

Stem, Inc.

Termination of Coverage of STEM

Termination of Coverage: UNDERPERFORM | PO: 2.00 USD | Price: 1.78 USD

Recapping FY23 results and FY24 guidance

Stem Inc (STEM), a provider of energy storage solutions, announced FY23 sales of \$461Mn, below management's revised guidance of \$513-613Mn and original FY23 guidance of \$550-650Mn. STEM achieved positive +\$4.6Mn adjusted EBITDA for 4Q23 including +\$2.7Mn add-back for higher-than-expected supplier costs and +\$4.8Mn add-back for liquidated damages that occurred due to supplier delays. FY24 guidance is for sales of \$600-700Mn, weighted approximately 80% to 2H24 and 50% to 4Q24. \$5-\$20Mn FY24 adjusted EBITDA guidance was initiated, supported by non-GAAP gross margins of 15-20%. FY24 sales guidance compares to our expectation for \$782Mn and Consensus of \$797Mn.

Lower Price Objective to \$2 from \$3

We lower our PO to \$2 from \$3 driven by a decrease in our estimates for 2024 and 2025 and the mark-to-market (MtM) of our peer group multiples. Our \$2.00 PO is derived three ways, with equal weighting of 33% applied to all three methods (DCF, EV/Sales, and EV/EBITDA). We apply a 2.5x premium on EV/EBITDA to account for the Company's above average EBITDA margin growth longer term.

Termination of coverage of STEM

Simultaneously, we terminate coverage of STEM 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 STEM.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.81)	(0.90)	(0.50)	(0.20)	(0.07)
EPS Change (YoY)	15.6%	-11.1%	44.4%	60.0%	65.0%
Consensus EPS (Bloomberg)			(0.56)	(0.33)	(0.14)
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	NM	NM	95.8x	12.0x	8.5x
Free Cash Flow Yield*	-44.3%	-79.4%	25.0%	29.4%	35.9%

* For full definitions of *IQmethod*SM measures, see page 6.

15 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	3.00	2.00
2024E Rev (m)	782.4	641.1
2025E Rev (m)	977.6	780.3
2026E Rev (m)	1,099.8	909.7
2024E EPS	-0.36	-0.50
2025E EPS	-0.11	-0.20
2026E EPS	0.06	-0.07

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Stock Data

Price	1.78 USD
Price Objective	2.00 USD
Date Established	15-Mar-2024
Investment Opinion	C-3-9
52-Week Range	1.75 USD - 7.79 USD
Mrkt Val (mn) / Shares Out (mn)	281 USD / 157.8
Free Float	95.8%
Average Daily Value (mn)	9.54 USD
BofA Ticker / Exchange	STEM / NYS
Bloomberg / Reuters	STEM US / STEM.N
ROE (2024E)	-21.1%
Net Dbt to Eqty (Dec-2023A)	-24.7%
ESGMeter TM	Low

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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Timestamp: 15 March 2024 10:08AM EDT

iQprofileSM Stem, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-10.3%	-14.3%	-7.0%	-2.9%	-0.5%
Return on Equity	-20.3%	-28.7%	-21.1%	-10.1%	-4.0%
Operating Margin	-36.1%	-38.9%	-15.8%	-5.3%	-0.9%
Free Cash Flow	(124)	(223)	70	83	101

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	0.4x	0.3x	0.3x	0.4x	0.4x
Tax Rate	10.9%	NM	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	-15.6%	-24.7%	-45.0%	-63.9%	-80.3%
Interest Cover	-12.5x	-12.0x	-7.8x	-3.8x	-0.5x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	363	462	641	780	910
% Change	185.0%	27.1%	38.9%	21.7%	16.6%
Gross Profit	33	4	96	159	204
% Change	NM	-88.9%	NM	65.5%	28.0%
EBITDA	(46)	(19)	8	65	93
% Change	21.5%	58.8%	NM	698.5%	41.9%
Net Interest & Other Income	(8)	39	(13)	(11)	(15)
Net Income (Adjusted)	(124)	(140)	(86)	(40)	(17)
% Change	-22.6%	-13.2%	38.6%	53.5%	57.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(124)	(140)	(84)	(36)	(17)
Depreciation & Amortization	45	46	58	48	41
Change in Working Capital	0	0	67	38	36
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(27)	(113)	48	51	60
Capital Expenditure	(18)	(16)	(18)	(18)	(18)
Free Cash Flow	-124	-223	70	83	101
% Change	-15.3%	-79.4%	NM	17.6%	22.0%
Share / Issue Repurchase	2	105	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	88	105	176	258	359
Trade Receivables	223	303	219	172	135
Other Current Assets	222	65	59	61	74
Property, Plant & Equipment	0	0	0	0	0
Other Non-Current Assets	889	884	844	815	792
Total Assets	1,422	1,357	1,298	1,306	1,360
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	267	251	229	222	234
Long-Term Debt	2	0	0	0	0
Other Non-Current Liabilities	601	679	679	679	679
Total Liabilities	870	930	908	901	913
Total Equity	552	427	390	405	447
Total Equity & Liabilities	1,422	1,357	1,298	1,306	1,360

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Energy Technology

Company Description

STEM is an energy technology company engaged in the sale of energy storage and solar equipment, software, and services.

