

## SolarEdge Technologies

# Holding back shipments comes at a cost – Reiterate Underperform

Reiterate Rating: UNDERPERFORM | PO: 54.00 USD | Price: 74.14 USD

## Can we call a bottom now? Not yet as destocking drags on

We reiterate our Underperform rating on shares of SolarEdge Technologies (SEDG) following a tough 4Q23 update. The outlook for a recovery in shipments across major end markets remains challenged, with mgmt. bringing down its expectations for 2H24 quarterly revenue by \$50Mn at the midpoint to a range of \$600-650Mn. Critically this assumes an increase in underlying demand of ~25% from current levels. We see this level of recovery as difficult to achieve as SEDG seeks to rapidly destock a bloated distribution channel. Mgmt. indicated it under-shipped demand by ~\$200Mn in 4Q23 and expects to accelerate these efforts to \$250-300Mn in 1Q24 before tapering through YE24. Considering this backdrop, we see added risk that under-shipments could even extend into 2025 in an effort to right-size the channel. We remain cautious on the outlook for shipments, and in turn see risk to gross margin trajectory which is largely dependent on volume recovery. On balance, see a difficult road ahead for SEDG as destocking efforts accelerate. Reiterate Underperform.

## Taking down estimates sizably: Street still too high

We reduce our estimates for both the top and bottom lines following the 4Q23 update. Our revenue forecasts for 2024/25E move down 19%/13% to \$1.6Bn/\$2.0Bn which is 11%/25% below consensus. Our forecast contemplates a recovery in revenues in 2H24, but we remain below the low-end of mgmt.'s target range of \$600-650Mn in both 3Q24 and 4Q24. For consolidated non-GAAP gross profit, our forecasts for 2024/25 move down 25%/18% to \$379Mn/\$666Mn as lower revenue is compounded by a reduction in gross margin expectations. We are not confident in the comparability of consensus estimates for gross profit considering varying tax credit treatments.

## See downside still after steep sell-off: PO to \$54

Lower earnings estimates drag down our PO to \$54 (from \$57) in our latest update. Offsetting our reduced forecast is a roll forward to 2025/2026 for our EV/EBITDA methodology (weighted 75%) and to 2024 for year-one of our DCF methodology (weighted 25%). We continue to apply a 2.0x premium to FY2 (2025E) earnings in our EV/EBITDA methodology and no premium to FY3 (2026E). Our DCF discount rate is marked-to-market (MtM) at 13.9% vs. 13.4% previously.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.27	4.13	(0.11)	3.70	5.29
GAAP EPS	1.70	0.60	(3.70)	0.27	1.82
EPS Change (YoY)	30.6%	-34.1%	NM	NM	43.0%
Consensus EPS (Bloomberg)			(0.33)	4.71	6.22
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	11.8x	18.0x	NM	20.0x	14.0x
GAAP P/E	43.6x	123.6x	NM	274.6x	40.7x
EV / EBITDA*	9.7x	13.8x	NM	17.0x	11.3x
Free Cash Flow Yield*	-3.1%	-8.0%	12.6%	10.3%	10.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 11.

22 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	57.00	54.00
2024E Rev (m)	1,938.1	1,568.3
2025E Rev (m)	2,284.3	1,976.9
2026E Rev (m)	2,599.0	2,304.0
2024E EPS	1.43	-0.11
2025E EPS	5.31	3.70
2026E EPS	6.41	5.29

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### Stock Data

Price	74.14 USD
Price Objective	54.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-3-9
52-Week Range	63.25 USD - 339.50 USD
Mrkt Val (mn) / Shares Out	4,387 USD / 59.2 (mn)
Free Float	99.0%
Average Daily Value (mn)	206.53 USD
BofA Ticker / Exchange	SEDG / NAS
Bloomberg / Reuters	SEDG US / SEDG.OQ
ROE (2024E)	-0.3%
Net Dbt to Eqty (Dec-2023A)	-14.0%
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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# iQprofile<sup>SM</sup> SolarEdge Technologies

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.7%	4.7%	-1.8%	2.7%	7.7%
Return on Equity	20.1%	10.8%	-0.3%	9.5%	12.9%
Operating Margin	86.0%	83.1%	70.1%	76.3%	78.1%
Free Cash Flow	(138)	(351)	555	450	453

