



RGS Energy

Business Update Conference Call

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CORPORATE PARTICIPANTS

Justin Chinn, *Vice President, Sales*

John Hardwick, *Vice President, Construction Services*

Scott Daigle, *National Sales Manager*

PRESENTATION

Operator:

Good afternoon, and thank you for joining us today on RGS Energy's Business Update Call. With us today is the Company's Vice President of Sales, Justin Chinn; John Hardwick, Vice President of Construction Services; and Scott Daigle, National Sales Manager.

Following Mr. Chinn, Daigle and Hardwick's remarks, they will take questions from the sell side analysts. Before the conclusion of the 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 Wednesday's press release through September 24, 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 RGS Energy's Vice President of Sales, Mr. Justin Chinn. Please go ahead, sir.

Justin Chinn:

Good afternoon, and thank you for joining us on today's call to discuss our commercialization strategy for POWERHOUSE and our recent progress towards our goal of achieving break-even and better results. This morning, we posted a business update for the 30-day period since our last conference call on the Investor Relations section of our website. The update also shows figures from previous 30-day periods and includes a few pictures of our recent POWERHOUSE installations for homeowners. It also provides a timeline graphic to chronologically illustrate the sales process with roofers.

Now that we have a few months under our belt of providing POWERHOUSE to homeowners through our roofing and homebuilder partners, we have better insight into the roofer sales process for commercialization of POWERHOUSE. We have two objectives for today's call: one is to talk to you about our recent sales on homeowner installations of POWERHOUSE; and secondly, walk you through the entire process our network participants go through in order to sell and install POWERHOUSE so you can better understand how our sales pipeline and backlog will result in revenue for us.

For some of us it is helpful to see things. With this in mind, we've provided the timeline image that illustrates the sales process from a time a roofer starts to talk to a homeowner, all the way through to us shipping product to the roofer. After I'm done explaining the steps on this timeline to you, I will turn the call

over to John Hardwick, who just so happens to be offsite today at an installation in Iowa. He will talk to you about his experiences with homeowners and roofers in the field.

Starting with the sales process graphic. From the viewpoint of our roofers, also known as POWERHOUSE Pros, they start the process with a homeowner not only to replace their roof but to replace it with POWERHOUSE. After a strong level of interest is achieved, or a POWERHOUSE quote has been accepted by the homeowner, the Pros contact my sales team to review the customer's roof, verify preliminary design work and then create a bill of materials. The bill of materials for the project includes all the necessary equipment components. This is the first time the project is shown in our sales pipeline. After the BOM is completed, they must comply with all the red tape of permitting, interconnection and incentive approvals, as well as any homeowner financing needs. These regulatory matters take time and vary by state but are simply part of the industry and apply to any type of solar installation, whether it's solar shingles or an old fashioned rack-n-mount system.

As I mentioned on our previous business update call, our roofer installer, EPC Pros, are not positioned to buy and sell POWERHOUSE so the Pros wait until the job is nearly ready for installation before payment and scheduling of shipment. That means that even if they've submitted a signed purchase order, they are waiting until they have received permits as well as interconnection approval with the utility before payment. Each of these items take time and vary by state but typically takes between 30 to 60 days. Even though we will typically get the purchase order from the roofer shortly after the homeowner signs the contract for the new roof and POWERHOUSE shingles, they will not usually pay us on the order until the job is ready to go. That being said, my sales team has been striving to provide ample forecasting and, in that spirit, encourage their customers to submit their purchase orders earlier in the construction process even if they plan to wait to pay and request shipment. We ship solar shingles after we have paid either in full or with an adequate down payment from the roofer. As manufacturer of POWERHOUSE, we recognize revenue upon shipment of materials related to customer purchase order fulfillment.

I hope you see from this explanation that there is a lot going on behind the scenes with the homeowner, the roofer and the local jurisdictions before RGS is even involved. This is important context for those wanting to understand how our backlog translates into revenue. We just started the commercialization process so we are not fully up and running but, at some point, and we have referred to it in the past as being at equilibrium, we will have had the pump primed with enough roofers and orders that we believe we will have consistently higher streams of revenue. With the long sales cycle I described, we simply cannot come out of the gate with revenue fully online.

As you know, our timing for receiving UL approval was not ideal as it was right at the start of winter. There are a couple of points to be made here. One is that most of our roofers started 2019 with a backlog they first had to install before they could sell POWERHOUSE. They simply did not have the bandwidth to take care of commitments to existing customers and then tack on more customers with POWERHOUSE; however, more of them have been catching up on their own backlogs and are now pitching POWERHOUSE.

