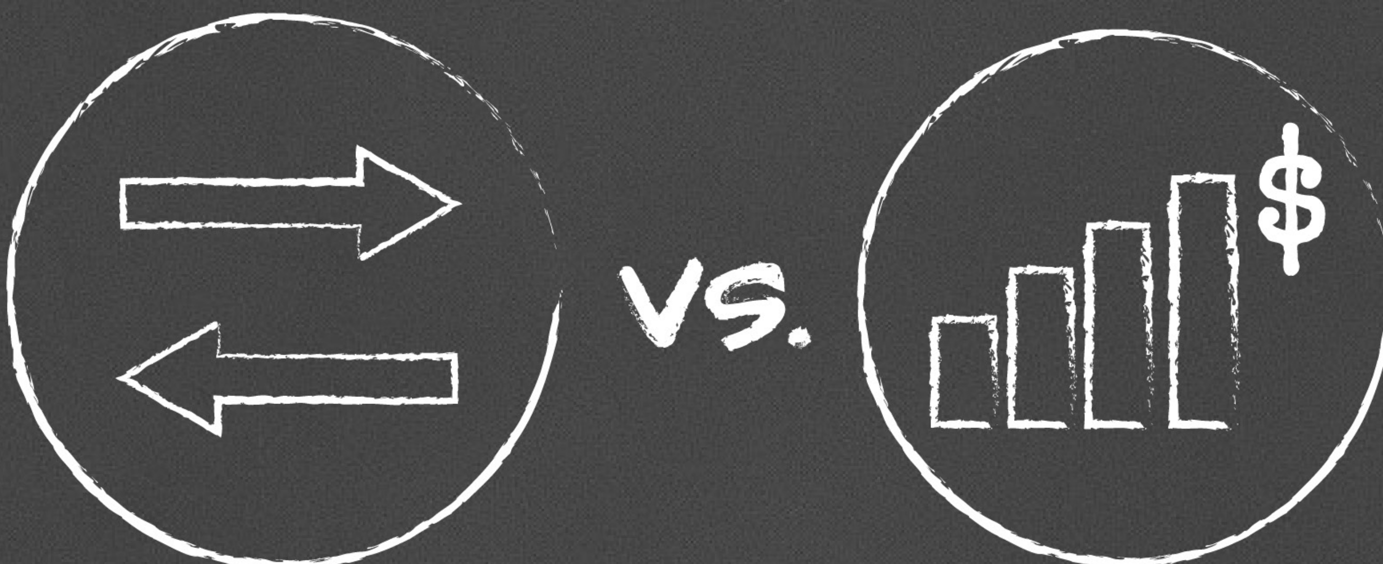
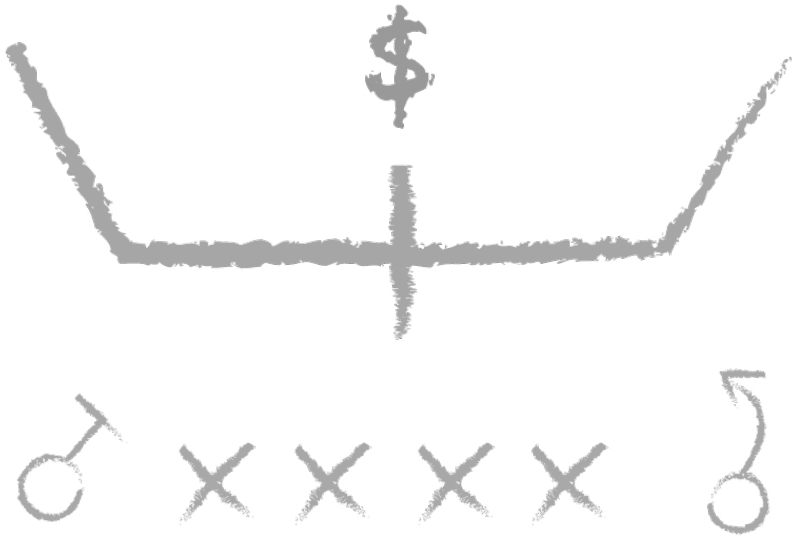
ENERGY EFFICIENCY PLAYBOOK



Replacements vs. Investments



Introduction:

Selling energy efficient equipment that makes business sense shouldn't be hard. Where else can CFOs make investments with 2-year paybacks and ROIs that make Wall Street jealous? So, then, why aren't more facility owners investing in energy efficiency equipment?

