

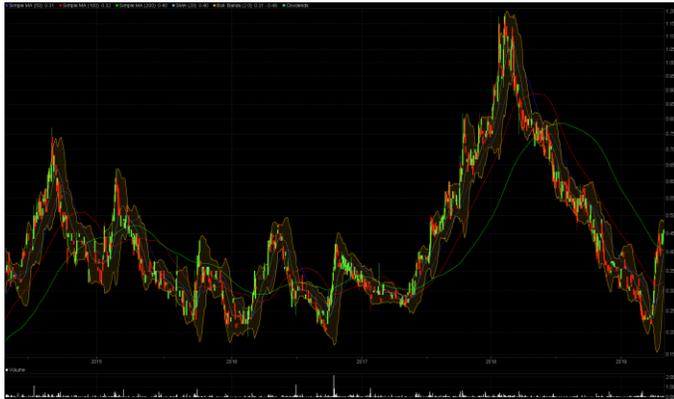


## An Electrifying Idea

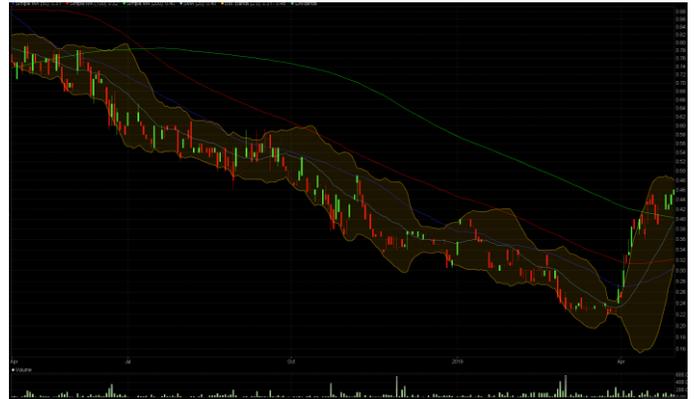
Now and again (actually quite often) you get a second chance to buy a stock after missing its initial run. This is very true in the microcap technology world where the market can get very excited (and rightfully so) about the future potential of a disruptive technology, but then it takes longer for orders and accelerated sales than initially expected. This is especially true when a product is completely new (or unknown) and a company is defining a new product category.

This is exactly what has happened at Legend Power® Systems (LPS-TSXV), and why it presents an opportunity for investors. The Company has a strong balance sheet following a \$10 million bought deal financing (at \$0.80 per share) in April 2018 and recently has seen a pick-up in news about orders in both Ontario and in New York. The 5-year and 1-year charts for the stock are below, and we provide more details about why Legend should be on your radar, and why it justifies undertaking more due diligence.

5-Year Chart



1-Year Chart



### Quick Overview of What Legend Power® Does (Detailed Overview at the End)

Legend Power® solves the ubiquitous problem of overvoltage, which occurs when the voltage, which utilities supply to buildings, exceeds the voltage buildings require. Not only do building owners pay higher electricity costs due to higher power consumption caused by overvoltage, but they also pay increased maintenance and equipment replacement costs since overvoltage causes equipment to wear out faster.

However, Legend Power has a solution to this pervasive problem, a patented hardware solution (called SmartGATE™) that's targeting the \$38 billion North American energy savings market. SmartGATE measures overvoltage and, programmed with a building's voltage requirements, throttles voltage down to the optimal operating level, reducing energy costs, green house gas emissions and maintenance costs. While Legend Power doesn't have direct competitors today, SmartGATE has illustrated equal or better financial savings when compared to other energy savings retrofits like lighting, windows and HVAC.

## Proven Technology

The Company has sold almost 300 SmartGATE units to 75 customers across a variety of end-users, including: multi-resident buildings, schools, retail office and hotel buildings. Of sales to date, 74.7% are multi-unit sales between 2 and 19 units. While these early sales were mostly in the Canadian market, Legend Power is starting to build sales in the U.S.