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.1x	-0.7x	NM	2.6x	1.8x
Asset Replacement Ratio	3.4x	3.0x	2.0x	1.7x	1.6x
Tax Rate	50.2%	115.5%	27.9%	243.4%	NM
Net Debt-to-Equity Ratio	-36.0%	-14.0%	-39.1%	-55.1%	-66.5%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,110	2,977	1,568	1,977	2,304
% Change	58.4%	-4.3%	-47.3%	26.1%	16.5%
Gross Profit	494	582	205	473	570
% Change	-24.2%	17.8%	-64.9%	131.1%	20.5%
EBITDA	491	347	(18)	281	423
% Change	34.5%	-29.4%	NM	NM	50.4%
Net Interest & Other Income	3	41	0	0	0
<b>Net Income (Adjusted)</b>	<b>351</b>	<b>249</b>	<b>(7)</b>	<b>225</b>	<b>331</b>
<b>% Change</b>	<b>28.8%</b>	<b>-29.2%</b>	<b>NM</b>	<b>NM</b>	<b>47.1%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	83	(6)	(215)	16	112
Depreciation & Amortization	50	57	72	84	92
Change in Working Capital	0	0	758	355	243
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(101)	(231)	84	141	151
Capital Expenditure	(169)	(171)	(145)	(145)	(145)
<b>Free Cash Flow</b>	<b>-138</b>	<b>-351</b>	<b>555</b>	<b>450</b>	<b>453</b>
<b>% Change</b>	<b>NM</b>	<b>-154.0%</b>	<b>NM</b>	<b>-18.8%</b>	<b>0.6%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	783	338	893	1,343	1,796
Trade Receivables	905	622	498	364	381
Other Current Assets	1,211	2,343	1,633	1,322	1,066
Property, Plant & Equipment	544	615	688	749	802
Other Non-Current Assets	822	669	669	669	669
<b>Total Assets</b>	<b>4,266</b>	<b>4,588</b>	<b>4,381</b>	<b>4,448</b>	<b>4,714</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	890	893	817	727	730
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,200	1,283	1,283	1,283	1,283
<b>Total Liabilities</b>	<b>2,090</b>	<b>2,176</b>	<b>2,100</b>	<b>2,010</b>	<b>2,013</b>
<b>Total Equity</b>	<b>2,176</b>	<b>2,412</b>	<b>2,281</b>	<b>2,438</b>	<b>2,701</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,266</b>	<b>4,588</b>	<b>4,381</b>	<b>4,448</b>	<b>4,714</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 11.

## Company Sector

Alternative Energy

## Company Description

Founded in 2006, SolarEdge Technologies (SEDG) is a leading global power electronics company headquartered in Israel. SEDG designs and sells semiconductor-based DC optimized inverter and battery systems - comprising of DC optimizers to regulate output at module level, a string inverter to convert DC electricity to AC, and a DC-coupled battery to store electricity. SEDG sells its products to solar installers, EPCs, and distributors globally with largest focus on North America and Europe.

## Investment Rationale

We are Underperform rated on SolarEdge Technologies (SEDG) given lack of visibility in the core earnings potential of the model after demand trends have decelerated in rooftop solar. We see limited line of sight to when and just how much recovery occurs in key end markets with risks of weaker fixed operating leverage driving significant revision potential on future estimates.

## Stock Data

Average Daily Volume 2,966,130

## Quarterly Earnings Estimates

	2023	2024
Q1	2.96A	-1.40E
Q2	2.66A	-0.37E
Q3	-0.37A	0.53E
Q4	-0.57A	1.10E

## Talking through results and our forecast

SEDG reported large misses in 4Q23, and forward guidance was particularly weak. Critically, the outlook for an eventual recovery of shipments appears to have weakened as well: the 'inflection' bull argument articulated with ENPH results appears less clear here. Management now expects to reach a quarterly revenue run-rate of \$600-650Mn in 2H24, which is down from prior expectations for \$600-700Mn and compares to underlying demand of \$500Mn currently. Further, our sense is that the channel inventory destocking process is far from complete, with management expecting to under-ship demand through YE24. In 4Q23, SEDG under-shipped demand by \$200Mn. For 1Q24, management expects to under-ship by \$250-300Mn, and for this to continue at a decreasing rate through end of 2024. See below for a recap of the 4Q23 update as well as a reproduction of our first takes following earnings.

