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LIME - Q2 2015 Lime Energy Co Earnings Call

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CORPORATE PARTICIPANTS

Glen Akselrod *Lime Energy Co. - IR*

Adam Procell *Lime Energy Co. - President, CEO*

Mary Colleen Brennan *Lime Energy Co. - CFO, Treasurer*

PRESENTATION

Operator

Good day ladies and gentlemen and welcome to Lime Energy 2015 Second Quarter Conference Call.

At this time all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions will follow at that time.

(Operator Instructions)

As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Glen Akselrod, Spokesperson. Sir, please begin.

Glen Akselrod - *Lime Energy Co. - IR*

Thank you and good afternoon and thank you everybody for taking the time to join Lime Energy 2015 Second Quarter Results Conference Call.

With us today is Adam Procell, President and CEO; and Colleen Brennan, company's CFO.

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

I'll 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 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 this call is being broadcasted live over the internet and can be accessed on the Thomson Reuters network. There will be a transcript posted in the Lime Energy website once available after the call.

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

Adam Procell - *Lime Energy Co. - President, CEO*

Thank you Glen. And thanks to everybody for getting on the call today. Today, we're going to discuss Lime Energy's results for the second quarter, as well as for the first half of 2015 from a financial standpoint, as well as from a business standpoint. You will hear details of strong financial performance during the second quarter which began only eight days after we acquired EnerPath, a major industry participant.

It was the second quarter during which our management implemented a 90-day integration plan. And it was the second quarter that saw a 150 new employees integrated into the Lime Energy's organization, a doubling of our staff.

You'll hear about a very strong first half of the year period during which Lime Energy pursued and successfully completed the acquisition of a major industry player and fully integrated it into our company.

The fact that Lime Energy was able to do all of these while delivering on our projections for dramatically improved financial performance is a testimony to our strategy, to the place that we have carved out in market, and most importantly it's a testimony to our greatest asset, our people.

When we spoke just over four months ago to report our 2014 results, we talked about having delivered on our 2014 revenue projection of \$60 million and sticking to our 2015 projection of \$80 million in revenue and profitability.

With the addition of EnerPath and the continued growth of Lime Energy's programs, we're thrilled to report that our revenue on a pro forma basis for both companies for the first half of 2015 was \$60 million, with adjusted EBITDA of \$2.2 million, adjusted for non-recurring expenses. This marks 18 months during which we have done what we said were going to do.

I'm going to walk through some highlights of our financial performance in the second quarter and Colleen will give you some more detail.

But to be clear, Lime Energy has built a very important, intelligent energy company at a critical time in the nation's march towards energy efficiency and clean energy.

Over six years of consistently innovating from software applications to financing solutions to performance contracts, cutting-edge smart building technologies, real time energy information, monitoring, verification of energy savings.

The result has been more than \$600 million in contract awards from half of the nation's 25 largest utility. And the development of a reputation for delivering cost-effective energy efficiency solutions at scale at hard to reach markets.

In the small business segment, long seen as nearly impossible reach, Lime Energy is now completing an energy efficiency facility upgrade every six minutes.

To our second quarter results, Colleen will talk to you as always in a more granular detail regarding our three month and six month financial results. I would like to highlight the scale of our improvements across these three critical areas; revenue, gross margin and SG&A.

As complicated as it is to profitably grow a flourishing business, the measurement of your progress is really quite simple. And these are the three metrics that we track most closely.

The challenge of course is that we are -- these metrics are inextricably tied and it's only through great strategy, strong management and a heck of a lot of hard work that we can influence all then moving in the right direction simultaneously.

Looking at our year over year performance for the second quarter, it's clear that Lime has been able to do just this.

Our Q2 2015 revenue is up by 135%. Not 35%, but a 135% increase over this quarter last year. This is on the strength of Lime Energy's existing utility programs, dramatic expansions in some cases, as well as the addition of the legacy EnerPath utility programs.

Scale is a critical component of the Lime Energy business plan and we have accelerated our achievement of scale through acquisition, although organic growth continues off to great promise.

Our second quarter 2015 gross profit outpaced our revenue increase, growing 146% over the same period last year. The result is a gross margin improvement from 32.5% to 34%. Through our own organic growth, as well as the addition of the legacy EnerPath programs, we've dramatically expanded the services that we provide to our utility clients. We've gone from a large lighting retrofit company to a leading professional program management firm in just five years.



