

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

SOL - Q3 2019 ReneSola Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 25, 2019 / 1:00PM GMT



CORPORATE PARTICIPANTS

Crystal Li *ReneSola Ltd - Director*

Kevin Chen

CONFERENCE CALL PARTICIPANTS

Philip Shen *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Gary Thomas Dvorchak *The Blueshirt Group, LLC - MD of Asia*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the ReneSola's Third Quarter 2019 Earnings Conference Call. (Operator Instructions) Today's call is being recorded, November 25, 2019. I will now turn the call over to Mr. Gary Dvorchak, Managing Director of The Blueshirt Group, Asia. Please go ahead, Mr. Dvorchak.

Gary Thomas Dvorchak - *The Blueshirt Group, LLC - MD of Asia*

Thank you, Albert, and hello, everyone. Thank you for joining us on today's call to discuss third quarter 2019 results. We released our shareholder letter a couple of hours ago. It's available on our website in the Investor Relations section. There's also a supplemental slide deck posted on the website that we will reference during our prepared remarks. On the call with me today are Mr. Ke Chen, ReneSola's new Chief Financial Officer, Ms. Jessie Zhang, Director of Financial Reporting; and Ms. Crystal Li, who serves on the Board of Directors and is Vice President of Investments. Before we continue, please turn to Slide 2. Let me remind you that remarks made during this call may include predictions, estimates or other information that might be considered forward-looking. These forward-looking statements represent ReneSola's current judgment for the future. However, there are subject to risks and uncertainties that could cause actual results to differ materially. Those results are described under risk factors and elsewhere in ReneSola's filings with the Securities and Exchange Commission. Please do not place undue reliance on these forward-looking statements, which reflect ReneSola's opinions only as of the date of this call. ReneSola is not obliged to update you on any revisions to these forward-looking statements. Also, please note that unless otherwise stated, all figures mentioned during the conference call are in U.S. dollars. With that, let me now turn the call over to Ms. Crystal Li, who will discuss the quarter's operating highlights on behalf of the Board of Directors. Crystal.

Crystal Li - *ReneSola Ltd - Director*

Thank you, Gary, and thank you, everyone, for joining our call today. We are very excited about the new leadership at ReneSola, which we announced this morning. The changes reflect our belief that we're entering a new phase in the life of the company. We have completed a multiyear transition away from manufacturing and into asset like global project development. Our outgoing CEO and CFO, made important contributions to that transition, and we deeply appreciate their efforts. Our new phase, which we expect to be marked by sustained profitability and accelerating growth requires a new skill set. Mr. Liu and Mr. Chen have unique qualifications that are perfect fit with our future needs. We warmly welcome them to our team. Mr. Liu is a widely recognized industry veteran. He has significant leadership experience at Canadian Solar, Recurrent Energy and GCL. He was most recently the Vice President of the EMEA region at Canadian Solar, a leading global manufacturer of solar photovoltaic modules and the providers of solar energy solutions. Previously, Mr. Liu was the President of Recurrent Energy, the U.S. subsidiary of Canadian Solar. And also, a leading solar developer in the U.S., his track record of success makes us confident in his ability to lead ReneSola. Our new CFO, Ke Chen was already on the Board of Directors, and will continue to also serve in that capacity. Mr. Chen is a Director of Shah Capital, a major shareholder of ReneSola. He has over 13 years of experience in the global capital markets, including investing in the solar industry in China. He brings both capital market insights and strategic expertise to ReneSola. And he will lead the ReneSola Financial Planning and Analysis, Investor Relations, strategy and the

capital market efforts. We are confident that he will provide the world-class financial leadership for ReneSola. Mr. Chen is here with us on the call today. I would like to have him to say a few words. Go ahead, Mr. Chen.

Kevin Chen

Thank you, Crystal, and good morning, everyone. With my 30-plus years in the Capital Markets, I have met and spoken with many of you before, and are looking forward to renewing those relationships in this new role, my Wall Street background and experience in investing in the solar industry will enable me to be effective in furnishing our cost of capital. We intend to improve our equity valuation by becoming more visible in the U.S. capital markets. We have a great story to tell. We believe our strategic focus on the project development business in the U.S. and Europe, can drive servicing goals and improved profitability, which in turn, should drive a higher valuation. I will discuss this more in my CFO section of the call. Now I will turn the call back to Crystal.

