

Using Proprietary Technology SG Blocks, Inc. is providing Sustainable Building Structures made from Recycled Shipping Containers for Developers, Builders, Retailers and the Military



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Interview conducted by:
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“SG Blocks is the market leader in container construction and our brand connotes: quality, speed, sustainability and higher return on investment.”- Paul M. Galvin

CEOCFO: Mr. Galvin, what is SG Blocks, Inc?

Mr. Galvin: SG Blocks is a publicly traded company on the Nasdaq under the symbol SGBX. We provide building structures made through proprietary technology by recycling shipping containers into sustainable buildings across a number of different asset classes.

CEOCFO: When did reusing shipping containers become fashionable?

Mr. Galvin: People have been using shipping containers for about 40 years, but projects that are one off and architecturally celebrated. SG Blocks created a proprietary system of delivering modular construction for buildings that include apartments and hotels and schools and dormitories and barracks and offices that could be scaled, delivered nationally or internationally and would meet or exceed all code requirements of local and state level building officials. Construction represents probably the last of the giant industries that has seen any disruption. Therefore, modular construction and our form of container-based modular construction really represents the first big disruption in this trillion dollar vertical.

CEOCFO: What is it that you understand about container based structures that perhaps others do not; maybe both the vision and the more practical side?

Mr. Galvin: I will give a little container overview. Most containers that are built are 8 by 40 feet long. A high cube container is 9 feet 6 inches out-to-out. It weighs 8,000 pounds. It can hold up to 50 thousand pounds of cargo. They stack 8-9 fully loaded containers at sea; in effect, the bottom container withstands a load of over 450,000 pounds, that far exceeds the load bearing requirements of any conventional built structure. In other words, we are actually asking the containers to do a lot less at sea. We have spent over 10 years designing and evolving our engineering design and algorithms for construction. One year ago, in March of 2017, our product was approved by the International Code Council, the ICC, and they gave SG Blocks an ESR number, which in essence mainstreamed containers as a building material. SG Blocks labels each structure with a medallion attesting to the quality and code compliance. It was a seminal achievement by our engineers and technical team to get the first recycled material ever approved as a building material.

CEOCFO: Where are people using containers? Where could they and where should they? Where is it more meaningful?

Mr. Galvin: These are great questions, by the way! Very pointed and smart questions! People are contacting us from everywhere! It is making extraordinary sense for people to work with us, such as on urban infill lots where the cost of city-based construction is through the roof and there are so many quality issues for anything I would say, eight stories and below. We are enormously competitive on price and on time and on quality for getting a steel building verses a traditional building. The containers themselves are engineered for a maritime environment and life at sea. Therefore, when we use them in coastal areas or flood areas or high wind areas they make a lot of sense. It is the same with high seismic areas.

The cost of construction in California is through the roof. We are currently delivering an after school center for a very reputable charity in Los Angeles. It is an approximately 24,000 square foot building that we fabricated in 20 weeks and will install in eight weeks. Therefore in essence, about 60-90 days after the foundation was completed they will have the keys to their building, which if you know anything about school construction or school type constructions in urban environments, it is incredibly fast. Another group or people we like to target are people that like to move fast, make decisions and appreciate the speed of modular construction - your building is being fabricated contemporaneously while your site work and foundation are being installed, so that as soon as the foundation is cured and approved the module needs to start arriving the next day.

CEOCFO: *Where do the local regulatory bodies come into play?*

Mr. Galvin: That approval was March 29th of 2017. If you go to our website, www.sgblocks.com, there is a link to it and a page to it, so you can get the specifics from it.

CEOCFO: *Does it not matter in certain localities? Can they not override it? Are there additional issues because it is modular or because it is container or is that a non-issue?*

Mr. Galvin: It is a non-issue at this point. It is a much more sophisticated industry than it was 30 years ago. It gets more sophisticated every time and every year. I just want to make a simple point about our humble shipping container and that is that in this growing sector or modular construction the shipping container is actually the only form of modular construction where you start with a finished module and then you use engineering and deconstruction to create sustainable buildings. Our containers remain intermodal, meaning that they are never over height and they are never over width, meaning they ship on regular flat beds extremely efficiently. They are not ruining your recycled material or your green project by having over wide trucks for every module and escort vehicles. We set a container every 20 minutes, so we are basically reducing the time of construction 40 percent; maybe 50 percent in the cities. It keeps your neighborhood clean. We are not getting scaffolding everywhere, noise pollution or air pollution. The developer gets their building open first, their school open first and their clinic open first. They get their money back in half the time. They start seeing patients or generating revenue. Traditional construction is so sequential. That is one of the reasons why it is enormously expensive and subject to time delays and weather delays. We are always fabricating indoors; controlled environment, controlled conditions, higher quality and output.