### Recapping the quarter and mgmt. guidance

A 2% revenue miss for 4Q23 was amplified by sizable gross margin misses on both a consolidated and Solar segment basis. Consolidated non-GAAP gross margin of 3.3% vs 8.1% BofA and 6.9% Consensus estimates. For the Solar segment, gross margin of 4.0% was 650bps shy of our expectation and below mgmt.'s guide of 7-10%. Following a weaker than expected 4Q23, the outlook for 1Q24 and beyond appears even bleaker. Mgmt. guided to 1Q24 revenue decline of 62% QoQ to a range of \$175-215Mn. Non-GAAP gross margins are also expected to step down sequentially to a range of (3)-1%, inclusive of 850bps of tax credit uplift. 1Q24 revenue expectations are well below our and Consensus expectations of \$333Mn and \$373Mn, respectively. The same holds for non-GAAP gross margins, where we and Consensus had modeled 11% and 13% for 1Q24, respectively.

Looking ahead, management guides down, with 1Q24 revenue expected to be within a \$175mm-\$215mm range, below both \$334mm BofA estimates and \$368mm Consensus estimates. Mgmt expects 1Q24 Non-GAAP gross margin to be within the range of -3% to +1%, including approximately 850 basis points of net IRA manufacturing tax credit, below both 11.3% BofA estimates and 13.5% Consensus estimates. In terms of Non-GAAP operating expenses, Mgmt guides a range of \$122mm-\$130mm, above both \$121mm BofA estimates and \$102mm consensus estimates.

### Sell-through dynamics key to watch in US and Europe

We remain focused on sell-through dynamics across the European and US markets which remain pressured. Residential sell-through in Europe was down 35% QoQ in 4Q23, while the US showed only an 8% decline. Despite the weak 4Q performance, management appears constructive on the outlook post-winter in Europe for residential shipments. This optimism appears primarily driven by expectations for higher electricity pricing in Germany as well as a recovery in Austria and the Netherlands following regulatory uncertainty. We see the Europe end-market as the bigger point of concern rather than the US given the open-ended window for additional Chinese product to drive prices yet lower. It would appear the plan prices in high single digit price cuts thru '24, but given the inventory backdrop this is an unclear angle to watch carefully.

In the US, management is not expecting meaningful change in residential markets given current interest rate levels and as net metering changes (NEM 3.0) continue to pressure California: these statements cast further sobriety across the wider sector relative to earlier expectations. In contrast, commercial and industrial (C&I) appears to be a bright spot, particularly in the US where management actually expects to see growth in 2024 following a record 4Q24: lower margin but consistent with feedback we've received. This end market is particularly priced to cheaper equipment, which management affirmed yesterday as well. On balance, pressured margins from mix could continue to weigh on the outlook.



### Samsung deal rolling off and out of inventory

Management remains adamant in an improving backdrop for margins on resi storage as its legacy high cost product rolls off thru the year. It anticipates high single digit gross margins should evolve towards 25% margins by FY25. With resi battery prices having already fallen of late, this merits ongoing scrutiny.

### Margin ramp through 2024 worth monitoring

In terms of profitability, management remains adamant in a robust recovery in non-GAAP gross margins to a range of 30-32% once run-rate revenue is achieved. **Management indicated customer and product mix should drive ~970bps of improvement in gross margins from current levels while fixed cost absorption should drive another ~930bps of improvement.** The remainder of the improvement in gross margins is expected to come as lower cost inventory is worked through over the course of 2024. While we admit the ramp implied by this level of profitability is indeed steep, our sense is that management's visibility into inventory and COGS dynamics supports its confidence in a recovery. Cash flow and the balance sheet are increasingly top of mind for investors. Considering the backdrop, SEDG has seen a rise in the cash conversion cycle, as receivables and inventories remain elevated. Management expects this trend to reverse in the coming quarters, and we expect this to be a key item to monitor.

### Balance sheet is a bigger indicator than many appreciate

The buyback was mentioned on the call, and management expects to begin executing on the \$300Mn authorization in 1Q24. We view this as notable against a management team that has diligently preserved cash in recent quarters: proof is in action. We continue to watch cash conversion, particularly as legacy inventory working capital is monetized thru '24. While muted EBITDA would otherwise suggest likely conservative use of capital to preserve liquidity, mgmt's outspoken nature on the call on buybacks would be truly a positive indicator to many investors we speak to about their confidence in the cyclicity of the business.

