

SolarEdge Technologies Inc. (SEDG:NASDAQ)

Technology – Solar Technology

“A Ray of Sunshine in a Dismal Industry”

Company Profile

SolarEdge Technologies Inc. (NASDAQ:SEDG) is an Israeli-based solar technology company that provides power optimizers, solar inverters, and monitoring solutions for solar photovoltaic (PV) systems. The Company is currently one of the largest PV inverter supplier with approximately 7% of global market share. Since 2010, SolarEdge has shipped over 3.8 gigawatts of its DC optimized inverter systems to over 45 countries.

Thesis

The success of SolarEdge’s new HD-Wave inverter will be one of the main catalysts for the Company. We do not believe the market is properly pricing in the increase in revenue and operating margins when the HD-Wave inverter accounts for majority of the firm’s single phase inverter revenue, which can be expected as soon as Q4 FY2017. Although the industry is currently facing headwinds due to pricing pressures, we believe that economies of scale coming from increased demand for solar PV systems, introducing more automated assembly lines, and the extension of the Solar Investment Tax Credit will increase demand for PV systems over the next four to five years and will allow SolarEdge to offset the expected decline in average per unit revenue.

Valuation & Recommendation

We believe that SolarEdge is currently undervalued in the market. Utilizing a comparable company analysis and discounted cash flow analysis, we determined a 12-month target share price of \$18, which indicates an upside of 39%. This assumes that the firm does not get acquired. If it does, we expect a price target of \$21 based on an 8.8x EV/EBITDA. We are initiating a buy rating for the stock. We only recommend SolarEdge to investors with a medium to high risk tolerance since the stock’s short interest subjects it to short term fluctuations.

Please see legal disclaimer at bottom.

Analyst: Henry Zhang, BCom 18

Contact@westpeakresearch.com

Equity Research Canada

Price Target	USD\$ 18.00
Rating	Buy
Current Share Price, close	USD\$ 12.95
Total Return	39.0%

Key Statistics

52 week H/L	\$30.50/11.35
Market Capitalization	\$554M
Net Debt	-\$90M
Enterprise Value	\$464M
Net Debt/Enterprise Value	-19.4%
Diluted Shares Outstanding	44.0M
Free Float %	65.9%
Dividend Yield	N/A
LTM P/E	7.0x
LTM EV/EBITDA	5.1x

WestPeak’s Forecast

	2017E	2018E	2019E
Revenue	\$511M	\$519M	\$599M
EBITDA	\$76.1M	\$67.5M	\$71.0M
EBIT	\$59.5M	\$38.2M	\$39.7M
Net Income	\$49.3M	\$28.6M	\$29.8M
P/E	9.4x	18.6x	17.x
EV/EBITDA	5.3x	6.0x	5.9x
Price/Book	1.5x	1.4x	1.3x

Price Performance - 1 Year



Business Overview

Business Summary

SolarEdge Technologies Inc. (SolarEdge) is an Israeli-based solar technology company that provides power optimizers, solar inverters, and monitoring solutions for solar photovoltaic (PV) systems. The Company's focus is on improving the traditional inverter architecture, which suffers from significant inefficiencies. In traditional systems, if one PV module was partially shaded, it would significantly affect the power output of the entire string. Each PV module has a unique power production profile, however, when modules are wired in series within a traditional system, the entire string's power output is reduced, often correlated to the lowest-performing PV module on the string. SolarEdge addresses these inefficiencies by creating a simplified system that utilizes a DC-AC inverter, power optimizers at each PV module, centralized AC inversion and grid interactions, and a cloud based monitoring platform. SolarEdge's products are primarily sold directly to large solar installers, construction firms, and indirectly to thousands of smaller solar installers. As of September 30, 2016, the Company has shipped approximately 3.8 gigawatt (GW) of its DC optimized inverter system with sales in over 45 countries. The Company's fiscal year end is June 30.

Products

SolarEdge Power Optimizer

The SolarEdge Power Optimizer is a direct current to direct current (DC) converter which connects to each individual PV module or embedded by the PV module manufacturer. The power optimizer allows for the tracking of the maximum power point of each PV module and the ability to increase or decrease output voltage. This allows for a PV system to consist of different string lengths, while being connected to the same inverter, and panels in multiple orientations. Each power optimizer has a safety mechanism where if the inverter is shut down, the DC voltage through the whole system will be reduced to a safe level, which is not common in most PV systems. In fiscal year 2016, sale of power optimizers accounted for 50.0% of total revenue.



