



RGS Energy

Business Update Conference Call

April 15, 2019

CORPORATE PARTICIPANTS

Dennis Lacey, *Chief Executive Officer & Director*

PRESENTATION

Operator:

Good afternoon and thank you for joining us today for RGS Energy's business update conference 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'll provide the necessary cautions regarding forward-looking statements made by Management during this call. We would like to remind everyone this call is available for replay starting this evening via the link provided in last week's press release through April 22, 2019 and will also be available on the Company's website at investors.rgsenergy.com for the next 12 months.

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

Dennis Lacey:

Thank you. Good afternoon everyone and thank you for tuning in to today's call. We will be filing today our Annual Report on Form 10-K which will extensively cover last year's results. I believe you all joined today's call to hear about the POWERHOUSE solar shingle, so I'd like to discuss POWERHOUSE, including the economics of POWERHOUSE, the challenges we had with the first quarter, the tremendous opportunity ahead, and our go-to-market strategy.

We previously discussed our plans for the commercialization of POWERHOUSE, but it seems to me a more detailed explanation is appropriate at this time. With our recent announcement to exit our mainland residential solar operations, our business plan now is to be the provider of the POWERHOUSE solar shingle. As we have previously disclosed, our business model for POWERHOUSE is capital-light in nature, and we have outsourced the manufacturing of the product to reputable third parties. As such, we do not have any of the capital expenditures that are typically associated with a manufacturer, nor the financial burden of employing a plant workforce.

We have a similar operational-light model for the sales side of the business. Let me explain. Our product is ideally suited for homeowners who need to replace their roof, whether it be from the age of the roof or due to some calamity such as hail or fire, etc. We estimate that when compared to a traditional rack-n-mount solar system, the POWERHOUSE product will be somewhat less expensive than a similarly sized system. On the other hand, if a homeowner does not need a new roof, the POWERHOUSE product will be a little more expensive than a traditional rack-n-mount system, but we think some customers will be willing to pay a little more because POWERHOUSE looks better and, after all, curb appeal does matter.

You may be wondering why the difference in price. In large part, it is due to the fact the POWERHOUSE product is indeed a shingle and it is a direct replacement for the roof currently in place. Rack-n-mount systems are installed on top of the existing roof and typically do not require the current roof to be removed. The removal of the existing roof adds an incremental cost to the POWERHOUSE product.

On the flip side, when a homeowner is replacing a roof with POWERHOUSE, there are labor efficiencies gained because the crew installing the roof can also install the POWERHOUSE shingles on the same day, thereby realizing important efficiencies. While there are other factors impacting cost, these are the principal factors.

In the instance of a homeowner filing an insurance claim for their damaged roof, the value proposition is even better as the insurance proceeds pay for the installation of POWERHOUSE and a homeowner has a new roof that will allow them to earn money from electrical savings as their POWERHOUSE roof is producing power, offsetting the homeowner's electrical bills.

The key takeaway is that the value proposition for the homeowner is the greatest under the following two scenarios. One, when the homeowner replaces their roof, or two, in the case of new construction when the POWERHOUSE product is installed as the roof. Both options minimize cost and maximize value to the homeowner. Hopefully you can see that POWERHOUSE is best when the homeowner is replacing their roof and this determination is what led us to the strategy to focus on local roofing companies as the core of our distribution model. There are many, many local roofing companies across the U.S. These local roofers know their communities well. They know when a home needs a new roof and bid for those jobs as they become available. Our strategy is no different than what Dow Chemical did with the market to the local roofers.

When the local roofers bid for a new roof, our strategy is for them to also offer POWERHOUSE. You may ask, 'What would motivate them to offer POWERHOUSE? Can't they just simply bid for the basic re-roof jobs?' Well, yes, they could do that, but that does not allow them to distinguish themselves from their competitors. By offering the POWERHOUSE product they create additional value for the homeowner with minimal or zero marginal costs and the roofing companies are looking for an edge themselves in a highly commoditized marketplace.

