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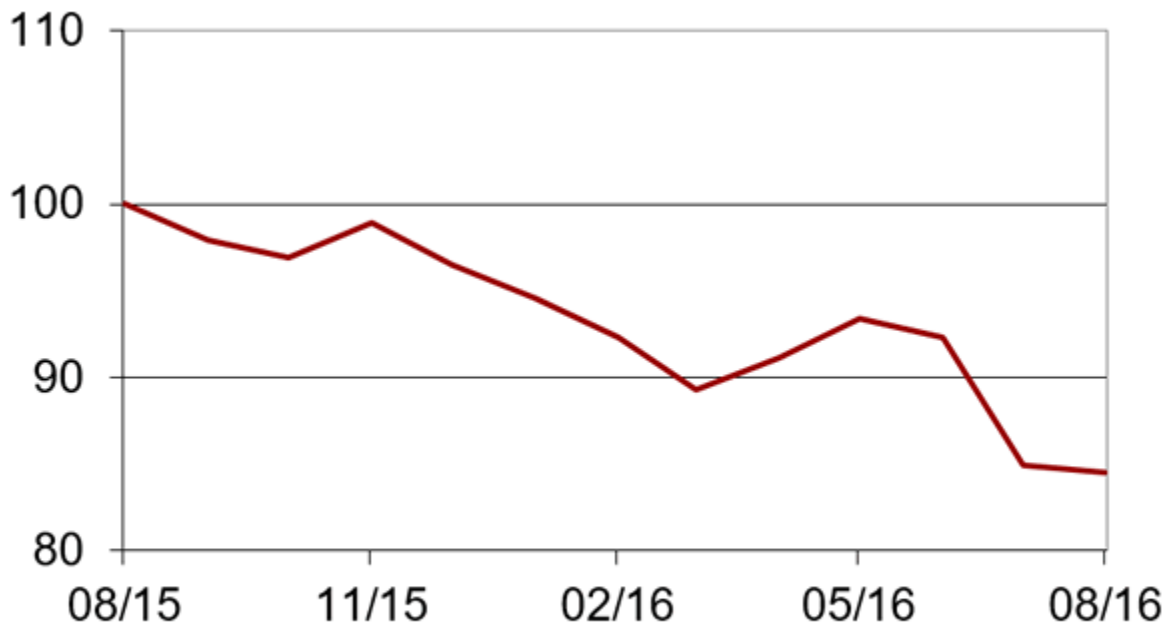
EuroSite Power Continues Strong Growth in Second Quarter

August 13, 2016 - EuroSite Power (EUSP – \$0.80), which owns and operates On-Site cogeneration systems in the United Kingdom, reached revenues of \$640,437 in the second quarter of 2016, an increase of 18%, compared to \$542,973 for the same period in 2015.

Although that's an impressive growth rate, in local currency the Company performed even better with revenues of £446,718 for the second quarter of 2016, versus revenues of £354,514 in the comparable quarter last year, an increase of 26%. The difference is due to the recent decline of the British pound versus the US dollar as a result of the so-called Brexit. So although the Company reports in US dollars, it's important to look at the results in British pounds as well to get an exact picture of its performance.

The strong revenue improvement was driven by the higher number of operational systems at quarter end of 31, compared to just 27 operational systems on June 30, 2015. This was also reflected in a higher energy production of all systems combined. In the second quarter of 2016 a total of 9,438,567 kWh of energy was generated, a 34.4% improvement over prior year results.

Another highlight of the second quarter was the improvement of gross margin, excluding depreciation, by over 40% compared with the second quarter of 2015 (10.3 percentage points improvement) to a strong 34.4%. Just a few points shy of management's target of 35%.



The graph above indicates how the British pound depreciated more than 15% against the US dollar.

Overall gross margin grew by 9.8 percentage points to 16.1% for the second quarter of 2016, a significant improvement over the 6.3% overall gross margin reported last year. Second quarter gross margins especially benefited from lower gas prices and the switch to an in-house maintenance team. Note that an additional in-house service technician has now been hired to specifically service the TEDOM cogeneration units as they exit their warranty periods. Management expects that this will help to increase margins even further.

Also good to know is that [gas resale agreements, such as the one that was signed with Abbeycroft Leisure a few months ago](#), is very positive for margins as well. In fact, the Company mentioned that it increases margins by up to a third. More gas resale agreements are expected to be closed in the coming months.

A final important item when looking at EuroSite Power's margins is the availability and efficiency of its operational fleet.

A CHP unit's availability, or up-time, can never reach 100%. Sometimes the equipment fails or it needs maintenance, or it might even be temporarily shut down because the electricity tariff from the grid is too low at certain times of the day, or year, to make sufficient margins. Units also switch off at times of low demand for heat such as during the warmer summer months. Overall fleet availability in the second quarter of 2016 was 87%, a significant improvement over the 81% availability in the comparable period last year. This was achieved mainly thanks to several updates to the CHP units and improved system management due to in-house maintenance.

Efficiency, on the other hand, measures how much of a unit's input fuel is converted to energy which can then be sold to the customer. In the second quarter of 2016 efficiency reached 77%, compared to 78% in last year's second quarter. Although a slight drop, this is not a concern as it reflects the greater number of TEDOM units operational.

Growing Pipeline of Opportunities

The total number of operational systems on June 30, 2016 was 31, with a total installed capacity of 3,178 kW. This favorably compares with just 27 systems totaling 2,705 kW of installed capacity a year ago.