## The U.S. Market is Primed and Set to Deliver

### ***New York***

With the technology proven in Ontario, Legend began its U.S. expansion last year. New York City is the Company's first U.S. expansion market, and although establishing relationships with key New York City recommenders (utilities, installers and early adopters) has gone well, SmartGATE sales cycles have taken longer than first anticipated. What management didn't realize was the complexity of how equipment is sold to commercial buildings in New York versus Ontario, beyond the similar steps required across both markets with their respective utilities and building managers to finalize sales.

Returning to the 1-year stock chart above, New York City's complexity caused the stock to sell off, as investors didn't see Big Apple sales materialize. Added to investors' concerns were weak Ontario market sales in Q1/F19 (ending December 31, 2018). The very poor [financial results last quarter](#) (more details below) caused many shareholders to throw in the towel, driving Legend's share price down to \$0.22. But, the good news was that Legend exited Q1/F19 with \$9.6 million in cash, no debt, and \$12.5 million working capital.

### ***New York City Market Size***

In a word – “BIG”. We looked at a [2018 City of New York Property Tax report](#), [2018 NYC Department of Public Housing](#) stats, and [2018 Department of Education](#) info. We backed out properties such as parking lots, storage facilities, vacant land and came up with 54,609 commercial and government **buildings**. Let's make some assumptions:

- Even though we have no reason to doubt government numbers concerning tax revenue, let's assume that the number of properties New York City's government assessed was off by 50%;
- Each commercial /government building requires only 1 SmartGATE system (we already know of 1 building with more than 2 deployed);
- Each SmartGATE costs \$75,000.

Applying these 3 assumptions gives us a **\$2.0 billion** market opportunity – in New York City *alone*! We had to recalculate that number a few times to believe it. If you want to have fun with numbers, filtering building info on [this website](#) gave us a 400,000 building market opportunity in New York City.

### ***New York Commits to Reduce Greenhouse Gases***

[New York City's government](#) has committed to reduce GHG emissions 80 percent by 2050 from 2005 levels (80 x 50), with an interim target to reduce emissions 40 percent by 2030 (40 x 30). The City launched [NYC Carbon Challenge](#), and to date, properties representing 9% of citywide building square footage are currently participating. Why is this important? GHGs are top-of-mind for many NYC building operators because it is a major consideration for potential tenants. Legend Power estimates that SmartGATE could reduce GHG emissions by 4%, a marketable stat for property managers trying to attract and keep tenants.

## Other U.S. Markets

- **County of Los Angeles:** [248,198 commercial/industrial properties](#). However, this number includes properties like vacant lots, parking lots, etc. that would not need SmartGATEs.
- **City of Los Angeles:** [64,571 commercial / industrial properties](#). However, this number includes properties like vacant lots, parking lots, etc. that would not need SmartGATEs.

- **San Francisco:** *combined* 210,000 residential/commercial/industrial properties. The [2017 report](#) further states that commercial properties represented 14% of all property tax transactions (yet 57% of the total revenues). This suggests about 29,000 commercial properties. However, our estimate includes those properties like vacant lots, parking lots, etc. that would not need SmartGATES.

## **Powering Up Sales**

Recently, Legend Power has announced three significant orders:

- [April 24, 2019](#): \$290,000 follow-on order with an Ontario College. The college has now purchased a total of 7 SmartGATE systems for a total investment of \$890,000 and has fully addressed its campus-wide opportunities for electrical energy management, and;
- [April 15, 2019](#): US\$550,000 follow-on order with a leading New York property manager for 2 SmartGATE system installations at the flagship property of a Fortune 100 technology company. This follows an initial unit installation last year, and;
- [April 2, 2019](#): \$390,000 order in the Ontario market for 3 SmartGATE systems by an apartment building investment firm.

## **On February 27, 2019 Legend Power (LPS:TSXV) reported Q1/F19 Results – The Worst Results in a Long Time:**

**Financial summary for the quarter ended December 31, 2018.**

	Three months ended December 31		
(Cdn\$, unless noted otherwise)	2018	2017 (reclassified) <sup>1</sup>	Change
Revenue	403,400	1,282,707	(69)%
Cost of sales <sup>2</sup>	76,832	803,923	(91)%
Gross margin <sup>3</sup>	326,568	478,784	(32)%
Gross margin % <sup>3</sup>	81%	37%	44%
Operating expenses	(1,484,843)	(1,229,868)	21%
Adjusted EBITDA <sup>4</sup>	(1,048,352)	(635,537)	(65)%
Net loss	(1,091,332)	(747,328)	46%

<sup>1</sup> Previous year columns have been reclassified to conform with the presentation for the three months ended December 31, 2018.

