

Fluence Energy

Contracting concerns: possible explanations for the volatility of late?

Reiterate Rating: BUY | PO: 28.00 USD | Price: 14.73 USD

Latest in series of contract concerns impact shares again

A recently published short-seller report highlighted a new alleged lawsuit against Fluence Energy (FLNC) by Siemens AG, its parent company. We view the allegations, if proven true, as immaterial to the business given the small amount that the lawsuit involves (\$2mm-\$9mm) and remain confident about the solid nature of FLNC's business. We stress that earlier conflict with LS Power (the Diablo lawsuit; see below) drove shares lower in recent months and adds to reasons for the sharp move lower. We believe that investors could remain concerned about ongoing reputational risks after legitimate execution and operational issues in some of its earlier and largest projects. But, in our view, investors should also appreciate that commissioning and operating storage projects across the industry remain more problematic than many perceive given their novelty (an example is AMRC's issue with operating storage, among others). We acknowledge that FLNC's premium brand remains exposed to quality concerns highlighted by the Diablo lawsuit (Diablo claimed defects, deficiencies, and failures in its countersuit). However, we have yet to see clear indications that the assumptions supporting our Buy rating are at risk: competition is strong, but so is FLNC's ongoing brand in the sector. We also see ongoing strength in the storage macro and see an underappreciated angle on domestic content margin improvement and volumes versus international competitors. There are many layers to unpack across several quarters.

Which subsidiary? Name matters

Despite what was published in the short-seller report, the alleged lawsuit came from Siemens Energy AG (ENR), a subsidiary of Siemens AG. ENR operates as a renewable energy company and was formed through the spin-off of the former Gas and Power division of Siemens AG. As the parent company of both FLNC and ENR, Siemens AG (SIE) owns ~32% of ENR and ~31% of FLNC. The relationship with ENR is completely independent of FLNC's relationship with Siemens AG, and according to management, FLNC's relationship with Siemens AG remains strong.

Also according to FLNC management, the lawsuit from ENR was a countersuit to FLNC's original lawsuit against ENR, over an alleged \$2mm portion of ENR's nonpayment of contractual amounts owed. The reason that the lawsuit was not disclosed to investors in the 10-K is that it is considered immaterial to the business. We note that, over the last 3 years, sales to ENR have represented only ~\$30mm in revenue for FLNC.

AES relationship also intact

As for FLNC's relationship with its affiliate and corporate parent, AES Corporation (AES), according to FLNC management, its relationship with AES remains strong, and FLNC continues to be AES's preferred Battery Energy Storage Systems technology provider. FLNC has indicated that part of its long-term strategic plan is to lower the percentage of revenue that is driven by sales to AES to de-risk revenue concentration. FLNC management has been focused on selling to a larger customer base to diversify revenue streams and increase revenue growth.

Also, important to mention is that the short seller report alleged that FLNC was using its relationship with AES to manipulate pricing. FLNC's most-favored nation clause (also known as antidiscrimination clause or most-favored customer clause) with AES is disclosed in its 10-K and simply implies that given its affiliate relationship with AES, it has an agreement that requires it to offer AES the same terms and discounts that it

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Equity

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Stock Data

Price	14.73 USD
Price Objective	28.00 USD
Date Established	4-Jan-2024
Investment Opinion	C-1-9
52-Week Range	13.41 USD - 31.32 USD
Mrkt Val (mn) / Shares Out (mn)	2,518 USD / 171.0
Free Float	44.2%
Average Daily Value (mn)	30.78 USD
BofA Ticker / Exchange	FLNC / NAS
Bloomberg / Reuters	FLNC US / FLNC.OQ
ROE (2023E)	-24.6%
Net Dbt to Eqty (Sep-2022A)	-66.2%
ESGMeter™	NLA

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AMRC: Ameresco

offers other customers on similar projects.

Price objective basis & risk

Fluence Energy (FLNC)

Our \$28/share price objective (PO) is based on an equal-weighted Discounted Cash Flow (DCF), EV/Sales multiple and EV/EBITDA multiple methodology. Our DCF valuation is \$26/share, our EV/Sales valuation is \$36/share, and our EV/EBITDA valuation is \$22/share.

DCF approach:

- We derive FCFE by removing the contribution from stock-based compensation to FCF from 2024 through 2030
- FCFE discounted by 15.75% cost of equity (in line with the peers in the space)
- We apply a terminal multiple of 12.0x

EV/EBITDA

- We value FLNC at \$22/share on blended 13.1x and 12.2x EV/EBITDA multiple based on '25 and '26 EBITDA, respectively
- We use a comp group comprising of utility scale/EV storage peers but emphasize integrator peers

EV/Sales

- We value FLNC at \$36/share on blended 1.5x and 1.2x EV/Sales multiple based on '25 and '26 Sales, respectively
- We use a comp group comprising of utility scale/EV storage peers but emphasize integrator peers

Downside risks: (1) The margin expansion plan progresses even more slowly than forecasted, (2) increasing competition leads to market share erosion, (3) reputational risks associated with conclusion of investigation of an ongoing fire safety incident.

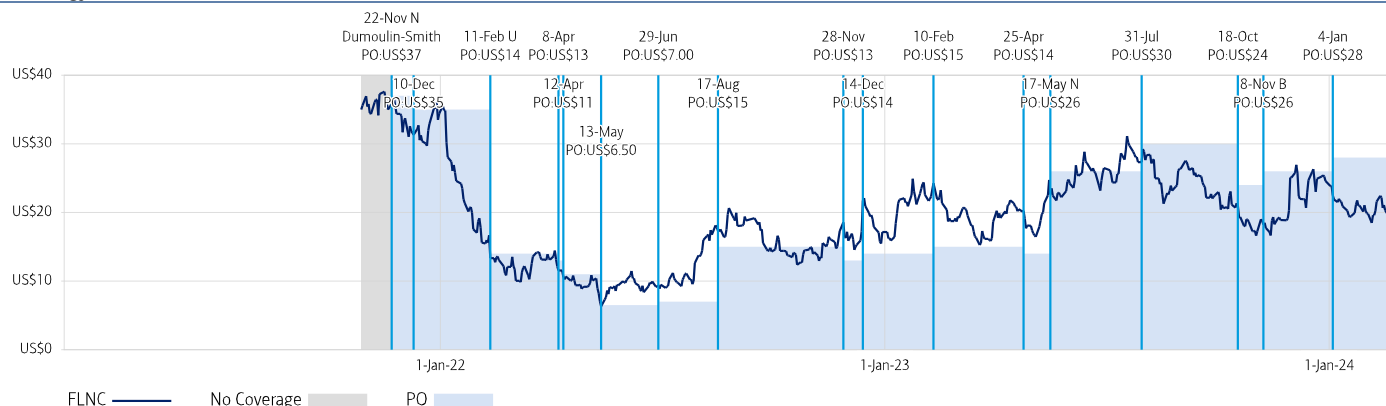
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Fluence Energy (FLNC) Price Chart



FLNC — No Coverage PO

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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