The current contracted project backlog is 7 systems for a total of 1,320 kW in capacity. So the total systems under contract (both operating and in backlog) currently stands at 38, totaling 4,498 kW of capacity for a combined lifetime contract value of approximately GBP£70.3 million on a local currency basis, or \$102.12 million.

Within its current pipeline, the Company has plenty of parties with which it's actively negotiating. Especially in the public sector there's a steady stream of opportunities. These are attractive projects although they involve a lot of paperwork as they always have to go through a European bidding process.

The Company has also been targeting the NHS in the United Kingdom. EuroSite Power has identified approximately 2,000 kW of opportunities in that area.

Additionally, the Company is negotiating with a couple of parties for multi-unit installations.

Next to growth in the UK market, the Company is actively seeking to grow in mainland Europe. It's doing this by collaborating with the Czech CHP manufacturer TEDOM. Through the latter's extensive dealer network across Europe, the Company aims to identify potential customers. EuroSite Power representatives have already had an initial meeting with TEDOM's German dealer, and a few smaller opportunities have been identified.

Talking about opportunities in mainland Europe, EuroSite Power Chief Executive Officer Dr. Elias Samaras mentioned during the second quarter conference call that the Company was potentially going to participate in a large project in Europe.

Dr. Samaras also said that they have made an offer to acquire a UK company and that they are still searching for other acquisition candidates in Europe.

A final prospect in the pipeline was detailed by EuroSite Power's Managing Director Paul Hamblyn, who explained that he recently met with an Energy Efficiency Certificates dealer in Amsterdam. This company acts as an intermediary between companies that offer clean energy solution, such as EuroSite Power, and companies that potentially can benefit from using those solutions, such as hotel chains.

Second Quarter 2016 Financials

Total revenues for the second quarter of 2016 were \$640,437, compared to \$542,973 for the same period in 2015, an increase of 18.0%. GAAP diluted loss per share (EPS) was \$0.01 for the second quarter of 2016 and \$0.00 second quarter of 2015.

Operating expenses were higher as the Company invested in additional engineering personnel, advertising and marketing initiatives. Selling expense was adversely impacted by a one-time write down of a project-related bad debt while General and Administrative expense includes a nearly \$75,000 adverse swing related the impact of currency exchange rate fluctuations in the period.

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Net Sales	640,437	542,973	1,327,469	1,091,027

Cost of Sales	537,092	508,951	1,081,484	1,014,315
Gross Profit	103,345	34,022	245,985	76,712
Operating Expenses	582,579	280,865	1,104,090	744,372
Loss From Operations	(479,234)	(246,843)	(858,105)	(667,660)
Debt Conversion Expense	(224,782)	-	(224,782)	-
Net Loss	(708,289)	(254,789)	(1,099,750)	(685,186)
Earnings (Loss) Per Share	(0.01)	(0.00)	(0.02)	(0.01)
Shares Out. - Diluted	72,622,316	65,747,100	69,203,700	65,747,100
Most important income statement data for the quarters ending June 30, 2016 and June 30, 2015. Source: Company Filings				

The Company's balance sheet has radically improved compared with a year ago. In May of 2016, [the Company raised \\$7.25 million via a private placement](#) of its common stock. The funds were used first to pay down \$2 million in debt outstanding with the remainder devoted to supporting operations and growth initiatives.

And on June 28, 2016 the Company further strengthened its balance sheet via a substantial reduction in outstanding convertible debt. In total 3,909,260 common shares were issued at \$0.54 per share in exchange for \$2.1 million in senior notes. Following the conversion, only \$300,000 in 4% senior convertible debt, due June 2017, remains outstanding.

	June 30, 2016	June 30, 2015
Cash and Cash Equivalents	5,127,424	2,186,909
Accounts Receivable	251,528	180,905
Inventories	189,124	109,962
Total Current Assets	5,596,129	2,576,034
Property and Equipment	7,617,753	6,996,006
Total Assets	13,222,006	9,585,924
Accounts Payable	212,166	383,055
Note Payable to Related Party	-	2,000,000
Total Current Liabilities	486,503	2,581,543
Convertible Debentures	-	1,615,354
Convertible Debentures - Related Party	311,035	969,212
Total Liabilities	797,538	5,166,109
Total Stockholder Equity	12,424,468	4,419,815
Most important balance sheet data for the periods ending June 30, 2016 and June 30, 2015. Source: Company Filings		

As a result of these financing activities, EuroSite Power now has over \$5 million in cash, which will be used to fund ongoing activities and growth initiatives. The Company's consolidated working capital on June 30, 2016 was \$5,109,626 compared with a negative working capital of \$5,509 on June 30, 2015. In addition, at the end of the second quarter, EuroSite Power had an impressive current ratio of 11.50.

Conclusion

These are clearly very exciting times for EuroSite Power. With just \$300,000 in convertible debt remaining and a very strong cash position, the balance sheet of the Company has never been better. This strong cash position, along with the project financing arrangements with Macquarie and Societe Generale give EuroSite the flexibility to aggressively grow the business across Europe.

Both revenue and energy production were up considerably in the second quarter compared with the same period in 2015. If it hadn't been for the sharp decline of the pound, which obviously is out of the Company's control, sales growth would have been even higher.

Moreover, similar to the first quarter of this year, the Company again saw a strong improvement in its gross margins. Cost of sales benefited from a 10.5 percentage point improvement as a percent of total revenues when compared with second quarter 2015. The Company continued to benefit from lower fuel prices, the gas purchase arrangement with Corona Energy, and cost savings related to bringing maintenance in house.

Finally, EuroSite Power has identified its initial acquisition target and is actively screening potential customers in mainland Europe. Buy recommendation.

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