Crystal Li - ReneSola Ltd - Director

Thank you, Mr. Chen. To get started. I will summarize our third quarter financial performance and review our operating highlights. The call will then go to Mr. Chen, who will cover financial results in more detail, and we'll update 2019 guidance. We will then open the call to questions. I am very pleased with our third quarter results, business momentum accelerated, and our financial results exceeded expectations. Revenue of \$66 million grew to 386% sequentially, and was above the high end of our guidance range. Gross margin of 25% also exceeded the high end of our guidance. Importantly, we were profitable for the second consecutive quarter and ended the quarter with a healthy balance sheet. The cash balance increased to \$9.4 million, even as we reduced the debt by more than \$40 million. Operations made solid progress in Q3. We connected 10-megawatt projects in several geographies, including the U.S., Canada and the China. We sold a 55-megawatt portfolio of ground-mounted solar farms in Poland, and we signed an agreement to sell 22.3 megawatts of DG projects in

China. Let's now look more closely at the project pipeline. Our total development pipeline is all at 1.1 gigawatts, but was down from 1.4 gigawatt in Q2. Our late-stage pipeline also decreased to 399 megawatts from 740-megawatt in last quarter. Earlier, we have projects under development in several emerging markets, including India and Vietnam. After a detailed profitability review, we determined that the projects in those markets were not economically viable for us. As a result, we decided to scrap these projects and redirect our efforts to other profitable markets, including the U.S. and Europe, where we see tremendous growth opportunity. Our late-stage pipeline remains geographically diversified. Spending many different countries, as listed on Slide 3. Approximately 24-megawatt of late-stage under construction. As I mentioned earlier, in Q3, we connected a total 10-megawatt of projects in several geographies, including the U.S., China and Canada.

Now let's review the various geographies in more detail. First, let's turn attention to the U.S. as highlighted on Slide 7. Our late-stage project stands at around 283 megawatts, of which 98-megawatt are community solar in Minnesota, New York. Additionally, we have projects under development with a mix of core municipal and utility uptakers in other states, including Utah, Texas, Florida and California. In the meantime, we operate 24.1-megawatt utility projects in North Carolina. As we said on our last earnings call, in June 2019, we entered into a development service agreement with X-Elio North America. They are a company that is specialized in development, construction, operation and maintenance of solar plants. Our team is on track to originate and develop large utility-scale solar projects for X-Elio. We're assisting them in obtaining site control, permitting, interconnection and optic agreements. We're also supporting their projects through the financing and a construction basis. The initial portfolio of projects is located in California, Oregon and Utah, with a total installed capacity of more than 500-megawatt. This partnership with X-Elio demonstrates our ability to leverage our development capability in new ways. We believe this deal is an example that could open up opportunities to engage with other project developers, and operators as well.

In Poland, shown on Slide 8. Our key asset is a portfolio of project rights. During the quarter, we sold the 55-megawatt projects awarded to us in the 2016 and 2017 auctions. So at quarter end, we had a portfolio of 26 projects of 1-megawatt each, which awarded to us in the 2018 auction. After quarter end, we entered an agreement to sell half of that remaining portfolio. Slide 9 refers to Hungary, where we also invest in small-scale DG projects. Our late-stage pipeline has more than 55 micro projects, each with a size of 1.5 megawatts, bringing total capacity to approximately 34 megawatts. Of the late stage projects, 21 megawatts under construction and expected to connect to the grade in the next few months.



Last month, we entered into agreements to sell a bunch of these small-scale DG projects to Optum. A leading international solar investment company. The portfolio comprises 24 micro solar plants, with an average size of approximately 1.5 megawatts per plant, bringing a combined capacity of 13.9 megawatts. These 24 small-scale DG projects are qualified under the Hungarian 25-year bidding tariff scheme.

Now let's move to France. On Slide 10. We have a project pipeline of 42.5 megawatts, all of which are ground-mounted. One of these is a 30-megawatt solar park, we're developing with our strategic partner, Green City Energy. As a reminder, we formed our partnership in 2018 to co-develop solar parks in the South. We expect COD for the projects in 2020 or 2021. Slide 11 shows spend, where we have a late-stage pipeline of 12 megawatts of ground-mounted projects located in the South America region.

