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LIME - Q4 2014 Lime Energy Co Earnings Call

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## CONFERENCE CALL PARTICIPANTS

**Jadie Hager** *REMAX - Analyst*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Q4 2014 Lime Energy Co. Earnings Conference Call. My name is Whitley, and I'll be your operator for today. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session. (Operator Instructions). As a reminder this call is being recorded for replay purposes.

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

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### Glen Akselrod - *Bristol Capital Ltd - IR*

Thank you, Whitley. And good afternoon, and thanks everybody for taking the time to join Lime Energy's 2014 fourth quarter and year end financial results conference call. With us today is Adam Procell, President and CEO; and Colleen Brennan, company CFO.

I hope all of you have had a chance to review the earnings announcement released earlier today, and which can be accessed on Lime's website, [www.lime-energy.com](http://www.lime-energy.com), or for the 10-K on the SEC website.

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.

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. I'd also like you 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 broadcast live over the Internet, and could be accessed on the Thomson Reuters network. There will 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 - *Bristol Capital Ltd - President, CEO*

Thank you, Glen. And thank you all for getting on the call today. We're going to cover Lime Energy's 2014 performance on this call. It was a fantastic year for the company and for our people. Colleen will cover 2014 details, but I want to speak to you from where we sit today, especially in light of recent events and recent news from the company.

15 months ago the range of Lime Energy were passed to a small group of managers and hundred or so dedicated employees, which together have started the utility programs business in 2010. These were individuals who had persevered through the challenges that the company faced in 2012 and 2013.

In these last 15 months, Lime Energy's new management team has raised over \$30 million of new capital. We've won one of the largest ever small business energy efficiency programs. We've grown our margins, while cutting SG&A. We've turned profitable on an adjusted basis.

We renegotiated terms with our suppliers. We've increased transparency with the board and with the market. With still integrity as our primary pillar, we've hired a CFO, controller, and a director of human capital each of which has raised the bar of professionalism inside our organization.

We've implemented a compensation plan which is redesigned to tie every Lime team number for the company's financial performance. Settled an outstanding shareholder lawsuit and successfully wrapped up discontinued operations.

And finally, while it took most of these 15 months to do it, just last week we completed an acquisition that combines two leading companies in the delivery of energy services to mass market customers.

As I am proud about these accomplishments is because I am -- I am proud of every member of the Lime's team for their contributions and I am just very fortunate to work with a group of dedicated professionals who are so committed to our mission.

We are doing things at Lime Energy that have not been done before in the energy industry. We're generating energy resources that scale across small and mid-sized businesses. Lime's program teams wake up and go to work every morning with shopkeepers and entrepreneurs across the country. And during our shared work day we lead customer engagement on behalf of our utility clients with over 1 million such businesses.

Every six minutes we make a permanent reduction in the energy usage and operating cost to the small business, demonstrating a truly powerful behavior change, as these customers invest in clean energy future.

And we're scratching surfaces to what's possible. Last week we announced that Lime Energy had acquired EnerPath. The power of this combination has become clear to the management teams of both companies and as we work to finalize the deal and following our internal announcement this is very great excitement across Lime Energy about the company that we've created.

As we move forward from being competitors to being team mates, it doesn't take long to realize the power that this combination creates. I'll hit on a few highlights for you here today.

The two companies have complimentary strengths. Lime Energy is evolved out of the sales and energy efficiency project implementation firm, while EnerPath has a long heritage of software and technology development.

Today we both implement utility programs providing integrated services but our complementary heritages give us expertise under one roof that is unmatched in the industry.

Industry leadership. Lime Energy is now clearly the leading third party provider of customer engagement and data driven mass market energy efficiency programs for utilities.

Purchasing power. Lime Energy is now one of the largest purchasers of energy efficient smart building products, having created a channel for America's small businesses to access energy services previously available only to larger businesses and institutional and governmental clients.

Innovation and strategy. Quite clear that Lime Energy employees work for a company that knows how to read the regulatory landscape and develop winning strategies. These two companies have been focused for more than a decade on the areas which are now the hardest in the industry, small business, integrated services, customer engagement, behavior change.



The future of these two companies is bright, while much is unclear about the future of the utilities business model, it is clear that the ability to engage mass market customers and put actionable insights in their hands, while providing the opportunities for these customers to access comprehensive energy services is part of this future.