CEOCFO: *Is the green factor paramount for your customers or is it a nice addition to the fact that they can complete a project quickly, efficiently and at less cost?*

Mr. Galvin: It is really case-by-case. At the end of the day, even the people that are interested in doing ecological best practices, need to pencil out deals and by building so efficiently and so quickly, we are in an enviable position. We are meeting people whose projects are almost penciling out with traditional construction, but they are not quite there, because of the IRR, which is usually time driven. Therefore, the fact that we have this alternative solution; we are helping people that have had properties that maybe they were not so opportunistic about being able to develop in this market and now we are providing them with a high quality solution. For us, that is great! These are projects that we have a pretty unique solution, too.

CEOCFO: *Who puts containers together on the project site?*

Mr. Galvin: We generally work with a local contractor who is in the marketplace, who is familiar with the technology, either from having worked with us previously or from going through some training with us or meeting us at the factory. We are always on site for the install. We always oversee what is going on the site, because we are experts with this. Therefore, to the degree possible the local contractor should do the site work, the local crew, the local riggers, the local crane operator; we can bring all the business to the community. Then, we will specialize in delivering the modules and erecting the modules.

CEOCFO: *Can you ramp up and handle all the business that comes your way? Is there a growth plan?*

Mr. Galvin: We have over 700,000 square feet in our backlog. We have many pending proposals for buildings, both large and small. We have a manufacturing throughput capacity with partners and affiliates of about one million square feet a year. We anticipate needing to supplement that, based upon the velocity of interest in the projects and the fact that we are working now with developers who have the pipeline of business they have to deliver and are choosing us a solution. Therefore, part of the job of management is to be out in front of any potential barriers to us fulfilling our potential as a stock and as a company. At this time, we are looking at ways to expand our manufacturing capacity to get out in front of that issue. It is a regular part of our business and we are always looking for both good partners and best practices and always evolving.

CEOCFO: *What has changed in your approach over time, either in the way you manufacture or how you present your products? What have you learned as SG Blocks has been around the block for a while?*

Mr. Galvin: I will just emphasize the product part of our company for this interview. What we have learned is that an engaged customer, an engaged design professional and an engaged owner is our best friend! We love when people get involved. We can never work with enough smart, intelligent and creative people. The container process is very front-loaded. It really is dependent upon great pre-design, great construction drawings and then even more specific fabrication drawings that lead to manufacturing. What we have learned is that getting everybody on board and getting everybody brought into the processes produces the most economically efficient building.

CEOCFO: *Are there newer technologies and newer equipment that you can take advantage of? Are there many changes in the manufacturing process?*

Mr. Galvin: I do not see the manufacturing process ever not evolving. It is constantly evolving. We are a modular building system. Therefore, then some obvious things to consider are modular components inside modular buildings. There are other green technologies that we are looking at on a regular basis that can be deployed in our containers. The containers themselves are a technology deployment device, especially if you are talking about 100 apartments in a building. There are many opportunities to introduce some sustainable product concepts on a scale. Therefore, we are always open and looking and honestly, we learn from every customer, we learn from every architect and engineer. Every business and every entity is always evolving. Nothing is ever static and at a point in time. Neither is our process and the more complicated the project, the more talented the people. Then of course, that expedites the learning curve and gets the technology more widely adopted.

CEOCFO: *How do you reach out to potential clients? How do you spread the word about what you can do?*

Mr. Galvin: The overwhelming majority of business development is just handling incoming calls. SG Blocks is the market leader in container construction and our brand connotes, quality, speed and better return on investment.

CEOCFO: *What has been the interest in SG Blocks from investors?*

Mr. Galvin: We did an IPO about nine months ago and we routinely go to conferences and meet with investors and are always keeping our ear to the ground and hearing what people's thoughts are. What we are hearing is that there is a lot of excitement about the potential scalability of the product and the company. We have over \$100 million in signed contracts. As those projects deliver revenue and unfold, I think we will see more and more market interest. We are in the middle of delivering that academic building in Los Angeles; HOLA, the Heart of Los Angeles. That building is serving to be an enormous showcase on Wilshire Boulevard in Central LA and that is generating an enormous amount of interest for the company. Therefore, from a corporate strategy, we are looking to execute, keep a low overhead, manage our resources well and capture market share in this very in-disrupted, giant economical multi-trillion dollar vertical. It is very unusual to get an opportunity to invest in a company of a market cap of about \$20 million with such a backlog and such a huge upside and potential market share in a vertical. Everyone has their own ways of analyzing opportunities and as far as small cap opportunities, people have their own formulas. As a company, we are very focused in on executing on our pipeline and controlling the quality of our product. We are quite confident in the business and believe the market and the stock price will reflect our intrinsic value

