

iSun, Inc
Q1 2022 Earnings Conference Call Transcript
May 17, 2022, 0830 EST**Corporate Participants:**

Tyler Barnes - Investor Relations, iSun Energy
Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy
John Sullivan - Chief Financial Officer, iSun Energy

Analysts:

Jeffrey Campbell - Alliance Global Partners
Justin Clare - Roth Capital Partners, LLC
Noel Parks - Tuohy Brothers Investment Research, Inc.

PRESENTATION:**Moderator**

Good day, ladies and gentlemen, and welcome to the iSun, Inc. Q1 2022 Earnings Conference Call. At this time, all participants have been placed on a listen-only mode and the floor will be open for questions and comments after the presentation.

It is now my pleasure to turn the floor over to your host, Tyler Barnes, Investor Relations at iSun. Sir, the floor is yours.

Tyler Barnes

Thank you, and good morning. We are pleased to welcome you to iSun's conference call, where we will discuss financial and operating results for the first quarter 2022. Jeffrey Peck, Chairman and Chief Executive Officer, will provide an update on the deployment of iSun's recently completed solar platform and illustrate how the platform both addresses opportunities within the solar marketplace and creates value for shareholders. John Sullivan, Chief Financial Officer, will provide an overview of the first quarter 2022 financial results and operating performance. After our prepared remarks today, we will open the lines to address any of your questions.

As a reminder, the earnings release, which can be found on iSun's website, includes financial disclosures and reconciliations for non-GAAP financial measures that should help you analyze results. Comments and answers to questions during the call will include forward-looking statements that refer to management's expectations or future predictions. These statements are made as of the date of this call and management is under no obligation to update these forward-looking statements in the future. They are subject to risks and uncertainties that could cause actual results to differ from management's expectations.

With that, I will now turn it over to our CEO, Jeff Peck.

Jeff Peck – Chief Executive Officer, iSun Energy, Inc.

Good morning, everyone. It's a pleasure to be speaking with all of you today. I always appreciate the opportunity to share iSun's progress with our shareholders and the investment community. I'm encouraged and excited by the progress we're making towards our mission to accelerate the nation's adoption of solar energy. We've made exceptional progress in creating a platform capable of providing our full suite of services, development and design services, engineering, procurement, installation, storage, monitoring, and maintenance to the entire solar market.

We're excited about how quickly our individual teams have embraced a culture of collaboration, as we learn from our diverse backgrounds. We remain focused on building long-term value for our shareholders and confident that our team will execute on our mission. We continue to see exceptional growth with the doubling of our revenue in Q1 over the same period in the prior year. We expect to see this growth continue into Q2 as we transition out of the seasonality of the Northeast.

Our customer demand continues to accelerate evidenced by the growth of our overall backlog totaling \$128.3 million with new demand of \$41.2 million generated in the quarter. I'm also very happy with our progress to return to profitability by delivering an approximate breakeven EBITDA in Q1.

I'm pleased with the execution of our strategic plan so far. We created a platform capable of servicing customers in every segment of the marketplace. Our comprehensive suite of solar services provides an opportunity to create value for our customers across the residential, commercial, industrial and utility segments. The demand for EVs is accelerating the need for new infrastructure to support consumers at home and on the road. Our commercial and industrial customers are adapting to this transition.

iSun is uniquely positioned to utilize the skills and expertise of our divisions to serve these customers. This was evident with our recent \$30 million contract award to provide EV infrastructure support across the United States. We are in a rapidly evolving energy market and we are prepared to accelerate the adoption of solar and meet the demand as it occurs in each segment.

Our residential division has seen a tremendous increase in demand in Q1 with a 37% increase in customer orders from December 31, 2021. Equally important these orders maintained a 30% attachment rate for storage. In addition, storage sales to existing customers increased 40%. This illustrates how our people-first customer service culture creates value for the customer and will provide us multiple opportunities to service residential customers as innovations improve and their needs change.

Our commercial and industrial divisions have seen an increase in demand in Q1 with a 23% increase in backlog from December 31, 2021. The sales and marketing expertise acquired through

SunCommon and the digital marketing tools will be leveraged to continue to grow our backlog. This combined with the installation efficiency of our existing teams will drive profitable growth.

