

Ameresco, Inc.
Form 10-Q
May 03, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number: 001-34811

Ameresco, Inc.

(Exact name of registrant as specified in its charter)

Delaware 04-3512838

(State or Other Jurisdiction of
Incorporation or Organization) (I.R.S. Employer
Identification No.)

111 Speen Street, Suite 410 01701

Framingham, Massachusetts
(Address of Principal Executive Offices) (Zip Code)

(508) 661-2200

(Registrant's Telephone Number, Including Area Code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐ (Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares outstanding as of April 30, 2018
Class A Common Stock, \$0.0001 par value per share	29,566,050
Class B Common Stock, \$0.0001 par value per share	18,000,000

AMERESCO, INC.
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FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018
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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

AMERESCO, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,125	\$ 24,262
Restricted cash	16,894	15,751
Accounts receivable, net	93,622	85,121
Accounts receivable retainage, net	19,869	17,484
Costs and estimated earnings in excess of billings	64,064	104,852
Inventory, net	8,683	8,139
Prepaid expenses and other current assets	23,258	14,037
Income tax receivable	4,246	6,053
Project development costs	14,652	11,379
Total current assets	279,413	287,078
Federal ESPC receivable	254,349	248,917
Property and equipment, net	5,817	5,303
Energy assets, net	381,724	356,443
Deferred income taxes	3,570	—
Goodwill	56,294	56,135
Intangible assets, net	2,231	2,440
Other assets	28,377	27,635
Total assets	\$ 1,011,775	\$ 983,951
LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portions of long-term debt and capital lease liabilities	\$ 26,253	\$ 22,375
Accounts payable	100,085	135,881
Accrued expenses and other current liabilities	23,818	23,260
Billings in excess of cost and estimated earnings	22,462	19,871
Income taxes payable	564	755
Total current liabilities	173,182	202,142
Long-term debt and capital lease liabilities, less current portions and net of deferred financing fees	218,398	173,237
Federal ESPC liabilities	244,341	235,088
Deferred income taxes, net	—	584
Deferred grant income	7,050	7,188
Other liabilities	17,784	18,754
Commitments and contingencies (Note 7)		
Redeemable non-controlling interests	10,751	10,338

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The accompanying notes are an integral part of these condensed consolidated financial statements.
AMERESCO, INC.

CONSOLIDATED BALANCE SHEETS — (Continued)

(in thousands, except share and per share amounts)

	March 31, 2018 (Unaudited)	December 31, 2017
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding at March 31, 2018 and December 31, 2017	\$—	\$—
Class A common stock, \$0.0001 par value, 500,000,000 shares authorized, 29,552,750 shares issued and 27,467,353 shares outstanding at March 31, 2018, 29,406,315 shares issued and 27,533,049 shares outstanding at December 31, 2017	3	3
Class B common stock, \$0.0001 par value, 144,000,000 shares authorized, 18,000,000 shares issued and outstanding at March 31, 2018 and December 31, 2017	2	2
Additional paid-in capital	117,242	116,196
Retained earnings	238,378	235,844
Accumulated other comprehensive loss, net	(3,786) (5,626)
Less - treasury stock, at cost, 2,085,397 shares at March 31, 2018 and 1,873,266 shares at December 31, 2017	(11,570) (9,799)
Total stockholders' equity	340,269	336,620
Total liabilities, redeemable non-controlling interests and stockholders' equity	\$1,011,775	\$983,951

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AMERESCO, INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(in thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues	\$ 167,410	\$ 134,610
Cost of revenues	131,937	108,686
Gross profit	35,473	25,924
Selling, general and administrative expenses	27,204	26,487
Operating income (loss)	8,269	(563)
Other expenses, net	3,544	1,826
Income (loss) before benefit for income taxes	4,725	(2,389)
Income tax benefit	(2,779)	(645)
Net income (loss)	7,504	(1,744)
Net (income) loss attributable to redeemable non-controlling interests	(516)	1,100
Net income (loss) attributable to common shareholders	\$ 6,988	\$ (644)
Net income (loss) per share attributable to common shareholders:		
Basic	\$ 0.15	\$ (0.01)
Diluted	\$ 0.15	\$ (0.01)
Weighted average common shares outstanding:		
Basic	45,373,000	45,514,000
Diluted	45,994,000	45,514,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AMERESCO, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income (loss)	\$7,504	\$(1,744)
Other comprehensive income (loss):		
Unrealized gain from interest rate hedge, net of tax benefit (provision) of \$389 and \$(48), respectively	1,403	202
Foreign currency translation adjustments	437	9
Total other comprehensive income	1,840	211
Comprehensive income (loss)	9,344	(1,533)
Comprehensive (income) loss attributable to redeemable non-controlling interests	(516)	1,100
Comprehensive income (loss) attributable to common shareholders	\$8,828	\$(433)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AMERESCO, INC.