According to a recent survey we conducted with efficiency equipment companies, 16% said that less than 10% of their projects get approved and another 30% said their approval rates were less than 25%. There is a disconnect in the selling process.

Understand, you're selling two types of projects: replacement and investment. The replacement sale, when something breaks or is at the end of its useful life, is what most of our partners have built their business on, and very successfully. The scope is clear; it's time sensitive; it's (probably) budgeted; and the CFO is in the loop. If you have the right product at the right price, it's your sale to lose. But where this industry seems to struggle is with the "investment sale."

The investment sale is completely different. Nothing is broken. Tenants aren't complaining. There's no urgency to do something. That is, the CFO doesn't have to purchase anything. So, approaching an investment sale by pitching a product like a replacement sale will fail time and time again. Why? In an investment sale, the CFO is not buying your product; he or she is investing in cost savings and their thought process is balancing risk and reward.

In this playbook, we further breakdown the differences between the two types of efficiency sales and give you the direction needed to sell efficiency as an investment and maximize your chances of getting projects approved.

1

TWO TYPES OF EFFICIENCY EQUIPMENT SALES

The replacement sale and the investment sale require two completely different sales strategies. Selling an investment like you would a replacement is a recipe for frustration and failure. So, what's the difference?

The below chart details the difference between the two types of sales. Make sure your proposal is based on one or the other.

The Replacement Sale

- Broken Equipment
- Time Sensitive
- Cost important
- Clear scope
- Budgeted (sometimes)
- CFO in the loop
- Facility manager MUST buy something

The Investment Sale

- Nothing's broken
- Not time sensitive
- Not front of mind
- ROI, payback > cost
- Budgeted (never)
- CFO (probably) no idea
- Facility manager DOESN'T HAVE to buy anything

2

THE REPLACEMENT SALE

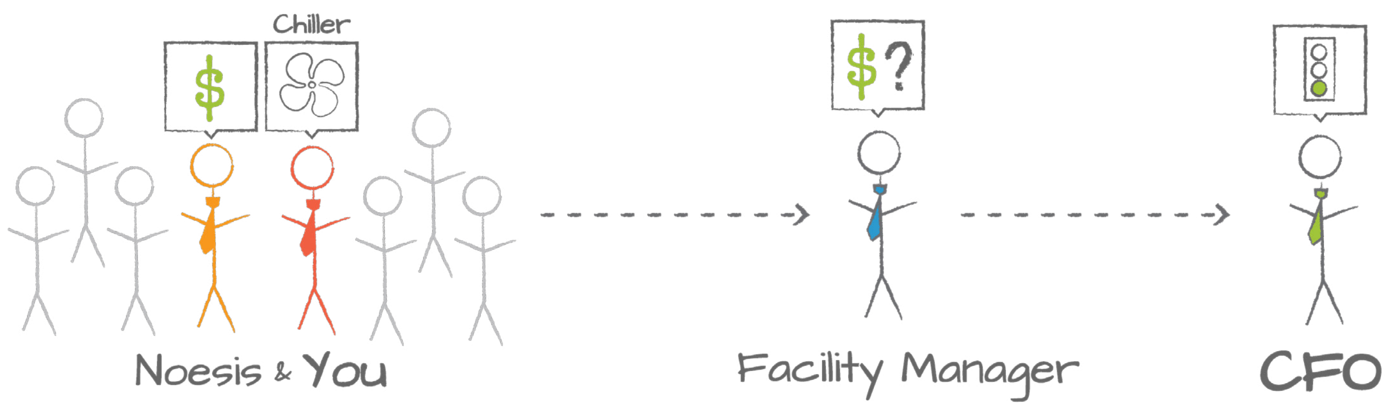
The key to understanding the replacement sale is knowing that the facility owner must buy something. And, if it's broken, he or she must buy something soon. The scope is usually predetermined before you even walk in the door. There is a timetable set and you've got the product they need. Your contact at the facility recommends your product to the CFO, the CFO grumbles a bit and eventually signs off on the project.

In this sale, your facility contact drives the purchase decision. The economics of the purchase (e.g. ROI, payback, etc.) matter, but they're secondary because not approving a purchase is not an option. The chiller, for example, must be replaced.

Even though sometimes expected, some major replacements are not budgeted, so what differentiates you and your proposal from the rest? HINT: financing!

In the case where a project is necessary, but may or may not be budgeted, you have to come in with finance options to ensure your proposal stands out from the rest. It's a no-lose situation as there are two scenarios. First, the CFO has the money but your 3rd party finance options are a more attractive source of funds. Or, in the case where the facility owner does not have the funds available, your proposal offers the CFO a way to access 3rd party capital to make the investment.