SolarEdge Inverter

The SolarEdge Inverter is responsible for the inversion of direct current to alternate current (AC). Data received from the power optimizers is stored and then transmitted to the monitoring server. The inverter is able to operate at the highest efficiency and reduce costs because each power optimizer provides a fixed input voltage. Currently, SolarEdge offers three types of inverters, a one-phase inverter, which is designed for the residential market, a three-phase inverter, designed primarily for the commercial market, and the recently introduced HD-Wave Inverter, an alternative for single phase inverters. In fiscal year 2016, sales of inverters accounted for 45.7% of total revenue.



HD-Wave Inverter

The HD-Wave Inverter utilizes a different process incorporating a high definition wave which contributes to the increase in power density. The result is an inverter that uses fewer cooling components and magnetics, is half the size of traditional inverters, lowers production costs per unit, and maintains a California Electric Commission (CEC) weighted efficiency of 99%, which is currently the record. This is much better than most inverters that are currently in the market. Most inverters operate at an average CEC weighted efficiency of 97.5% to 98%. A 1% difference would equate to roughly a loss of 70 megawatts (MW), equivalent to a large utility-scale PV plant. The HD-Wave Inverter was the winner of the 2016 Intersolar Award and the Company claims the product to be one of the most significant leaps in solar technology. Shipments of the new HD-Wave Inverter began in June 2016. The rollout of the product has been slow and it is expected that the majority of single phase inverter sales will be the HD-Wave Inverter by Q3 FY2017.



SolarEdge Monitoring Software

The SolarEdge Monitoring Software is a cloud-based monitoring platform that collects data from the inverters and power optimizers and then sends the information to any browser, smart phone, or tablet. The availability of data allows users to detect any potential problems with a specific PV module.



StorEdge Solutions

The StorEdge Solution allows for the storage and supply of power through a third-party battery. StorEdge is used to reduce the amount of power purchased from the grid and as a backup solution during power outages or insufficient PV system production. The solution is compatible with the Tesla Home Battery Powerwall and existing SolarEdge systems can be upgraded to utilize the StorEdge solution.

Manufacturing

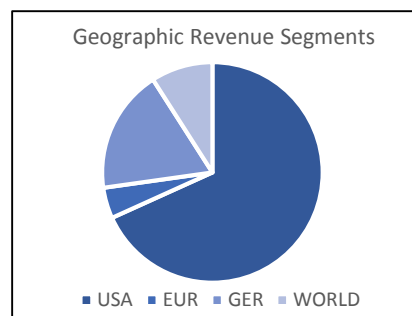
SolarEdge does not manufacturer any of its products. Instead, the Company outsources contracts to Jabil Circuit, Inc. and Flextronics Industrial Ltd. Although the firm utilizes only two manufacturers, we do not believe there are any significant supply chain risks due to the size of Jabil Circuit and Flextronics Industrial Ltd and the reputable customer list which include Apple (NYSE:AAPL) and Cisco (NYSE:CSCO). The manufacturer is responsible for capital expenditures associated with SolarEdge's products except for the end of line testing equipment and other manufacturing equipment utilized in assembling the firm's products or sub-components. The Company recently introduced its first proprietary automated assembly line which will be used at the Hungary Flextronics manufacturing plant. The new assembly line has a capacity of approximately 4,000 power optimizers per day. The Company is currently investing in additional automated assembly lines for power optimizers and is in the process of designing automatic assembly lines for embedded optimizers. Going forward, we expect very little gross margin growth since we believe that cost savings from the automated assembly lines will be offset by lower average industry selling prices.

Compatibility with First Generation Tesla Powerwall

In 2016, SolarEdge's inverter became the first inverter that is compatible with the first generation Tesla Powerwall. However, due to Tesla's acquisition of SolarCity, the second generation of the Tesla Powerwall incorporates a built-in inverter produced by Tesla, which led to a decrease in demand for inverters from SolarCity in the most recent quarter.