In addition to our development pipeline. We currently own and operate a 20 -- a 241-megawatt portfolio of solar projects that generates high-margin recurring revenue. As you see on Slide 13, our operating assets include 197-megawatt of rooftop in China, 24-megawatt of utility solar in the U.S., 50-megawatt of ground-mounted in Romania and the 4-megawatt of rooftop in the U.K. The 197-megawatt of rooftop will operate in China is concentrated in multiple Eastern provinces with favorable development environment. Self-consumption DG projects in those provinces are attractive investment for us. As we evolve and transform into asset-light solar project developer, we intend to monetize our China DG assets. This will enable us to further strengthen our balance sheet, reduce leverage and improve cash flow. We plan to use the cash to develop in the U.S. and the Europe. Along these lines, in Q3, we agreed to sell 11 rooftop DG projects located in Zhejiang Province to a China state-owned enterprise, specializing in the solar energy industry. Separately, we also agreed to sell 3 small-scale DG projects located in Shanghai to a different undisclosed third party. The 11 rooftop DG projects located in Zhejiang Province have aggregate installed capacity of 20.6-megawatt. And the three small-scale DG projects located in Shanghai, have a combined capacity of 1.7-megawatt. Revenue from 7 megawatts of these sales was recognized in Q3. While the remaining 15.3 megawatts will be recognized in Q4.

In summary, we have a globally diversified project portfolio, spanning multiple stages in both rooftop and ground-mount, and I am positive on opportunities ahead of us. The global solar power project development business is large and it continues to grow. We are becoming a leading global project developer by focusing on high-quality projects in attractive regions. Before I turn the call over to Mr. Chen, I would like to briefly discuss investments by Shah Capital. Shah Capital is one of our major shareholders. They made an incremental investment in ReneSola by purchasing 100 million newly issued ordinary shares for a total of USD 11 million. The transaction is now closed, and the company has received that investment. We believe this strategic investment from Shah Capital is a vote of confidence in our business. It also provides an important capital infusion, enabling us to better execute our strategy.

Let me now turn the call over to Mr. Chen for comments on our financial performance. Mr. Chen.

Kevin Chen

Thank you, Crystal, and thank you, everyone, for joining us on the call today. I would like to remind you our results is on our website and including all the presentations. I will review our financial performance for the third quarter of 2019, and then discuss our outlook and all the numbers are in U.S. dollars. Please turn to Slide 15. Revenue was \$66 million compared to \$13.6 million last quarter and \$18.8 million in the same quarter last year. Q3 revenue exceeded our guidance range of \$15 million to \$16 million. To understand this outstanding performance, let's look at revenue by segment. Project revenue of \$55.6 million was largely driven by recognition of the sales of the solar assets. Electricity sales from our owned assets were \$10.3 million. This came mainly from the 67.8 million kilowatt hour of electricity generated by our projects in China. Gross profit was \$16.2 million up from \$10.5 million last quarter and up from \$8.6 million in the same quarter last year. Gross margin was 24.6%, which was significantly ahead of our expectation of 15% to 17%. Better-than-expected the gross margin was due to higher-than-expected revenue recognized during the quarter. Coupled with high-margin IPP electricity sales.

Operating income was \$7.4 million compared to \$7.1 million in Q2 of 2019 and operating income of \$5.7 million in Q3 of 2018. Operating margin was 11.2%, down from 52.2% in Q2 of 2019 and 30.4% in Q3 of 2018. Operating expenses were \$8.9 million, up both sequentially and year-over-year. Sales and marketing expense of \$365,000 were up sequentially and year-over-year due to employee bonus payments. In contrast, general and administrative expense of \$2.1 million were down sequentially and year-over-year as we continue to scale our headcount, office strengths and other overhead to the current size of company. Note that Q3 operating expense include an impairment charge of \$5.5 million on the fixed assets related to the sales of 15.3-megawatt of DG projects in China. ReneSola signed a sales agreement at the end of Q3, and expect to recognize revenue



from the transactions in Q4. Below the line, nonoperating expense totaled \$4.7 million, up from \$0.5 million last quarter. Q3 nonoperating items include interest expense of \$2.2 million and a foreign exchange loss of \$2.5 million. The foreign exchange loss were -- was mainly due to the appreciation of the euro and U.S. dollar against the local currency, including Poland, Hungary and Romania. Resulting in exchange losses are payables in euro and the U.S. dollar.