#### Exhibit 1: SEDG earnings dashboard

We lower our forecast for shipments and margins as the outlook grows dimmer amid channel destocking efforts

	2022	2023	1Q24	2Q24	3Q24	4Q24	2024	2025	2026
<b>Key Metrics</b>									
<b>Shipments &amp; ASPs</b>									
<b>Inverter Shipments (MWdc)</b>	<b>10,490.0</b>	<b>12,754.0</b>	<b>706.9</b>	<b>1,343.5</b>	<b>2,175.9</b>	<b>2,738.8</b>	<b>6,965.1</b>	<b>9,653.5</b>	<b>11,876.8</b>
<i>Resi</i>	5,300.0	4,911.0	276.3	466.5	733.0	1,042.1	2,517.9	3,296.0	3,766.8
<i>Commercial</i>	5,190.0	7,718.0	370.7	817.0	1,367.9	1,584.2	4,139.7	5,588.8	6,764.7
<b>Storage Shipments (MWh)</b>	<b>889.3</b>	<b>744.0</b>	<b>110.0</b>	<b>110.0</b>	<b>120.0</b>	<b>125.0</b>	<b>465.0</b>	<b>625.2</b>	<b>981.1</b>
Blended Solar ASP (\$/W)	\$0.24	\$0.19	\$0.18	\$0.19	\$0.18	\$0.18	\$0.19	\$0.17	\$0.16
<i>VA Consensus</i>	<i>\$0.27</i>	<i>\$0.22</i>	<i>\$0.24</i>	<i>\$0.24</i>	<i>\$0.22</i>	<i>\$0.25</i>	<i>\$0.23</i>	<i>\$0.24</i>	<i>\$0.23</i>
Storage ASP (\$/kWh)	\$511	\$464	\$428	\$431	\$428	\$383	\$416	\$375	\$337
<b>Income Statement</b>									
Solar Revenue	\$2,921	\$2,815	\$177	\$304	\$454	\$554	\$1,488	\$1,880	\$2,185
<i>Of which, Storage</i>	\$443	\$345	\$47	\$47	\$51	\$48	\$194	\$234	\$331
Non-Solar Revenue	\$189	\$162	\$7	\$15	\$25	\$33	\$80	\$97	\$119
<b>Total Revenue (\$mn)</b>	<b>\$3,110</b>	<b>\$2,977</b>	<b>\$184</b>	<b>\$319</b>	<b>\$479</b>	<b>\$587</b>	<b>\$1,568</b>	<b>\$1,977</b>	<b>\$2,304</b>
YoY	58.4%	-4.3%	-80.5%	-67.8%	-34.0%	85.6%	-47.3%	26.1%	16.5%
<i>Prior</i>	<i>\$3,110</i>	<i>\$2,985</i>	<i>\$334</i>	<i>\$364</i>	<i>\$598</i>	<i>\$643</i>	<i>\$1,938</i>	<i>\$2,284</i>	<i>\$2,599</i>
<i>Guidance</i>			\$175-215				-19%	-13%	-11%
<i>Guidance (2H24 Quarterly)</i>					\$600-650				
<i>Investor Day Target: 20-30%/year</i>									
<i>VA Consensus</i>	3,107	2,977	192	321	483	517	1,512	2,512	2,824
<b>Undershments</b>									
			<b>\$250-300</b>	<b>Down QoQ</b>	<b>Down QoQ</b>	<b>Down QoQ</b>	59%	-4%	
<b>Non-GAAP Gross Profit</b>	<b>\$877.6</b>	<b>\$793.1</b>	<b>\$1.0</b>	<b>\$72.8</b>	<b>\$131.5</b>	<b>\$173.2</b>	<b>\$378.5</b>	<b>\$666.0</b>	<b>\$834.6</b>
<i>Prior</i>	<i>\$877.6</i>	<i>\$808.9</i>	<i>\$37.8</i>	<i>\$78.7</i>	<i>\$180.4</i>	<i>\$205.0</i>	<i>\$501.9</i>	<i>\$814.5</i>	<i>\$928,090.8</i>

**Exhibit 1: SEDG earnings dashboard**

We lower our forecast for shipments and margins as the outlook grows dimmer amid channel destocking efforts