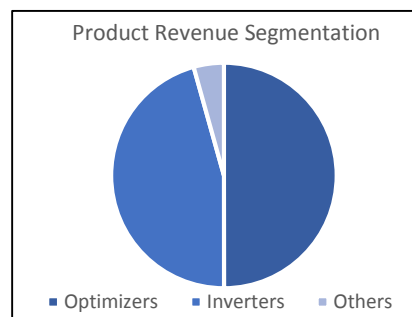
Geographic Revenue Segmentation

In terms of geographic location, the largest revenue segments are the United States and Germany, which accounts for 68.2% and 18.2% of total net sales in fiscal year 2016. Between fiscal year end 2013 and 2016, each of SolarEdge's geographic revenue segments saw triple digit compound annual growth rates (CAGR), primarily led by the United States and the Rest of the World with CAGR of 279.4% and 161.0% respectively. Going forward, the Company has indicated that its key target markets for growth are Germany, Australia, the United States and South Africa.



Product Revenue Segmentation

Between fiscal year end 2013 and 2016, SolarEdge's CAGR for net sales is 183.7%, led by both the optimizer and inverter product segments. Optimizers accounted for 50.0% of net sales in fiscal year 2016, which is an increase from 48.5% in 2013, while the inverter category accounted for 45.7% in 2016, compared to 44.8% in 2013.



Dividend and Share Repurchase Policy

The Company currently has no dividend or share repurchase policy in place. SolarEdge plans to retain any future earnings for growth. Therefore, we assumed that dividends will not be introduced and excess cash and cash equivalents will be spent on capital expenditure and research and development.

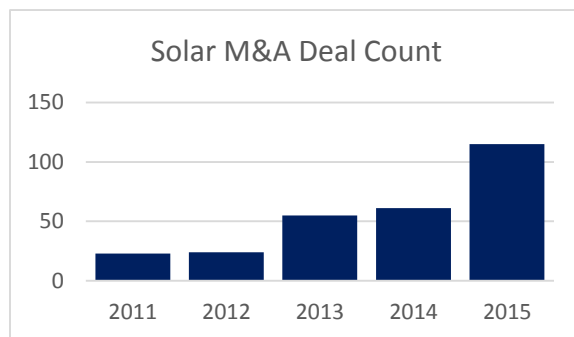
Catalysts

Success of the HD-Wave Inverter

The HD-Wave Inverter's success will be critical for the firm's ability to grow in fiscal year 2017. Although it only represents a small portion of the firm's total revenue currently, the Company expects that the HD-Wave Inverter will compose a vast majority of its manufacturing by Q3 FY2017 and thus, its revenue will be recognized by Q4 FY2017. The Company expects that majority of its revenue for single phase inverters will come from the HD-Wave Inverter by Q4 FY2017.

Renewable Energy Sector M&A Activity

According to the US Renewable Energy report issued by Deloitte, Solar M&A deals have grown significantly since 2011. In 2015, Solar accounted for 115 deals which was significantly higher when compared to other renewable energy sources such as wind, which only had 48 transactions. In 2015, the capacity acquired in terms of GW was more than double compared to 2014. In order to grow, SolarEdge has been considering potential acquisition targets, but has emphasized that investing in R&D is the Company's best



strategy at the moment. For a firm to advance in the solar technology industry, we believe that R&D should be the Company's main focus, as it has been in the past. Since the industry is beginning to consolidate, we view SolarEdge as a potential acquisition target for large-cap firms that are looking build certain PV system components in house.

Competitive Advantage

Patents and Confidentiality Agreements

For firms operating within the solar technology sector, trade secrets are important in maintain a competitive advantage. As of June 30, 2016, SolarEdge has 72 patents, 53 of which are issued U.S. patents. Currently the Company has 114 patents pending, 57 of which are within the United States. Most of the firm's patents are related to the Company's optimizers, power systems, and inverters, including the HD-Wave Inverter. Since the current issued patents are scheduled to expire between 2027 and 2036, the firm will have a competitive advantage for the near future.

In order to maintain the Company's trade secrets, all research and development personnel, customers, and business partners must enter into a confidentiality agreement. Successful execution of the firm's confidentiality agreement will allow the firm to safeguard proprietary processes for which patents may not be enforceable.