In order to support a client community, we have built significant internal groups across areas that include marketing, software development, procurement and logistics. We account for these resources in our SG&A in adding cost to goods sold. So we have understood that our gross margins in the business that we've been running for several years now would need to grow into the mid-30. The high 20s and low 30s gross margins of our past did not reflect providing the level of services that we've built into our utility program offerings.

We are measured by our clients, our utility clients on cost for kilowatt/hour delivered, and we continue to be most cost-effective at delivering energy efficiency resources in the small business there of competition. And we do it on a performance contract and basis.

Finally in the second quarter of 2015, our SG&A increased only 100%, in contrast to the higher increases in revenue gross profit. Some of this is scaled, some of this is improved processes and management. We believe that there are efficiencies that we will gain from the EnerPath acquisition which are not yet reflected in these numbers. Already our SG&A is up 29% -- excuse me, 29.5% of revenue, down from 24.3% for the same period last year.

So the bottom line for our second quarter 2015 is 34% gross margin, 29.5% SG&A, on a quarterly revenue of \$32 million. All of these resulting in adjusted EBITDA excluding non-recurring expenses of \$1.9 million for the quarter.

As I said, Colleen will walk you through this in greater detail. But I'm so grateful for the hard work of the 260 plus employees of Lime Energy who are responsible for the numbers that I just ran through. They deserve the credit for having delivered the Company that we are committed to building several years ago. The financial performance that we had committed to delivering when we took over the management of the Company 19 months ago.

I'll talk just a little bit today about the market focused on the -- what is going on in the market that we serve, which is the market for clean energy. The main drivers for the work that we do on behalf of our utility clients continue to be the shift to the utility of the future.

A company that provides comprehensive energy services to its customers and helps them manage and reduce their energy. In some cases, this is driven by state energy efficiency resource standards which require utilities to deliver a certain amount of energy efficiency in their customer's facility. In other cases, utilities are doing this independent of any regulatory requirements. They're doing it because our offering is compelling enough of its cost effectiveness and the high customer satisfaction that it delivers.

There's great deal of activity in states and in Washington DC, and the improving markets for clean energy solutions, including energy efficiency, renewable energy and demand response. The effects of regulatory and legislative initiatives have a mix of track record, but the rapid advancement in technology and communications does seem to warrant reevaluating the way these services are delivered to customers.

The hope here is that the most societally beneficial solutions will be rewarded in this market, and Lime Energy has done well to focus on just these solutions.

Our focus on performance contracting, financing solutions and cutting edge monitoring of our [place] in technologies will likely be rewarded in the future. In order to ensure that this is the case, we're spending a lot of time and energy working with existing and potential utility clients with industry associations, regulators and legislators.

In addition to all these going on in state capital, the U.S. EPA released its final clean power plant on August 3rd. A strict rule aimed at reducing CO2 emissions from power production. This will drive hundreds of billions of dollars in investments, in solutions that range from coal to gas convergence, renewable energy, power plant retrofits, as well as energy efficiency. We are enthusiastic about the potential for solutions on the customer side of the meter, including energy efficiency to assist states in compliance with this rule.

The economic benefits of the small business programs that Lime Energy delivers are so compelling that it must be considered one of the first solutions in any clean energy plants.



Before the United States investing cleaner power generation sources, we must address the fact that 20% to 30% of the energy used in our buildings is wasted. I believe we are in the lead with our innovative delivery mechanism. We've chosen the right area to focus on from the small business segment to energy efficiency, to key states in the regions. We continue to innovate and we are developing cutting edge solutions for real time measurement verification of energy efficiency projects.

We're passionate about what we do and we have a team that includes great number of thought leaders in the energy services industry. It's no wonder that states and utilities are looking to implement the energy efficiency initiatives of tomorrow. They're increasingly turning to the Lime Energy team. Our results speak for themselves.

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

Mary Colleen Brennan - *Lime Energy Co. - CFO, Treasurer*

Thank you Adam. Good afternoon everyone and thanks for joining us this afternoon.

I'm going to provide you with a brief overview of the results for the three month and six month periods ended June 30th, 2015.

