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Interviews & News!

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Sofame's New CEO Has Brought A Fresh Approach To The Company, Restructuring Job Descriptions, Bringing In Modern Engineering Technology, And Changing The Marketing Of Their High-Efficiency Direct-Contact Heat Recovery And Hot Water Heating Systems In The United States And Europe



Technology
Hot Water Heating
(SDW-TSXV)

Sofame Technologies Inc.

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John Gocek
President and CEO

BIO:

John Gocek is a C-level executive offering 20+ years of hands-on experience in general management, accounting, manufacturing operations, corporate finance, investment and international banking, portfolio and treasury management, IS/IT and management consulting. Proven executive, well-rounded General Management for Manufacturing, Private Equity and International Banking. Advocate of performance-based metrics and web-based management systems. A mentor,

skilled at coaching others to understand the organization's needs and to act constructively. His education in honors economics at McGill University in Montreal ('82), Management Associate training on Wall Street ('85), and years of professional development have led to roles of increasing responsibility in finance, business strategy, and executive management including CEO of a public company and co-founder and CFO in a multinational SOX regulated manufacturing corporation.

Company Profile:

Sofame Technologies Inc. custom engineers and manufactures unique, high-efficiency direct-contact heat recovery and hot water heating systems. Sofame's products extract up to 99% of heat from flue gases depending on the application, and also from wastewater, and return the energy in the form of high temperature hot water and pre-heated make-up air. In addition to economically recovering heat from waste energy, Sofame's products also help customers to significantly reduce greenhouse gas emissions. Using world leading patented green technology, the Company serves building owners, public and private infrastructure, institutional, industrial and commercial markets through a network of dedicated engineering representatives.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Gocek, what attracted you to Sofame?

Mr. Gocek: "I came from eight years in the air conditioning business - industrial,

institutional, large air handling systems. I was a banker for twelve years, and a finance consultant for six before I founded a company in 1998 on behalf of a corporation that was publicly traded on the NYSE called Nortek. Their ticker used to be NTK, but they went private a couple years ago. I was recruited by the investors in Sofame because Sofame is in the heating business; it is actually the heat-recovery business on an industrial, institutional scale and that means for large universities, airports, government buildings and district heating power plants, big institutional industrial applications. Sofame actually manufactures equipment that recovers waste heat. Sofame is selling heating equipment to contractors, mechanical engineers, consulting engineers and end-users in the same way that I was selling air conditioning before when I was the CFO of Ventrol in Montreal. Therefore, I actually brought twelve years of banking experience, a lot of entrepreneurial experience, and six years as a consultant writing financial scenarios for infrastructure projects to this corporation, which needed a strong CEO with industry experience and a finance background as opposed to a sales and marketing background. However, I am still a pretty good salesman most of the time, and I end up selling most of the time."

CEOCFO: What has changed at Sofame in the last six months?

Mr. Gocek: "I brought a very holistic approach to the business. I look at every aspect of the business, from the order and cleanliness of the plant to the proper manufacturing equipment, which has to be in place. Employees need to know

what their mission is, and how they fit into the businesses in the sense of a machine. Every part of the machine has to serve some purpose to move the organization forward toward its objectives. I had to figure out how the company had evolved. After 24 years in business, there are a lot of ingrained habits. Many employees have been with the company for five, ten and even eighteen years, and of course, one of the founders is still very much active in the business. He is the Vice President of Technology. He is a strong-minded engineer and an entrepreneur, and he realized at some point that he needed a bigger, larger team to make the organization function. What is interesting about Sofame is he had had institutional shareholders. He had Gaz Metropolitan, which is the Quebec gas utility. For a fairly short time, just over a year, one of the labor pension funds was a shareholder and in fact kept the company alive. Those institutions are out now, and the company has rediscovered its entrepreneurial roots. Sofame is a small company, and what has changed is that we are assessing how everyone in the company perceives where they fit it. We rewrote the ORG CHART, readjusted the salaries, replaced all the servers, brought in modern engineering technology - we are designing in three dimensions now while we used to design in two - and all that has been done in the last six months. These have been big changes for the organization to absorb, and we also changed the way we are marketing the product in the US. We are using a more traditional approach of the large manufacturers such as Trane, Carrier and York in the air conditioning business or Cleaver Brooks and Viessmann in the heating and boiler business where you have mechanical representatives in exclusive territories like the large cities in the United States. They are the ones who call on the customers and we support them as they sell our custom engineered product to their customers as opposed to Sofame doing everything directly which is unfeasible when you are covering a large territory like North America.”