Beyond that, our research indicates that the roofers make more money per job when they sell POWERHOUSE. In the local roofing world, a standard metric used to describe a job is in terms of squares. How many squares of roof are there on the house? A square is 10 by 10 feet. Roofers think in terms of it costs me X amount of materials and Y amount of labor, so my cost per square is then Z. If I mark up the price a certain percentage, I make a comment per job per square. They can mark up the equipment cost of POWERHOUSE we sell them plus mark up the labor to install POWERHOUSE. Once again, our diligence has shown that this creates a substantial profit opportunity for the local roofing companies.

If you are a small business owner and you can materially improve the profit on a job utilizing the same crews you have now while creating additional value for customers, why wouldn't you pitch POWERHOUSE to your customers? We think they will. It just makes sense. If a homeowner is going to replace their roof anyway, and the costs are almost the same but the value is greater with POWERHOUSE, the cost savings POWERHOUSE Shingles provide, the choice is simple. If the customers do not want it, nothing is lost and the roofing company is still viewed as having offered something of value to their customer.

As you can see, under our approach the local roofers are the salesforce selling POWERHOUSE to the ultimate customers, the homeowners. We assist in this process by employing our marketing strategy which is designed to build the POWERHOUSE brand. This program is designed to create brand

awareness with homeowners, which should make selling the POWERHOUSE product that much easier for the local roofers.

Let me share some of the details of our active marketing program for POWERHOUSE. For starters, since October we have attended 12 home shows and builder expos in a total of nine states, which is on average two shows a month. These events are attended by homeowners, local roofing companies, custom homebuilders and mass market homebuilders. From our discussions with attendees at these events, we are beginning to see the POWERHOUSE brand gaining traction in the marketplace. We have also been interviewed by four different publications, further making the POWERHOUSE name known. In addition, we have blasted out our media kit to over 500 publications as well as participated in a radio show and have also signed up for time on two television shows. One that shoots this month is the Information Matrix for a 20 minute spot on PBS, and the other is for a 30 minute spot on Designing Spaces on the Lifetime Network set to shoot this spring.

Television is the most expensive media outlet to market through, and as mentioned above, we have signed up for two spots at this time to test the effectiveness of this marketing channel while being prudent from a cost perspective. We believe the audiences for each of these shows are ideal for building POWERHOUSE brand awareness.

We also have a very active digital presence. We have spent time, money and effort in improving our digital presence through various portals and platforms. Our goal is to build the POWERHOUSE brand and make it easy for our homeowners to learn about our product. We have used website optimization such as videos and user friendly links. We also use social media such as Facebook, Twitter, Instagram, LinkedIn, and take advantage of their digital ads and online reviews. We have used email marketing. We have invested in search engine optimization so our ads are more prominently displayed to bolster the POWERHOUSE brand recognition.

Since last June, we have by various means reached out to more than 4,000 local roofing companies. Today we have more than 250 roofers in our system, meaning we are actively engaged in helping these roofers learn to sell POWERHOUSE and jump start their solar businesses. The roofers range in size from smaller firms to multistate firms, but we believe the average firm installs 300 new roofs a year or about a roof a day. Roofers joining our system do so because they believe potential customers will want a roof that reduces their cost of electricity so they get a return on their investment in solar, at the same time improve the curb appeal of their home, the value asset for most Americans.

The market and revenue opportunity is tremendous. Even if we capture a very small fraction of that market, we believe it will provide us with meaningful annual revenues.

To put this into perspective, let's say each roofer we have in the system today sells POWERHOUSE to one customer a month, or 12 roofs a year. Twelve out of 300 jobs a year is 4% of their total jobs. If each of our roofers today, not assuming any new roofers join our system in the future, could get just one customer a month to select a POWERHOUSE product when replacing their roof, that would equate to roughly \$57 million of annual revenue. This revenue estimation is based upon our previously disclosed price of roughly \$19,000 for a 6kW system.

By exiting the mainland residential solar business, we are now able to approach other traditional solar installers to offer POWERHOUSE Shingles to their customers, which only serves to expand our efforts.