Secondly, we are working with our existing roofing network and training them how to better sell POWERHOUSE over the winter. We learned that roofers quickly build a backlog for the spring. We want them to finish the fall strong but have a head start on POWERHOUSE projects that are ready to build in early 2020. Having POWERHOUSE projects at the top of their backlog will allow the roofers to install POWERHOUSE in earnest during spring, maximizing the homeowner energy output over the summer. We also believe this will lead to repeat business. Although not that prevalent yet, we have had some repeat business already.

Now I will hand the call off to John Hardwick, Vice President of Construction Services, to share his experience and insights from his onsite involvement with some of the recent homeowner POWERHOUSE installations. John?

John Hardwick:

Thanks, Justin. I'd like to start with providing you some background on my history with POWERHOUSE. During my 16 years in solar, I've enjoyed a big chunk of that time being a field tech instructor for each and every version of POWERHOUSE solar shingles so far, dating back almost eight years ago to the early days of Dow. The earlier versions of POWERHOUSE were innovative products but they use SIGS (phon) technology, which was quite expensive and rather inefficient. RGS upgraded the POWERHOUSE to industry standard silicone technology, offering double the power and at an attractive price. Since that upgrade, we've seen a growing amount of interest and excitement for POWERHOUSE nationwide, and over the years of using my deep knowledge of POWERHOUSE to train roofers on how to install POWERHOUSE.

I'd like to take some time and share with you some recent stories from the roof, real installs, so you can get an idea of how POWERHOUSE measures up in the mind of our installers and the solar shingle homeowners.

Over the last several months, we've been installing POWERHOUSE and already we've deployed POWERHOUSE in the four major corners of mainland U.S.A. from Seattle to Los Angeles, Upstate New York, and East Coast of Florida. As we speak, I'm here in Iowa onsite for an installation of a 7.4 kilowatt system. We have many projects to choose from but I'm going to focus on four projects from those four corners of mainland U.S. To see pictures of these projects, please see the business update that we posted today.

The first installation story I'd like to share with you was in Seattle. The roofers and the homeowners of this installation loved how well the POWERHOUSE blended with the extremely dark charcoal colored asphalt shingles. The lead roofer and I adopted a speedier method of preloading screw into the POWERHOUSE parts so the install went much faster like a NASCAR pit crew tire change. Even though Seattle rains caused some typical delays, we were still able to install the 7 kilowatt system in less than two full work days. I have taught this faster method to every crew since, and I believe this method will result in a significant reduction in installation time.

In New York, the roofers installed the system on a drastically steep roof pitch. Thanks to our suggestion to use specialized scaffolding, called Johnny Jacks, the scaffolding allowed safe installation by expanding across the roof between the large padded footers that rested securely on top of the PV glass. The roofers also commented on the extreme durability of our solar shingles. For example, when their forklift toppled on uneven ground and the foreman dropped 20 solar shingles from five feet up, none of the POWERHOUSE glass shattered, nor was it scratched. An interesting part of the story was years ago the roofer took a week-long solar course as he was interested in offering traditional rack-n-mount solar. After the course, he was completely discouraged by the installation complexities of traditional rack-n-mount and the roofer never thought he would do solar. However, when we finished this job he was very glad he gave POWERHOUSE Solar a shot and he said the POWERHOUSE seemed to be specifically designed for him, a roofer. He also commented that it was much more rewarding and cleaner work than traditional roofing jobs.

Turning to another project, this one being the first of many POWERHOUSE systems installed in Colorado close to our headquarters, just so happened to be located right next door to another house that had traditional rack-n-mount solar. Seeing the two roofs side by side clearly showed that the traditional rack-n-mount solar stuck out like a mismatched industrial bolt-on, like old braces with headgear; whereas

POWERHOUSE looked smooth, elegant, almost hidden, like Invisalign (phon). This is one of those classic examples where the husband really wanted solar and the wife demanded solar shingles. In just two days, with sunny skies above us, the roofers installed two very large arrays totaling about 10 kilowatts, even while being filmed for our show on PBS, and they were observed by many people on the ground.