We like our leadership position in energy efficiency software, data analytics, and mobile technology development, especially when these tools are directed towards creating tangible and lasting change in how people use energy.

Over the course of next one hundred days, we will be implementing an integration plan that has been developed by Lime and EnerPath management over the last several months. This is a low risk integration, as our utility programs are by definition complementary from a geographic standpoint.

We share much in philosophy values and vision and where we differ approach, we will take the opportunity to share lessons learned and ensure that the new Lime Energy emerges stronger than either of us could have been on our own. The benefits which will accrue to our people, to our clients and to our shareholders of what this acquisition is all about and you'll be hearing more about this as we move forward.

I want to talk a little bit about Lime Energy's long-term focus and steady improvement. Lime Energy has made steady improvement over the last 15 months in many areas, and Colleen will describe how this looks from a financial standpoint in 2014. Our processes and procedures have been standardized and we continue to make improvement to our technology platform that supports our ability to sell and implement as many as 400 small energy efficiency projects to lead.

We've made great strides in relatively short amount of time, since refocusing our company at the beginning of last year. Steady growth, introduction of new products and services and getting the profitability.

The reason as we make progress, which can be demonstrated in quarter-over-quarter performance, the decisions that we make are focused on our long-term success. We're very certain of the company that we are building and into the company that is dedicated to being excellent across services that are great value to our utility clients and their customers.

Like most industries, our industry provides temptation to look for short term gains. We are experiencing the shortest change in building technology such as LED, controls and communication, with simultaneous disruptive change in the utility business model. Lime will continue to benefit from these changes, but the outcome we are looking for is to have the most appropriate business model and it thus clears.

No other company can match our capabilities and tools for delivering valuable energy efficiency resources, cost effective in the mass market, small business and residential. This is the result of being out in front of this important need and early investments that we've made in energy information software, mobile technology applications which have a mass decade's worth of customer interaction data which today power our unique understanding of mass market energy efficiency.

Combined with our award winning performance based delivery model, Lime is confident that we have a business which will provide great value regardless of how the utility industry landscape shapes out.

We're building a great company that does great things. Our company is built on a handful of pillars which have formed the decisions that we make in our growth. We consider the five pillars that follow, employees first. We believe passionately that the principal foundation for our company sustainable financial performance is investing in employees, creating opportunities for professional development and making the company a great place to work.

Lime Energy is well under [giving] capital initiative and as an example over the last two weeks alone, we launched a tailored industry leading sales training curriculum across all of our programs.

Integrity in all that we do. We are honest and direct with each other. We don't have time to be otherwise. We're honest with our utility clients and their customers which results in higher value and integrity in services and energy efficiency resources that we deliver.

Expertise. Our goal is to lead the industry in our areas of focus. No one knows more about bringing energy services at scale to mass market customers in Lime Energy. Energy. This refers to the energy that Lime team members bring to work with them everyday. It's born out of our passion for what we do and the fact that we have fun doing it.

Finally improving our communities. Ultimately all that do as a company is driven by society's best interest and we specifically help small businesses and our neighbors everyday by the deploying clean energy solutions.

So while we understand our responsibility to our shareholders, we believe that they are better served to have us focus on what we build each quarter, as much as what we deliver each quarter. This is the key to sustainable financial performance and into the share philosophy of our management team.

To cover little bit of market drivers before I hand it over to Colleen. The programs which we implement continue to be driven by the potential to improve energy efficiency within commercial buildings and the benefit that these improvements have to utilities both in reducing the environmental impact of electricity generation and offsetting upgrades through the distribution infrastructure.

Increasingly the programs are being seen as a critical cost-effective tool for utilities to extend their reach to touch customers that have been largely underserved in the past and in doing so drive unprecedented levels of customer satisfaction. In a period decreasing sales, utilities recognize the need to engage these customers and provide more than just electricity, water and gas.

What this more will be is a matter of great discussion. A recent survey of 433 utility executives indicates that utilities will move away from the traditional integrated utility model towards a more distributed service based model. They list as the industries two biggest growth areas distributed energy resources, including energy efficiency, renewable energy and demand response, as well as the customer relationship itself.

We see big opportunity in distributed energy resources, but they are unsure to best business month, when pushed to select how their utility should invest in distributed energy resources, the number one answer from these utility executives was to partner with third party providers.