Our net income was \$2.4 million or \$0.06 per ADS compared to \$5.1 million or \$0.30 per ADS last quarter. Adjusted EBITDA was positive \$15.4 million, up 55% sequentially and up 99% year-over-year. Now let's review the balance sheet shown on Slide 16. We had a cash and cash equivalents of \$9.4 million as of September 30, 2019, and a increase of \$0.6 million during the quarter. Long-term borrowings were \$10.9 million as of September 30, 2019, which was essentially flat when compared to the prior quarter. We have long-term liabilities related to sale leaseback and financial lease liability of \$57.5 million. The decreased \$13.3 million during the quarter, as we sold the related rooftop project in China. Short-term borrowings were \$41.4 million, down from \$82.8 million in the prior quarter. Before I provide our outlook for Q4, I would like to briefly comment on our share price and also give you an update on the depositary service fee for our ADS holders. As I mentioned at the start, lowering our cost of capital will be an important responsibility for me as the CFO. We believe our shares are undervalued at the current level, when compared to our peers in the solar space. As shown on slide 17 from the standpoint of a new part of our stock, our valuation is great. We believe we should attract both value and growth investors as well as ESG focused funds. Bottom line, we are focused on operating efficiency and profitability. Delivering high returns and generate good cash flow, which we believe can drive a higher valuation over time. Also, we recently instructed our depositary bank, Bank of New York Mellon. Now that we will pay the annual depositary service fee for our ADS holders. We do this because we want to be one of the most shareholder-friendly company in a solar power development industry and trade our shareholders fairly and ethically. We believe this action is further evidenced of this commitment.

Let's now turn our attention to guidance, shown on Slide 18. For 2019, we expect revenue to be in the range of \$130 million to \$140 million, and our overall gross margin in the range of 20% to 25%. For the first quarter of 2019, we expect revenue in the range of \$45 million to \$50 million, and the gross margin in the range of 10% to 15%. With that, we will now like to open up the call for any questions that you may have for us. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your question comes from the line of Philip Shen of Roth Capital.

Philip Shen - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Ke, congratulations on your new role. I wanted to touch on...

Kevin Chen

Thank you.

Philip Shen - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

I just want to make sure Yumin is not on the call, right? And he doesn't start until December 4. So I just want to make sure?

Crystal Li - *ReneSola Ltd - Director*

He's not on the call.



Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Got it. Okay. So in terms of your Ke, in terms of your strategy around reducing your cost of capital, can you highlight in contrast what you plan on doing that's different than what had been done in the past. So where are the opportunities? And what is the low-hanging fruit? And then maybe what else do you see beyond the low-hanging fruits to reduce the cost of capital?

Kevin Chen

Sure. Thank you, Phil. It's nice to speak with you again. First of all, our focus will be the U.S. and European market. And so that's -- going forward, that's our focus. And so those projects in U.S. and Europe will have higher profitability. Secondly, we'll review all the strong financial partners we have before, and we will talk with them and find the best way to lower our cost of capital. And lastly, we will continue to make commitments to sell our China projects. So we will get our cash back from those China projects and reinvest that cash in a high profitable market in U.S. and Europe. So that's all I have.

Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Okay. And can you quantify the degree. So just to remind everybody, kind of what your rough cost of capital is now? And then within a year or 2, how much lower do you think that could go?

Kevin Chen

Phil, that's a good question. And I think we all review this carefully, again, in different regions, we have different cost of capital. So I will -- we will, again, make that decision going forward. Certainly, there's a lot of room for us to improve.

Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Okay. And then shifting gears to your China projects, can you tell us of the -- I believe there was about \$10 million of revenue, right, in the quarter, what percentage of that is actually resulting in cash receipts, cash receipts of the \$10-plus million per quarter? And yes, we'll start there, and I'll have some follow-ups.

Kevin Chen

Crystal, can you?

Crystal Li - ReneSola Ltd - Director

Yes. So we receive 40% of that \$10 million in cash. That's mainly from our China projects.

Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Okay. And is that historically true as well. I mean, it's basically roughly 40%? Okay. So when -- can you talk about the timing of when you expect to sell these projects? Are we looking at this month -- I'm sorry, this -- that's sometime in the next quarter or 2? Or do you think it would take longer than 2 quarters?

Crystal Li - ReneSola Ltd - Director

So we have sold 22.3 megawatts in Q3 and we're looking to sell another 28-megawatt in Q4. And then all the remaining we plan to sell within 2020.

Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Great. Okay. That's very detailed. And then let's move on here to 2020, that's a good topic. I know you have not provided official guidance, but wanted to see how many megawatts do you plan on monetizing in 2020, you gave some sense for China already, but we would like to build the forecast with some degree of clarity. And so can you speak to how many megawatts you plan to monetize by region in 2020?

And also...

Crystal Li - ReneSola Ltd - Director

Sure. Yes, that's a fair question. So aside from the 180 -- around 180 megawatts from China. We continue -- we want to continue to sell our current projects in Hungary in the range of between 10 to 15 megawatts and plan to sell some newly developed projects in Poland, we estimate it to be 30-megawatt. And in Spain, we have these 12-megawatt projects in pipeline, and we're already ready for sale in 2020, so 12-megawatt in Spain. And somewhere around 40 to 60-megawatt from U.S.

Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Okay, great. That's very clear. And then what do you think the mix of NTP sales versus COD sales will be in 2020?

Crystal Li - ReneSola Ltd - Director

Yes. So looking from our -- the current pipeline we have and to decide what to sell in 2020, we plan to -- we plan then well 25% will be NTP sale and maybe 50% will be COD sale and the rest revenue would come from our operating assets and other activities.

Kevin Chen

Phil, I just want to -- I just want to add here, again, in terms of NTP and COD, we are, again, decide that going forward to see what's the best for the company. So we'll be optimistic. I mean, to find the best way to generate cash flow and profitability. So we would decide going forward into 2020.

Crystal Li - ReneSola Ltd - Director

Yes, yes. Also, what we present today is the current view of this company. And I'm sure after the new CEO on Board, there could be some adjustments, and we will disclose 2020 forecast in detail on our Q4 earnings call.

Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Okay, great. When you think about 2020, you would we talked about the potential for project sales. But what's your sense for the margin profile for 2020?

Kevin Chen

Phil, it's too early. Right now, I think -- so let's talk about the next quarter call. And again, the new management, you mean we'll onboard in December 4. So I think it's better, we talk about that in the next call.

Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Okay, that makes sense. As it relates to your comparison to [peers group] that you did with Vivint and Sunrun and Sonova and SunPower. Their business models are about originating the assets and keeping them on balance sheet. Your business model is originating the assets and then selling them. Do you think there might be a peer group that might be a bit. I wonder if those business models match yours exactly. I know SunPower is making a change now where they are selling the assets. So that could be a possible peer, but when I look at Sonova, Vivint and Sunrun. It seems like fundamentally, the business models are actually different. What are your thoughts on that?

Kevin Chen

Yes. It's glad that you mentioned SunPower, they kind of did what ReneSola did. But again, look at the competitors across the space, we are the purely, I mean, right now, we are purely the product developer globally as a global leader in the space. So we haven't identified a larger unique one like us. So this is where unique, I'll see in this position, but we will see. Again, we did a comprehensive comparison, but this is the close we can get right now. We believe we are the leader, purely unique leader in this space.

Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

When you say the leader, that means the number 1 leader. I mean, isn't Canadian Solar's development projects and pipeline quantitatively larger?

Kevin Chen

Well, we are different -- yes, by the way, we have a different strategy, you are right. We are focused on the community solar. Our focus in the future will be the U.S. and Europe. So were a little bit different in terms of strategy.

Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

So when you say the leader, you mean the leader in global distributed generation DG development?

Kevin Chen

All community solar? Yes.

Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

As opposed to utility-scale development, which is what Canadian Solar has?

Kevin Chen

Yes.



Philip Shen - Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst

Okay. Okay, good. Well, I look forward to having Yumin on the line and on Board as well and learning more about the strategy from you guys ahead. So, thank you very much. I'll pass it on.

Crystal Li - ReneSola Ltd - Director

Yes. Thanks.

Kevin Chen

Thank you, Phil.

Operator

(Operator Instructions) There are no further questions at this time. I would now like to hand the conference back to Crystal, please continue.

Crystal Li - ReneSola Ltd - Director

Sure. Thank you, operator. To conclude, we are pleased with our Q3 results and are optimistic about opportunities ahead of us. We have the right strategy in place and an outstanding new leadership team and the solid balance sheet to execute it. Today, we are turning the page to begin a new chapter in the life of the company. We're excited about our prospects, and we look forward to speaking with you all soon. Thank you all again for your participation. This concludes our call today. You may all disconnect.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may all disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.