	2022	2023	1Q24	2Q24	3Q24	4Q24	2024	2025	2026
VA Consensus	877.7	793.7	\$1.2	\$38.9	\$88.2	\$109.1	237.5	696.6	696.6
% Margin	28.2%	26.6%	0.6%	22.8%	27.5%	29.5%	24.1%	33.7%	36.2%
VA Consensus (Implied)	28.2%	26.6%	0.6%	12.1%	18.3%	21.1%	15.7%	27.7%	24.7%
Guidance			(3)-1%		30-32%	30-32%	-25%	-18%	
Investor Day Target: 29-31%									
<b>IRA Credits</b>		<b>\$7.1</b>	<b>\$15.9</b>	<b>\$25.8</b>	<b>\$31.3</b>	<b>\$35.0</b>	<b>\$108.1</b>	<b>\$127.4</b>	<b>\$114.7</b>
Prior		\$7.1	\$14.5	\$23.4	\$28.5	\$31.9	\$98.3	\$127.4	\$114.7
<b>Non-GAAP OpEx</b>	<b>435.9</b>	<b>503.1</b>	<b>123.5</b>	<b>119.9</b>	<b>112.5</b>	<b>112.4</b>	<b>468.2</b>	<b>468.5</b>	<b>503.8</b>
VA Consensus	444.5	503.7	112.6	119.2	119.7	120.7	472.2	509.0	509.0
% Revenue	14%	17%	67%	38%	24%	19%	30%	24%	22%
Guidance			\$122-130		\$112-117	\$112-117			
Investor Day Target (Core Solar): 11-13%									
<b>Non-GAAP Operating Income</b>	<b>\$441.7</b>	<b>\$290.0</b>	<b>(\$122.4)</b>	<b>(\$47.1)</b>	<b>\$19.0</b>	<b>\$60.8</b>	<b>(\$89.7)</b>	<b>\$197.6</b>	<b>\$330.8</b>
VA Consensus	440.8	290.0	(112.9)	(84.6)	(32.3)	(5.7)	(234.9)	182.9	182.9
% Margin	14%	10%	-66%	-15%	4%	10%	-6%	10%	14%
Guidance									
Margin Guidance					11-14%	11-14%			
<b>Adj. EBITDA (Including IRA Credits)</b>	<b>\$491.4</b>	<b>\$347.2</b>	<b>(\$104.5)</b>	<b>(\$29.1)</b>	<b>\$37.0</b>	<b>\$78.8</b>	<b>(\$17.8)</b>	<b>\$281.3</b>	<b>\$423.0</b>
Prior	\$491.4	\$357.3	(\$64.1)	(\$7.4)	\$90.7	\$102.8	\$122.0	\$426.3	\$528.1
<b>Adj. EBITDA (Excluding IRA Credits)</b>	<b>\$491.4</b>	<b>\$340.0</b>	<b>(\$120.4)</b>	<b>(\$54.9)</b>	<b>\$5.7</b>	<b>\$43.8</b>	<b>(\$125.9)</b>	<b>\$153.9</b>	<b>\$308.3</b>
Prior	\$491.4	\$350.1	(\$78.6)	(\$30.8)	\$62.2	\$71.0	\$23.8	\$298.8	\$413.4
Adj. EBITDA Margin, % (Including IRA Credits)	15.8%	11.7%	-56.7%	-9.1%	7.7%	13.4%	-1.1%	14.2%	18.4%
Adj. EBITDA Margin, % (Excluding IRA Credits)	15.8%	11.4%	-65.3%	-17.2%	1.2%	7.5%	-8.0%	7.8%	13.4%
<b>Non-GAAP EPS, Diluted (Incl. IRA Credits)</b>	<b>\$6.27</b>	<b>\$4.13</b>	<b>(\$1.40)</b>	<b>(\$0.37)</b>	<b>\$0.53</b>	<b>\$1.10</b>	<b>(\$0.11)</b>	<b>\$3.70</b>	<b>\$5.29</b>
Prior	\$5.92	\$4.39	(\$0.90)	(\$0.16)	\$1.16	\$1.34	\$1.43	\$5.31	\$6.41
VA Consensus	\$5.97	\$4.35	(\$1.38)	(\$0.98)	(\$0.27)	\$0.34	(\$2.30)	\$4.02	\$4.02

Source: Company filings, Visible Alpha, BofA Global Research

BofA GLOBAL RESEARCH

Risk to '25 and '26 estimates is substantive given risk to compression. Given elongated cycle for undershipments expected in '24, with sizable ongoing need to work down inventories stretching thru '24, we could well see timelines on inventories get pushed out.

One nuance to watch is mgmt's focus on the number of SKUs are sold – and in inventory. A potential risk in resolving the excess inventory remains aging product of various SKUs (over 100+ sold today) across various geographies. We see merits to ENPH's much narrower set of products in the current environment to the extent it can help the resolve more rapidly their inventory backdrop. On balance, watch carefully for how this evolves in coming quarters – and to what extent there could be a 'long tail' of product in inventory still.