Economies of Scale

The Company's focus on capital expenditure spending has allowed the firm to grow the manufacturing aspects through the introduction of an automated assembly line. SolarEdge has indicated that it will be implementing more automated assembly lines in the near future, which will allow the Company to further reduce its variable cost per GW. Since the Company's HD-Wave Inverter utilizes a smaller number of parts, they are able to offer a smaller and more efficient single phase inverter at a price point similar to its competitors. Although many of SolarEdge's competitors have acknowledged the industry pricing pressures, not very many of them have considered increasing their capital expenditures to benefit from future economies of scale. As production increases, we expect that the benefits from economies of scale will allow the firm to offer a more efficient product as a price point similar to other single phase inverters available on the market.

Management Team

Mr. Guy Sella - CEO and Chairman, Founder

Mr. Sella co-founded SolarEdge in 2006 and has been the Chairman of the board of directors and Chief Executive Officer since. Prior to SolarEdge, Mr. Sella served as the director of technology for the Israeli National Security Council and was also a partner at Star Ventures. In FY2016, his total annual calculated compensation was \$2.81 million, which consisted of \$1.27 million in cash, \$0.48 million in short term compensation, and \$0.98M in other long term compensations. Mr. Sella currently holds 1.08% of shares outstanding, equivalent to a market value of \$5.83 million.

Mr. Yoav Galin - Vice President of Research and Development, Founder

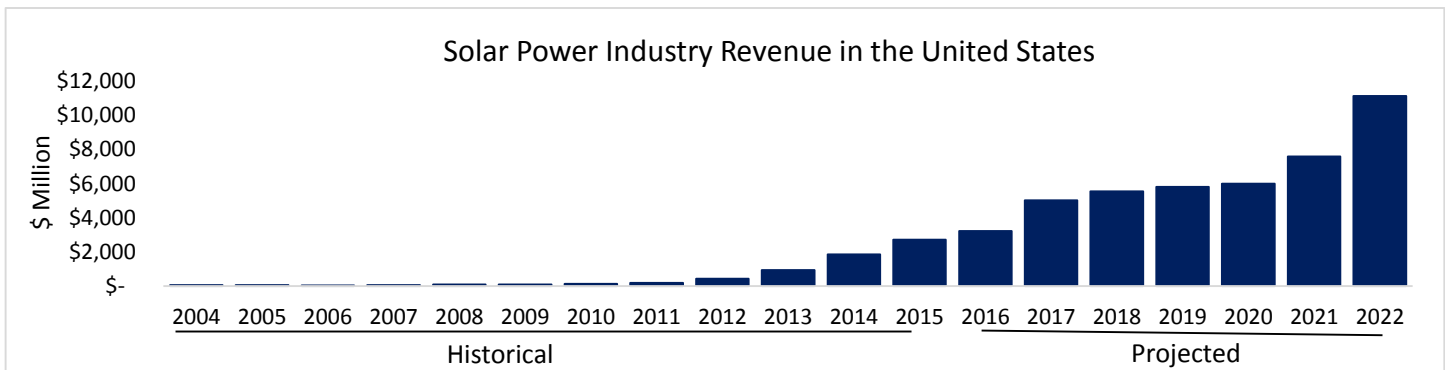
Mr. Galin co-founded SolarEdge in 2006 and has been the Vice President in Research and Development for the Company since. Prior to SolarEdge, Mr. Galin spent 11 years at the Electronics Research Department (ERD), a research and development unit of the Israeli national labs. Mr. Galin is a recipient of the National Technological Innovation Award. In FY2016, his total annual calculated compensation was \$1.16 million, which consists of \$0.54 million in cash, \$0.26 million in short term compensation, and \$0.40 in other long term compensation. Mr. Galin currently holds 1.06% of shares outstanding, equivalent to a market value of \$5.68 million.

We strongly believe that SolarEdge has a strong and experienced management team in place. Since Mr. Sella and Mr. Galin previously worked at the ERD, we believe the R&D experience gained will be necessary to grow the firm. If either Mr. Sella or Mr. Galin were to leave the firm, we may expect negative reactions from investors.

