

Robert Clark
Alliance University
Professor P. Hensley
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Abstract

As we are aware of the importance of financial statements in order to make a financial analysis, the income statement, balance sheet and statement of cash flows are required. These three (3) statements are informative tools that traders can use to analyze a company's financial strength and provide a quick picture of a company's financial health and their underlying value. This paper will explore Blocpower's clean energy company's financial statement(s) with a determination of their financial condition and attendant challenges. The information provided here in this paper is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice.

According to (BlocPower ES3LLC.pdf, May, 2021, <https://www.sec.gov/Archives/edgar/data/1848743/000174758421000006/BlocPowerES3LLC.pdf>) BlocPower Energy Services 3 LLC (the “company”) is a special purpose entity (SPE) 100% owned by BlocPower LLC, a Delaware based company. The company was formed on January 4, 2021 and its main purpose is to provide energy technology for rapidly greening American cities. BlocPower, LLC manufactures renewable energy systems, which it will contribute to the company for the use in leasing to customers. The systems are contributed at cost, which approximate fair value. The company will enter into long-term operating lease agreements with customers, generally with terms ranging from fifteen (15) to twenty (20) years. These leases will be effective as of the commercial operation date (COD), which is the date the installer provides a commissioning document indicating that equipment is ready for regular daily operations. As of February 15, 2021, the company had not placed any systems into operation, but was in the process of obtaining the commissioning documents for two systems.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Revenue Recognition

Revenue earned by the company will be generated through leasing of renewable energy systems from long-term contracts. These contracts are operating leases and are cancelable by either party, but subject to fees. If the lessee elects to cancel the agreement before the COD, the lessee is liable for all costs and expenses incurred for the system and would be required to purchase the system. If the lessee elects to cancel the agreement after the COD, the company is entitled to all damages and remedies for the early cancellation. If the company elects to cancel the agreement; the lessee has the option to purchase the system or require the company to remove the system at their own cost. The lessee also has an option to purchase the equipment any time after ninety (90) days following the COD at the greater of the fair value or an amount in the agreed upon schedule included in the energy services agreement.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash principally consists of funds held in checking and savings accounts.

Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The determination of their financial condition and attendant challenges are the upfront costs of all-electric appliances, like air source heat pumps, are more than fossil fuel or resistance electrical equipment.

While an air source heat pump (ASHP), which is a complete heating and cooling system that doesn't rely on fossil fuel combustion, can save property owners money over the operating lifetime of the appliance, currently the upfront cost of an ASHP typically is more expensive than that of a new gas or electric resistance furnace. However, there are a number of tested and proven real-world solutions that bring down the upfront costs of electrification, and drive accessibility for low to moderate income property owners. Secondly, the installation of electric appliances triggers increased electricity usage costs.

Another common objection around building electrification is that shifting some or all appliances to electricity increases electricity usage costs. While transitioning some or all appliances to electricity will increase a home's electric usage, depending on the original fuel source the total balance of utility cost can still decrease. Energy efficiency strategies paired with electrification and weatherization retrofits are key in providing cost savings for property owners. Lastly, the high cost of electricity in some communities makes the ongoing operational costs of electrification challenging. Moving to all-electric appliances can often save building owners money from gas or oil connection and usage fees, however in geographies where electricity is more expensive than gas, there are other established solutions that can help building owners overcome this obstacle.

Financial Condition

THIS SECTION CONTAINS CERTAIN FORWARD-LOOKING FINANCIAL STATEMENTS AND/OR PROJECTIONS. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN SUCH FORWARD-LOOKING STATEMENTS AND PROJECTIONS AS A RESULT OF VARIOUS FACTORS, INCLUDING THE RISKS TYPICALLY ASSOCIATED WITH THIS TYPE OF ENTERPRISE AND CHANGES IN THE MARKET. NEIF UNDERTAKES NO OBLIGATION TO PUBLICLY RELEASE THE RESULT OF ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS AND PROJECTIONS THAT MAY BE MADE TO REFLECT EVENTS OR CIRCUMSTANCES THAT OCCUR AFTER THE DATE OF THIS OFFERING STATEMENT OR TO REFLECT THE OCCURRENCE OF ANY UNANTICIPATED EVENTS.