<sup>2</sup> Components of Cost of Sales has been adjusted to better conform with typical practice; namely, sales commissions and selling fees are now accounted for separately under "Selling Costs".

<sup>3</sup> Gross margin is based on a blend of both equipment and installation revenue.

<sup>4</sup> Adjusted EBITDA; for the periods reported, we are disclosing Adjusted EBITDA, which is a non-IFRS financial measure, as a supplementary indicator of operating performance. We define Adjusted EBITDA as net income or loss before interest, income taxes, amortization, non-cash stock-based compensation and foreign exchange gains and losses, as well as unusual non-operating items such as bad debt. Warranty expense is no longer included in the Adjusted EBITDA calculation, as such historical amounts have been updated.

Legend exited the quarter with \$9.6 million of cash, no debt, and \$12.5 million working capital.

## **During the conference call, management disclosed:**

- Legend had hired 10 salespeople (yet was almost Adj. EBITDA neutral)
- There is a \$5 million sales funnel in New York City
- LPS will launch 5 more U.S. markets by calendar year-end (the Company is fully funded to do so). Almost all current sales come from Ontario
- The sales cycles will continue to shorten as LPS launches each new market

**The point is that there was an air pocket in the earnings and sales, but management has addressed them and while sales have taken longer, they are starting to pick up. If this continues, the stock should continue to reflect its recovery and return to a valuation that reflects its significant growth potential.**

### **Detailed Overview of What Legend Power® Does**

Legend Power® is a total energy management solution for larger commercial, residential, industrial, educational and government buildings consuming over 1.5 million kilowatt hours (kWh) annually. Legend was founded on the premise of solving the near-ubiquitous issue of overvoltage (and the resulting excess spend). Ground-breaking as that still is, due in part to SmartGATE's privileged place in the electrical room, and driven by customers, the Company has continued to add solutions to address the most common electrical issues experienced in modern buildings.

SmartGATE™ has become the world's most innovative, onsite energy management platform. Effectively a 'last mile' extension of the grid itself, SmartGATE is the first thing power hits when it enters a building (sitting as it does between the utility meter, and a building's electrical switchgear). SmartGATE reads inbound voltage and fine tunes it in real-time to the optimum levels for the building and the electrical hardware in it, all while capturing thousands of data points every day about the composition of the power its processes. SmartGATE saves instantly on power costs, and in dozens of other ways as *everything* from lighting to highly-sophisticated machinery is suddenly getting the optimal voltage they were designed for.

The patented hardware platform is targeting the \$38 billion North American energy savings market. While Legend Power doesn't have direct competitors today, the Company has been able to illustrate equal or better financial savings when compared to other substitute energy savings retrofits like lighting, windows and HVAC, and in fact improve them further by increasing lifespan. While delivering the correct amount of voltage in real-time saves money, that is only the most direct benefit SmartGATE delivers to a building, its owners and managers. Eliminating wasted power also reduces the GHG emissions attributed to the building. This helps it qualify for carbon credits and incentives, and bring it into compliance with local, state and federal programs. SmartGATE makes the building part of the 'electrification' solution. All of that adds up to brand enhancement for buildings, and their owner's businesses.

### **Older news flow:**

- [Addition of 4 experienced sales executives](#)
- [\\$475k of sales in Ontario education vertical](#)
- [\\$237k order](#) to North American multi-family and commercial real estate leader
- [\\$931K follow-on order for 10 Harmonizers](#)
- [\\$600K order for 5 Harmonizers](#)
- Implemented key elements of [U.S. expansion strategy](#) (almost all sales are coming from Ontario)
- Piloting extended Harmonizer functionality at [30 installations](#)
- [Expanded product capabilities](#)