Industry Analysis

United States Solar Power Industry Overview

The Solar Power Industry within the United States, as a whole, saw large scale growth over the past five years. Its 75.9% average annual growth rate was partly attributed to government support through renewable portfolio standard targets and tax credits. The renewable portfolio standard is an incentive that requires utility companies to generate a certain percentage of its energy using renewable sources. 29 states currently have these laws in place and by 2030, certain states, including California, are requiring 50% of generated energy to be renewable. Due to industry economies of scale, prices of solar PV installations have decreased substantially, which allows the use of solar energy to be a viable alternative for many residential and commercial buildings. Because of the increasing popularity of renewable energy, the industry, over the next five years, is expected to grow, on average, 18.7% annually. The high expected growth rate is attributed to favourable government legislation, lower solar panel costs, and lower input costs. We believe that in order for companies to benefit from the increasing popularity of solar energy, firms will need to implement cost reduction measurements, whether it be utilizing lower input costs or from economies of scale. We believe an average growth rate of 18.7% is unrealistic for a firm operating within the solar PV industry due to pricing pressures.



President Donald Trump’s Influence on the Clean Energy Sector

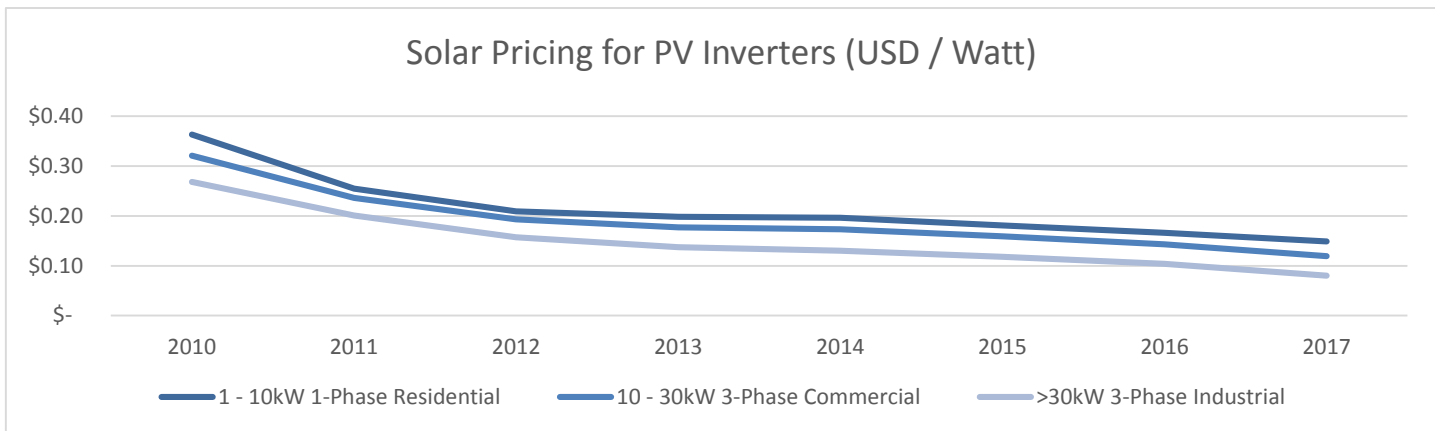
In the past, the President of the United States has stated negative comments about renewable energy with plans to abolish the Environmental Protection Agency, abandon the Clean Power Plan, and increase the use of coal and natural gas, all of which would be negative for the solar industry. It has been stated that President Trump is preparing to withdraw from the Paris Agreement, an agreement within the United Nations to combat climate change. However, he has since softened his view and claimed to keep an open mind about the industry. We believe that President Trump will have very limited influence on the solar industry in terms of its use at the utility scale. In certain states, the cost for solar projects, in terms of dollar per megawatt-hour, is less in comparison to natural gas or coal plants. Since President Trump has entered office, none of the 29 states with renewable fuel standards have denounced their commitments to reach their goals. Additionally, the White House has very little influence on state rules in terms of the types of solar projects they may initiate on.

