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LIME - Q3 2014 Lime Energy Co Earnings Call

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CORPORATE PARTICIPANTS

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Colleen Brennan *Lime Energy - CFO, Treasurer*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third quarter 2014 Lime Energy earnings conference call. My name is Derek, and I'll be your operator for today. (Operator Instructions).

I would now like to turn the conference over to Mr. Glen Akselrod, spokesperson. Please proceed.

Glen Akselrod - Bristol Capital - IR

Thank you, Derek. Good afternoon, and thank you everybody for taking the time to join Lime Energy's 2014 third quarter financial results conference call. With us today is Adam Procell, President and CEO; and Colleen Brennan, company's CFO.

I hope all of you have had a chance to review the earnings announcement released earlier today, which could be accessed on Lime Energy Web site, www.lime-energy.com, or for the 10-Q on the SEC Web site.

Before I hand the discussion over to Adam, I want to remind everyone that the call today will include some statements that will be considered forward-looking regarding the company's strategy, operations and financial performance. Those statements are subject to many uncertainties in the company's operations and business environment, some of which we'll talk about on the call today.

I also refer you to the complete forward-looking statement disclosure in the earnings release, which is incorporated by reference for the purposes of this call. And I'd also like to refer you to the disclosures made in the company's quarterly and annual filings with the SEC.

Finally, before we get started, I want to mention that this call is being broadcast live over the Internet, and they can be access on Lime Energy's Web site or on the Thomson Reuters network. There will be a transcript posted on the Lime Energy Web site and made available after the call.

With that, I'll hand the discussion over to Adam.

Adam Procell - Lime Energy - President, CEO

Thank you, Glen. And thank you to all who are on the call, appreciate you joining us today. Today we're going to cover Lime Energy's third quarter results.

I'll give you an overview now, and Colleen Brennan, our Chief Financial Officer and Treasurer, will give you more details in a few moments. I'm going to also on this call give you an update of where Lime is, with respect to several areas that are critical to the business and to our performance.

First a few brief comments on the third quarter results. We set out at the beginning of Q3 with the objective of continuing to drive our topline by improving the company's capacity to get solid projects on the ground. This happened, as our revenue was up 15% from Q2 of this year and up 16% from Q3 of 2013.



The advances that we've seen consistently this year in both improvement of gross margin and reduction of SG&A continued in the third quarter, and with this higher revenue we were able to deliver Lime Energy's first profitable quarter, since refocusing on our utility programs business.

Adjusted for one-time costs, Lime Energy delivered \$365,000 of EBITDA in Q3. While we're happy with this milestone, the good news is we believe we can do much better. Our investments in sales excellence that I spoke to you about at the second quarter call continue to payoff.

In Q3 sales outpaced installs by 25%, meaning that we sold 25% more than we were able to get on the ground. This leads to a build up in our construction backlog. This dynamic is due in part simply to the slope of our growth across 2014, but it is exacerbated by the stress that this dramatic growth rate continues to put on cash. We are working on multiple solutions to this currently and we are hopeful that we will have one or more of these solutions in place during the fourth quarter.

The sales and marketing will be the first area of our business that I would like to touch on today, and then I will discuss a few other areas. I'll talk about ramp ups in existing programs as well as new programs. I'll talk about new products and services and how we're responding to changing client needs. And I'll talk about integrity, and specifically why it is critical to the company that we're building.

The sales and marketing engine, which Lime started building five years ago, today is made up of more than 60 sales professionals across multiple geographic regions. It was our belief, starting in 2009, that scaling energy efficiency across small businesses would require the ability in one single site visit to introduce the concept to a customer, perform the energy audit and close the deal.

This required that we combine what our several different individual's roles in a larger project into a single position. We believe that the key was to hire sales people and train them on technical aspects, while supporting them with a technology platform, which enables the required quality control.

Recent industry research papers have called for this approach. In effect they've kind of justify the investments that we made and some of the decisions that we made to head in that direction. In the interim, what Lime has built is the first-ever channel for energy efficient building products and services, with the potential to address the 96% of U.S. commercial building stock that has a peak demand of below 440 kW.

We're very proud of the sales and marketing engine that we've built. Today, on average, our sales people close a project every 10 minutes. A project that provides another U.S. small business customer with cost savings and facility improvements, while delivering cost-effective energy efficiency resources and driving improved customer satisfaction ratings for our utility partners.

With respect to ramping up of new and existing programs, on a quarterly basis, sales in our programs were an all-time high for the third quarter -- apologize for that. Our sales in our programs were an all-time high for the third quarter with more than \$17 million in new sales.

On a monthly basis, in October, they were up again and our weekly sales currently are even higher. Lime has hired more than 15 new incremental energy advisors, the individuals that are selling projects to small businesses.

In the last 30 to 60 days, many of these are in the Carolinas, where we are ramping up a new program territory for Duke Energy. Others are in existing programs, where we've seen expansion and the addition of new and expanded energy efficiency measures.

