

UGE Investor Newsletter

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Good morning,

This newsletter covers year-end updates and runs longer than usual. I know the last 15 months have been difficult for investors in UGE. We are excited to show the results of our turnaround in 2020, but if you no longer wish to follow our story you may [unsubscribe here](#).

Looking back on 2019

We started 2019 in the midst of a turnaround after the Canadian market cratered in late 2018. We had just converted the vast majority of our debt to equity (at \$0.25/share), which also lowered interest payments by ~\$500,000/year, and had mostly completed the painful process of downsizing; while we averaged \$5.5m in SG&A expenses in 2017 and 2018, in 2019 we have operated at an annualized rate of \$3.2m.

Throughout 2019 we had these key objectives, which have now largely been achieved:

Complete past "EPC" projects from our Canada-based EPC division	Two of the three project portfolios are now complete; one in Peterborough and one in Minnesota. The third portfolio, which features 29 schools in Ontario, will be completed this month; in our October update 20 were complete, and as of today only one remains.
Generate higher margins through improved project deployment and a focus on more profitable opportunities	We achieved gross margins of 29% in the first nine months of 2019, compared with 13% in 2018, by targeting more profitable opportunities and after having revamped our project deployment team. Our goal is to achieve average gross margins of at least 23% going forward.
Focus sales efforts on self-developed projects in our target markets, the US and the Philippines	Throughout 2019, UGE has been solely focused on self-developed projects. While it has taken time for our revenue to shift from EPC projects to self-developed ones, these new projects have recently started to convert to revenue, and we expect to be back on our growth trajectory in 2020.

Having met our client commitments on past EPC projects, we have decided to restructure that subsidiary, UGE Canada RE Ltd. The EPC division was the primary contributor to company

creditors is the best approach. The Proposal will offer creditors of that subsidiary a discounted payout over two years, as opposed to closing down the subsidiary entirely through a bankruptcy process, in which case we estimate ordinary creditors would receive nil. We expect the Proposal to be approved and will provide an update in due course.

Furthermore, as our share price has suffered through the turnaround, our final move of 2019 will be to consolidate our shares 4-to-1, after receiving approval to do so at our Annual General Meeting. I know some have strong opinions about such a move, so I will say this: over time, our valuation will be based on the results we achieve. As we confidently look forward to 2020, this was the right time to clean up our capital markets presence based on the company we plan to be going forward.

Looking forward to 2020

For 2020, we look to start a new growth trajectory, one based on profitability across each of our business units. Below are two of our key objectives for 2020:

<p>Focus on and Achieve Sustainable Profitability</p>	<p>Currently UGE has three businesses focused on profitable growth: USA and the Philippines, where we self-develop projects, and our Consulting Services arm. We expect each to be profitable in 2020, and to drive profitable results for UGE as a whole. We have stopped the bleeding in the fourth entity, EPC services, which is being restructured.</p>
<p>Develop to Own</p>	<p>We do best when we develop good projects, leverage our extensive experience to deploy them successfully, and bring in low cost financing to own the project ourselves, capturing maximum value for the company and building a base of recurring revenue. 2019 saw us build-to-own our first projects, and we expect this arm of our business to grow most significantly in 2020.</p>

The markets we are in are strong. New York City just passed a law that *requires* all new buildings, as well as those being renovated to expand their footprint, install either solar power generation or a green roof. In a market growing quickly but still in its infancy, we look forward to being a major player in the city's solar growth, while looking to grow in other US markets, as well.

Meanwhile, in the Philippines, project costs are already well below the 'holy grail' for solar, of \$1 per watt. We have built a fantastic team in the country and see it as a model for the future of solar. There are no incentives in the country; solar simply beats the cost of the grid

Our engineering and consulting practice, UGE Consulting Services Co, emerged from the ashes of the once-vibrant Ontario market. This division leverages its expertise in markets far and wide - from our backyards of New York and Ontario, to helping to bring solar to schools and hospitals in remote parts of Africa. With tremendous experience, and a competitive cost based on labour in Canada and the Philippines, we see this group growing substantially, as well.

Lastly, our project financing efforts have evolved significantly this year, especially in the last six months. We are now actively financing several of our own projects in the US and the Philippines, and look forward to sharing more about our returns and growing base of recurring revenue from such activities in 2020. We also look forward to further expanding our green bond efforts in 2020, allowing our investors to take part in the attractive long term returns our projects offer.

We will hit the road to share all our progress in the new year, and hope to see many of you again soon; in the meantime, I am always just an email or phone call away. We look forward to hearing from you, and to sun-filled days ahead.

Best wishes for the holidays and for 2020,
Nick and the UGE Team

Kind Regards,
Nick



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