Solar Investment Tax Credit

In 2015, the Solar Investment Tax Credit (ITC) was extended through 2023. The ITC provides a 30 percent federal tax credit claimed against the tax liability of residential and commercial and utility investors. For homeowners, the tax credit can be applied to an individual’s personal income taxes. The 30 percent tax credit will be available through 2019, but will be lowered substantially in the years that follow. In 2020 and 2021, the tax credits are 25 and 22 percent respectively. After 2023, the residential tax credit is eliminated, while the commercial and utility tax credit will be permanent at 10 percent. Due to President Trump’s stance on clean energy, there have been speculations in regards to the future of the ITC. Given our belief that there will be no changes in the ITC, we expect a large increase in the number of new solar projects over the next three years, especially in 2019 since the credit will decrease substantially in 2020 and 2021.

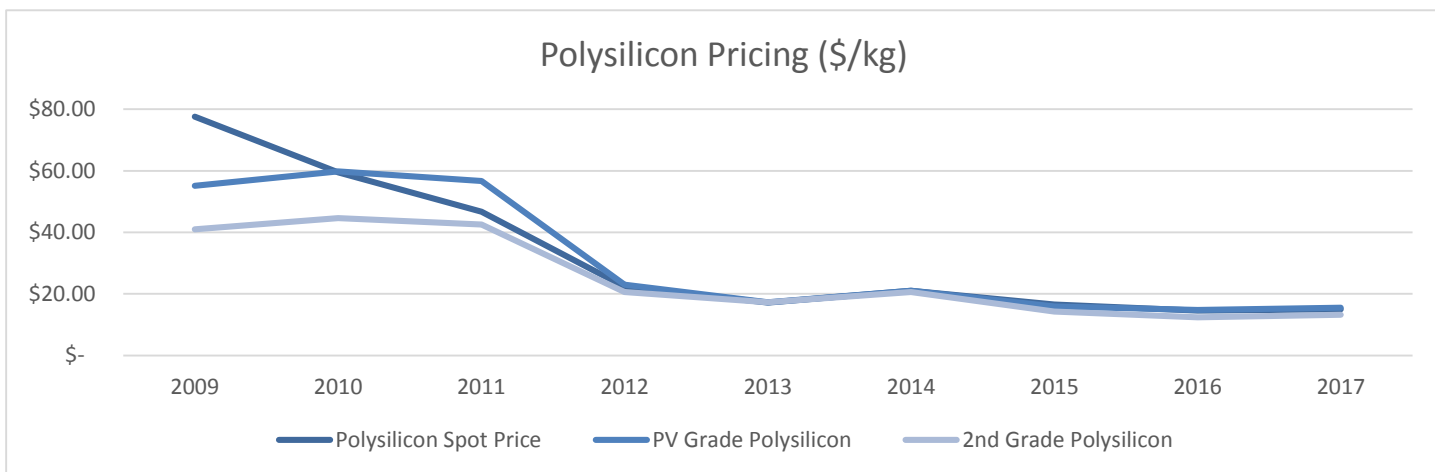
Price Competition Headwinds

Solar equipment suppliers are currently facing margin pressures due to lower demand in China, high inventory and industry oversupply. Over the last seven years, the average selling price (ASP) for PV inverters have been on a steady decline each year and the Company has mentioned that we should expect ASP erosion to be around 10%. Additionally, with increased industry competition, pricing pressures are expected to increase. Therefore, we expect that the declining solar pricing trend to continue for the foreseeable future.