My point of sharing these marketing stats is to show you that we have done much on the marketing front to build brand awareness and we continue to drive forward this program to expand brand awareness of the POWERHOUSE product. We also have done a lot to build a nationwide network of local roofers. Today, with over 250—excuse, 250 roofers in 40 states. So, you were thinking, if all it takes is one a

month per roofer, why don't you have meaningful revenue now. That answer requires an expanded explanation.

Our timing for the launch of POWERHOUSE was not advantageous. As you know, we had hoped for obtaining UL approval earlier during 2018. As it turned out, it was received late in the year and we did not start our commercialization efforts until the first quarter of 2019. We know solar is a very cyclical business; it plays out for us the same every year. The second and third quarters are the best, the fourth is the next best and the first quarter is always the worst. But there is more to the story than starting during the worst quarter.

The local roofing companies ended 2018 with a significant backlog of jobs they had sold earlier in the year to their customers. They have to first satisfy those commitments. Naturally they are focused on closing out older jobs before pitching POWERHOUSE to homeowners, which would be a job they cannot get to yet due to these prior commitments. Please recall during the last conference call I said that the first few quarters would be bumpy until we could achieve an equilibrium between supply and demand.

We knew the challenges entailed with the first quarter start. Having said that, we also have to say the start was much less effective than we had hoped and anticipated. To encourage sales we offered discount programs during the first quarter, but to no avail because, as I said, until the local roofers close out their backlog, they are not prepared to sell new product.

Despite advising it would be a bumpy start, we had assumed more sales. Even a modest amount of sales would have benefited our cash position. When we advised we would not have to raise additional capital we expected more sales. We clearly would have preferred not to have undertaken a capital raise. Management and the Board has bought a significant number of shares and we cannot say we are pleased either. Yes, we have written nonbonding reservations from local roofing companies that if they come to fruition will have a material impact on earnings. I earned during our June 7, 2018 earnings call that the principal reason we were collecting reservations was to give us evidence, support if you will, that we can show to our supply chain partners so they would gear up to meet demand. It was marketing intelligence to manage the supply chain and also to gauge how much we wished to spend on brand marketing as the roofers wanted us to supply them with leads.

We believe the interest level with our roofers remains; the issue is timing, as I just explained.

The good news is we are entering the traditionally better seasons for solar and we know our roofers are bidding on new jobs of POWERHOUSE. As I've explained, we believe we've had a timing issue and this should correct as the year progresses. Additionally, as roofers work through their previous year's backlogs, we should see a momentum increase in the deployment of the POWERHOUSE product. Regardless, we are very focused on helping our roofers sell POWERHOUSE to their customers. Let me tell you about six different ways we are supporting our roofers.

One, we designed and implemented an effective marketing program I just described to create the POWERHOUSE brand awareness and name.

Two, we offer sales training. We have a digital training course designed to make it easy to fit in with the roofer's busy schedule. We also provide real-time training using our mobile training roof. Roofers who have attended these sessions have remarked that it's easy as Lego. If they think it is easy, they will be more willing to sell the product.

Three, we provide a simplified quick quote tool that roofers can use by filling in only a few fields of data, such as the roof shape, etc., and come up with a quote and a full-blown proposal for the prospective

homeowner. It also kicks out a purchase order for RGS. Again, the concept is to make it easy for our roofers to get the POWERHOUSE product into the market and onto roofs across the country.

Four, we pass on leads generated from our online presence to our roofers to generate workflow.

Five, we have just now begun to roll out a design tool that our roofers have wanted. This software enables our roofers to download a satellite image of their customer's roof, easily allowing them to configure a POWERHOUSE system design. It provides a visual of the completed system that they can use to help them with their installation planning. Lastly, it helps them with pricing the system to their customers and ordering the POWERHOUSE kit from us. This software has been months in development and we are glad it's coming online now, at the same time as we enter the traditionally busy season for solar sales.