**Exhibit 2: SEDG – BofA vs. Consensus**

We see risk to Consensus as we look for a muted recovery vs. expectations

	2022	2023	1Q24	2Q24	3Q24	4Q24	2024	2025	2026
<b>Consensus Forecast &amp; Delta to BofAe</b>									
<b>Inverter Shipments (MWdc)</b>									
BofAe	10,490.0	12,754.0	707	1,343	2,176	2,739	6,965.1	9,653.5	11,876.8
Visible Alpha	10,491.2	12,628.6	884.5	1,419.7	2,121.5	2,057.3	6,483.0	10,135.3	11,725.1
% Delta	0%	1%	-20%	-5%	3%	33%	7%	-5%	1%
<b>Resi - BofAe</b>	<b>5,300.0</b>	<b>4,911.0</b>	<b>276.28</b>	<b>466.51</b>	<b>733.00</b>	<b>1,042.11</b>	<b>2,517.9</b>	<b>3,296.0</b>	<b>3,766.8</b>
Resi - Visible Alpha	5,293.9	4,910.4	301.9	476.3	772.3	859.6	2,410.0	3,846.5	4,408.8
% Delta	0%	0%	-8%	-2%	-5%	21%	4%	-14%	-15%
<b>Commercial - BofAe</b>	<b>5,190.0</b>	<b>7,718.0</b>	<b>370.67</b>	<b>816.96</b>	<b>1,367.87</b>	<b>1,584.21</b>	<b>4,139.7</b>	<b>5,588.8</b>	<b>6,764.7</b>
Commercial - Visible Alpha	5,197.3	7,718.2	582.6	943.5	1,349.2	1,197.7	4,073.0	6,288.7	7,316.3
% Delta	0%	0%	-36%	-13%	1%	32%	2%	-11%	-8%



**Exhibit 2: SEDG – BofA vs. Consensus**

We see risk to Consensus as we look for a muted recovery vs. expectations

<b>revenue</b>									
BofAe	3,110.3	2,976.5	184.3	318.8	478.6	586.6	1,568.3	1,976.9	2,304.0
Bloomberg	3,104.1	2,990.5	252.9	373.8	498.7	565.1	1,768.0	2,649.8	2,956.0
% Delta	0%	0%	-27%	-15%	-4%	4%	-11%	-25%	-22%
Solar - BofAe	2,921.2	2,814.7	176.9	304.0	453.6	553.7	1,488.2	1,880.3	2,185.2
Solar - Visible Alpha	2,919.0	2,814.7	172.9	301.1	457.9	490.4	1,422.4	2,388.8	2,388.8
% Delta	0%	0%	2%	1%	-1%	13%	5%	-21%	-9%
Non-Solar - BofAe	189.1	161.8	7.4	14.8	25.0	32.9	80.1	96.5	118.8
Non-Solar - Visible Alpha	188.4	161.8	18.7	20.1	25.0	26.4	90.0	123.1	123.1
% Delta	0%	0%	-60%	-27%	0%	25%	-11%	-22%	-4%
<b>Adj. EBITDA</b>									
BofAe	491.4	347.2	(104.5)	(29.1)	37.0	78.8	(17.8)	281.3	423.0
Adj. EBITDA (\$mn) - Bloomberg	426.1	323.0	(98.5)	(50.2)	12.4	66.2	(61.6)	354.7	396.1
% Delta	15%	7%	6%	-42%	199%	19%	-71%	-21%	7%

Source: Company filings, Bloomberg, Visible Alpha, BofA Global Research

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## Lowering PO slightly; still see downside from here

Lower earnings estimates drag down our PO to \$54 (from \$57) in our latest update. Offsetting our reduced forecast is a roll forward to 2025/2026 for our EV/EBITDA methodology (weighted 75%) and to 2024 for year-one of our DCF methodology (weighted 25%). We continue to apply a 2.0x premium to FY2 (2025E) earnings in our EV/EBITDA methodology and no premium to FY3 (2026E). Our DCF discount rate is marked-to-market (MtM) at 13.9% vs. 13.4% previously. We also roll forward to 2024 for our NPV of tax credits. See below for a summary of our valuation.