We plan to take Lime Energy to a new level in 2015, when we are targeting \$80 million in revenue. The fourth quarter will be an important test of our onboarding and training capabilities in bringing on these new energy advisors.

I want to talk briefly about the introduction of new products and services in the Lime Energy's offering. Lime continues to invest in our technology platform, which enables everything that we do. And going forward, we will be adding additional functionality.

The business of the regulated utility continues to change in dramatic ways and much remains uncertain. We believe that the ability to effectively engage utility customers and to provide them with comprehensive energy services will be seen as a valuable service by the utility of the future.



There may be several different versions of this, based on what the regulators in various states put in place, and Lime continues to watch various proceedings carefully.

However, the underlying societal value of educating utility customers on their interactions with energy, enabling them to improve the efficiency of their energy use and empowering them to participate in the market for value-added energy services will become more valuable, as the utility of the future comes into focus.

Finally, I want to touch on integrity. Integrity is our leading core value, defined as committing to do the right thing as a trusted partner and strategic contributor to a clean energy future through a culture of mutual respect. We've been consistent in reinforcing this in our corporate culture, and every Lime employee needs to know that it's their responsibility to ensure that their colleagues are acting according to the this important code.

12 months into a new era for Lime Energy, our employees know that the management of the company values them. Our partners, from material vendors to labor subcontractors know that Lime Energy's commitments are met and our obligations are fulfilled.

Our utility clients for whom we have consistently met program savings goals year-over-year know well that Lime Energy is a company that delivers on its promises. And now having delivered on our Q3 projections, our investors know about Lime's ability to deliver.

Lime Energy has spent the last 12 months earning trust, trust which had been lost in some corners and we know how this is done, one kept promise at a time. Integrity of everything that we do is what drives decision making for all Lime Energy employees.

With that, I'll turn it over to Colleen to discuss the financials in more detail, before I provide closing remarks.

Colleen Brennan - *Lime Energy - CFO, Treasurer*

Thank you, Adam. Good afternoon, everyone, and thanks for joining us again. I'm going to provide you with a brief overview of the results for the three months and nine months periods ended September 30, 2014.

Beginning with the results for the quarter, our consolidated revenue increased 16.7% or \$2.2 million to \$15.6 million during the most recent quarter compared to \$13.4 million to the prior-year period. The increase over third quarter of 2013 was primarily due to higher revenue from our Duke Progress program in the Carolinas, which was still ramping up during the third quarter of 2013. For the balance of 2014, we are expecting revenue from our energy efficiency business to show a 22.3% growth over the revenues from our energy efficiency business in 2013.

Our gross profit for the quarter increased 31% or \$1.1 million to \$4.8 million from \$3.7 million from the prior-year period. Our gross profit margin increased from 27.7% during the third quarter of 2013 to 31.1% during the third quarter of 2014.

The improvement in our gross margin was due to a combination of increased contributions from new and our renewed utility programs, which generally have better gross margins than older programs as well as improvements in operating efficiency. We expect our gross margins to remain in the range earned this prior quarter, with fluctuations up or down in future periods, depending on the level of contribution from individual program.

Our selling, general and administrative expenses declined \$810,000 from \$5.7 million during the third quarter of 2013 to \$4.9 million during the third quarter of 2014. The overall decline was due to reductions in overhead related SG&A, resulting from cost cutting moves we implemented late in 2013.

This was partially offset by cost related to the restatement we completed in 2013 and the associated cost of legal claims, which decreased by \$562,000 to \$94,000 during the last quarter from \$656,000 incurred during the third quarter of 2013.

We expect that our cost cutting initiatives will continue to contribute to reductions in our SG&A relative to last year for the balance of 2014. The increase in our quarterly revenue in combination with the improvement in our gross margin and reduction in our SG&A expense, all contributed



to an 98.7% or \$3.5 million reduction in our loss from continuing operations, which was \$45,000 for the third quarter of this year versus \$3.5 million for the third quarter of 2013. There was a gain from discontinued operations of \$136,000 compared to a loss of \$329,000 in the prior-year period.

We have a couple of legacy public sector projects that we are working to close out that are the only ongoing activities related to businesses we have either closed down or sold. We expect that we'll have small quarterly losses from discontinued operations for the next quarter until all these projects are completed.

All of this contributed to a 102.4% or \$3.9 million reduction in our net loss for the quarter. Our net income for the third quarter of 2014 was \$91,000 as compared to a loss of \$3.8 million for the prior-year period.

Now, turning to the nine month results. Our revenue for the nine month period ended September 30, 2014, increased \$3.9 million or 10.5% to \$41.5 million, due to the reasons outlined earlier. We expect our revenue for the second half of the year will exceed the revenue for the first six months with revenue peaking during the fourth quarter.

We expect that our current contracts and our recent award of a five-year contract extension for the Duke Energy Progress territory and expansion to the Duke Energy Carolinas territory will drive this growth.

