

ENSYNC INC

**Moderator: Matt Selinger
September 28, 2015
3:30 pm CT**

Operator: Good afternoon ladies and gentlemen and welcome to the EnSync Energy Systems Reports
Fiscal Year 2015 Results Conference Call.

This call is being recorded.

And I would now like to turn the call over to Matthew Selinger, Investor Relations. Please go
ahead sir.

Matthew Selinger: Thank you Operator. Good afternoon and welcome to the EnSync Energy Systems
Quarterly conference call.

On the call today are Brad Hansen, CEO of EnSync Energy Systems, and Dilek Wagner, Vice
President of Finance.

The EnSync Energy Systems press release and 10-K containing the full fourth quarter results and
commentary was sent out earlier this afternoon and may be found on its web site. I encourage
you to read the release as it details innumerous accomplishments within the quarter.

Please also take note of the Safe Harbor paragraph that appears at the end of the press release covering the company's financial results and that any forward-looking statements that we make only speak as of the date made and are subject to inherent risks and uncertainties including those described in our most recently filed Annual Report on Form 10-K and should not be unduly relied upon.

Except as otherwise required by the Federal Securities Laws, we disclaim any other obligation or undertaking to publicly release any updates or revisions to any forward-looking statements.

With that being said I'd like to now turn the call over to Brad Hansen, CEO of EnSync Energy Systems. Brad.

Brad Hansen: Thank you Matthew. For today's call I will give a brief overview of the financial highlights for the quarter, then a commentary on the company's markets, strategies and operations.

The financial results for our fourth quarter fell within our expectations while overall progress exceeded our expectations. Total revenue for the quarter was approximately \$313,000 versus approximately \$1.25 million in the same period a year ago.

Our current backlog is \$2.9 million for components, systems and engineering services while additionally we won contracts for \$6.7 million of Power Purchase Agreements or PPAs that are expected to be sold with a margin within our fiscal year.

So overall our project backlog is healthy and we expect it to continue to grow going forward.

For the Fourth Quarter of Fiscal 2015 net loss attributable to common shareholders was \$3.5 million or 9 cents per share. The company's current cash balance is approximately \$35.9 million.

The current rate of cash consumed by operating expenses is approximately 1.1 to \$1.5 million per

month. This will trend down at the beginning of the calendar year as we complete our upgrade initiative for the V3 Series Product.

I'd like to spend a moment discussing our market as well as detailing a few of our noteworthy accomplishments since our last call and provide an outlook for the upcoming months.

Our market is very exciting and four key drivers are fueling the growth. First, government policies continue to drive a massive increase in renewable energy generation in the utility sector. While at the same time traditional generating sources are being decommissioned. This means that a stable source of electricity is being replaced with an intermittent source.

Second, energy generating infrastructure is becoming more and more fragmented as deployment of distributed solar energy in residential, commercial and industrial building installations continues at a rapid pace. This has the effect of driving increases in utility rates over time which in turn drives further acceleration in solar energy deployment.

Third, the smart grid is beginning to migrate from a demand reduction and demand optimization focus to a distributed generation and supply utilization focus. In other words the massive increase in distributed generation across commercial installations is beginning to be tapped as an available energy supply when the grid operator needs the electricity being produced.

Stem recently announced the first export of electricity from a battery behind the meter to the California ISO. This relatively rudimentary demonstration is just the first step towards utilizing completely interconnected distributed energy generation networks to export electricity on a spot market exchange. EnSync calls this supply response on demand.

The fourth and last key driver is the energy storage and energy management is now foundational to the further deployment of renewables and the ongoing expansion of the new energy economy.

Over the last year we worked diligently to position the company to capitalize on these trends. We have completed the transition to a distributed energy generation systems and services company. Our new name reinforces this change. Our systems synchronize electricity between the renewables, energy storage, building load and the grid in the most economical way possible.

