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# EDITED TRANSCRIPT

LIME - Q1 2015 Lime Energy Co Earnings Call

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## CORPORATE PARTICIPANTS

**Glenn Axelrod** *Lime Energy Company - Spokesperson*

**Adam Procell** *Lime Energy Company - President, CEO*

**Colleen Brennan** *Lime Energy Company - CFO*

## CONFERENCE CALL PARTICIPANTS

**Sergio Brisolo** *Besori - Analyst*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the first quarter 2015 Lime Energy Corporation Earnings Conference Call.

My name is Denise, and I will be your operator for today. At this time, all participants in listen only mode. Later, we will conduct a question and answer session.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes -- excuse me.

I will now turn the conference over to Mr. [Glenn Axelrod], spokesperson. Please proceed, sir.

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### Glenn Axelrod - Lime Energy Company - Spokesperson

Thank you, Denise, and good afternoon, and thank you, everyone, for taking the time to join Lime Energy's 2015 first quarter results conference call. With us today is Adam Procell, President and CEO, and Colleen Brennan, Company CFO.

Before I hand the discussion over to Adam, I'd like 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 want to refer you to the complete forward-looking statement disclosure and earnings release, which is incorporated in reference for the purpose of this call. I'd also like to refer to you to the disclosure made in the Company's quarterly and annual filings with the SEC.

Finally, before we get started, I want to mention this call is being broadcast live over the internet and can be accessed on the Thomson Reuter network. There will also be a transcript posted on the Lime Energy website once available after the call.

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

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### Adam Procell - Lime Energy Company - President, CEO

Thanks very much, Glenn, and thank you all for getting on the call. When we spoke a month and a half ago, we told you about the progress that we had made during 2014, how we had positioned ourselves to becoming a leading clean energy company. We discussed how we had raised capital, how we had (technical difficulty) in our people, tools and processes. We talked a lot about how we had passed an inflexion point, leaning toward profitability.



Today, we're going to talk about Q1 2015 from both a financial standpoint as well as from a business standpoint, and the news is good. This strong Q1 is on track for our long term plan objectives with respect to growth, and adjusted for one time costs, it is on track for our objectives of consistent profitable quarters.

Most notably, Q1 saw the completion of our acquisition of one of our most formidable competitors, EnerPath. This acquisition closed on March 24th. So, we have only eight days of EnerPath numbers in the Q1 financials that we filed today.

But, we are one company today, so you'll hear me reference at times the combined performance of both Lime and EnerPath for Q1 in its entirety. We're nearly 60 days into our integration plan, and it has gone very smoothly with little disruption to program operations.

The companies share much in terms of culture and vision. In the weeks following the acquisition, we completed presentations by executive management to 100% of the new Lime Energy employees. We laid out a clear vision for the Company that we are building, and there is great optimism across the employee base.

Colleen will get into more detail in a moment, but I want to highlight that our first quarter demonstrated what we had talked about in anticipation of 2015. Our revenue was up by nearly 50% year-over-year, primarily on the strength of expanded program territories and the addition of new and innovative smart building technology into several of our programs.

Our margins were fairly consistent, despite our having hope for improvement there. And our SG&A adjusted for one time costs, which were primarily associated with the acquisition, was up only 2%.

The result was a change in adjusted EBITDA excluding one time costs from a loss of \$578,000 in the first quarter of 2014 to a profit of \$222,000 in the first quarter of this year.

Looking more closely inside our programs and the performance year-to-date, we believe that our current run rate exceeds what we saw in Q1, which is what we would anticipate as program changes continue to be rolled out. Our reported GAAP financial results only include the results from EnerPath for the last week of March.

However, on a pro forma basis, combined for the entire year of Q1, Lime and EnerPath had sales of \$40.5 million through the end of April, representing a 58% increase over the same period for both companies for 2014.

On the same pro forma basis, the two companies had \$40.5 million of project [coal al-store] installation, again through the end of April, representing a 59% increase over the same period for both companies for 2014. For a business that has traditionally low sales and moderate revenue in the first part of the year, and in particular, for two companies whose leadership worked throughout Q1 on the acquisition, these numbers are a very encouraging indication as to the health of the team, the tools and process of the business that we have built.

Our performance year-to-date has been consistent across programs with all four programs the Company runs at 90% of sales goal or better, several obviously much better. Our year-to-date sales across the Company is 120% of our year-to-date sales goal. So, we are off to a faster start than even we had internally forecast and likely ahead of plan.

We believe that this will begin to translate into revenue that is at or ahead of our internal plan during the second quarter.

So, in summary, we are very happy with the performance of the Company in the first quarter and year-to-date, and we believe that we are track to deliver what we had said we would for 2015.