CONSOLIDATED STATEMENT OF CHANGES IN REDEEMABLE NON-CONTROLLING INTERESTS AND STOCKHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2018

(in thousands, except share amounts)

(Unaudited)

	Redeemable		Class B		Additional		Accumulated		Total	
	Non-Controlling	Class A Common Stock	Common Stock	Shares	Paid-in Capital	Retained Earnings	Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Stockholders' Equity
Balance, December 31, 2017	\$ 10,338	27,533,049	\$ 3	18,000,000	\$ 2	\$ 116,196	\$ 235,844	\$ (5,626)	1,873,266	\$ (9,799) \$ 336,620
Cumulative impact from the adoption of ASU No. 2014-09 (Note 2)	—	—	—	—	—	—	(4,454)	—	—	(4,454)
Exercise of stock options	—	146,435	—	—	—	691	—	—	—	691
Stock-based compensation expense	—	—	—	—	—	355	—	—	—	355
Open market purchase of common shares	—	(212,131)	—	—	—	—	—	212,131	(1,771)	(1,771)
Unrealized loss from interest rate hedge, net	—	—	—	—	—	—	1,403	—	—	1,403
Foreign currency translation adjustment	—	—	—	—	—	—	437	—	—	437
Distributions to redeemable non-controlling interests, net	(103)	—	—	—	—	—	—	—	—	—
Net (loss) income	516	—	—	—	—	6,988	—	—	—	6,988
Balance, March 31, 2018	\$ 10,751	27,467,353	\$ 3	18,000,000	\$ 2	\$ 117,242	\$ 238,378	\$ (3,786)	2,085,397	\$ (11,570) \$ 340,269

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AMERESCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$7,504	\$(1,744)
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation of energy assets	6,312	5,109
Depreciation of property and equipment	542	693
Amortization of deferred financing fees	419	397
Amortization of intangible assets	253	380
Provision for bad debts	64	—
Gain on sale of assets	—	(104)
Unrealized gain (loss) on ineffectiveness of interest rate swaps	(102)	(123)
Stock-based compensation expense	355	343
Deferred income taxes	(2,920)	(859)
Unrealized foreign exchange gain (loss)	492	(185)
Changes in operating assets and liabilities:		
Accounts receivable	(1,837)	30,478
Accounts receivable retainage	(2,453)	(1,333)
Federal ESPC receivable	(37,967)	(34,418)
Inventory, net	(544)	1,154
Costs and estimated earnings in excess of billings	30,363	7,193
Prepaid expenses and other current assets	(4,578)	(2,686)
Project development costs	(2,325)	(1,155)
Other assets	(281)	(23)
Accounts payable, accrued expenses and other current liabilities	(33,309)	(31,939)
Billings in excess of cost and estimated earnings	1,190	(3,053)
Other liabilities	135	65
Income taxes payable	1,617	(201)
Cash flows from operating activities	(37,070)	(32,011)
Cash flows from investing activities:		
Purchases of property and equipment	(1,015)	(387)
Purchases of energy assets	(12,818)	(29,121)
Proceeds from sale of assets of a business	—	2,777
Acquisitions, net of cash received	(21,343)	(2,409)
Cash flows from investing activities	(35,176)	(29,140)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AMERESCO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

(in thousands)

(Unaudited)

Three Months
Ended March 31,
2018 2017

Cash flows from financing activities:		
Payments of financing fees	(575)	(338)
Proceeds from exercises of options	691	240
Repurchase of common stock	(1,771)	(2,049)
Proceeds from senior secured credit facility, net	17,404	18,000
Proceeds from long-term debt financings	33,501	12,878
Proceeds from Federal ESPC projects	36,581	35,167
Proceeds from sale of Federal ESPC energy assets	717	—
Proceeds from sale-leaseback financings	—	8,783
Distributions to redeemable non-controlling interests, net	(103)	(62)
Payments on long-term debt	(2,322)	(8,010)
Cash flows from financing activities	84,123	64,609
Effect of exchange rate changes on cash	(185)	51
Net increase in cash, cash equivalents, and restricted cash	11,692	3,509
Cash, cash equivalents, and restricted cash, beginning of period	60,105	52,826
Cash, cash equivalents, and restricted cash, end of period	\$71,797	\$56,335
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$1,402	\$2,384
Cash paid for income taxes	\$442	\$211
Non-cash Federal ESPC settlement	\$28,367	\$4,466
Accrued purchases of energy assets	\$4,482	\$11,987

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets to the total of the same such amounts shown above:

	Three Months Ended March 31,	
	2018	2017
Cash and cash equivalents	\$34,125	\$24,453
Short-term restricted cash	16,894	14,758
Long-term restricted cash included in other assets	20,778	17,124
Total cash and cash equivalents, and restricted cash	\$71,797	\$56,335

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in thousands, except share and per share amounts)

1. DESCRIPTION OF BUSINESS

Ameresco, Inc. (including its subsidiaries, the “Company”) was organized as a Delaware corporation on April 25, 2000. The Company is a provider of energy efficiency solutions for facilities throughout North America and Europe. The Company provides solutions, both services and products, that enable customers to reduce their energy consumption, lower their operating and maintenance costs and realize environmental benefits. The Company’s comprehensive set of solutions includes upgrades to a facility’s energy infrastructure and the construction and operation of small-scale renewable energy plants. It also sells certain photovoltaic (“PV”) equipment worldwide. The Company operates in the United States, Canada and Europe.