EnSync continues to focus on the commercial and industrial or C&I building market where systems are differentiated based upon the cumulative value of all the applications that can be monetized now and over the next 10 to 20 years. Our solutions are differentiated based upon technology and economic performance.

The C&I market is characterized by a greater complexity and has many more applications possible from the same system.

We succeed because our systems can perform more value creating applications for the building owner. And we can easily tailor an individual solution that's optimized for each building. Our Agile Hybrid Storage Product and Matrix Energy Management System ensure we can construct C&I systems with better economic return.

EnSync now owns four Power Purchase Agreements totaling a cumulative contract value of \$6.7 million all of which are in the C&I market. We secured the first PPAs in Hawaii utilizes PV and energy storage behind the meter. We won these contracts because we provided more value than competing solutions.

Since our last call we've made payments against these contracts for engineering services and equipment as well as project development. We expect this backlog of PPAs to be commissioned and sold with a margin within our fiscal year.

We're also looking to upgrade our organization with additional talent in sales and finance that will help us most effectively deploy our financial resources during the project construction phase as well as maximize our return on the sale of the commissioned project.

As the quarterly release notes we created Holu Energy, a project development company in Honolulu, Hawaii. The investment in Holu will position us in the value chain closer to the end customer putting us in a position to close more opportunities and execute them more quickly.

Holu will develop projects in Hawaii and the other Pacific Islands most of which have even more challenging electricity needs than Hawaii. Our ownership position is 85% and we look for the investment to payoff significantly not only in generating new project opportunities for us but also increasing in value as many more new projects are closed and Holu secures development payments.

We believe the total of two year project opportunity that Holu addresses is well over \$50 million in contracts and we look forward to its great success.

I'd also like to provide an update on our partnership with SPI. As mentioned in our release commentary the \$33.4 million cash investment was closed in July. This investment enables us to fund the critical R&D required to further increase separation from others in our market in the area of controls, power electronics and Hybrid Storage Systems.

It will also fund some of the working capital required to secure additional C&I PPAs. We're actively working with SPI Sales Channels in China, Germany, Australia, Japan and California to identify potential projects particularly C&I and Microgrid projects and anticipate initial financial contribution from these towards the end of our fiscal year.

We're making progress with our other strategic partnerships as well. Our battery production including our new Agile Product is fully transferred to China where it is sourced and manufactured by Meineng Energy. Our Matrix Energy Management System has completed sourcing in China and initial production will begin there later this year.

The Lotte 500 Kilowatt-hour utility battery will be built in Meineng early next year as will our scaled up Agile 600 Kilowatt-hour Hybrid Battery System. Our sourcing in China and JV investment with Meineng Energy gives us a competitive advantage with respect to cost and cycle time.

In summary the period since our last quarterly call has seen many positive developments with new projects, products, capitalization and continued growth in our markets.

Our team has worked diligently the past year to position the company for high growth and market success. I'm excited about EnSync's direction and look forward to a bright future.

We appreciate your calling in today and I'm happy to now take your questions, Operator.

Operator: Thank you. If you would like to ask a question please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment. Again press star 1 to ask a question.

And we'll pause for just a moment to assemble the queue.

And we'll first take our first question from Aaron Spychalla with Craig-Hallum.

Aaron Spychalla: Good afternoon. Thanks for taking the questions. You know could you provide a little bit more detail on OATI and their position in the market and how you envision this relationship growing over the next couple years?

Brad Hansen: Sure, thanks Aaron. OATI is an infrastructure solutions provider to the utility industries. I would say they're - the analog would be similar to what the IBM Systems business is for enterprise solutions for corporations. That's an analog for what OATI does with the utility industry.

OATI contracted with us for a system where they're going to take our Hybrid Energy Storage and our Matrix Energy Management System and they're going to integrate renewables and test the performance of our system in real world simulations. The idea being that they could take our system solutions out as part of their offerings and total solutions offerings to the utilities.

