

## FTC Solar

## Termination of Coverage of FTC Solar

Termination of Coverage: UNDERPERFORM | PO: 0.20 USD | Price: 0.44 USD

## We maintain Underperform on FTC Solar

FTC Solar Inc (FTCI) is a solar tracker company. We view the shares as relatively expensive and valuation as not supported by the broader fundamentals. FTC Solar reported 4Q23 earnings broadly in line with guidance, with revenue reaching \$23.2mn, hitting the mid-point of the guidance range, vs \$21.6mm BofA and \$23.1mm Consensus estimates. This figure marks a 24.1% decrease from the prior quarter due to lower product and logistics volumes. The backlog has increased by \$213mn since November 2023, reaching \$1.7bn, yet we remain cautious about the future translation of backlog into revenue as FTCI's backlog includes awarded orders, not solely contracted orders like most peers. We wait to see how FTCI executes in 2024, as visibility on the path to future growth and conversion timing from backlog to revenue remains muddled.

## Termination of coverage of FTC Solar

We terminate coverage of FTCI equity due to a reallocation of resources. Our final view of Underperform reflects our analysis as of the date of this research report, and investors should no longer rely on our rating, price objective, estimates or opinions on FTCI.

## Revenue growth is at risk with slow backlog conversion

Mgmt pointed revenue recovery in FY24, weighted towards the back half. FTCI anticipates approaching breakeven on an adjusted EBITDA basis in 3Q24, achieving profitability in 4Q24. Contracted projects currently make up \$415mm of total backlog, yet we view the slow pace at which projects have been converting from awarded / contracted statuses, to revenue, as a risk to execution and business growth. Regarding CEO succession, the company has initiated a search for a new CEO but did not clarify timing surrounding the expected outcome of the process. Credibility of the story remains in question until the board can provide additional clarity around the succession plan.

18 March 2024

## Equity

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## Stock Data

Price	0.44 USD
Price Objective	0.20 USD
Date Established	9-Nov-2023
Investment Opinion	C-3-9
52-Week Range	0.28 USD - 3.87 USD
Mrkt Val (mn) / Shares Out (mn)	55 USD / 125.0
Free Float	67.3%
Average Daily Value (mn)	0.33 USD
BofA Ticker / Exchange	FTCI / NAS
Bloomberg / Reuters	FTCI US / FTCL.OQ
ROE (2023E)	-50.9%
Net Dbt to Eqty (Dec-2022A)	-65.6%

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(1.31)	(0.67)	(0.28)	(0.16)	(0.06)
GAAP EPS	(1.30)	(0.98)	(0.45)	(0.26)	(0.09)
EPS Change (YoY)	-469.6%	48.9%	58.2%	42.9%	62.5%
Consensus EPS (Bloomberg)			(0.29)	(0.17)	(0.03)
DPS	0	0	0	0	0
Valuation (Dec)					
Free Cash Flow Yield*	-242.6%	-100.6%	-64.1%	-115.3%	-30.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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# iQprofile<sup>SM</sup> FTC Solar

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-144.5%	-80.1%	-66.3%	-43.6%	-16.5%
Return on Equity	-146.5%	-64.0%	-50.9%	-41.5%	-16.0%
Operating Margin	-48.2%	-80.9%	-42.0%	-21.5%	-6.3%
Free Cash Flow	(134)	(55)	(35)	(64)	(17)