The Company is compensated through a variety of methods, including: 1) direct payments based on fee-for-services contracts (utilizing lump-sum or cost-plus pricing methodologies); 2) the sale of energy from the Company’s energy assets; and 3) direct payment for PV equipment and systems.

The condensed consolidated financial statements as of March 31, 2018, and for the three months ended March 31, 2018 and 2017, are unaudited, pursuant to certain rules and regulations of the Securities and Exchange Commission, and include, in the opinion of the Company, normal recurring adjustments necessary for a fair presentation in conformity with accounting principles generally accepted in the United States (“GAAP”) of the results for the periods indicated, which, however, are not necessarily indicative of results which may be expected for the full year. The December 31, 2017 consolidated balance sheet data was derived from audited financial statements, but certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The interim condensed consolidated financial statements, and notes thereto, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017, and notes thereto, included in the Company’s annual report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission on March 7, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company, its subsidiaries in which the Company has a controlling financial interest and two investment funds formed to fund the purchase of solar energy systems, which are consolidated with the Company as variable interest entities (“VIE”). The Company uses a qualitative approach in assessing the consolidation requirement for VIEs. This approach focuses on determining whether the Company has the power to direct the activities of the VIE that most significantly affect the VIE’s economic performance and whether the Company has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. For all periods presented, the Company has determined that it is the primary beneficiary in all of its operational VIEs. The Company evaluates its relationships with the VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary. All significant intercompany accounts and transactions have been eliminated. Gains and losses from the translation of all foreign currency financial statements are recorded in accumulated other comprehensive loss, net, within stockholders’ equity. The Company prepares its financial statements in conformity with GAAP.

Use of Estimates

GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates and assumptions used in these condensed consolidated financial statements relate to management’s estimates of final construction contract profit in accordance with accounting for long-term contracts, allowance for doubtful accounts, inventory reserves, realization of project development costs, fair value of derivative financial instruments, accounting for business acquisitions, stock-based awards, impairment of long-lived assets, income taxes, self insurance reserves and potential liability in conjunction with certain commitments and contingencies. Actual results could differ from those estimates.

The Company is self-insured for employee health insurance. The maximum exposure in fiscal year 2018 under the plan is \$100 per covered participant, after which reinsurance takes effect. The liability for unpaid claims and associated expenses, including incurred but not reported claims, is determined by management and reflected in the Company's consolidated balance sheets in accrued expenses and other current liabilities. The liability is calculated based on historical data, which considers both the frequency and settlement amount of claims. The Company's estimated accrual for this liability could be different than its

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AMERESCO, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (Continued)

(in thousands, except share and per share amounts)

ultimate obligation if variables such as the frequency or amount of future claims differ significantly from management's assumptions.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on deposit, overnight repurchase agreements and amounts invested in highly liquid money market funds. Cash equivalents consist of short term investments with original maturities of three months or less. The Company maintains accounts with financial institutions and the balances in such accounts, at times, exceed federally insured limits. This credit risk is divided among a number of financial institutions that management believes to be of high quality. The carrying amount of cash and cash equivalents approximates its fair value measured using level 1 inputs per the fair value hierarchy as defined in Note 8.

Restricted Cash

Restricted cash consists of cash and cash equivalents held in an escrow account in association with construction draws for energy savings performance contracts ("ESPC"), construction of energy assets, operations and maintenance ("O&M") reserve accounts and cash collateralized letters of credit as well as cash required under term loans to be maintained in debt service reserve accounts until all obligations have been indefeasibly paid in full. These accounts are primarily invested in highly liquid money market funds. The carrying amount of the cash and cash equivalents in these accounts approximates its fair value measured using level 1 inputs per the fair value hierarchy as defined in Note 7. Restricted cash also includes funds held for clients, which represent assets that, based upon the Company's intent, are restricted for use solely for the purposes of satisfying the obligations to remit funds to third parties, primarily utility service providers, relating to the Company's enterprise energy management services. As of March 31, 2018 and December 31, 2017, the Company classified the non-current portion of restricted cash of \$20,778 and \$20,092, respectively, in other assets on its consolidated balance sheets.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible based upon historical experience and management's evaluation of outstanding accounts receivable. Bad debts are written off against the allowance when identified.

Changes in the allowance for doubtful accounts are as follows:

Three
Months
Ended
March
31,
20182017

Allowance