



RGS Energy

Business Update Conference Call

May 15, 2019

C O R P O R A T E P A R T I C I P A N T S

Dennis Lacey, *Chief Executive Officer & Director*

C O N F E R E N C E C A L L P A R T I C I P A N T S

P R E S E N T A T I O N

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'll 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 Friday's press release through May 22, 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.

Dennis Lacey:

Good afternoon, and thank you for joining us on today's call. I believe you are listening to today's call because you are interested in hearing about three things: one, where we stand with current POWERHOUSE orders and sales; two, what is the amount of revenue we need from POWERHOUSE for the Company to operate at breakeven results; and three, what does our cash runway look like?

To facilitate this discussion, we have posted two documents on the Investor Relations section of our corporate website today. One document is titled "Business Update for the 30-day Period Since the Last Conference Call". Many of my comments made today will make reference to this document. The other document is an updated corporate presentation.

Let's get into it. As you know, during our last call on April 15, we explained that we had hopes and expectations that once we entered the traditional busy season for solar we would see an uptick in activity. This has proven to be true. As shown in the 30-day business update, for just the 30-day period since the last call, we have indeed seen an uptick in activity.

We all know the sales cycle process and its timing. It starts with proposals to homeowners by our network participants, then quotes, followed by purchase orders, shipments and revenue. When I introduced the concept in our earlier conference call that it would take several quarters for the startup POWERHOUSE

business to achieve future expected equilibrium between supply and demand before we had satisfying financial results, I was referring to the need to work through this lead time. Of course, once you're up and running for a period of time, the initial activities like sales pipeline development are offset by growing sales from prior months and that, of course, would serve to smooth out the customary business startup results we are experiencing now. We are taking the first steps towards equilibrium in this first 30 days of the traditional busy season. In fact, in the last 30 days, we have tripled our sales pipeline, which is now up to \$6.4 million.

Further, we received 10 times the dollar amount of new sign purchase orders. The analysis of the POWERHOUSE sales pipeline presented in the business update shows that if we were at equilibrium today, which of course we never expected nor could achieve in the first month, the level of activities essentially at our required breakeven revenue and that is only considering POWERHOUSE revenue.

I say only the POWERHOUSE revenue because we're expecting a contribution from our remaining legacy business units, that being Small Commercial and Sunetric. If our legacy units produce as we expect, it simply lowers the required breakeven contribution from POWERHOUSE alone.

Speaking further about equilibrium, as you can see in the 30-day business update, we only have just over 25% of our network actively quoting POWERHOUSE to their customers today. This is to be expected based upon our commentary during the last conference call, where we explained that many participants in our network are still working off their backlogs before pitching new business, like POWERHOUSE. Frankly, we view having 25% now as a bullish signal because we expect as the participation rate grows, purchase orders and revenue will grow. Of course, we expect to continue to grow the network. In fact, we increased our network by 10% over just the last 30 days.

We are encouraged with the growing level of interest and excitement for our POWERHOUSE solar shingles. We have roofers, EPC installers, homebuilders and homeowners seeking us out daily to learn more about the product, and we believe they're genuinely enthusiastic about POWERHOUSE. Installations of POWERHOUSE 3.0 have begun and completed in several states across the country. Further, working with our network, projects are currently being quoted—worked on in 14 different states. The feedback we have received from our network has an extremely positive. They say POWERHOUSE looks great on the house and installation takes no longer to install than a normal roof. These are very encouraging testimonials that we believe will result in repeat business within our network. One roofer said to us that he is now considering expanding his business into neighboring states so that he can install more POWERHOUSE.

We are developing relationships with Mainland Residential EPC Solar Installers, something we initially found difficult to consider when we were also in that business and they were competitors. We are now rapidly gaining traction and adding EPC Solar Installers to our network. We find in our discussions with EPC installers that they have been waiting for a viable solar shingle that they can offer as an alternative to traditional solar. Additionally, they no longer need to miss out or wait on business when their customers need to replace their roof.

Providing tools to our network that make the decision to offer POWERHOUSE as easy as possible has been a very specific focus and goal of ours from the onset and we've made good progress over the last 30 days. Our online design and bill of materials generation tool went live. The tool allows our POWERHOUSE pros to use satellite imagery to download the roof, automatically design the POWERHOUSE system, and create a bill of materials with just a click of a button. We've also released version two of our quick quote tool, which uses the bill of materials from the online tool I just described. It generates a simple and easy-to-understand homeowner proposal in the RGS purchase order. We have received positive feedback from our roofers about these new tools and we know they are using them.

We continue to execute our POWERHOUSE marketing strategy to enhance nationwide brand awareness through various channels, targeting roofers, EPC Solar Installers, homeowners and homebuilders. We completed filming for one of our two upcoming TV spots last month, our segment on the Information Matrix to be aired on the PBS Network in a few months, following post-filming production. Our second TV spot is scheduled to be filmed later this month and will be aired on the Lifetime Network show Designing Spaces. Each of these shows will be aired across the country, nationwide on multiple networks and platforms.