Beginning with the results for the quarter, our consolidated revenue increased 135.1% or \$18.4 million, to \$32 million during the most recent quarter, compared to \$13.6 million for the prior year period. The increase over the second quarter of 2014 was primarily driven by the acquisition of EnerPath and by higher revenue from our existing utility programs.

For the balance of the year, we are expecting revenue from our energy efficiency business to show substantial growth over the revenue from our energy efficient business in 2014.

Our gross profit for the year -- for the quarter increased 146.3% or \$6.5 million, to \$10.9 million for the \$4.4 million from the prior year period.

Our gross profit margin improved from 32.5% during the second quarter of 2014 to 34% during the second quarter of 2015.

The improvement in our gross margin was the result of improved efficiencies and existing programs and higher margin contributions from our new programs including the EnerPath program and renewed programs.

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 programs.

Our selling, general and administrative expenses increased \$4.7 million -- from \$4.7 million during the second quarter of 2014 to \$9.4 million during the second quarter of 2015.

With the acquisition of EnerPath, our combined SG&A expenses to percent of revenue declined to 29.5% for the second quarter of 2015, as compared to 34.3% for the same period of 2014.

Our cost related with the restatement we completed in July 2013 and the associated stockholder lawsuit in SEC investigation totaled \$95,000 during the second quarter of 2015, which was \$211,000 less than the \$306,000 we incurred during the second quarter of 2014.

We expect our cost cutting initiatives and successful integration of the EnerPath acquisition will continue to contribute to reductions in our SG&A expenses as a percent of revenue, relative to last year for the balance of 2015.

The Company's acquisition of EnerPath resulted in cost of \$244,000 during the second quarter of 2015 for acquisition costs. Acquisitions costs are related to acquisition activity which include legal, accounting, and other expenses. Amortization of intangibles resulted in cost of \$278,000 during the second quarter of 2015.



In order to finance the acquisition, we also incurred \$0.4 million of interest expense and recorded a loss of \$1.3 million from the change in the derivative liability. We did not incur any of these costs in the second quarter of 2014.

The increase on our quarterly revenue in combination with the improvement in our gross margin and reduction in our SG&A expense was offset by the cost related to financing EnerPath's acquisition and contributed to a 261.1% or \$598,000 increase in our loss from continuing operations, which was \$827,000 for the second quarter of the year, versus \$229,000 for the second quarter of 2014.

There was a loss from discontinued operations of \$158,000 compared to a gain of \$55,000 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 sold or closed down. We expect we would have a small quarterly loss from discontinued operations for the next quarter until all these projects are completed.

Adjusted EBITDA increased to \$1.7 million from a loss of \$6,000. Excluding non-recurring expenses related to the restatements, stockholder lawsuits and the SEC investigation and acquisition costs, adjusted EBITDA would've increased \$1.7 million, or 564.7% to \$1.9 million.

All of these contributed to a 466.1% or \$811,000 increase in our net loss for the quarter. Our net loss for the second quarter of 2015 was \$985,000, as compared to \$174,000 for the prior year period.

Now turning to the six month results. Our consolidated revenue for the six month period ended June 30th 2015 increased \$24.4 million or 94.2% to \$50.2 million, due to the same reasons we outlined with respect for our results for the second quarter.

All the programs are running at steady pace 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 on which we are working.

Our gross profit for the first half of 2015 increased 101% or \$8.2 million, to \$16.4 million. Again, this increase is driven by the acquisition of EnerPath as well as higher revenue and improved margins from our utility business.

Our consolidated gross profit margin improved from 31.5% to 32.6% year over year. We expect our gross margin will improve slightly over the remaining quarters of 2015.

Our SG&A expense increased by \$5.6 million or 58.9%, to \$15.2 million during the first half of 2015, compared to the \$9.6 million of expense for the first half of 2014.

The Company's acquisition of EnerPath resulted in cost of \$937,000 in the first half of 2015. Amortization of intangibles resulted in cost of \$309,000 during the first six months of 2015.

In order to finance the acquisition, we also incurred \$0.5 million of interest expense and recorded a loss of \$3.5 million related to an extinguishment of debt and loss from the change in the derivative liability for the first half of 2015. We did not incur any of these costs in the first half of 2014.