So the future of utility investments will be heavily focused on the customer side of the meter and Lime Energy is positioned well to provide the services required to meet these capital investments goals.

Our advantages over the competition include our unique ability to cost effectively dispatch distributed energy resources across the large number of small businesses required to make an impact, includes our integrated model which provides the customer experience needed to drive high participation in an otherwise apathetic customer segment. And our performance based contracts that mitigate risks for our utility clients in procuring energy efficiency resources, while creating a meaningful and open channel for product manufacturers and multiple contractors.

With that overview, I'll turn it over to Colleen to discuss the financials in more detail before we move to questions.

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**Colleen Brennan** - *Bristol Capital Ltd - CFO, Treasurer*

Thanks, Adam. Good afternoon, everyone. I'm going to provide you with a brief overview of our financial results for 2014. Our revenue from continuing operations for 2014 was \$58.8 million, which represents a 14.1% or \$7.3 million increase from the \$51.6 million we earned in 2013.

Our gross profit increased \$3.9 million, or 27.9% to \$17.7 million during 2014, from \$13.8 million in -- I am sorry, during 2014 from \$13.8 million in 2013. Our gross profit margin increased from 26.8% in 2013 to 30% in 2014. And the improvement in our gross profit margin is the result of increased contributions from the utility programs, which generally have better margins than our older programs and improvements to operating efficiency within exiting programs.

The improvements in operating efficiency were due to a combination of the continued development of our software platforms, changes we made to some of our processes and additional training and experience of the people working in these programs.

Selling, general and administrative expense of our continuing operation was \$20.2 million, which was \$2.7 million less than the amount reported for 2013. Our SG&A as a percentage of revenue declined from 44.5% in 2013 to 34.3% in 2014.

Included in the 2014 SG&A expense was approximately \$813,000 of cost associated with the restatement of our financial statements and the defense of related stockholder lawsuits. This is \$1.8 million less than the amount incurred in 2013 for similar expenses.

2014 SG&A expense also included \$309,000 of expenses related to raising capital, pursuing mergers and acquisitions and \$113,000 of severance costs, while the 2013 SG&A expense also included \$327,000 of share based compensation expense, which was related to the accelerated vesting of options and restricted stock of terminated employees. All other SG&A expenses declined \$962,000 during 2014, as a result of the initiatives we undertook to reduce overhead cost.

The restatement of our historical financial statements was completed in July of 2013. In late January 2014, we agreed to terms of a settlement on the stockholders security lawsuits and the stockholder derivative suit was filed in February of 2015 with insurance covering the entire settlement.

We also believe that the initiative we took in 2014 to reduce overhead cost in combination with an expected increase in revenue will contribute to reduce our SG&A as a percentage of revenue in 2015.

Interest expense for continuing operations decreased \$1.9 million to 189,000 during 2014, from \$2.1 million during 2013. Interest expense for 2014 related to outstanding subordinated notes and a letter of credit for one of our utility contracts.

Interest expense for 2013 was related to the outstanding subordinated note term loans and a conversion of the notes of to preferred stock at which time we expect the unamortized deferred issuance cost and debt discount.

Interest expense from discontinued operations decreased from \$372,000 in 2014 to zero in 2014, as a result of the sale of GES-Port Charlotte and the repayment of the term note and amortization of deferred financing cost.

Our interest income increased 49,000 to 100,000 in 2014 from 51,000 earned during 2013, substantially all of the interest income during both periods represented amortization of the discount of our long-term receivables.

The loss from discontinued operations declined \$4.5 million or 100.2% to a profit of \$7,000 during 2014. Discontinued operations represents the results of our ESCO business, which we sold in February 2013. GES-Port Charlotte which we sold in November of 2013, our regional service business which we also sold in November of 2013 and our contract with the Army Corps of Engineers, which we sold in December of 2013.

We are still working to close on a couple contracts that we did not sell with the ESCO business that we anticipate will be closed out in early 2015. Activities related to closing out these legacy projects are likely to generate a small loss from discontinued operations in 2015.

Our dividend expense for 2014 was \$2.9 million, including \$1 million of non-cash deemed dividend associated with the warrant issued with the Series A and Series B preferred stock and the adjustment and conversion price of the Series A preferred upon the issuance of the Series B preferred stock.

