



RGS Energy

Business Update Conference Call

July 16, 2019

CORPORATE PARTICIPANTS

Dennis Lacey, *Chief Executive Officer*

PRESENTATION

Operator:

Good afternoon and thank you for joining us today to discuss RGS Energy's Business Update Call. With us today is the Company's Chief Executive Officer, Dennis Lacey.

Following Mr. Lacey's remarks, he will take questions from sell side analysts. Before the conclusion of today's call, I will provide the necessary cautions regarding forward-looking statements made by management during this call.

We'd like to remind everyone that this call is available for replay starting this evening via the link provided in last Tuesday's press release through July 23, 2019 and will also be available on the Company's website at investors.rgsenergy.com for the next 12 months.

Now, I'd like to turn the call over to the Chief Executive Officer of RGS Energy, Mr. Dennis Lacey. Please go ahead, sir.

Dennis Lacey:

Good afternoon and thank you for joining us on today's call, our third 30-day business update as we progress toward our goal of selling Powerhouse and achieving break-even and better results. You likely have already looked at this month's update posted on the Investor Relations section of our website.

As we advance, we have streamlined report to focus chiefly on the ultimate objective, which is to achieve break-even and better results. We include a snapshot of how we look after the first 15 days of the third quarter in this update. Our belief is, at this point, with 75 days to go, we are progressing very nicely to achieving our immediate goal of break-even and better results. What leads us to this belief is the analysis and the business update of potential revenue for the current quarter, the third quarter to end September 30, 2019. This analysis builds to a quarterly break-even revenue by component, each of which I'll explain next.

The first component is the \$4.3 million order we reported to you last time. This homebuilder desires to arrange to pay us in full with one single payment for the full \$4.3 million, and we will begin shipment shortly after receipt of those funds. We expect this homebuilder to make full payment shortly.

The second component is a new (inaudible) order for another homebuilder for \$2.7 million. This homebuilder will begin work on a new home community this quarter and their best estimate at this time is for us to ship POWERHOUSE™ kits to them ratably over the next four quarters.

Another piece of good news, we are very happy to announce we have entered into our first distributor agreement with a regional distributor. To continue as an authorized distributor of the future, this distributor will have to maintain a certain level of ongoing purchases.

The third component are the other contracts currently in backlog that we expect to ship this quarter.

When you add up all three of these components, it is \$5.7 million of expected quarterly revenue, which does not meet the estimated quarterly break-even amount of roughly \$7 million. However, we believe this difference can be met from our approximate \$5 million of current sales pipeline. If we close just 25% of today's sales pipeline and ship within the next 75 days, the math of our analysis shows we would achieve break-even revenue for the third quarter, and of course, we have 75 more days to pursue additional sales. We believe that presenting break-even in this manner is clearer and more understandable.

I wanted to mention that when we calculated the monthly break-even revenue, we used a lower gross profit percentage than we expect in the future where we will have higher revenue than just the break-even revenue. I have mentioned this before, but there are certain items in our POWERHOUSE™ cost of goods sold that are on a permanent or a semi-permanent nature; meaning they aren't (phon) tied or grow proportionately to sales volume.

A couple of examples for us are quality control inspections for POWERHOUSE™ and warehouse costs. With lower revenue, these fixed costs eat up more of the gross margin, but with higher revenue, they don't increase proportionately, so we expect that our gross profit percentage will grow as revenue grows above the break-even amount. Our goal, of course, is not to just break-even, it's to be profitable, but when we calculate a gross profit percentage for the lower break-even revenue, the math of it is simply a proportionately lower gross profit percentage than what we expect in the future. I suppose this explanation will only be of interest to those of you building your own financial models for RGS.

Along the lines of more information about certain metrics, I should mention sales pipeline. You may recall from our last call that we mentioned we were transitioning to roofers and EPC solar installers quoting their customers on their own and not through us. Those quotes are not reflected in our sales pipeline. This is our desired outcome as we want them bidding using the tools we have provided them. As such, we believe, going forward, the bulk of the sales pipeline will represent activity with homebuilders and distributors who do not quote customers directly, they seek quotes from us.

Further, we routinely reduce the sales pipeline whenever we feel a future order is no longer likely for reasons such as lack of current contact with the customer and, of course, when we receive an actual order, which means it comes out of pipeline and goes into backlog. Our view is this is the best position we have been in for achieving break-even results for a quarter. We have a backlog of signed contracts that we expect to be shipped this quarter that gets us to 80% of our estimated break-even revenue. This, we feel, is a good start to a quarter considering we have another 75 days to go. We will host another business update call in 30 days.

Thank you again for joining us on today's call. We look forward to updating you on our progress in the future. Operator, please go ahead and wrap up the call, as there are no questions from sell side analysts.

Operator:

Thank you. Before we end today's presentation, I'd like to take a moment to read the Company's Safe Harbor statement that provides important cautions regarding forward-looking statements.

Today's communication contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, including statements regarding RGS Energy's results of operations and financial positions, and RGS Energy's business and financial strategies.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they provide RGS Energy's current beliefs, expectations, assumptions, forecasts, and hypothetical constructs about future events, and include statements regarding our future results of operations and financial position, business strategy, budgets, projected costs, plans, and objectives of management for future operations. The words believe, plan, future, may, will, expect, hypothetical, view, estimate and predict, and similar expressions as they relate to us are intended to identify such forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved, if at all. Forward-looking statements are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Therefore, RGS Energy cautions you against relying on any of these forward-looking statements.

Key risks and uncertainties that may cause a change in any forward-looking statement or that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include: the ability of RGS Energy to successfully realize profitable revenue growth from the sale and installation of POWERHOUSE™ 3.0; RGS Energy's ability to realize revenue from quotations, sales pipeline, and backlog for POWERHOUSE™; RGS Energy's ability to increase the number of participants and rate of participation within its network; RGS Energy's ability to obtain future purchase orders for POWERHOUSE™ deliveries; competition in the built-in photovoltaic solar system business; RGS Energy's ability to successfully implement its revenue growth strategy, achieve its target level of sales, generate cash flow from operations, and achieve break-even and better results; the adequacy of, and access to, capital necessary to implement RGS Energy's its revenue growth strategy; RGS Energy's actual gross margin percentage; and other risks and uncertainties included in the Company's filings with the Securities and Exchange Commission.

You should read the section entitled Risk Factors in RGS Energy's 2018 Annual Report on Form 10-K and Report on Form 10-Q for the quarter ended March 31, 2019, each of which has been filed with the Securities and Exchange Commission, which identify certain of these and additional risks and uncertainties.

Any forward-looking statements made by RGS Energy in this communication speak only as of the date of this communication. Factors or events that could cause our actual results to differ may emerge from time-to-time, and it is not possible for RGS Energy to predict all of them.

RGS Energy does not undertake any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments, or otherwise, except as may be required by law.

POWERHOUSE™ is a trademark of The Dow Chemical Company, used under license.

RGS Energy is the Company's registered trade name. The Company files periodic and other reports with the Securities and Exchange Commission under its official name, Real Goods Solar, Inc.

I would like to now remind everyone that this call will be available for replay through July 23, 2019. Please refer to last Tuesday's press release for our dial-in and replay instructions. A webcast replay will be available via the Company's website at investors.rgsenergy.com.

Thank you for joining us for today's presentation. This concludes today's call. You may now disconnect.