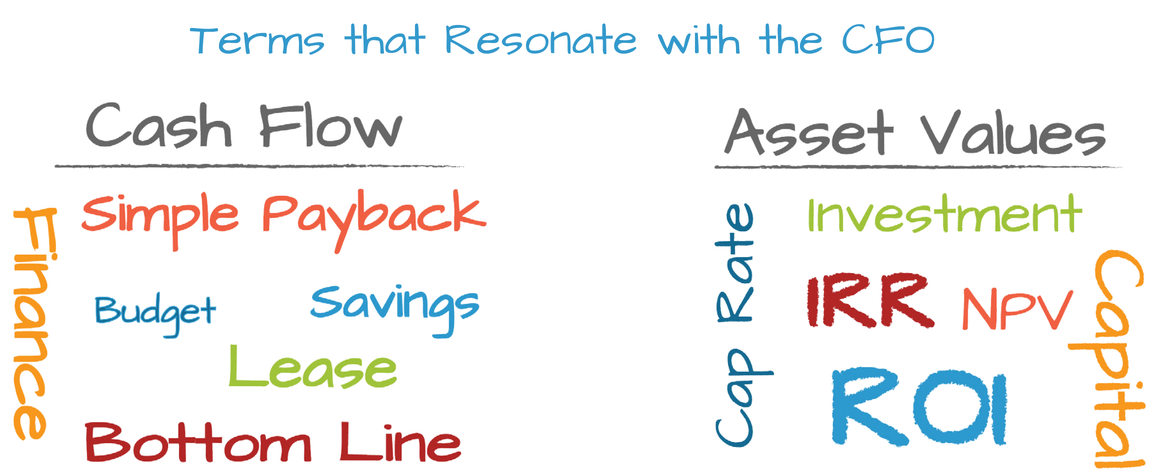
> **In a replacement sale, differentiation is key. Stand out among the crowd of consultants and bring financing to the conversation**



If this doesn't sound like your proposal and selling process, then you may be missing valuable replacement opportunities.

3 THE INVESTMENT SALE

So you've got the "replacement sale" down. You're presenting finance options in your proposals to differentiate yourself and it's winning you projects, but how can you expand your business and start selling efficiency as an investment?

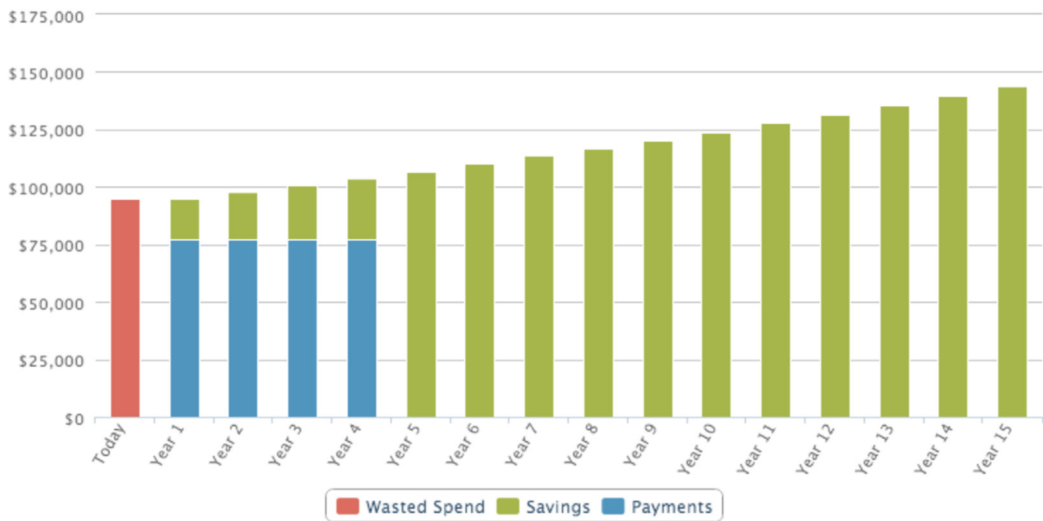


Understand that the investment sale and the replacement sale require very different approaches but, in the end you are talking to the same CFO who is thinking the same way, in cash flows, not energy.

First, you must lead with the business case and investment analysis, not your product. In an investment sale, the product is the means to the investment return. Think of it this way: you buy a mutual fund for the future returns; the individual stocks are how those returns are generated.