I want to touch on growth for a moment, our growth plans. I mentioned that a great deal of our year-over-year growth is accounted for by expansion of territory with existing clients. Lime [march for] 12 of the 25 largest utilities in the United States, and many of these companies have utility territories in multiple states. In fact, our utility clients have service territories in 25 states, 25 states that make up 76% of the US population.

The small business programs that we run for these utilities currently serve 1.4 million small business customers, but this is less than one-third of all small business customers that these utilities serve. So, our opportunity for growth in the small business programs within existing utility clients is tremendous. And we also are looking to add incremental services for these same clients.

I talked about the introduction of new smart building power in our existing programs, and Lime is at the forefront of bringing new technologies to market from LED lighting to energy efficient refrigeration equipment and smart building controls, smart thermostat. Lime is leading the way.

What this means in part is that Lime has the ability to sell the next measure to small business customers who have already implemented a project. And we're implementing pilots currently which will enable this new energy model and reporting software, which works together with our customer engagement software.

As regulators look to unleash more clean energy by designing market based competitive regulations, Lime is setting the standard for innovative delivery in measurement and verification of energy efficiency.

Finally, I want to touch briefly on the market for the services that Lime Energy provides. We have had the opportunity to participate in several major industry gatherings over the last few months, and with other industry thought leaders are together, they are discussing what needs to be done to ensure that more energy efficiency is delivered to our national energy system. In fact, the conversation in Europe right now is exactly the same.

This is, of course, great news for Lime Energy. But, just what is done will dictate much of the Company that Lime will need to be. The good news and bad news is that, in the U.S., there will be 50 sets of decisions which inform this future market, bad because of inconsistency but good because it will represent a gradual management transition from the way that things have been done in the past to the way the energy market should be done in the future.

Once again, I believe that Lime Energy has put ourselves in the lead with our innovative delivery mechanism from our unique incentive calculations and our cutting edge smart building products and our performance contracts, all of which are being implemented today to the software communication tools of tomorrow that we are currently piloting.

There is plenty of competition in the space, smart competition and experienced competition. But, Lime has consistently demonstrated an agility which our competitors have not been able to match. It is this agility that is our greatest advantage. Combined with our passion for what we do, Lime is tough to beat.

So, as states and utilities are looking to implement the energy efficiency initiatives of tomorrow, they are increasingly turning to the Lime Energy team. Our results speak for themselves.

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

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**Colleen Brennan** - Lime Energy Company - CFO

(Technical difficulty) 49% to \$18.3 million during the first quarter of 2015 from \$12.3 million during the first quarter of 2014. The increase in revenue was driven primarily by higher revenue from new utility programs, which were in the process of starting up during 2014, and \$862,000 in revenue from EnerPath.

All the programs are now up and running and at close to steady state levels. Therefore, we expect our growth in future periods to continue to moderate unless there is an increase or decrease in the number of programs in which we are working.

The increase in revenue led to a \$1.8 million, or 47.5% increase, in our gross profit during the first quarter of 2015 when compared to the first quarter of 2014. Our gross profit margin decreased slightly from 30.4% during the first quarter of 2014 to 30.1% during the first quarter of 2015. This decrease in our gross profit margin was the result of the levels of contributions of individual programs.

We believe our gross profit margin will improve as we have negotiated more favorable pricing from our suppliers. However, it will fluctuate up or down depending on the level of contribution from individual programs, all of which have slightly different profit margins.

The gross profit margin we earn in the future may also be affected by the addition of new programs or the loss of any of our existing programs.

Our selling, general and administrative expenses increased \$896,000, or 18.2%, to \$5.8 million during the three month period ended March 31st, 2015 from \$4.9 million for the same period in 2014. Cost related to the restatement we completed in July of 2013, the stockholder losses and the SEC investigations totaled \$127,000 during the current quarter, which was \$162,000 lower than the \$289,000 incurred during the first quarter of 2014.

When adjusted for these charges, our SG&A expense increased to \$1.1 million, or 22.9%, to \$5.7 million during the first quarter of 2015 from \$4.6 million during the first quarter of 2014. Utility program related SG&A expense increased approximately \$705,000, primarily due to expansion of programs.

Corporate and business development SG&A expenses increased approximately \$400,000 primarily due to increased corporate support functions.

The Company's acquisition of EnerPath resulted in cost of \$694,000 during the first quarter of 2015. Acquisition costs are related to acquisition activities, which include legal, accounting and other expenses.

In order to finance the acquisition, we also incurred \$2.2 million of interest expense, extinguishment of debt and loss from the change in the derivative liability.