CEOCFO: What is an example of a typical project?

Mr. Gocek: “I will explain how we do it through a manufacturer’s representative. Let us say we have a manufacturer’s representative in an exclusive territory in Minnesota. They are experts in mechanical power plants or heating, cooling - everything that goes into power plant - and they go and call on their customers. They know who their clients are. They have typically been in business anywhere from five to twenty-five years or longer and they look for an energy-saving solution in their customers’ power plant. In the case of Sofame, we make heat-recovery equipment, so we want to recover the heat using our patented exclusive technology, and the by-product of our process is hot water. The engineers who are our representatives go into their

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customers’ organizations to look for waste heat, and then figure out, using the Sofame equipment, how to make the process more efficient. A lot of engineering goes into this. It ends up being engineers selling to engineers, with the owner or end-user being advised by other independent consulting engineers. There are always external consulting engineers who have to give their blessing to the project, because as a custom manufacturer, we cannot afford to miscalculate anything affecting the customer’s power plant. The lead-time is typically eighteen months before we get an order. It takes a lot of work, many calculations, and a lot of second-guessing. Eventually we get a purchase order, manufacture equipment, ship it, and it has to be installed. The lead time on a project can be anywhere from six to eighteen months and maybe two years before the unit is actually up and running, it is a long process, and strong relationships are very important throughout the entire process.”

CEOCFO: How long typically before a company recovers the cost?

Mr. Gocek: “That is a good question addressing why I went with Sofame, and why anyone should be interested in investing in Sofame today. The company was founded 24 years ago, and has been public since 1997. There are a couple of other serendipitous or lucky reasons why Sofame is a good investment. The main reason being we have a proven patented technology that recovers waste heat. Over the last five years, waste heat has become valuable because energy costs, particularly natural gas, have become very expensive. We target natural gas-fired steam boilers to recover the waste heat because natural gas burns cleaner than oil. Our products do work with oil, and we are looking at coal gas and other heating sources, but natural gas is what we target. Natural gas has become so expensive that recovering waste heat now using our equipment can typically reduce the gas bill of the end user by anywhere from 10 to 40% and in some cases that adds up to millions of dollars a year. So the payback has come down from seven or eight years five years ago, to anywhere from six months to three years today, including installation, which is really attractive from an investment point of view for the customer.”

CEOCFO: Are there many competing technologies?

Mr. Gocek: “The traditional boiler is a source of heat and traditional boilers are getting more efficient over the years. They are up to 80% efficient today in the case of a new boiler. Our technology uses a direct-contact principle, meaning we use water to cool the flue gases. A typical traditional boiler has tubes holding the water, and that metal tube creates resistance, so there is waste heat going up the chimney when you have an indirect contact boiler. Our direct contact technology uses water, which must go through a level of packing to maximize a surface area. Sofame can recover 99% of the waste heat, making the boiler 99% efficient. So the traditional technology is not as efficient as our technology, and today there are not many companies in our field be-

cause it was not a profitable business for so many years. Today we have an advantage over competition because we have 24 years of experience, know-how and don't forget we had a gas utility as a shareholder for over ten years and they invested almost \$10 million in perfecting our technology, our engineering, our software - so it is very hard to go back up the learning curve for a new company. They could not actually guarantee the performance of their equipment, if they tried to enter this market. We have an advantage and we are exploiting it to the maximum."

CEOCFO: Once you install a project is it over, or do you do maintenance?