And so we're really excited about working with them on this system. And we think that it could payoff greatly for us down the road.

Aaron Spychalla: Good, thanks for the color. You know maybe second can you just kind of talk more about your outlook in China following the third party testing earlier this year and given the recent headlines in China?

Brad Hansen: Sure. I think for the China business overall we have noticed through our JV company Meineng Energy that there's a lot more RFQs now coming in and opportunities I think for the company to bid on.

The 2014 through early 2015 was a relatively quiet period there. What we've seen lately is an uptick in the interest to deploy to the C&I market and also Microgrid solutions there.

And we're getting a lot of that coming through Meineng. We're working with them on how to position the products there and of course they all are leading edge products that they're going to be bidding on those opportunities with.

Certainly the SPI relationship gives even more power to what we're doing over there. They have not only good channel relationships and activities but also some unique finance models that apply to China.

And so we're really excited about the opportunities in China moving forward. And our passing of the state grid test and validation with the state grid has definitely helped us in that respect.

I think overall in China it's, you know, it's - I don't want to try and comment too much. It's a complex situation.

But I would say from our perspective what we've seen is that the supply chain cost has started to drop significantly. So from our perspective we see some pretty good upside on our cost reduction.

Aaron Spychalla: Understood. Thanks for the color. And then maybe last for me on the Caymans. Can you just give us an update on when you expect to deploy the most recent order and your outlook for growth there going forward?

Brad Hansen: Sure. The project is going to start to be deployed towards the early part of next calendar year. We're already building the equipment that will go to that installation. And we look forward to getting that site commissioned.

I think overall on the market there's a huge potential market in the Caribbean. The electricity rates are significantly higher than we're used to. They're significantly higher even than Hawaii in the 40 cents to even 45 cents a Kilowatt-hour range.

The only downside is it takes quite a while to get projects developed there. But we're looking at how we can get in and participate and drive more business there.

Aaron Spychalla: Sounds good. Thanks for taking the questions.

Brad Hansen: Thank you.

Operator: And again as a reminder it is star 1 to ask a question. And we will go to Bob Evans with Pennington Capital.

Bob Evans: Good afternoon and thanks for taking my question. Sorry if you've touched on this. I got in a little late.

But on - in the Hawaii market can you comment on kind of pace of new opportunities there and kind of how you see that market in the short and intermediate term?

Brad Hansen: Yes. Hi. I think on the Hawaii market it's one of the hotter markets that exists in the world right now. And it's really driven by the rates and the stability of the infrastructure.

We see a very strong opportunity there for our products especially in the C&I space. Our PPA channel funnel looks very healthy. That's coming in through not only Holu but we have other development partners over there. I think from now through the end of 2016 we can look for a lot of growth there.

The one thing I would highlight is that the overall Pacific Islands have similar issues to deal with as Hawaii as far as the grid integrity and the rates. In fact they're in a lot of cases even worse.

So we think that Holu's in a good position with our help to go capitalize on developing opportunities not just in Hawaii but through the entire Pacific Islands. And we're very excited about that.

Bob Evans: What do you think the overall market potential is in kind of Hawaii and the Pacific Islands?
How many - how big a market is that for you?

Brad Hansen: I think if we look at it in a two year kind of time horizon we believe the opportunity is in excess of \$50 million for projects in the Pacific Islands and Hawaii.

Now we have a lot of execution to do to secure as much of that as we can. But the opportunity is definitely there.

Bob Evans: Okay, okay. And by my math and assuming the JV, the Chinese JV price at the last round that you were down and then it appears the stock is trading below kind of asset value or asset and cash value if I'm not mistaken.

Brad Hansen: Correct.

Bob Evans: Okay, okay, well.

Brad Hansen: Sorry.

Bob Evans: Yes. I just wanted to make sure I wasn't missing anything there but I think, yes, that's just confirming. So thank you for taking my questions.