Our utility division provides an expertise in development and professional services that has led to the execution of \$8.25 million contracts that will generate solar project assets requiring procurement and installation services. Currently, we have 120 megawatts of projects in development, that we will retain the installation services of our commercial and industrial divisions, and 550 megawatts of projects in development that we will retain the installation services for our utility division. We expect to see increase in demand for our development in professional services going forward.

This multi-segment strategy positioned us to meet the evolving demand as well as diversifying our revenue stream, which insulates us from challenges created by economic and political uncertainty impacting the global energy market. While we are insulated, we are not immune from industry dynamics. And based on the current environment, we're adjusting our 2022 revenue guidance to \$125 million. We remain committed to our mission and returning the company to profitability and cash flow positive in 2022.

With that, I'll turn things over to John. John?

John Sullivan – Chief Financial Officer, iSun Energy, Inc.

Thank you, Jeff. We are excited to have continued our growth trajectory into Q1 2022. I'll provide an overview of our statement of operations as well as provide details on our segments before turning to the balance sheet. iSun reported first quarter 2022 revenue of \$15.1 million, representing a \$7.8 million or 107.8% increase over the same period in 2021. Revenue growth was driven by the continued fulfillment of residential consumer demand and execution of our commercial and industrial backlog. While we continue to execute against our existing backlog, we also generated new demand and added \$41.2 million in new business during Q1.

Gross profit in the first quarter was \$3.2 million, compared to \$0.1 million during the first quarter of 2021. Consolidated gross margin for the quarter was 21% compared to 1.6% over the same period 2021. The margin improvement represents the third consecutive quarter in which our margin has improved. As we grow synergies among our segments, the strengthening of our margin is expected to continue. Consolidated operating income was a loss of \$5.7 million, compared to a loss of \$2.6 million over the same period 2021.

We acquired several companies in 2021 and capitalized significant intangible and fixed assets that began to amortize in 2022. Our non-cash depreciation and amortization expense of \$1.8 million, compared to \$0.1 million in Q1 2021 is included in our overall operating expenses. iSun reported a \$2.9 million net loss or \$0.23 per share in the first quarter of 2022 compared to at \$3.1 million loss or \$0.41 per share over the same period 2021.

EBITDA for the quarter was approaching breakeven with a loss of \$0.12 million or \$0.01 per share, compared to a loss of \$1.4 million or \$0.18 per share in the same period of 2021. We're

encouraged by these results, particularly with the variability of the seasonal impact to our installation schedules during Q1.

Our residential division generated revenue of approximately \$6.7 million during Q1 and grew customer demand to \$26.2 million with execution anticipated over 3 to 5 months. Our commercial and industrial division generated revenue of approximately \$6.9 million during Q1 and grew contracted backlog to \$102.2 million with execution anticipated over 12 to 18 months.

Our utility division generated revenue of approximately \$1.5 million during Q1 and has 550 megawatts of utility scale projects and 120 megawatts of commercial and industrial scale projects under development. As these projects transition to the installation phase, they will be added to the respective backlogs.

Now turning to the balance sheet, we continue to focus on strengthening the balance sheet. While we use the capital markets to support our 2021 acquisition strategy, there are currently no plans to conduct an equity raise in the foreseeable future. Overall, the balance sheet remains healthy with improvements to our liquidity ratios during the quarter, as well as improvements to our working capital position.

Accounts receivable and collections have remained strong, as we've seen an improvement in our turnover to an approximate 7 times per year. Inventory is designed to support our residential levels and increase consistent with overall customer demand. Total debt decreased \$8.1 million at March 31, 2021 from \$16.3 million at December 31, 2021, representing a decrease of \$8.2 million due to the repayment in full the B. Riley note. Debt consists of \$5.4 million on a revolving line of credit used to support working capital and \$2.7 million of long-term debt related to our solar assets and operating fixed assets.

And with that, I'll turn it back over to Jeff.

Jeff Peck – Chief Executive Officer, iSun Energy, Inc.

Thanks, John. I'm excited about the progress that we've made over the last 6 months, where we were able to deploy our full platform. We have assembled a great team that can utilize their combined experience to execute on the opportunities within this evolving and dynamic energy market. We're excited to leverage our experience and capabilities to both accelerate the adoption of solar and drive value for our shareholders.

Thanks for your time today. And I'll turn it back over to the operator, who will open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen, the floor is now open for questions. [Operator Instructions]
And your first question today is coming from Jeffrey Campbell from Alliance Global Partners.
Jeffrey, your line is live.

Q: Thank you, and good morning.