Estimated Financing Cash Flow

Investment	Financing Term	Monthly Payment	Down Payment
$260,000	**4 years**	**$6,440**	**$0**
Lifecycle Savings	Annual Savings	Monthly Savings	Monthly Cashflow
$1,457,980	**$117,790** (avg. over project life)	**$8,280** (during term)	**$1,840** (during term)

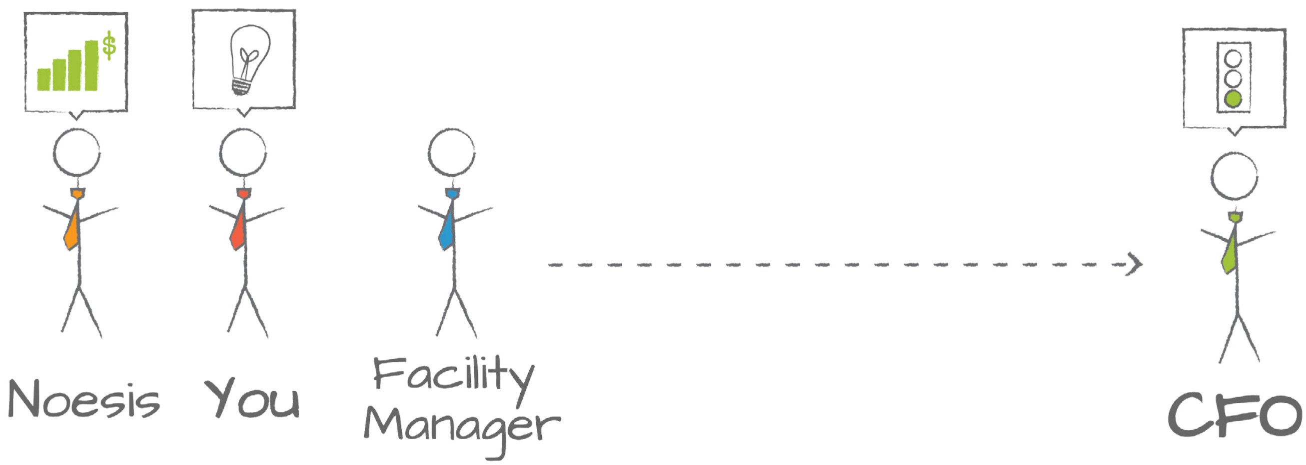


Effective presentations clearly demonstrate the relationship between savings, financing payments, and cash flow.

Second, you need to make the pitch to the CFO. In a replacement sale, your facility contact can present your product and your price to the CFO and act on your behalf. In an investment sale, your facility contact doesn't have the expertise and probably not the confidence to present the investment opportunity. You need to be there, in the room. This is a conversation about dollars, not kilowatts. Shaky delivery undermines the CFO's confidence in the investment's return and ultimately the proposal's chances for approval. If you're not comfortable doing it, bring someone who can.

Third, include 3rd party financing. Investment sales are opportunistic, unplanned and unbudgeted. Asking a CFO for tens, often hundreds, of thousands of dollars for an unfunded and unanticipated project is nonsensical. The good news is that many of these investments can be funded with standard equipment leases, and most are cash flow positive from day one when financed. Give the CFO the rationale for the investment, and then let him or her know how to fund it. Make it as easy as possible for the CFO to say yes.

> **Make sure YOU get in front of the CFO when selling efficiency investment projects and bring along the expert that can speak to the financials of the proposed project. The facility manager can, and should be involved, but you have to be, or bring, the expert on efficiency investments.**



I repeat, **CFOs are interested in cash flows, not your product.**

Finally, stand by your investment proposal. Offer to provide M&V so you can ensure it's delivering the savings you forecasted. CFOs understand there's risk, but offering to stick around and be accountable goes a long way. And, if the CFO wants, use performance-based financing. For example, Noesis offers an Efficiency Performance Lease, which is a basic equipment lease with a 10% holdback that's refunded to the facility owner if the project doesn't deliver its year one target. Noesis also offers its Shared Savings Agreement (SSA) where loan payments are determined by the actual savings realized. Whether it's informal M&V or performance-based financing vehicles, both represent to the CFO that you're willing to stand behind your product and work.

In summary, equipment will always need to be replaced, and billions of dollars is spent annually doing it, but the real growth opportunity for efficiency companies is getting CFOs to make equipment investments, not just replacements. The investment sale is different and, in some ways, harder, but the upside is tremendous. Early on in the sales cycle, determine whether the opportunity is an investment or replacement sale, and make the right adjustments to maximize your chances for success.