Brad Hansen: You're welcome. Thanks.

Operator: And again as a reminder ladies and gentlemen it is star 1 to ask a question, star 1.

And we'll take a question from James Collins, Private Investor.

James Collins: Yes. Hi Brad. The thing that comes to mind is that for our next fiscal year what is the revenue potential or the run rate for the equipment and software that we're making, I mean if you were to add up the aggregate value of all that and we sold everything that we're able to manufacture, what kind of a number would that result in for, you know, for next year?

Brad Hansen: Let's see, how to answer that now. I think that we're not capacity constrained. I would leave it at that. We believe we currently have capacity in excess of 20 Megawatt hours a year. The critical path for that capacity, the bottleneck is injection molding. We can add that in a reasonable amount of time.

Backend assembly and building the actual batteries and power electronic systems, we have a significant amount of capacity in China.

So I don't think capacity is going to be a limiter in any way. I believe that it's much more important that as we move to the PPA model where we're doing complex projects that we need to make sure that we execute on the projects well and can get them commissioned in a reasonable amount of time so that we can sell that PPA for a margin. I think that's what our challenge will be in the coming months not so much on the capacity side if that makes sense.

James Collins: Sure. Sure. And then on SPI, you know, in the past there were news releases saying that they were able to get a letter of credit from three banks for over, you know, \$1 billion. And, you know, if things - you know with such volatility going on in China is that still valid, the number or what would the number - might the number be now?

Brad Hansen: Well I don't want to try and comment on their...

James Collins: Okay.

Brad Hansen: ...financial position. But I think that they're in pretty good shape. They have a lot of cash.

My understanding is that that line of credit still applies.

But I can't comment on the specifics of that. They do have a relatively large portion of their business outside of China. And even the part in the piece of their business in China, my understanding is it's doing quite well.

James Collins: Okay, good.

Brad Hansen: So I feel comfortable that they're a good partner for us in all ways.

James Collins: Okay, good. And then the other thing is that the utilities seem to be going almost 100% using the lithium batteries. And I keep seeing that lithium batteries with much recycling and discharge and charging over extended periods of time, the batteries degenerate and so on. It would seem like were if flow batteries were used you would have about 100% being - still being available over the - over maybe a 20 year program or something.

But it sounds like with a big utility and the kind of use that I think they might get they'd be wearing out these batteries pretty fast. Wouldn't they?

Brad Hansen: Well I'll comment a little bit on the overall utility market. We're primarily focused on C&I for a couple of reasons. First of all, we can get in, develop projects and complete the projects and sell the projects in a relatively short amount of time. So the business has a higher turn rate than the utility business.

The utility business, it can be two years from the RFQ coming out to...

James Collins: Okay.

Brad Hansen: ...anything going in the ground. I think it tends to be very, very price driven because in general they're only doing one application. And maybe not even one time a day but at most one time a day.

So it's just - there's less opportunity to differentiate in the utility business than in C&I.

That being said, we still bid on utility projects where our balance sheet will allow us to.

James Collins: Okay.

Brad Hansen: In some cases the balance sheet requirement for some of the large projects is beyond our capacity to bid. We believe SPI can help us out a bit there being, you know, giving us some - a backup letter.

But I'd say overall we're much more bullish on the C&I business because we can differentiate.

We can turn the business quicker. We can get better profitability on that business.

James Collins: Okay. Thank you.

Brad Hansen: You're welcome.

Operator: And again as a reminder ladies and gentlemen it is star 1 to ask a question, star 1.

And now we have no other questions. We'll go ahead and turn the call back over to Mr. Hansen for additional or closing remarks.

Brad Hansen: Okay, thank you very much for joining us on the call today. And we look forward to more progress in the coming months and more momentum in our business. And look forward to reporting on that in the near future. Thank you.

Operator: Ladies and gentlemen this does conclude today's conference. We thank you for your participation.

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