Investment Rationale

We rate STEM at Underperform. While we acknowledge that STEM pitches itself as a software focused way to play energy storage, slow realization of revenues from this business means the company is ultimately dependent on lower margin hardware and services businesses to drive an EBITDA inflection. We are cautious to underwrite STEM growing into new businesses while cutting overhead which ultimately defines key points of variability in our estimates vs consensus.

Stock Data

Average Daily Volume

5,360,049

Quarterly Earnings Estimates

	2023	2024
Q1	-0.29A	-0.17E
Q2	0.12A	-0.16E
Q3	-0.49A	-0.11E
Q4	-0.24A	-0.06E

Exhibit 1: STEM Valuation Summary
Decrease PO from \$3.00 to \$2.00

STEM Valuation			
	Value/Sh	Weight	Weighted Value
EV/Sales ('25-'26 avg.)	\$1.59	33%	\$0.53
EV/EBITDA ('25-'26 avg.)	\$1.64	33%	\$0.55
DCF	\$2.40	33%	\$0.80
STEM Value/Share			\$2.00
Share Price (As of 03/13/24)			\$1.95
Premium (Discount) to Unit Price			2.8%
2024E Dividend Yield			0.0%
Total Expected Return			2.8%

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH



Price objective basis & risk

Stem, Inc. (STEM)

Our \$2.00 PO is derived three ways, with equal weighting of 33% applied to all three methods (DCF, EV/Sales, and EV/EBITDA). We apply a 2.5x premium on EV/EBITDA to account for the Company's above average EBITDA margin growth longer term.

DCF

- We value STEM at \$2.40 on a DCF basis
- FCFE discounted by 16.0% cost of equity (consistent with high risk peers)
- We apply a terminal multiple of 12.0x, which we believe reflects a fair run-rate multiple given growth and margin dynamics

EV/Sales

- We value STEM at \$1.59 on an EV/Sales basis
- We use an average EV/Sales valuation of 2025/2026
- We use a comp group comprising of energy storage peers which yields multiples of 0.8x/0.6x for 2025/2026.

EV/EBITDA

- We value STEM at \$1.64 on an EV/EBITDA basis
- We use an average EV/EBITDA valuation of 2025/2026
- We use a comp group comprising energy storage peers and apply a 2.5x premium which yields multiples of 8.7x/8.0x for 2025/2026

Upside risks: (1) Policy tailwinds lead to more demand acceleration than contemplated, (2) better than anticipated software/service growth, (3) multiple expansion due to scarcity value, (4) short covering as STEM currently has a short interest of 15% of float.

Downside risks: (1) margin expansion plan slower than forecasted, (2) increasing competition leads to market share erosion, (3) supply chain issues given dependence on Chinese suppliers, (4) recent short report may result in downward pressure on shares.

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
BUY				
	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

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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

NEUTRAL

	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	Algonquin Power & Utilities Corp	AQN	AQN US	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

UNDERPERFORM

	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
	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
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith



North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
RVW				
	New Fortress Energy	NFE	NFE US	Julien Dumoulin-Smith

iQmethodSM 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

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

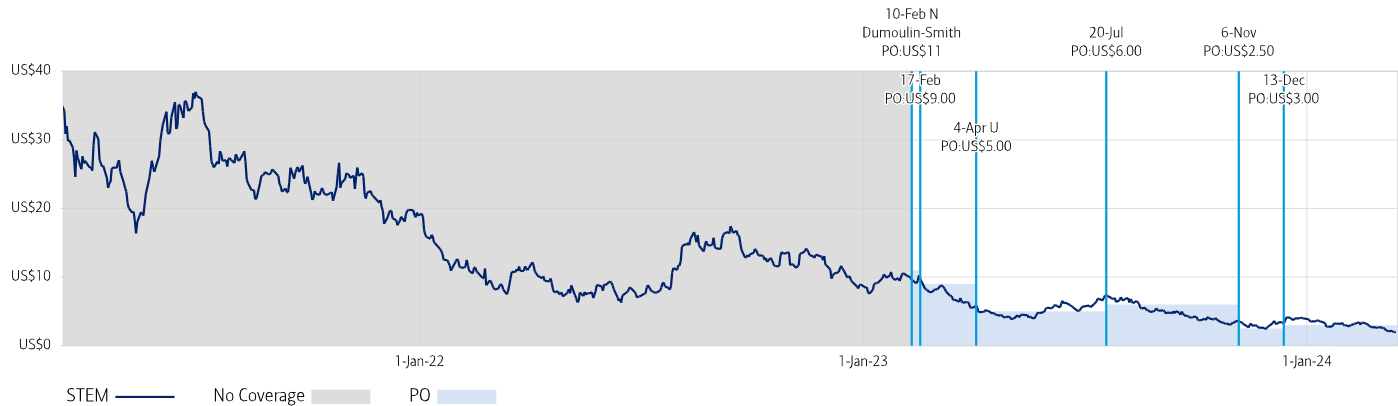
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Disclosures

Important Disclosures

Stem, Inc. (STEM) 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: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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