**Exhibit 3: SEDG valuation summary**

We arrive at a \$54 PO

	Value/Sh	Weight	Weighted Value
EV/EBITDA	\$45.00	75%	\$33.75
DCF	\$46.00	25%	\$11.50
NPV: IRA Credit Value	\$8.76		
<b>SEDG Value/Share</b>			<b>\$54.00</b>
Share Price (As of 02/21/24)			\$74.14
Premium (Discount) to Unit Price			(27%)
2023E Dividend Yield			0.0%
<b>Total Expected Return</b>			<b>(27%)</b>

Source: Company filings, Bloomberg, BofA Global Research

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**Exhibit 4: SEDG EV/EBITDA valuation**

We arrive at a \$45/sh EV/EBITDA valuation

**SEDG EV/EBITDA Valuation**

	2025	2026
Revenues		
Core Solar	\$1,646	\$1,854
Storage	\$234	\$331
Non-Core	\$234	\$331
Gross Margin	\$576	\$743
<b>EBITDA (Including IRA Credits)</b>	<b>\$281</b>	<b>\$423</b>
IRA Credits	\$127	\$115
<b>EBITDA (Excluding IRA Credits)</b>	<b>\$154</b>	<b>\$308</b>
BOS Peer Group (A)	9.5x	7.5x
Previous BOS Peer Group	9.0x	n/a
Relative Premium to BOS (SEDG vs. BoS Peers over ~1-yr) (B)	2.0x	0.0x
<b>EV/EBITDA (BOS Peer + BOS Premium, A+B)</b>	<b>11.5x</b>	<b>7.5x</b>
Previous EV/EBITDA	8.0x	8.0x
Consensus EV/EBITDA	11.0x	0.0x
Illustrative Comparables		
Power Electronics & Semi Peer Group	17.5x	15.2x
Previous Power Electronics & Semis Peer Group	17.0x	n/a
Implied Relative Premium to Power Electronics, Semis	-6.0x	-7.7x
<b>Enterprise Value (Implied)</b>	<b>\$1,769</b>	<b>\$2,312</b>
Net (Debt) Cash	\$860	\$860
<b>Equity Value</b>	<b>\$2,629</b>	<b>\$3,173</b>
Shares Outstanding	59	59
<b>EV/EBITDA Valuation</b>	<b>\$45</b>	<b>\$54</b>
EPS	\$3.70	\$5.29
Implied P/E (excl. Net Cash)	8.1x	7.4x
SEDG Share Price	\$84	\$84
<b>Average Valuation</b>	<b>\$45</b>	

Source: Company filings, Bloomberg, BofA Global Research

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**Exhibit 5: SEDG DCF valuation**

We arrive at a \$46/sh DCF valuation

<b>SEDG - DCF Methodology</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>
<b>DCF - less Stock Based Compensation and Debt Amortization</b>							
<b>Free Cash Flows (\$Mn) (CFO Minus CapEx)</b>	<b>\$709</b>	<b>\$595</b>	<b>\$598</b>	<b>\$299</b>	<b>\$335</b>	<b>\$390</b>	<b>\$406</b>
Less: Stock Based Compensation	\$139	\$141	\$151	\$163	\$175	\$188	\$168
Less: IRA Credits	\$108	\$127	\$115	\$108	\$95	\$95	\$71
<b>Adjusted Free Cash Flows (\$Mn)</b>	<b>\$462</b>	<b>\$327</b>	<b>\$332</b>	<b>\$29</b>	<b>\$65</b>	<b>\$107</b>	<b>\$166</b>
<b>Free Cash Flows to Equity (\$Mn)</b>	<b>\$462</b>	<b>\$327</b>	<b>\$332</b>	<b>\$29</b>	<b>\$65</b>	<b>\$107</b>	<b>\$166</b>
<i>Discount Rate- Cost of Equity</i>	14%	14%	14%	14%	14%	14%	14%
<i>Discount Factor</i>	0.88	0.77	0.68	0.59	0.52	0.46	0.40
<b>Discounted Free Cash Flows</b>	<b>\$405</b>	<b>\$252</b>	<b>\$225</b>	<b>\$17</b>	<b>\$34</b>	<b>\$49</b>	<b>\$67</b>

<b>DCF Value through '30</b>	<b>\$1,049</b>
<i>DCF Value through 2025</i>	\$658

<b>Terminal Value</b>	
<i>Terminal Multiple</i>	14.0x
<i>Discount Factor</i>	0.35
<i>Terminal Value</i>	\$2,324
<i>Implied Perpetuity Growth Rate</i>	6.8%
<b>PV of Terminal FCFE Value</b>	<b>\$821</b>

Less: Recourse Debt	(627)
More: Cash on Balance Sheet	860
<i>Adjustment for Convertible Notes included in Shares</i>	627