Liquidity and Capital Resources

According to (BlocPower, May, 2021) the company currently has \$100,000 in cash and cash equivalents ("cash") as of March 4, 2021. This is an initial equity contribution from its parent. This cash is available to fund projects alongside the debt raised in this offering, manage any timing mismatch of cash flows from customer leases vs. debt service payments, maintain reserves, among other uses. The company expects to be able to handle any temporary differences in the underlying lease payments and debt service. The company will maintain, at all times, a minimum of six months debt service in cash or

cash equivalents in its operating accounts. The proceeds of this raise are not required for the viability of the company, but are instrumental in its growth. The use of proceeds outlines the critical nature of the raise to meeting our growth business plans.

Through its parent, the company has indirect access to a \$500,000 line of credit to be used as required, including for construction of projects to be purchased by the company. Should additional liquidity be needed by the company, the parent entity is incentivized to support its investment through further contribution of funds, however it is under no obligation to do so. Besides the current cash, line of credit, lease payments from the projects, capital contributions from the parent and the crowd-funded debt, there are no other capital resources for the company at this time. The company expects to start generating revenue through lease payments from the two seed projects by March 31, 2021. The company has sufficient funds to pay 12 months of operations, in event of revenue delays. Due to the low-cost structure of the Company and the management agreement with the parent company to cover all staffing costs, once project lease payments begin, the company is expected to be able to operate through the maturity of the note and beyond.

Financial Milestones & Anticipated Revenues

According to (BlocPower, May, 2021) the company has an immediate source of projects available to put funds raised in this debt offering to work. The average size project is typically between \$25,000 and \$200,000, and takes on average 1-2 months to go from lease signed to installed and generating lease payments (revenue). Below are key milestones to grow the company, generate cash to pay debt holders, and become profitable.

In place

- On January 10, 2021, two projects already in construction/fully paid for were transferred in, as an in-kind equity investment by BlocPower LLC, with asset value of approximately \$75,000 As of February 15, 2021, an equity injection of \$100,000 in Cash from BlocPower LLC, its parent company, as initial operating capital

First Quarter 2021

- 2 seed projects expected to generate revenues Second thru Fourth Quarter 2021
- Crowd fund to raise between \$25,000 and \$1,000,000
- Complete signing additional Leases
- Equipment ordered
- Equipment installed
- Equipment operational

- Apply for Incentive reimbursements
- Additional equity from BlocPower as needed to build out projects
- First Lease payments from additional projects
- Receive incentive reimbursements
- Expects to be able to deploy all capital raised expeditiously -- revenues streams to cover Company expenses including debt service

2022 and Forward

- Pay first note annual payment to crowd investors
- Company portfolio of projects to target a 1.2X debt service coverage
- Company to consider raising additional debt capital to add more projects which will further diversify its project portfolio thus continuing to reduce revenue risk from any one lessee
- No debt taken on will be senior to this initial crowdfund note.

According to (BlocPower, May, 2021) the company plans to manage the portfolio of projects to a minimum debt service coverage ratio (DSCR) of 1.2 (generally similar to how it manages certain other affiliate portfolios) on average, once the projects are fully operational. That means the Company Revenues minus operating expenses plans to be a minimum 20% greater than the annual payment due on its debt service for this note. The company seeks to keep this threshold for each individual project as well, however, it may, based on its due diligence, risk managing to reach a wider building population selectively and go below this on individual projects.

For every dollar of debt raised, the company can achieve a greater value in projects implemented. Once the company completes a project, that project is eligible for various cash incentives established by federal/state/local governments. These incentives can significantly reduce the net cost for an energy efficiency project by an estimated 35%. (For renewable energy projects, it is an estimated 26%). That means a dollar from the crowd goes much further. In addition, the BlocPower parent plans, although not obligated, to add equity to projects selectively alongside incentives, and the debt from the crowd to accelerate BlocPower's ability to accomplish a goal of \$30 million in projects done in 2021 across all affiliates. The below projections show how this can affect the increased asset value of the company.

The company has structured its note offering to be fully amortizing which means it is paying back principal each year along with accrued interest. This is purposeful to help the company better match its revenue stream of long-term amortizing Lease payments. While the Company hopes to raise the maximum Crowdfunds and accomplish its goals to accelerate greening of urban communities, the

company is sustainable with varying levels of capital infusion from the Crowd as each project is targeted to be self-sustaining once fully operational.