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Good morning, Jeff.

Q: John mentioned installation challenges during first quarter 2022. Could you provide some detail on this point?

John Sullivan - Chief Financial Officer, iSun Energy

Yeah, this is related to the weather and seasonality of the Northeast. The challenge is getting on roofs during bad weather, defined by below zero temperatures and snow.

Q: Okay. With your revised guidance, what's the expected revenue cadence for 2022, including the first quarter 2022 results?

John Sullivan - Chief Financial Officer, iSun Energy

Can you repeat that? You're looking for...

Q: Sure. We now have revised guidance of \$125 million. I'm trying to get some sense of what you expect the revenue cadence of that \$125 million to be over the rest of the year?

John Sullivan - Chief Financial Officer, iSun Energy

Yeah, the modification in guidance is due to utility projects pushed into 2023. As we looked at these projects, we had communicated that we thought we'd achieved NTP in late Q3 and recognize revenue in Q4. So the change there would be to Q4 revenue expectations.

Q: Okay. Yeah, that's helpful. Thanks. Despite the 44% drop in revenues quarter-over-quarter, gross margin improved. John touched on this briefly in his remarks, but I wondered if you could expand on this trend a bit?

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Sure. We're focused on profitable growth. And the combined skill sets of our organization and the availability of a skilled workforce we think will help us continue to drive margins. As we move forward, we will continue to leverage our purchasing power. We've seen some movement with our pricing; our ability to secure better pricing on projects has really improved since the end of last year, and we're starting to see that now.

Q: Okay. And finally, I found the backlog growth of \$41.2 million based on new demand simultaneous to the \$40 million drop in annual guidance a little confusing, and I'd appreciate a little bit of expansion here.

John Sullivan - Chief Financial Officer, iSun Energy

Absolutely. We build our backlog based on projects that are under LOI or Notice to Proceed. The utility scale projects do not currently exist in our backlog. Those are in our pipeline. And so, as we assess those projects and the ability to recognize revenue in this year, it still remains in our pipeline, not in our backlog. We had just become less confident in our ability to both get NTP this year on those projects, or secure panels to recognize revenue this year.

Q: Okay. I appreciate that. I guess, what I'm finding confusing is if we have \$41.2 million addition in the backlog that would seem like it'd be enough to cover the hole for the \$40 million in drop. So is that the \$41.2 million in backlog is going to stretch into 2023, and this is why we still have a downward revision in the guidance?

John Sullivan - Chief Financial Officer, iSun Energy

Yeah, absolutely. The bulk of that \$41 million increase in backlog is industrial projects where we project 12 to 18 months before we recognize that revenue.

Q: Okay. That helps. Okay. Thanks very much. I appreciate it.

John Sullivan - Chief Financial Officer, iSun Energy

You're welcome. Thanks, Jeff.

Operator

Thank you. And the next question is coming from Justin Clare from Roth Capital Partners. Justin, your line is live.

Q: Hi, good morning. Thanks for taking our questions.

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Good morning, Justin.

Q: So I guess first off here, I also wanted to ask about the guidance. I was just wondering, was the guide lowered really only due to the utility scale segment, or were there any changes to the other divisions here, because you had previously provided expectations by division, so just wondering if we could get an update there on expectations for each division for revenue for 2022?

John Sullivan - Chief Financial Officer, iSun Energy

Yes, the adjustment in the guidance was due specifically to the utility division and our ability to access panels by Q4 and some of the information back that we've seen that we may not have NTP by the end of Q3, as we had anticipated.

Q: Okay. Got it. And then for that utility scale project, what is the current expectation for when that will get panels and commence construction? And then what is the uncertainty there at this

point? Like, do you have visibility into getting panels into early 2023, or is there still a fair bit of uncertainty? I know there's the Department of Commerce case that is still ongoing. So, I guess, what's your visibility on the module supply?

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Yeah, we're seeing module supply right now that is [delivering] Q1, Q2 of 2023. And these projects will officially move into our backlog once we receive NTP. And there's the timing from the utility on when these projects will achieve NTP...

Q: Okay. Got it. And then previously you had provided outlook for gross margins in 2022 by division. Just wondering if those expectations remain the same outside of the utility scale division. Should we expect the same – essentially, would you say that you're reiterating the margin guidance for the other segments, or should we expect any change there?

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Yeah, no change on margin guidance.