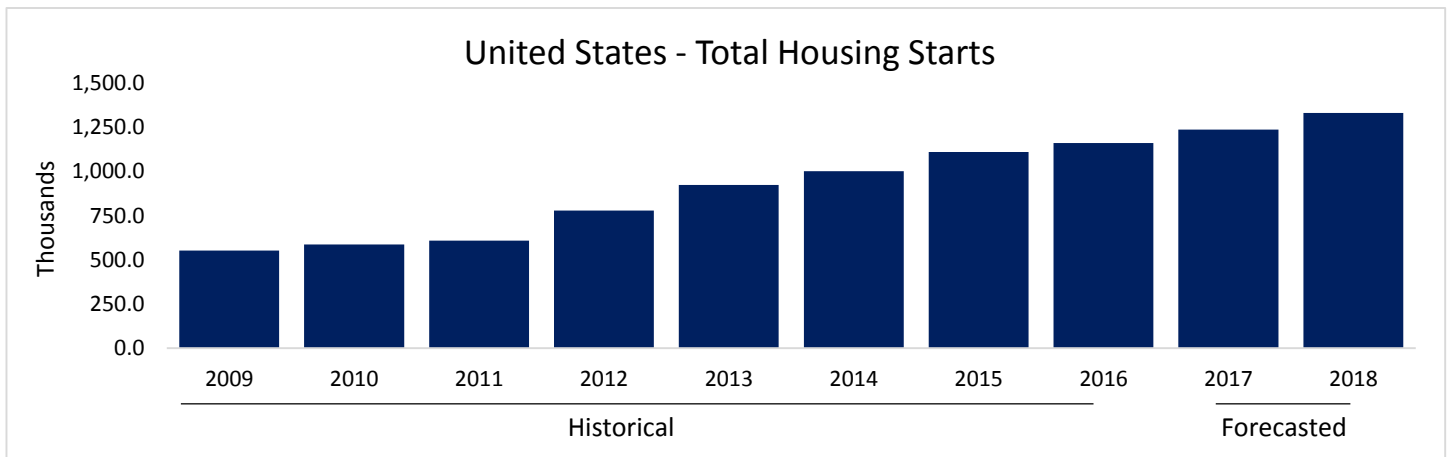
Declining Polysilicon Prices

Polysilicon, also known as Polycrystalline silicon, is a raw material used by the solar PV industry. Since 2009, spot price of polysilicon has decreased substantially from highs of \$77.53 kilogram to its current price of \$14.99 per kilogram. The price decrease was primarily attributed to the global oversupply of polysilicon. The lower raw material cost is one of the attributing factors to the decreased solar PV system prices and the growth in popularity. Because of trade disputes between China and the United States, Western polysilicon manufacturer are still suffering from high inventory levels, while Asian suppliers have been able to benefit by selling to manufacturers located in China. Going forward, we believe that expected lower prices from Western manufacturers will offset the expected increase in prices from Asian suppliers and therefore, polysilicon prices will stay relatively stagnant.



Strong Housing Start Numbers

Since 2009, US housing start activity has been increasing significantly. On average, there has been a 13.6% growth in the number of new projects initiated annually. The US housing starts are expected to grow to approximately 1.3 million by 2018 according to the National Association of Home Builders. The growth of housing starts indicates that the US housing economy will likely see continued growth. Although there has been a slowdown in the growth of sales for residential solar PV systems, we believe that the expected growth in US housing starts is a good indicator for future demand.



Solar Industry Consolidation and Streamline

Within the solar industry, there has been an increase in consolidation among distributors, large installers, and other strategic partners. This will lead to a trend for firms that sell solar inverters and power optimizers to rely on a small number of customers to represent a significant portion of sales rather than one or two large customers. One of SolarEdge’s largest customers in the past, SolarCity Corporation (SolarCity), was recently acquired by Tesla Motors (Tesla). With the acquisition, Elon Musk has indicated plans for Tesla to incorporate inverters in their Powerwall, rather than purchase from other sources. We have included a Precedent Transaction Analysis to determine a fair value for SolarEdge if it were to be acquired.

Reduction of China’s Lower Feed-in Tariff

China’s solar Feed-in Tariff (FIT) is a subsidy offered by China’s Development and Reform Commission (NDRC) for Solar PV systems. It has been reported that China’s solar FIT could be decreased by as much as 52%. Although it is not confirmed, there have been rumours that the FIT cut could be as low as 18%. With any FIT cut, we believe that smaller sized solar PV firms will most likely be at a greater risk of bankruptcy or potentially be acquired, which follows the trend of increased M&A activity within the industry.

Risks

Dependence on Key Customer

For fiscal year 2016, 32.5% of SolarEdge’s revenue in 2016 was attributed to three customers. As of September 30, 2016, the firm’s customer base became less concentrated with only one customer accounting for greater than 10.0% of revenue. However, SolarEdge is still heavily reliant on major customers and if the firm loses any additional key accounts or a customer defaults on its debt, it will significantly impact the firm’s free cash flow.