The remaining \$1.9 million of dividend expense was accrued on the outstanding preferred stock all the 27,000 was paid on December 22, 2014, due to issuance of additional shares of preferred stock and subsequently converted to common stock.

Turing to our liquidity position, as of December 31, 2014, we had unrestricted cash of \$5.5 million and restricted cash of 500,000, as compared to unrestricted cash of \$6.9 million and restricted cash of 500,000 in December 31 of 2013.

During 2014, operating activities consumed \$13.4 million of cash, as compared to consuming \$3million during 2013. Breaking this down a little further, operating activities before changes in current assets and current liabilities consumed 706,000 in cash during 2014, as compared to consuming \$10.8 million during 2013. This improvement was due to the reduction in our loss for the year, excluding non-cash charges.



Changes in current assets and current liabilities consumed cash of \$12.7 million during 2014, as compared to generating cash of \$7.8 million during 2013. Increased receivables due to increased sales from new programs and a decrease in our accounts payable was a primary contributors in the cash consumed from changes in assets and liabilities in 2014.

We believe that if our revenue grows and our gross profit margin improves, as we believe they will, and we are successful in reducing our overhead cost, that our cash flows will continue to improve to the point (inaudible) during 2015. This in combination with the cash we had on hand at the end of 2014 should be sufficient to fund their operations for the foreseeable future.

I think that summarizes all the important points for 2014. So I will now turn this back over to Adam.

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**Adam Procell** - *Bristol Capital Ltd - President, CEO*

Great. Thank you, Colleen. And it's my duty to do the wrap on \$58.8 million in revenue. You know we have on the call last year we talked about the potential to deliver \$60 million in revenue and so we came within what is about one week to sales of that number last year, very proud of that accomplishment.

Lime has received lot of compliments recently on our turnaround, and while the compliments are appreciated we maintain that Lime is going turnaround the story. Lime is growth story which was stalled by the challenges that the company faced over the course of 2012 and 2013.

We started a new business 5 years that today is profitable \$100 million company. A company that has been head of the market shift in delivery of innovative programs, services to utilities. Most importantly we've created a great company that does great things and we remain focused on this.

Lime Energy today knows who we are, a businesses of top several important pillars that I described earlier. These pillars guide everything that Lime Energy team members do everyday and when your employees are truly broaden the mission the company can accomplish great things.

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

We continue to be confident in the value of our differentiated service offering and we will be looking at new products and services as we move forward.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Our first question comes from the line of [Jadie Hager] with REMAX Please proceed.

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**Jadie Hager** - *REMAX - Analyst*

Yes. Hi, nice job, on all the reached results. One quick question was and maybe it's not so quick. Could you go through the capital structure as we're looking at it today and or give us a sense for what common shares are out and what potentially convertible instruments there are? Hello?



**Adam Procell** - *Bristol Capital Ltd - President, CEO*

Yes. I am sorry. I appreciate the question. We are -- without that information right in front of us, it would be hard to go thorough it in detail. As it's all publicly available and as I think you're aware we kind of raised money in December through a preferred shared series and announced on Monday of this week yesterday that we had a convertible note that was utilized to fund the acquisition.

So it is -- those are couple of elements of our cap table in addition to the common share outstanding. But we would -- I guess direct you to the December 23rd preferred share raise which talked about the conversion of shares to common, as well as the issuance of the preferred stock and guide you to yesterdays release regarding the debt that was used to fund the acquisition. That would describe better the cap table.

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**Jadie Hager** - *REMAX - Analyst*

And the most recent acquisition that was a new instrument, not the preferred you issued, the licensed -- the finance add transaction?

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**Adam Procell** - *Bristol Capital Ltd - President, CEO*

Correct. It was also licensed, but it was a separate instrument.

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**Jadie Hager** - *REMAX - Analyst*

Okay. And then will you be providing any details about the expected contributions from the acquisition in the 10-K?

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**Adam Procell** - *Bristol Capital Ltd - President, CEO*

Not in this one, we will be -- there is a deal that closed within the last week. So we will within six weeks be back out of course with our first quarter and I think you'll see one in the Q about the contributions from different programs and different parts of the new Lime Energy.

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**Jadie Hager** - *REMAX - Analyst*

Okay. And then one other question, going back to the announcement last year in August about the new business that you won, is there a way to provide anymore detail about what was comprised within that, is that new programs, or is that the renewals from existing programs, how should we be thinking about that?

