

# SolarEdge Technologies

## Tough print and dimmed outlook – Reiterate Underperform

Reiterate Rating: UNDERPERFORM | PO: 57.00 USD | Price: 71.35 USD

### Dimmed outlook; expect shares to be pressured

SolarEdge (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. On balance, expect shares to fall under meaningful pressure following a weaker-than-expected print and outlook and reiterate Underperform.

### 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. 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, mix pressured margins and could continue to given C&I weighting. Look for storage margin evolution given higher propositions.

### 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. 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

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**Refer to important disclosures on page 4 to 6. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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#### Equity

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#### Stock Data

|                                 |                        |
|---------------------------------|------------------------|
| Price                           | 71.35 USD              |
| Price Objective                 | 57.00 USD              |
| Date Established                | 5-Feb-2024             |
| Investment Opinion              | C-3-9                  |
| 52-Week Range                   | 63.25 USD - 339.50 USD |
| Mrkt Val (mn) / Shares Out (mn) | 4,186 USD / 58.7       |
| Free Float                      | 99.0%                  |
| Average Daily Value (mn)        | 198.76 USD             |
| BofA Ticker / Exchange          | SEDG / NAS             |
| Bloomberg / Reuters             | SEDG US / SEDG.OQ      |
| ROE (2023E)                     | 11.7%                  |
| Net Dbt to Eqty (Dec-2022A)     | -36.0%                 |
| ESGMeter™                       | High                   |

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that has diligently preserved cash in recent quarters: proof is in action.

## Price objective basis & risk

### SolarEdge Technologies (SEDG)

Our \$57 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 \$43 and our DCF valuation is \$67. We also layer in \$8/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 '24E EBITDA and 0x to '25, which is in line with where the stock has traded historically on a 1yr forward basis. This nets out to 12.5x 2024E and 9.0x 2025E EBITDA, respectively.

DCF approach:

- We derive FCFE by removing the contribution from stock-based compensation to FCF from 2023 through 2030
- FCFE discounted by 13.4% cost of capital based on 4.02% 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

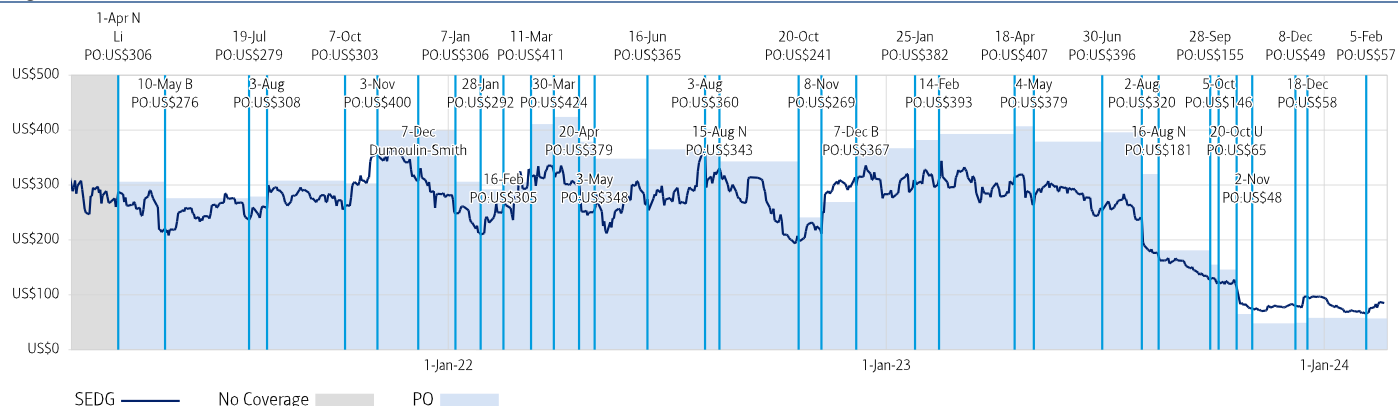
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| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|------------------------------------------|-------|---------|
| Buy               | 8     | 47.06%  | Buy                                      | 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%  |

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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%                                                            |

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