Q: Okay. Great. And then just on the backlog, demand looks to be accelerating here. I was wondering if you just talk a bit more about what you think is driving that acceleration? And maybe geographically, where you're seeing the most strength?

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Sure. On the residential side, I think we're seeing strong demand really across the board, more so in our New York market where some of the utility rates have already adjusted. That has not happened in Vermont yet. So I would anticipate as we move forward, there could be some additional demand in Vermont coming from higher utility rates. We've seen strong pricing power in the residential market as well. Our ability to use our workforce between organizations, I think, will help us drive additional commercial demand as well.

On the industrial and utility side, we're seeing lots of projects starting to come out of Maine. And on the development and design services and future work, we're seeing a lot of the red states embracing solar and seen a lot of projects in the Southeast.

Q: Okay. Great. And then, I just did want to go back to module supply for one more question here. Just on the other divisions that you have, what is the – well, I guess do you have all the module supply in inventory needed for the other divisions for 2022? Or if you could just talk about your access to panels for those divisions, are there any challenges?

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Sure. Yes, we have increased the amount of inventory from Q4 to Q1 to meet that demand. We have purchase orders in with good line of sight on product for the residential and commercial markets. On our industrial side, most of the projects that we have had already purchased panels for tax equity, so we don't anticipate any issues on those projects.

Q: Okay. That's it for me. I'll pass it on. Thank you.

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Thanks, Justin.

Operator

Thank you. And the next question is coming from Noel Parks from Tuohy Brothers. Noel, your line is live.

Q: Hi, good morning.

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Good morning, Noel.

Q: I was wondering if you could talk about the commercial sector, and if you could characterize maybe what's going on between sort of the current wave of adopters and maybe the early adopters, that just sort of talk about just any differences or trends you seen in those?

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Sure. On the commercial side, we're seeing certainly the EV infrastructure drive some of that demand. I think companies are beginning to assess - certainly now given the price of oil and diesel - how they move forward with their vehicle fleets. And that's creating conversations around having clean renewable energy to charge those vehicles. For businesses, it's always going to be [about] the total cost of operation on these vehicles. And so as they make this transition, they're going to looking to solar and future proof their electric costs.

Q: Sure. Great. That's helpful. And sticking with the sort of EV infrastructure, so it sounds like, is it safe to say that that's really just a part of the commercial sales effort or in your other segments is EV infrastructure sort of like a separate sales and marketing task or team you have?

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

We think that EV infrastructure growth will take place across all sectors, starting with a residential rollout and some into commercial stations. And then the utility will want, will need to support on that growth in demand. So we really see it impacting each of the different segments that we service.

Q: Okay. Great. Thanks. And you also mentioned that you had seen an uptick in, I think, C&I projects in Maine, and I was just curious whether there are any particular drivers about the timing of those coming now?

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

No. There's been a large backlog pipeline of projects in Maine that have been coming through the utilities. And some of the projects that we've been working on have come through that are ready to begin construction. So I don't think any specific drivers there, but there is a large pipeline

of projects in Maine that we've been working on, and we think we'll start to see those flow through.

Q: Okay. Great. And just last one for me, just as you've been talking about your panel availability and so forth, if you look at all the factors that have to be in place to move forward with implementations, could you just talk a little bit about the labor piece of that? When you catch up with panels, are there any other potential bottlenecks or maybe relative to your expectations seeing anything with costs that you would want to be thinking about?

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Yeah. I think our multi-segment platform, and one of the reasons we built this is so that we'd have some flexibility in labor and our ability to use that skilled labor where the demand sort of comes through. And so, we are focused on that, we are seeing the same inflationary pressures that everyone else in the industry is seeing. There's some labor inflation and commodity inflation. The nice part about that is we've also seen a lot of percent year-over-year average increase in utility rates, which will continue to drive this desire to have low-cost renewable solar power. So while we think there are inflationary pressures, the price of power is also going up, which makes demand for solar even stronger going forward.

Q: Great. Thanks a lot. That's all for me.

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Thank you, Noel.

Operator

Thank you. And they were no other questions at this time. I would now like to hand the call back to Jeff Peck for closing remarks.

Jeffrey Peck - Chairman and Chief Executive Officer, iSun Energy

Thank you everybody for coming on our conference call today. We appreciate your time and engagement allowing us to share our progress and performance with you. And we look forward to providing you updates in the future. Thank you.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. You may disconnect your lines at this time, and have a wonderful day. Thank you for your participation.