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**Adam Procell** - *Bristol Capital Ltd - President, CEO*

It was combination of both and to be honest, we worked for utilities that have pretty strict guidelines around what we can release specific to their programs and we take advantage of the opportunities frankly to announce multiple contract extensions and acquisition of contracts together in part for that region. So it's not something that we are prepared to breakdown on a contract-by-contract basis.

It was primarily what we talked in our August press release, was expansions of existing programs with existing clients and term extensions with existing clients.

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**Jadie Hager** - *REMAX - Analyst*

Okay. And then one other kind of philosophical question, I think it was in the 10-K for last year you talked about sort of the eligible customer base for each of the big programs that you are servicing. Is it fair to assume there is a decent revenue linkage between the potential size of those markets and what you guys should ultimately capture?



**Adam Procell** - *Bristol Capital Ltd - President, CEO*

Yes. So we -- in different parts of the country there is very different approaches being taken. So in Northeast and in California, the majority -- there are programs available to the majority of small mid-sized businesses through their utilities and then there is what we call the white space which is really a vast swap of the country.

The Southeast and mid-west notably where such program is dedicated to accessing what are 90% of utilities customers do not exist. So there is great potential to expand in those parts of country. Of course, we've begun that with a couple of Southeast utilities and with the utilities in mid-west.

But, we do look at market potential as being the current commercial building stock and when we look at that we get pretty excited because we are scratching the surface in terms of delivering, deploying integrated comprehensive energy services to small mid-sized businesses.

So we talk about over million customers under our contracts. And the reality is if you looked at the number of small businesses in the United States there is a very small part of the market that's being covered and then we've got a majority of the market that is being covered.

**Jadie Hager** - *REMAX - Analyst*

Okay. And I guess to state my question little bit more directly, if we will get the information you disclosed like the New Jersey for public utilities, I think you said it was a 50,000 eligible customer base and something like Duke was 180.

Is that fair to assume that Duke has three to four times the revenue potential as New Jersey just based on that simplistic look at it?

**Adam Procell** - *Bristol Capital Ltd - President, CEO*

Yes. So the program design will change that dramatically and so if we have programs where our average projects size is \$4000 and we have other programs where our average project size is \$40,000. So I guess the short answer to your question is no, it's not that simple because the measures that we're deploying in the program, in one program made comprehensive HVAC heating our [conditioning] retrofit, and in another program we may strictly do lighting. It's going to throw that metric off.

But the overall potential to do building upgrades it is proportionate to a number of customers. It's just that the programs, specific program designs were not always capturing that whole potential.

**Jadie Hager** - *REMAX - Analyst*

Okay. And then one final that from me is, so some of the longer tenured programs that you are working on, do you see those is having less opportunity long-term, just because you've sort of harvested the long hanging fruit within those already or is there still ample opportunity because you are merely scratching the surface even in the -- the more mature programs?

**Adam Procell** - *Bristol Capital Ltd - President, CEO*

The reality is that these programs evolve over time and we do -- we add measures and building technology improves, lighting technology has been very good to us, in evolving becoming more efficient. We're now doing more HVAC and control. The channel we've created gives utilities a great potential to do renewable energy, to deploy demand response and other things.

So we -- I think that the evolution of the programs kind of trumps the concept of market saturation. So -- and that's based on -- we're doing program in New England for Eversource, which had been NSTAR and that's a program that I work in as energy auditor 20 years ago, same could be said for

Central Hudson and Long Island. So the reality is we're in our fifth generation of lighting and we're moving into all the measures and so I think the programs evolve and from our standpoint that trumps any concern with market saturation.

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**Jadie Hager** - REMAX - Analyst

Okay. Thank you very much.

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**Adam Procell** - Bristol Capital Ltd - President, CEO

Thank you.

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**Operator**

(Operator Instructions). There are no further questions in queue. I will now turn the conference back over to Mr. Adam Procell. Please proceed.

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**Adam Procell** - Bristol Capital Ltd - President, CEO

Okay. Well, just to wrap up, again I want to thank everybody for getting on the call and reiterate our excitement and having the EnerPath team join the Lime family. And we are well into our integration and very excited about where the company is headed and we will be back to talk to all of you again in about six weeks, about the first quarter, to report our results. So thank you again to everybody for tuning in.

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**Operator**

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect.

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