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UGE Investor Newsletter

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UGE INVESTOR NEWS

Good morning,

Yesterday afternoon we announced our Q2 2018 financial statements. As always, I wanted to provide additional commentary by way of our Investor Newsletter.

We have had good and bad quarters over our history; to be upfront, this was a bad one. The primary reason related to project delays, which I will go into in more detail below; it is important to note that one delayed milestone can easily shift revenue by as much as $2 million. In addition, we looked at the changing Ontario landscape and decided that this was an appropriate time to take non-cash write-downs on goodwill and PP&E, which led to a significant accounting loss in the quarter.

Big picture, in 2018 we are shifting away from primarily providing service work for other companies (the traditional focus of our two acquisitions, Endura and CSPC), to one where we self-develop and finance projects (the traditional focus of UGE). As we complete the transition results will be bumpy, but we are excited for what lays on the other side: an industry leader with higher margin, higher recurring revenue, and higher profitability. As I will touch on in the Looking Forward section below, we are putting all the pieces in place to ensure we reach much higher goals in the near future.

Project Delays

There are two project delays to touch on. The first relates to progress made on the Peterborough portfolio in Q2. While construction continues to ramp up and we feel confident in meeting the full portfolio's schedule, the amount of progress in Q2 was below our initial forecasts as some of the work got pushed into Q3. As of the time of this Newsletter, progress has picked up further, though; despite revenue sliding from Q2 into the latter half of the year, this is revenue that we fully expect to recover in the near future.

In addition, we realized a small number of additional delays. The first two to discuss involve portfolios purchased in last year's CSPC transaction, one of which realized a project write-down in Q1. These projects have taken longer expect to be able to recover some of the associated losses. Lastly, we are currently involved in a dispute with a Massachusetts-based portfolio owner, which has impacted revenue and cash flow; we hope to resolve this dispute as soon as possible.

Looking Forward

The results weren't what we were hoping for, but we have been busy making specific and significant moves to ensure that our future results are significantly stronger. In particular:

1. Our team has been significantly strengthened through the additions of Pratik Shah as our new CFO and Ed Steins as our acting COO. Both add significant strength to the organization; Pratik most recently at TSX-listed Enghouse, and Ed through his years of solar experience, including as an early executive at both SolarCity and SunRun.

2. We have also reduced expenses as we've moved away from less profitable work; in fact, our SG&A expenses fell 26% versus the comparable period. Our shifting business mix has allowed us to become increasingly refined, which will pay off by way of better results in the future.

3. In addition, most of our recent business development activity has been in our US and Philippines markets where we self-develop projects and capture higher margins as a result. While the Ontario market has been softer of late, we believe it is more than offset by increasing expectations in our other markets. This includes our recent $8.4 million dollar project win in the Northeast US. For the first time since before the acquisition, the majority of our backlog is now in these higher margin regions.

Because of the quiet time of year, we held off scheduling a conference call, but instead plan to hold an update webinar in September (date to be announced). In the meantime, please don't hesitate to reach out to us with questions. We remain excited and confident in the opportunities in the commercial solar sector, and will remain focused on converting our greater scale achieved in 2017 into greater growth and profitability for 2019 and beyond.

Kind Regards,
Nick

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Past Investor News:

08/13/2018: UGE Wins its Biggest US Project Yet, USD$8.4m Portfolio with Strategic Client

08/01/2018: UGE Enters "Green Bond" Market to Self-Finance Projects

05/04/2018: UGE Completes Record Installations in Q1, to Release Financial Results May 15th

3/13/2018: UGE's 2017 Financial Results Reveal 260% Annual Growth and Positive Q4 EBITDA

Forward

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