Besides the POWERHOUSE segment, we've been making good progress at Sunetric, our Hawaii-based solar installer. We are shipping POWERHOUSE kits to Sunetric based on consumer interest for the product. As you know, Hawaii has the highest electrical rates and the most incentives and as such, we believe it represents a strong market for our new product.

Let me move to the next question for today, breakeven. As you know, we announced we were taking rather dramatic steps to reduce our operating expenses. These actions included exiting the Mainland Residential Business, corporate staff reductions and across-the-board efforts to reduce cost. Our strategy, of course, is to lower the fixed cost, principally represented by our corporate segment and further, we have reduced the historical cash outflow we incurred with our Mainland Residential Business. As such the amount of future revenue we require to break even is now much lower than it was in the past, making achieving breakeven that much easier.

The extent of our efforts to reduce our fixed cost are illustrated with our projected decline in corporate expenses. The RGS financial model we have shown in past corporate presentations previously included a little over \$8 million of corporate expenses per year. The updated corporate presentation posted today includes a little over \$6 million, representing a reduction of 25%. As shown in the 30-day business update, we believe POWERHOUSE revenue for breakeven is slightly over \$2 million a month and to achieve that it would only take each of the participants we have in our network today each ordering one POWERHOUSE kit once every three months for us to breakeven. Considering that the average roofer in our network replaces 300 roofs a year, it seems that they should easily be able to find four homeowners a year, which is one a quarter, that want a great-looking energy-saving shingle like POWERHOUSE.

We include a page in our corporate presentation where we demonstrate the estimated and addressable market for POWERHOUSE, comprised of new roofs every year due to age; new roofs due to casualty, such as hail and the like; and of course, new construction. We estimate that it would only take one out of every 1,200 homeowners that need a new roof to decide to go with POWERHOUSE for us to have annual revenue of \$125 million.

We believe that one out of every 1,200 homeowners will find POWERHOUSE attractive, not only for the financial returns, but improving the curb appeal of their homes and contributing to a greener world. We continue to believe that penetration of the addressable market over time is achievable. But as we've always said, it will take time.

Now for the remaining question for today, our cash runway. Our goal was a combination of our last capital raise, the cost reductions I just discussed, harvesting cash from the backlog of our recently exited Mainland solar division, was to provide for the cash runway we will require until we can achieve equilibrium and breakeven results. Toward that end, we are encouraged by the progress we have made over the last 30 days.

Our internal modelings leads us to believe we have the cash runway. With the commercialization of POWERHOUSE underway, we believe that the winds are in our sales, and we continue to show our shareholders—we will continue to show our shareholders positive results quarter-over-quarter. Rooftop solar has a place as part of our country's sustainable future, and we believe that POWERHOUSE is the

best way to get there, as it provides our citizens with the financial return and curb appeal that people have been waiting for at a price they can afford. We believe that we are on the right path to produce positive future results over time, and we look forward to reporting upon them in the coming quarters.

Speaking of reporting, we pride ourselves on being open and transparent with our shareholders. We believe we have provided enough granular information to allow someone to build their own models about the Company. The presentations we posted today to our Company website and referred to on this call are indicative of our granular disclosures. Our plan is to issue a business update for future 30-day period as we progress during our POWERHOUSE startup fail—phase with the goal of achieving breakeven and better results in the future.

Looking ahead into 2019, we believe we are well positioned to address a large market opportunity for POWERHOUSE. We have a strong supply chain producing POWERHOUSE, a growing nationwide network of more than 280 local roofers, EPC Solar Installers and homebuilders across 48 states. We believe all of this will enable us to enjoy future growth and profitability.

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, if 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 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, plan and objectives of Management for future operations.

The words beliefs, plan, future, may, will, expect, anticipate, hypothetical, predict, hope and estimate and similar expressions, as it 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 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: 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 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 obtain future purchase orders for POWERHOUSE deliveries; RGS Energy's ability to realize revenue for written reservations for initial POWERHOUSE deliveries; RGS Energy's ability to realize revenue from sales pipeline for POWERHOUSE; RGS Energy's ability to increase the rate of participation within its network; RGS Energy's ability to obtain future purchase orders for POWERHOUSE deliveries whether RGS Energy will realize increased market penetration from its brand and network-supporting activities, competition in the built-in photovoltaic solar system business, cost and availability of raw materials, including the impact from changes in the price of oil and the foreign currency exchange rate for the Chinese yuan; RGS Energy's ability successfully implement its revenue growth strategy, achieve its target level 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 have 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 statements, 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 tradename. The Company files periodic and other reports with the Securities and Exchange Commission under its official name, Real Goods Solar, Inc.

I'd like to now remind everyone that this call will be available for replay through May 22, 2019. Please refer to the last Friday'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 today—joining us for today's presentation. This concludes today's call. You may now disconnect.