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	4.4x	1.1x	NA	2.1x	2.2x
Tax Rate	0.2%	0.4%	0.3%	NM	NM
Net Debt-to-Equity Ratio	-70.6%	-65.6%	-77.1%	-38.5%	-20.1%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	271	123	125	185	275
% Change	44.4%	-54.5%	1.9%	47.3%	48.9%
Gross Profit	(33)	(27)	6	19	45
% Change	NM	16.4%	NM	211.9%	128.6%
EBITDA	(56)	(66)	(34)	(20)	(5)
% Change	-270.8%	-18.7%	49.4%	41.7%	74.5%
Net Interest & Other Income	(21)	0	1	1	1
<b>Net Income (Adjusted)</b>	<b>(110)</b>	<b>(67)</b>	<b>(33)</b>	<b>(31)</b>	<b>(14)</b>
<b>% Change</b>	<b>-591.3%</b>	<b>39.1%</b>	<b>51.3%</b>	<b>4.9%</b>	<b>55.3%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(109)	(99)	(52)	(51)	(23)
Depreciation & Amortization	0	1	0	1	1
Change in Working Capital	(73)	9	8	(39)	(12)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	49	35	10	27	20
Capital Expenditure	(1)	(1)	(1)	(2)	(3)
<b>Free Cash Flow</b>	<b>-134</b>	<b>-55</b>	<b>-35</b>	<b>-64</b>	<b>-17</b>
<b>% Change</b>	<b>NM</b>	<b>58.5%</b>	<b>36.2%</b>	<b>-79.9%</b>	<b>73.7%</b>
Share / Issue Repurchase	241	1	0	50	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(1)	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	102	44	49	35	18
Trade Receivables	108	49	43	91	113
Other Current Assets	26	25	10	18	27
Property, Plant & Equipment	7	15	14	15	17
Other Non-Current Assets	0	1	1	1	1
<b>Total Assets</b>	<b>243</b>	<b>134</b>	<b>117</b>	<b>161</b>	<b>176</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	93	60	48	65	83
Long-Term Debt	1	1	1	1	1
Other Non-Current Liabilities	6	7	5	5	5
<b>Total Liabilities</b>	<b>100</b>	<b>68</b>	<b>55</b>	<b>72</b>	<b>90</b>
<b>Total Equity</b>	<b>143</b>	<b>66</b>	<b>62</b>	<b>88</b>	<b>85</b>
<b>Total Equity &amp; Liabilities</b>	<b>243</b>	<b>134</b>	<b>116</b>	<b>160</b>	<b>175</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Alternative Energy

## Company Description

Founded in 2017, FTC Solar, Inc. is a provider of solar tracking systems, with its core offering being a two panels in-portrait (2P) single-axis tracker solution as well as its newly launched software platform for performance and yield enhancement and value-added project management. Headquartered in Austin, TX and with current and potential customers in the United States, Asia, the Middle East, North Africa, and Australia, FTCL targets ground-mounted utility scale solar installations.

## Investment Rationale

We are Underperform rated on FTC given no certainty on recoveries within its volume and revenue profile. This could create persistent cash losses and limits the value proposition to long dated recovery.

## Stock Data

Average Daily Volume 803,668

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.21A	-0.07A
Q2	-0.18A	-0.06A
Q3	-0.18A	-0.08A
Q4	-0.11A	-0.07E

Exhibit 1: FTCI Valuation Summary

Negative total return

FTCI Valuation			
	Value/Sh	Weight	Weighted Value
DCF	\$0.20	100%	\$0.20
FTCI Value/Share			\$0.20
Share Price (As of 03/17/24)			\$0.44
Premium (Discount) to Unit Price			(54.7%)
2023E Dividend Yield			0.0%
Total Expected Return			(54.7%)
Source: BofA Global Research, Bloomberg, Company filings			
BofA GLOBAL RESEARCH			



## Price objective basis & risk

### FTC Solar (FTCI)

Our \$0.20/sh PO is based on a pure DCF methodology. Unlike other equipment peers, we do not see line of sight to near term EBITDA inflection do not view longer dated multiples as appropriate.

DCF approach:

- We derive FCFE by removing the contribution from stock-based compensation to FCF from 2023 through 2030
- FCFE discounted by 20% cost of capital given risk associated with the execution of the growth strategy alongside recent market volatility
- Terminal multiple of 7.0x (vs 10.0x for solar semiconductor stocks, given less technical differentiation in products)

Upside risks to our PO are (1) a stronger-than-anticipated outlook for solar projects in the US, (2) cost deflation on key inputs, including steel and freight, and (3) policy clarity in the US, which would give more long-term certainty for FTC's buyers in the US

Downside risks to our PO are (1) a slower recovery in US solar projects, (2) lack of execution on margin advancement and cost-cutting initiatives, and (3) an increasingly inflationary backdrop on raw materials (4) Market share losses and (5) Liquidity need that could create further dilution.

## 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
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	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
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith

## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	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
	SunRun	RUN	RUN 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 Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	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	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	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
	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 Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE 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
	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
<b>RVW</b>				
	New Fortress Energy	NFE	NFE 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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$   
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  
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$   
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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### FTC Solar (FTCI) Price Chart



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

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>
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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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