The increase on our quarterly revenue in combination with the improvement in our gross margin was offset by the changes in the derivative liability and the extinguishment of debt, which contributed to a \$2.1 million increase in our loss from continuing operations before income taxes, which was \$3.3 million for the first quarter this year versus \$1.2 million for the first quarter of 2014. The acquisition of EnerPath contributed 1.2 -- a \$1.2 million income tax benefit.

There was a loss from discontinued operations of \$63,000 compared to a loss of \$3,000 in the prior year period. We have a couple of legacy public sector projects that we're still working to close out that are only -- the only ongoing activities related to businesses that we have either sold or closed down. We expect in light of a small quarterly loss from discontinued operations for the next quarter until all these projects are completed.

All of this contributed to a \$931,000 increase in our net loss for the quarter. Our net loss for the first quarter of 2015 was \$2.1 million as compared to \$1.2 million for the prior year period. The adjusted EBITDA loss increased \$1.2 million to \$2 million from \$860,000 in the first quarter of 2014.

Excluding expenses related to the restatement, stockholder law suits and the SEC investigation, and one time cost related to the acquisition of EnerPath, the adjusted EBITDA loss declined \$800,000 to income of \$222,000 from a loss in the prior year of \$578,000.

In terms of our liquidity, we had \$5.6 million of unrestricted cash as of March 31st, 2015 compared to \$5.5 million as of December 31st, 2014. Net cash provided by operating activities was \$231,000 during the first three months of 2015 compared to consuming \$6.9 million during the prior year period, representing an increase of \$7.1 million 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, increased by \$193,000 to \$858,000 and was up 29% from the \$665,000 consumed during the first quarter of 2014. The changes in assets and liabilities - i.e., the change in net working capital - generated \$1.1 million during the first quarter of 2015 compared to consuming \$6.3 million during the prior year period. This improvement was the result of not having to use cash during the first quarter of 2015 for working capital related assets and liabilities.



During the first quarter of 2014, we used funds raised in December 2013 and January 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 assets and liabilities in future periods as we continue to work out our accounts payable balances. And if our sales grow as we anticipate, we expect that they will.

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 remain cash flow positive.

On March 24th, 2015, the Company issued a subordinated convertible note to Bison Capital Partners due March 24th, 2020 in the principle amount of \$11.75 million. The Company used the proceeds to finance the EnerPath acquisition.

I think that covers everything for the quarter, so I'll now turn this back over to Adam.

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**Adam Procell** - Lime Energy Company - President, CEO

Thank you, Colleen.

Let's make brief closing remarks before we open it up for questions. Lime Energy has developed a strong track record for employee engagement for innovation and client management. In 2015, we're focused on adding profitability to that list.

The innovative accomplishments of this company has been worth the wait, and we thank our investors for their support and for their patience. Lime's time is now, and we are well aligned with the market.

Before we open it up for questions, I want to reiterate that Lime is projecting profitability for the full year 2015, our revenue has grown, and we are projecting that we will exceed \$100 million in revenue for 2015. 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.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

And please stand by for your first question.

And our first question comes from [Sergio Brisolo] with [Besori]. Please proceed.

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**Sergio Brisolo** - Besori - Analyst

Hi. How has the backlog increased since the beginning of the year? And are those clients likely to remain with Lime until the end of the year? And are you guys working to increase those sales on the existing clients, as well? Thank you.

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**Adam Procell** - Lime Energy Company - President, CEO

Thank you for the questions, Sergio. We have term contracts with our -- each of our utility clients, and I believe that we -- the terms are in the filings. We have several contracts that expire at the end of each given year, so I would just say that we have backlog -- we've been awarded recently

extensions on contracts such that our backlog today is probably consistent with what it was at the beginning of the year, and the business development and winning of new contracts or extensions is an ongoing process.

We do anticipate, as with any year, that several of our contracts which end at the end of this year will be recompeted. And we have a very strong track record, Lime historically as EnerPath has historically of winning those recompetes.

So, we generally anticipate that we will be re-awarded our territories. So, you know, we have a few contracts coming up for bid this year, and we would anticipate a good likelihood that we would be able to then extensions, which range anywhere from three to five years with these contracts.

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**Operator**

We have no further questions. I would now turn the call back over to management for any closing remarks. Please proceed.

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**Adam Procell** - Lime Energy Company - President, CEO

I just want to thank everybody for getting on the call today and, again, investors for sticking with us and everybody on the line, too, for continuing to put their best effort, and we look forward to speaking to you all again in a few months. Thank you.

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**Operator**

This concludes today's conference. You may disconnect. Have a great day, everyone.

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