

ANALYST BRIEF:

July 21, 2015

Summary

Real Goods Solar Inc. (NSD: RGSE) is a residential and small commercial solar energy engineering, procurement and construction firm. It provides homeowners, businesses, schools, government organizations, and utilities a cleaner, more affordable solution for their electricity needs. Real Goods Solar conducts business under Industrial Goods sector and is part of General Building Materials industry. It was founded in 1978 and is headquartered in Louisville, Colorado.

Real Goods Solar operates in three segments: (1) Residential – the installation of solar systems for homeowners, including lease financing thereof, and for small businesses (small commercial) in the continental U.S.; (2) Sunetric – the installation of solar systems for both homeowners and small business owners (small commercial) in Hawaii; and (3) Other – catalog segment, for 2014, and corporate operations.

The company also performs most of its own sales and marketing activities to generate leads and secure projects. It offers turnkey services, including design, procurement, permitting, build-out, grid connection, financing referrals and warranty. It serves thousands of communities in 11 states, and customers include tens of thousands of homeowners, hundreds of schools and universities, leading commercial entities such as Timex, Aetna, and Eastman, and major government organizations such as the U.S. Military.

It installs residential solar energy systems up to 15 kilowatts (kW) output; and small commercial solar energy systems up to 200 kW output for various industries, such as retail, manufacturing, service, and municipal services. The company markets its products and services through an outside sales team, door-to-door sales, e-sales, and inside sales, as well as through customer referral program.

The company currently falls under 'Micro- Cap' category with current market capitalization of 138.12 M and has 92.70 M outstanding shares of which 1.67 M shares are at this time shorted by private and institutional investors with about 0.4 trading days to cover.

Key Indicators

Current Valuation	140.08 M
Shares Outstanding	92.70 M
Number of Shares Shorted	596.62 K
Revenue	10.61 M
Gross Profit	897 K
Net Loss (basic/diluted)	3.73 M
Cash and Equivalents	992 K
Total Debt Obligations	1.96 M

Performance



Recent News

In July 2015, shares of Real Goods Solar were gaining 23.9% to \$2.33 on heavy trading volume after it completed a \$5 million public offering. About 2.1 million shares of the company were traded well above the company's average trading volume of about 357,000 shares a day. Real Goods Solar sold units of Class A common stock and Series F common stock warrants at \$3.65 a unit in the public offering. Each unit consisted of one share of Class A common stock and a warrant to purchase 0.3 shares of Class A common stock. Real Goods Solar said it expects to see net proceeds of about \$4.4 million from the public offering.

In Jun 2015, shares of Real Goods Solar were surging by 23.08% to \$4.48 on heavy volume in mid-morning trading, after the company announced it has converted its subordinated debt to Class A common stock. The company also agreed to exchange a "substantial" amount of its Series A and C warrants for Class A common stock. What these recapitalization moves effectively meant is that the company is now relatively debt free except for an ongoing line of credit with Silicon Valley Bank.

Pros

- The company reported decent Q1 results, reporting a revenue of \$10.6M. Although this figure represents a 23% YOY decrease, lower quarterly net revenue was to be expected due to unusually harsh weather conditions in the East Coast. In addition, the company's EPS of (\$0.06) improved dramatically from its (\$0.34) figure reported a year prior. The company's quarterly gross margins in the residential sector came in at 10.3%, representing a YOY decrease from 20.0%. Overall, the company performed pretty much as expected, with no big surprises.
- The company has notably made strides in its financing capabilities, which is great news as financing. It has made many new financing partnerships to keep its business moving, and secured approximately \$11.5M in capital during Q1. With individual solar systems costing tens of thousands of dollars, access to capital is a key for success in the solar lease/PPA business. On top of this, the company has begun to streamline its operations to avoid any wasteful expenses, which should prove to be vital for the company's continued success.
- The demand for Real Goods Solar products is growing at an extremely fast rate. In fact, the company's backlog increased a stunning 103% YOY to \$45.7M. Demand should not be a problem for the company, as the rooftop solar industry has been exploding over the past few years.

Cons

- The gross profit margin is currently extremely low, coming in at 8.45%. It has decreased significantly from the same period last year. Along with this, the net profit margin of -35.19% is significantly below that of the industry average. The company, with its decline in revenue, underperformed when compared the industry average of 11.6%. Since the same quarter one year prior, revenues fell by 22.9%.
- After a recapitalization of most of the outstanding debt and convertible securities into equity, the company raised additional money through a public offering of units consisting of shares of common stock and warrants. Although the additional cash is an operating positive, the markets did not like the dilution. However, the company's future ability to take advantage of its growing demand is unclear, as this depends on its financing capabilities. While the company will certainly be able to fulfill much of its

current backlog due to its successful financing rounds over the past few quarters, the company's ability to do so in the future is not so certain. Regardless, it is more likely than not that the company will be able to fulfill increasing demand down the road.

Verdict

Although the cash infusion is almost always good news for a struggling company, it comes at the cost of heavy dilution. It seems that the company is well on the way to the dilution scenario as doubling of shares would be necessary when raising capital to stabilize a company. I do not see the company making much progress considering the negative working capital, negative net margins, unstable nature of the operation, and the litigation prospects. I would consider Hold position with some cautious for the company's further act.

Sources:

1. RGSE Quarterly Report, 11 MAY 2015
2. <http://investors.rgsenergy.com/>
3. <http://ca.finance.yahoo.com/RGSE>

Risk Factors

An investment in the common stock of the company is subject to a number of risks. The information below contains latest filings and risk factors that should be considered by all investors. Investors should carefully consider the risk factors set out below and consider all other information contained herein, and in the company's SEC filings, before making an investment decision. We assume no obligation to update or revise any such forward looking statements to reflect events or circumstances that occur after such statements are made. A complete list of filings including the risk factors for the company can be found here: <http://www.sec.gov/cgi-bin/browse-edgar?CIK=prgn&Find=Search&owner=exclude&action=getcompany>

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OVERWEIGHT/BUY

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country Index average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

EQUAL WEIGHT/HOLD

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

NOT RATED

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

UNDERWEIGHT/SELL

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country's equity indices and/or the total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Disclosure: I, Robert Borowski, research analyst have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions and I have no business relationship with any company whose stock is mentioned in the article.

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