Another project I'd like to talk about was completed in Florida, just before Hurricane Dorian hit the Coast. The homeowners used their POWERHOUSE Solar to charge and run their large backup battery system, providing them with power throughout the intermittent blackouts. They were the only ones on the block with uninterrupted power and they used clean, renewable energy to do so. Amazingly, this customer now has one of the largest POWERHOUSE Version 3 Solar shingles that we've ever put on a single-family home. It's approximately 15 kilowatts, more than double the national average solar system size. We covered six different roof faces, two large and four small arrays that were perfectly matched the shape of those areas. The entire family was excited and deeply involved in this installation, so much so that in the end, with appropriate safety precautions, we brought them all up to the roof for photos. The mom and dad performed the last voltage check, they used an impact driver to install the final system parts, and both of their kids celebrated and yelled, "We have the power." So far, every install has been completed on time and within budget due to proper preplanning, good engineering designs, inventory double-checks and lots of smart work from everyone involved.

The guys on the roof here in Iowa, they're ready to get back to it. Closing remarks for me, the process with the roofers is going very well and not by accident. The product is designed to be easy for roofers to install. This would apply whether it was an individual local roofer or a roofer installing it as a subcontract for a homebuilder.

Now I'd like to turn the call over to Scott, who will talk more about our efforts with the homebuilders. Scott?

Scott Daigle:

Thanks, John. Today I will give an update on our sales strategy and where we will be concentrating our efforts over the next few months.

We are finding homebuilders to be a very desirable customer segment for us. After all, they will order more than one home at a time. Our focus has been on medium sized builders developing neighborhoods of approximately 50 to 150 homes. We found the upfront development time tends to be shorter with them allowing us to get to purchase orders faster. We are currently in discussion with 21 homebuilders throughout the country. The feedback has been very positive. These discussions follow a similar pattern. We first introduce POWERHOUSE to the builder. Most of the homebuilders share with us their neighborhood layout, home design and their buildout schedule. Most of the communities take at least six months of planning and then the building begins. Depending on the size of the community to fully complete the buildout, it may take up to six months to a year. There are also some situations with prefab homes and smaller custom homebuilders where we believe this timeline will be shorter.

As we develop the relationships with the homebuilders, we are also being introduced to their subcontracting roofers. These introductions allow us to showcase POWERHOUSE to their roofing network with the backing of the homebuilder. We believe these relationships will have a dual benefit. First, we are working with roofers the homebuilders are comfortable with, thereby increasing the chance POWERHOUSE will be chosen for a neighborhood. Second, as we train the roofing subcontractors, it allows these roofers to bid on projects with other homebuilders or homeowners they work with outside of RGS' established network. A roofer with a track record working with homebuilders and can offer and

install POWERHOUSE will differentiate themselves from the rest of the pack. We believe this to be a win-win for everyone.

Last month, we announced joining Builder Partnerships, a manufacturing network of over 1,400 homebuilders. We are in the early stages of the relationship but we are very excited about our membership in this homebuilder network, because we believe it will enable us to garner more homebuilder POWERHOUSE customers at a faster pace.

The next area of focus is building an ever stronger installation network across California to meet the anticipated demand from the upcoming 2020 mandate. California has rigorous licensing requirements and having an electrical roofing and solar licenses within one organization offers the best solution in California. We are striving to develop relationships with organizations that can offer a turnkey solution selling, installing POWERHOUSE, separating themselves from the other installers in a saturated solar market.

As Justin mentioned early in the call, we are also working with our roofing network to fill their backlogs now for installations through the upcoming winter and into the spring. Strategically, of course, we are putting concentrated effort into building our network of participants in warmer climates where roofing continues year round. Our efforts have expanded our network from 262 at April 15 to 335 today. As we look ahead, we will continue to increase the number of participants and the rate of participation within our network.

I will now pass the conversation back to Justin to wrap up.

Justin Chinn:

Thanks, Scott. We've recently begun receiving repeat business from a few of our Pros and we view that as a great milestone towards our goal of growing our sales channels. Scott and I are proud we have managed to build up a sizable backlog in a matter of months. While pleased, we also know that we're not fully up and running quite yet, as can be expected having started just several months ago. We believe our current sales and training processes have worked well for creating the backlog, but it takes time to get the revenue from that backlog because of all the hoops our customers must jump through in order to build the project.

We use the term flywheel internally when we discuss what it will look like when we are fully up and running - meaning, projects exit a backlog while new ones are coming in each month. We believe we're building momentum in the POWERHOUSE flywheel.

Thank you again for joining us on today's call. We will update you again in 30 days.

Operator, please go ahead and wrap up the call.

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 the 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, or 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, and June 30, 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 September 24, 2019. Please refer to last Wednesday's press release for 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.