Mr. Gocek: "Because we use manufacturers' representatives, the representatives continuously call on the clients once they install our product, as they would for any other product they may sell, because they typically carry half a dozen to a dozen major products. Once we install a product, we offer a two-year service contract so that we can make sure the machine is performing. We do not actually guarantee the energy cost savings performance, because there are too many variables under the influence of the customer. However, for example, when we say it is 98% efficient, it is 98% efficient. We do not guarantee the return on investment, because there are other factors involved that are beyond our control. Even so, we do visit the unit for two years, and take measurements and make sure it is working properly. We are offering a five-year warranty on defects, so we offer a very good guarantee in the business, and we try to keep in touch with our customers. It is the representatives more importantly who visit the customers continuously. So the reps who sell our product have an advantage in that they have a reason to call on the customer regularly. That is why we use a rep network to stay in touch with our customers."

CEOCFO: Tell us about the geographic footprint today and where you would like it to be.

Mr. Gocek: "We have over 300 installations in Canada. Canada is very well covered, and Sofame is quite well known in Canada in the consulting engineering community. There is still some room for

market penetration for us. On the other hand, they don't build a hospital every other year, and we are in most of the hospitals in Montreal, and we are in many of the airports in Canada now. It is natural that we would want to move into the United States, where actually traditionally energy efficiency has not been a major concern. Now that energy is more expensive, the opportunity to save costs is much greater because I think inside many operations, that area has been somewhat neglected compared to European companies who would have invested more in energy recovery because energy was more expensive in Europe. So we have a great opportunity in the US, where we are actively pursuing that market. We are on the ground in Charlotte, North Carolina and we cover North and South Carolina through our rep there called Brady Trane, which is one of the Trane organizations. We are in Philadelphia through Tozour Trane, another Trane rep, and they are actively promoting Sofame in New Jersey and Pennsylvania. We have very strong representation in Minnesota in St Paul through Wise Energy Equipment Solutions, which is a subsidiary of Corval Group, who also owns Newmech. They are a mechanical contractor, very active in the state of Minnesota and into Wisconsin as well. We are also talking about Illinois where Newmech is a very strong rep of ours. We recently signed a new rep in Ohio who is also covering Kentucky. As we find reps who are expert in the boiler business and come from ten or twenty years of sales experience, they are already familiar with the power plants and the customers, and consulting engineers in their territory. That is the kind of rep we look for. If it takes longer for us to find a qualified rep who knows what he is doing in the heating and boiler industries, it is worth the wait because they make our jobs so much easier. They understand our product and they can sell it very easily. There are more states to come."

CEOCFO: What about outside North America?

Mr. Gocek: "Outside the US there are some interesting developments. We signed a memorandum of understanding a month ago with a company called Soffimat in Paris, which is one of the largest

private power producers in France; they generated over 1.4 gigawatts of electrical capacity as recently as a couple of years ago. They did some financial restructuring and now they operate more power plants than they own. I believe they sold some of the assets, and they continue to be a major player in the French power industry. Soffimat has invested \$1 million in Sofame Technologies common shares, and one of their executives is considering taking a seat on our board. The purpose of that was to cement our alliance with Soffimat in the territory of France. Soffimat is a French company and they will be ordering three machines to put into three of their power plants and recover up to 99% of the waste heat. They would immediately see the return of anywhere from six to eighteen months on that investment, and they will use those installations to show to their other customers for whom they build, own and operate power plants and steam boiler plants. By demonstrating the efficiency they are getting from Sofame equipment, they would be able to sell more Sofame equipment in France. As the relationship evolves, we are planning on completing negotiations by May 10th which is public information, and calling upon Soffimat to help us recruit reps in other territories in Europe, namely Germany, Italy, Spain and England, and several countries in the Middle East where they are very active in the construction boom in Dubai and other countries. Soffimat has a very strong contingent of engineers on the payroll. They understand power generation and energy transformation from heat, hot water to steam, electricity and they are excellent partners. We have high hopes for long-term benefits to both sides in that agreement and our expansion in Europe as well, based on that understanding."