Our gross profit for the first three quarter of 2014 increased 28.9% or \$2.9 million to \$13 million. Again, this increase was driven by the higher revenue and improved margins from our utility business. Our consolidated gross profit margin improved from 26.9% to 31.3% year-over-year. We expect our gross margin will improve slightly over the remaining quarter of 2014.

Our SG&A expense declined by \$2.7 million or 15.6% to \$14.5 million during the first three quarters of 2014 compared to \$17.1 million of expense for the first three quarters of 2013. SG&A cost related to our restatement and related legal claims, which totaled \$2.2 million for the first nine months of 2013, were \$690,000 for the comparable period of 2014.

Our SG&A expense as a percent of revenue declined from 45.7% during the first nine months of 2013 to 34.9% during the first nine months of 2014. However, when adjusted for one-time expenses related to the restatement we completed in July 2013 and the legal claims, SG&A declined to 33.2% of revenue. Still away from where we want to be, but a good step in the right direction.

Our loss from continuing operations declined \$7.6 million or 84.2% to \$1.4 million for the first three quarters of 2014 from a loss of \$9.1 million for the same period in 2013. Adjusting for the one-time restatement and legal expenses of \$690,000, our loss from continuing operations declined \$8.3 million or 80% to \$779,000.

We are very focused on continuing to increase the profitability of the energy efficiency business, primarily through increases in revenue, while continuing to control the growth of our overhead cost. This we believe is the path we must follow to achieve profitability.

In terms of our liquidity, we had \$1.3 million of unrestricted cash as of September 30, 2014, compared to \$6.9 million as of December 31, 2013. Net cash used in operating activities consumed \$8.2 million during the first nine months of 2014 compared to consuming \$3.3 million during the year-earlier period, representing a decrease in cash of \$4.9 million or 148.5% over the prior-year period.

The cash consumed by operating activities before changes in assets and liabilities, which is basically our net loss, excluding non-cash items, decreased by \$8.7 million to generating \$220,000 and was down 102.6% from the \$8.5 million consumed during the first nine months of 2013. The changes in assets and liabilities, for example, the changes in net working capital, consumed \$8.4 million during the first nine months of 2014 compared to generating \$5.3 million during the prior-year period.

During the first three quarters of 2014, we used funds raised in December 2013 and January and August of 2014 to bring many of our accounts payable back into agreed-to-terms with our vendors. We expect to consume more modest amounts of cash from changes in working capital related to assets and liabilities in future periods. As we continue to work-down our accounts payable balances, and if our sales grow as we anticipate, we expect our liquidity to improve.



We continue to closely monitor our working capital position and believe that if the profitability of our core business, the energy efficiency business, continues to improve as we believe it will, our operations should turn cash flow positive before the end of the year. We converted our outstanding sub-debt to preferred stock in September of 2013, therefore we had interest expense last year, this year we have dividend expense.

Included in the first nine months, dividend expense of \$2.5 million was \$1 million of non-cash deemed dividend expense associated with the \$2 million we raised in February through the sale of the Series B preferred stock. The actual dividends accrued on outstanding preferred shares totaled \$1.5 million for the first nine months.

In August of 2014, we entered into a \$1.3 million Letter of Credit Agreement with Richard P. Kiphart, the company's largest stockholder. The interest on this line of credit was \$15,000 for the first three and nine month period ending September 30, 2014.

I think that covers everything for the third quarter. So I will now turn it back over to Adam. Thanks.

Adam Procell - Lime Energy - President, CEO

Thank you, Colleen. And again I want to thank who took the time to join us on the call today. I also want to thank all of our employees for their hard work, which has put Lime Energy in this position. I thank our utility clients, who continue to demonstrate confidence in our partnership, and I thank our shareholders who continue to demonstrate their belief in what we're building here at Lime.

Before we open it up for questions, I just want to reiterate that Lime is projecting profitability in Q4 and profitability for the full year 2014. We anticipate that our revenue will grow in Q4, and that we will hit our target of finishing 2014 with over 60 million in revenue.

Further, we are projecting \$80 million in revenue for 2015 based on the anticipated continuation of all existing programs. We continue to be confident in the value of our differentiated service offering and we will be looking to add new products and services as we move forward.

With that, we will open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And at this time, I'm showing no questions in queue. I would like to turn the call back over to Mr. Glen Akselrod for any closing remark.

Glen Akselrod - Bristol Capital - IR

Thanks. That's actually for Adam.

Adam Procell - Lime Energy - President, CEO

Again, I'll just reiterate, thank everyone who has been on the call today. And most importantly our employees, our utility partners, and our shareholders who are our partners in what we're building. And thank you again, and we look forward to speaking with you on these calls again in the New Year.



Operator

Ladies and gentlemen that concludes today's conference. We thank you for your participation. You may now disconnect. Have a great day.

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