Anticipated Revenues

According to (BlocPower, May, 2021) at the time of this crowdfunding launch the Company has yet to have any revenues but expects to by the end of the first quarter 2021 from the 2 seed projects. Anticipated revenues may be from both capital and operating lease payments for energy efficient upgrades and potentially from leases, PPAs, or other similar renewable energy contracts with building customers. Operational challenges to any particular project's implementation from due diligence through billing customers can always exist with a project. However, the company will be leveraging BlocPower's eight years of experience with over 1,000 projects completed. Included as well is access to current staff and departments, a fully vetted pipeline of projects and a fiscal position to continue growing talent and capabilities. The leases are generally for a term of 15-20 years. The total lease costs project cost generally ranges from \$15,000 to \$200,000, with monthly payments for the customers ranging from \$40 to \$2,100. If the company raises the maximum goal of \$1,000,000, the Company anticipates having as many as 32 projects completed by the end of year 2021, generating an annual revenue starting in 2022 of \$174,702.

Anticipated Annual Expenses

- Operations and Maintenance
- For operating leases - the company pays for Operations and Maintenance; this cost is locked in by contract at the time of the project installation, typically handled by the Installer.
- The contract locks in a flat expense plus escalator.
- For capital leases - no cost to the company - customer pays directly for the operations and maintenance contract
- Unscheduled Maintenance is budgeted to account for any force majeure.
- Management fee 0.4% of asset value (original asset cost) annually paid up to the parent to cover insurance and other costs incurred by the parent on behalf of the company; included in the management services agreement.
- Annual Debt Service Payments - these fixed payments related to the Notes are paying both interest and principal annually.

Lease Default Reserves

- Generally, BlocPower forecasts low default risk

- Building customers are vetted for historical payment performance
- Low lease monthly lease payments seek to provide net lower energy costs to a building putting them in a better financial position to pay
- Building owners generally prioritize payment of utility-related bills due to the importance of these services
- BlocPower in addition to keeping a 1.2X DSCR for the portfolio

The company will hold at least 6 months of debt service in cash or cash equivalents. The company's financial projections for the next 5 years are below, based on 2021 sales projections.

Liquidity and Capital Resources

According to (BlocPower, May, 2021) the company, it currently has \$100,000 in cash and cash equivalents ("cash") as of March 4, 2021. This is an initial equity contribution from its parent. This cash is available to fund projects alongside the debt raised in this offering, manage any timing mismatch of cash flows from customer leases vs. debt service payments, maintain reserves, among other uses. The company expects to be able to handle any temporary differences in the underlying lease payments and debt service. The company will maintain, at all times, a minimum of six months debt service in cash or cash equivalents in its operating accounts. The proceeds of this raise are not required for the viability of the company, but are instrumental in its growth. The use of proceeds outlines the critical nature of the raise to meeting our growth business plans. Through its parent, the company has indirect access to a \$500,000 line of credit to be used as required, including for construction of projects to be purchased by the company. Should additional liquidity be needed by the company, the parent entity is incentivized to support its investment through further contribution of funds, however it is under no obligation to do so. Besides the current cash, line of credit, lease payments from the projects, capital contributions from the parent and the crowd-funded debt, there are no other capital resources for the company at this time. The company expects to start generating revenue through lease payments from the two seed projects by March 31, 2021. The company has sufficient funds to pay 12 months of operations, in event of revenue delays. Due to the low-cost structure of the company and the management agreement with the parent company to cover all staffing costs, once project lease payments begin, the company is expected to be able to operate through the maturity of the note and beyond. Please see the list of the Risks associated with an investment when utilizing the financial forecasts prepared by the company.

Company Risks

- Customer Repayment Risk According to (BlocPower, May, 2021) there is a risk that the customers fail to make payments to the company and default under the leases. Although the company has the right to remove equipment from a building upon a customer's default under the lease, some of the equipment is difficult to remove and still retains residual value (i.e., insulation) which results in limited or no cash recoupment from the equipment which proceeds would be used to pay the Investors. Also, given the

importance of heat pumps, the company may not want to remove them from the property. This could impact accounts receivable and the cash available to repay Investors. The company asset size and project numbers will be small initially, at least for the near-term future, and thus carry a lack of diversification risk. The more projects and sources of revenue as the company adds more projects and funding in the future, the less dependent the company is on any particular project to ensure it can meet its financing obligations.

- **Project Delay Risk**

The company could experience unforeseen contractor/supplier issues such as lack of resources, delay in materials from manufacturers, inability to access building properties, especially as a result of the COVID-19 pandemic. The company could then experience delays in their ability to meet targeted commercial operation dates and monthly lease payments from building customers. In summary, the information provided here in this paper is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice.

Reference

1) BlocPower ES3LLC.pdf, May, 2021,

<https://www.sec.gov/Archives/edgar/data/1848743/000174758421000006/BlocPowerES3LLC.pdf>