CEOCFO: What is the financial picture of Sofame?

Mr. Gocek: "It is very entrepreneurial. We are publicly traded on the TSX-V, which is the Venture exchange in Toronto. Our market cap is presently \$25 million. Our revenues as of September 30th 2007 were \$2.3 million. That consisted of all Canadian revenues in 2007, and the typical unit that we shipped in Canada last year was worth about \$250 thousand dollars. We are now working on

more than two dozen projects in the US with a value of over twenty million dollars. That is not the confirmed order back-log, but that is the value of the contracts we are engineering. Some of these projects have been going for eighteen months, and we are very confident to have the purchase orders in the next few months. The typical US order that we are seeing today, because of the larger size of the power plants in the US, is about \$750,000. We are working on a five-year plan that will start on October 1st 2008 and we are hoping to sell 100 machines a year in the fifth year of the five-year plan, so that should equate to \$100 million a year compared to two-million dollars in 2007!

The reps we have now are all working on a half-dozen or more projects each, often valued at around a million dollars. We think it is a realistic target to build the distribution network, promote our brand, and market our proven technology to reach for \$100 million in annual sales. It is important to note that the technology is proven with over 300 installations in Canada. We have a lot of engineers from the US coming to visit Montreal. They see our plant, get the presentation in the conference room, and realize that we have a strong team of engineers who know what they are talking about. When they visit the installations, they are very impressed and go back to the US very excited. I think our growth should be exponential. Our internal plan is to more than double sales in 2008, so that would be somewhere around five million dollars; this is a forward-looking statement by the way. We have raised the capital, \$5.6 million in the last twelve months, and that money has gone into plant im-

provements, software development, hiring of competent sales engineers and internal engineering staff and marketing. We are also re-branding our image. We look more like a green company than a manufacturing company, because don't forget today when you reduce gas bills, whether through efficiency or other means, you are reducing the carbon footprint of your customer, and for many customers that is as important as the cost savings themselves."

CEOCFO: In closing, why should potential investors be interested and what might they miss that they should understand? Why pick Sofame out of the crowd in the green area?

Mr. Gocek: "There are so many companies that are talking green and focussing on green, but there are few companies that actually make such a significant contribution to the reduction of greenhouse gases, and I am talking about annual tons of greenhouse gases reduced. Sofame has reduced approximately 1.8 million tons of greenhouse gases since the company started 24 years ago. Today our machinery is reducing about 150,000 tons of greenhouse gases per year. In terms of what the market potential is, that is only a fraction of the amount we could be reducing on a year-to-year basis. Just to give you an idea in North America the boiler market for new steam boilers is \$4 billion dollars a year according to a study we have. Do not forget, those new boilers are only 70 to 80% efficient in terms of their energy consumption. There is waste heat going up the chimney in other words. Our equipment, even as complimentary to the traditional boiler market, has an enormous potential to reduce greenhouse gases. From an environ-

mental point of view, and an economic payback point of view, Sofame has a proven technology that needs to be promoted, and that is what I am doing aggressively. Once it catches on that Sofame has a proven product, and we receive some of the prestigious project awards that we are working on, and once those orders are delivered, people are going to realize that Sofame can play an enormous role in this industry, more than just an unproven technology still on the drawing board somewhere. That is one reason to invest sooner rather than later.

Another thing that is often overlooked, is that by reducing the greenhouse gases we are also eligible for carbon credits, and carbon credits - many people believe - are going to go up astronomically as North Americans develop a better understanding of the Kyoto framework. They may not apply it to the letter, may not sign the Kyoto Accord for example, but there will be a carbon trading framework and there will be some government regulation of carbon credits voluntary or statutory. Sofame's equipment generates carbon credits. We are working on a financing model with financial partners; I am in Europe now and I will be in Europe at the end of the month making a presentation to financial partners, so we can offer our equipment as a package, including installation. Once we get the marketing tools in place to promote our product literally all around the world as quickly as possible, Sofame's value will increase. It is just a matter of time."

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