SG&A cost related to our restatement stockholder lawsuits which totaled \$595,000 for the first six months of 2014 were \$222,000 for the comparable period of 2015. With the acquisition of EnerPath, our combined SG&A expenses as a percentage of revenue declined to 30.3% for the first half of 2015, as compared to 37% for the same period of 2014.

However, on adjusted for non-recurring expenses related to the restatement we completed in July of 2013 and stockholder lawsuits and SEC investigations, SG&A declined to 29.8% of revenue.

Our loss from continuing operations increased \$1.5 million or 105.6%, to \$2.9 million for the first half of 2015, from a loss of \$1.4 million for the same period in 2014.



Adjusting for the non-recurring restatement and legal expenses of \$222,000, our loss from continuing operations increased \$1.8 million or 231.1%, to \$2.6 million. 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 and continue to be profitable.

The adjusted EBITDA lost declined \$509,000 or 58.4%, to \$363,000 from \$872,000.

Excluding non-recurring expenses related to the restatement, stockholder lawsuits and SEC investigation, acquisition cost and loss on the extinguishment of debt, the adjusted EBITDA increased \$2.5 million or 900%, to earnings of \$2.2 million from a loss of \$277,000.

In terms of our liquidity, we had \$7.7 million in cash and cash equivalent including \$1.8 million of restricted cash as of June 30th, 2015 compared to \$6 million including restricted cash of \$500,000 as of December 31st, 2014.

Operating activities generated \$461,000 of net cash during the first six months of 2015, compared to \$8.2 million during the year earlier period, representing an increase in cash of \$8.6 million or 104.9%.

The cash consumed by operating activities before changes in assets and liabilities which is basically our net loss excluding non-cash items decreased by \$233,000 to \$180,000 and was down 56.4% from the \$413,000 consumed during the first half of 2014.

The changes in assets and liabilities, i.e. the net change -- I mean, the change in net working capital generated \$641,000 during the first half of 2015, compared to consuming \$7.7 million during the prior year period.

We expect to generate or consume more modest amounts of cash from changes in working capital related to assets and liabilities and future periods of our sales growth as they anticipate they will.

We consumed \$11.4 million of cash and investing activities during the first half of 2015, compared to \$274,000 during the first half of 2014. The cash consumed during the first half of 2015 included the \$11 million used to acquire EnerPath and \$441,000 used for capital expenditures, \$289,000 of which was used to continue to develop the software platform used by our utility programs.

All the cash consumed during the first half of 2014 was for capital expenditures, the largest portion of which was used to continue to develop the software platform.

During the first half of 2015, financing activities generated \$11.4 million of cash, compared to \$2 million generated during the first half of 2014. During the six month period ended June 30th, 2015, we raised approximately \$11.7 million from the issuance of the Bison notes. This was partially offset by \$337,000 of cash paid for deferred financing cost.

As a reminder, during the six month period ended June 30th, 2014, we raised \$2 million the sale of shares and Series B preferred stock, which was partially offset by \$9,000 of cost related to the preferred stock issuance.

We continue to closely monitor our working capital position and believe that it's 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.

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

Adam Procell - Lime Energy Co. - President, CEO

Thank you Colleen.



Over the last several years, Lime Energy has demonstrated several key strengths, including employee engagement, innovation, and client management.

In 2015, we've added to this list profitability and the ability to deliver on our projections.

As our business model demonstrates its value, we are not resting on our laurels. In the contrary, we're challenging ourselves every day with the same sense of urgency that we have for the last six years. We're keen to focus on continuing to stay out in front in the clean energy space and being a relevant company five and 10 years from now.

In a dynamic market like ours, this is a constant challenge. It requires that we look at strategic partnerships and acquisitions and develop new solutions utilizing state of the art technology.

We have the right people and the right strategy. We feel that we are well positioned to take advantage of this growing market.

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

With that, we'll open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

At this time, I'm showing no questions in queue. I would like to turn the call back over to Mr. Adam Procell for further remarks.

Adam Procell - Lime Energy Co. - President, CEO

Thank you. We'll just thank everybody again for tuning in, and you know, continue to thank the investors and -- for showing of faith in Lime Energy, and of course to all the employees in Lime Energy for their hard work. And we're starting to see results. And we look forward to another strong quarter and speaking to you all again in a few months. Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect.



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