<b>Net Cash</b>	<b>860</b>
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<b>Total FCFE</b>	<b>\$2,730</b>
<b>DCF Value/Share</b>	<b>\$46.00</b>
<i>Shares O/S (Fully Diluted) (Adj for Equity Issue)</i>	59.167

<b>Discount Rate</b>	<b>13.9%</b>
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Source: Company filings, Bloomberg, BofA Global Research

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## Price objective basis & risk

### SolarEdge Technologies (SEDG)

Our \$54 PO is based on an 75/25 weighted EV/EBITDA multiple/DCF methodology. We use a 75/25 weighting noting that the sector broadly trades on a multiple basis, which is all the more appropriate in a high-growth backdrop. Our EV/EBITDA multiple valuation is \$45 and our DCF valuation is \$46. We also layer in \$9/share from 45x credit NPV (12.5% discount rate through 2033).

#### EV/EBITDA approach:

- Comps based on Balance of System (BOS) solar peers
- We apply a 2x premium vs BOS peers to '25E EBITDA and 0x to '26, which is in line with where the stock has traded historically on a 1yr forward basis. This nets out to 11.5x 2025E and 7.5x 2026E EBITDA, respectively.

#### DCF approach:

- We derive FCFE by removing the contribution from stock-based compensation to FCF from 2024 through 2030
- FCFE discounted by 13.9% cost of capital based on 4.26% risk-free rate 6.25% risk premium and three-year weekly beta
- Given high growth and expanding opportunity set, we attribute a 14x terminal multiple on free cash flow

Upside risks: (1) execution above financial and growth targets, (2) policy implementation supporting acceleration in adoption of solar and storage, (3) new opportunities exceed expectations, (4) reduction in discount rates attributed by equity investors

## Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith



## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbaro
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
<b>NEUTRAL</b>				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbaro
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbaro
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbaro
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVERG	EVERG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbaro
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbaro
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith
<b>UNDERPERFORM</b>				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbaro
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbaro
	Edison International	EIX	EIX US	Paul Zimbaro
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbaro
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
RSTR	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	SunRun	RUN	RUN US	Julien Dumoulin-Smith

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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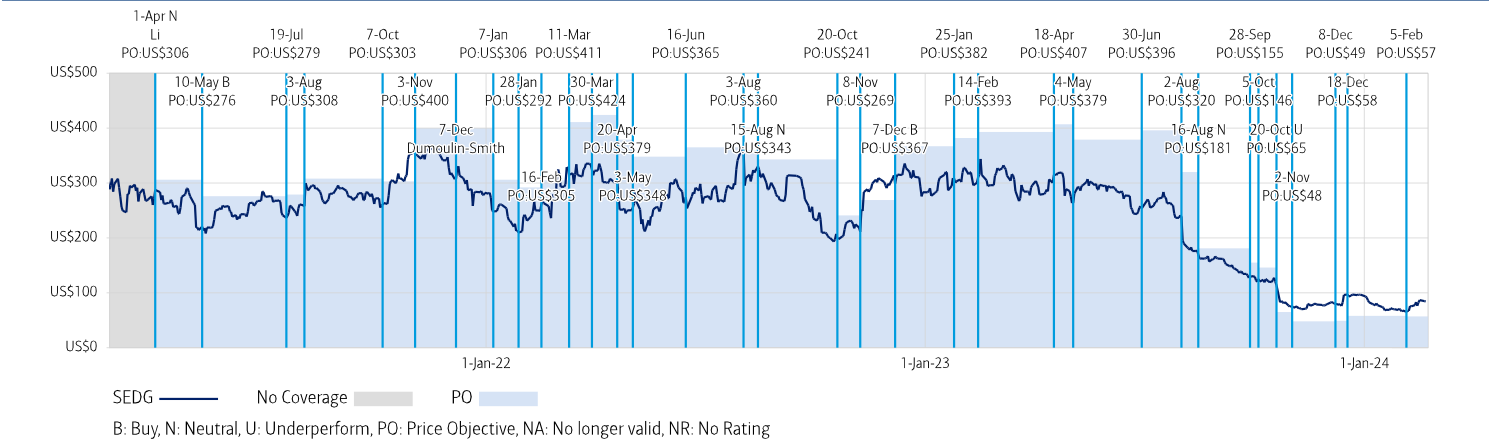
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# Disclosures

## Important Disclosures

SolarEdge (SEDG) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Alternative Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	8	47.06%	Buy	8	100.00%
Hold	5	29.41%	Hold	3	60.00%
Sell	4	23.53%	Sell	1	25.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

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