have thousands of units out there with different types of engines, and Ultera constantly showing the desired results.

In addition, we have successfully tested Ultera for Generac, Caterpillar, and Waukesha engines. Those were all stationary water pumping applications.

Our next endeavor with Ultera is on non-stationary engines. We have been testing Ultera on propane powered fork trucks with a Mitsubishi engine. A few weeks ago, we gave a presentation at the Propane Council. This showed the results of the successful collaboration between Tecogen and our fork truck partner Caterpillar Mitsubishi. Showing it works on this smaller Mitsubishi fork truck engine is just another confirmation that this technology is flexible and adaptable.

More importantly, the presentation validated the need of our technology in the fork truck space. The concern about emissions is a real threat to propane fork truck industry. The concern of the manufacturers is that every customer will switch to a battery-powered fork truck and their market share will go down.

Having a technology through which they can retrofit their existing fleet to get the emissions where they need to be, is extremely compelling and efficient. We are very glad to see Caterpillar Mitsubishi validate that by joining us on the next phase of the project.

You already mentioned it, a few weeks ago, Bob Panora, Tecogen's President and COO, presented the results of the forklift truck emissions program at the 2018 World LPG Forum in Houston. How were the reactions?

Very positive, for all of the reasons that I mentioned. Propane is the go-to fuel from a power density standpoint and also from a reliability standpoint for all industries which use fork trucks. You cannot have half of your fork trucks sitting idly while plugged to the wall while the other half of the fleet that you have is running on batteries. It is simply not cost effective.

Thus, the propane industry is definitely looking for a clean technology to show that propane fork trucks can be just as good in terms of air quality for indoor environments as well as outdoor environments.

Therefore, the positive response to Ultera from the propane industry at this show is understandable. We are hoping that this next step of collaboration with Caterpillar Mitsubishi will result in a small fleet getting upgraded with Ultera to further demonstrate its benefits.

And that is really the next step in the fork truck development program?

Yes, that is exactly right. We are working with Caterpillar Mitsubishi to come up with an exact plan, but details have not been determined yet. My goal is to equip a fleet of a few hundred, or a few dozen fork and test the technology over some period of time as the fork trucks go through their daily activities.

That type of empirical demonstration will go a long way to start getting Ultera implemented more frequently. Thus, we are very excited to go to this next phase.

I also believe the opportunity is not only tied to retrofit. Ultera can certainly be implemented on the OEM level as well. Whether it is Caterpillar Mitsubishi, or anyone else, can go ahead and market a new fork truck with Ultera as a near-zero emission vehicle. The designation as a near-zero emission vehicle can attract certain incentives as some states support the usage of these vehicles. In my view, investors have a lot to look forward to in our fork truck program.

In addition, the Ultera was also developed for stationary non-emergency electrical generators. How is that opportunity progressing?

This is still very much an opportunity for us. However, I try to be very careful and measured about balancing resources I put on different activities. Meaning I would rather put our precious discretionary recourses on the fork truck program rather than to continue to find other emergency generators we can retrofit.

This certainly does not mean we don't see potential in the electrical generators market. It is just that right now we are trying to move to the next rung of the ladder which is a much more substantial vertical market. This is represented by the fork trucks.

To summarize, there is probably more opportunity in the electrical generator but I think the better use of our resources is on the fork truck right now.

Finally, Tecogen has initiated a program to adapt the Ultera technology to gasoline fueled automotive engines. Could you tell us where we are today with that program and what we can expect in the coming quarters?

I first mentioned fork trucks but actually right after that are vehicles, an area that could be a game changer for our investors and for our Company.

We have demonstrated Ultera works on vehicles with our work first at AVL and second at a different automotive test lab here in the United States.

The next steps in the development are similar, if not exactly the same, as the next steps we need to take with the fork truck program. This is beneficial as we can take the output of our cooperation with Caterpillar Mitsubishi and take it to the development in the automotive space.

This means the work we are going to be doing on the fork trucks in the next few months almost mirrors the work we will be doing on vehicles.

At some point in the future, we will be able to have a better idea of how we can bring Ultera to either an automobile manufacturers or an OEM. There are also certainly a lot of third parties out there that take vehicles and convert them to natural gas. As a part of that conversion to natural gas you could absolutely see a conversion to Ultera. This would be possible even without a deal with an automotive partner or an OEM.

I am thinking of many different ways we can bring this effort forward. Nothing is conclusive yet but we are making good progress by proxy through the fork truck development program.

As a final question, what are some of the important milestones that investors should look out for in the next 12 months?

From the core business standpoint you will see more cogeneration sales with good customers. What I mean by that is we are going to engage customers that might represent further leads. This could be a property management company, a hotel, or energy service companies (ESCOs).

Investors should also count on seeing more of our chiller sales. We are very excited about it. Chiller sales are much more transactional because often times you are dealing with engineering companies and construction people that put in chillers every day.

This means the transactions seem to go a lot smoother than in cogeneration sales which for whatever reason sometimes dry up. We are also starting to address other markets in the chiller space. I am not going to go into them now, but we see sales at some of these other vertical markets that show demand for our chillers.

Finally, on the emission side, investors should expect to see results with the Ultera and fork truck program. In the next few

months we expect to do more testing with our partner, Caterpillar Mitsubishi. We will share the results as soon as we are able to, but investors should absolutely look for a positive development for the Ultera program.

Fantastic. Ben thank you very much for your time and insight. It's been a pleasure speaking with you and we wish you and Tecogen all the best.

Thank you very much.

Interview Feedback

We welcome your questions and feedback regarding this interview at:
http://www.smallcaps.us/tecogen-ceo-ben-locke-provides-thorough-update-on-financials-backlog-and-ultera-developments

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