Six, when we exited the mainland residential business, we believe we kept our top performing call center sales people. They know solar very well and how to sell it. They are now assigned to our roofers and are helping them with their sales, and that includes assisting them as much as possible with their prospective customers.

Our philosophy all along has been to make it as easy as possible for our local roofers. We believe our philosophy can prove itself now that the timing is right, now that we are entering the traditional busy seasons for solar.

Let me wrap into this conversation recent announcements we have made that are relevant to this discussion. One is that on March 7th we announced we are considering strategic alternatives. As you know, we've been in the solar industry for over 40 years and have not made money. In fact, we have consistently lost money. When it became certain we had a product to distinguish ourselves—that product being POWERHOUSE—and we started manufacturing and commercializing during the first quarter, it seemed like a prudent time to take stock of our situation and assess whether or not there was a better way to enhance shareholder value. As we assessed in the context of a distressed downstream solar segment, our working capital, based upon the launch results to date and the POWERHOUSE opportunity, we announced on March 29th we would be exiting the mainland residential solar business. The goal is to conserve cash to focus resources on POWERHOUSE.

To demonstrate my personal commitment to the Company's future, I recently reduced my contractual base pay by 50%.

We trust investors understand POWERHOUSE is a new significant opportunity and that we just started the process of building a sustainable business unit. Ninety days seems like too short of a period of time to evaluate either a company or a new product.

We have other opportunities to drive shareholder value that I have not even discussed today. For instance, the new build market whereby we sell POWERHOUSE to homebuilders in addition to roofers, and of course, the compelling opportunity presented by the California 2020 solar mandate which requires all new homes built to have installed in the roof.

We require time to capitalize on the opportunity before us with this new product. When the insiders of the Company bought shares, they bought them for the long term. That is why we have always stressed with a hypothetical projection that it would take years to achieve the compelling results POWERHOUSE presents for us. What we have here is a product that has recently won awards, in a segment with limited competition, with regulatory tailwinds that are supportive of products like POWERHOUSE, a growing nationwide network of local roofers, a customer solution engineered to be priced more competitively than other offerings, and to boot, we have taken the necessary steps to curtail our historical cash outflows.

These are reasons we are eager to get to work each day and prove this in the field, thereby delivering positive results for the Company and its shareholders. We look forward to reporting better, more encouraging news in succeeding quarters.

Thank you all again for joining us today. Operator, please go ahead and wrap up the call.

Operator:

Thank you. Before we end today's presentation, I would like to take a moment to read the Company's Safe Harbor statement that provides important cautions regarding the 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 strategy. 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, budget, projected costs, plans, and objectives of management for future operations. The words believe, plan, future, may, will, expect, anticipate, hypothetical, predict, and estimate 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 performances 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: RGS Energy's ability to successfully commercialize POWERHOUSE 3.0 and achieve market share; RGS Energy's ability to manage supply chain in order to have production levels and pricing of the POWERHOUSE 3.0 shingles to be competitive; the ability of RGS Energy to successfully expand its operations and employees, and realize profitable revenue growth from the sale and installation of POWERHOUSE 3.0, and to the extent anticipated RGS Energy's ability to realize revenue from sales of POWERHOUSE arising from the California Energy Commission's mandate for solar systems with new homebuilding commencing in 2020; RGS Energy's ability to realize revenue from written reservations for initial POWERHOUSE deliveries; RGS Energy's ability to obtain future purchase orders for POWERHOUSE deliveries; competition in the built-in photovoltaic solar system business; cost and availability of raw materials including the impact from the changes in the price of oil and the foreign currency exchange rate for Chinese yuan; RGS Energy's ability to successfully implement its revenue growth strategy, achieve its target levels of sales, generate cash flow from operations and achieve breakeven and better results; the adequacy of and access to capital necessary to implement RGS Energy's revenue growth strategy; the future trading price of RGS Energy's Class A common stock, 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 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 under used license.

RGS Energy is the Company's registered tradename. 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 remind everyone, this call will be available for replay through April 22, 2019. Please refer to yesterday's press release for dial-in and replay instructions. A webcast replay will also 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.