Loss of Government Subsidies

Currently, firms operating within the clean energy sector benefit from a solar Investment Tax Credit (ITC). However, President Donald Trump has indicated a larger emphasis on limiting regulations for oil and gas production, increasing usage of coal, and halting the Clean Power Plan, which may lead to the roll back of the recently extended solar tax credit. Although we do not believe President-Elect Trump will significantly alter the current ITC, the elimination of the tax credit will increase short term demand for PV solar systems, while Please see legal disclaimer at bottom.

decreasing demand in the long term. For the purposes of our analysis, we assumed that the current ITC will stay in place and that President Trump will not cause significant changes to the demand for solar technology.

Foreign Currency Fluctuation Risk

SolarEdge currently sells its products in approximately 47 countries. Due to the firm's international exposure, revenue and profitability is subject to currency fluctuations. In order to reduce the firm's exposure to currency fluctuations, the Company currently hedges a portion of their anticipated payroll and lease payments, which are denoted in New Israeli Shekel. Additionally, the firm utilizes derivatives to hedge its cash flows and therefore, we can expect that currency risks will be minimal.

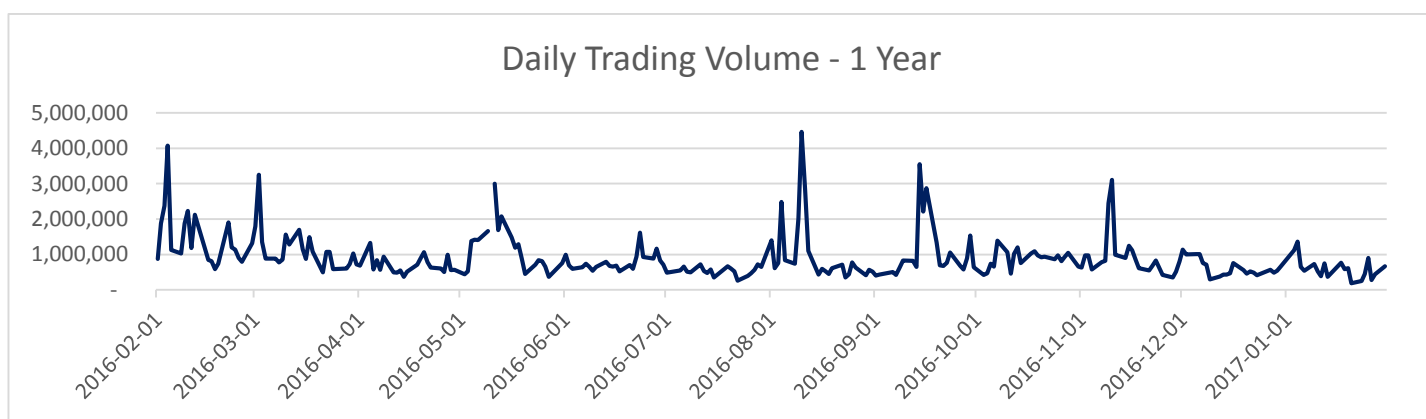
Shareholder Base, Liquidity, Capital Structure

Shareholder Base

In total, SolarEdge currently has 41,063,194 shares outstanding. The Company's largest shareholders are Opus Capital Corporation, Genesis Partners, PacVen Walden Ventures, and Fidelity Management and Research with 9.79%, 9.77%, 8.86%, and 8.78% of total shares outstanding. With 96.26% of shares outstanding being owned by institutions, we can confidently say that stock is of institutional quality. The Company's public float accounts for 66.0% of shares outstanding and has short interest of 7.8 million shares, indicating that short term volatility may occur.

Liquidity

Over the last twelve months and last six months, the average daily trading volume was approximately 940,000 and 850,000, respectively. This excluded a one-time abnormality on May 10, 2016 where the trading volume spiked to over 10 million shares. Based on the last twelve months, we believe that there is very little liquidity risk for institutional investors.



Adjusted for spike in trading volume on May 10, 2016 (Approximately 10 million)

Capital Structure

The Company has a very strong balance sheet which currently contains no debt. SolarEdge currently has no revolvers that it could draw from as its revolving line of credit with Silicon Valley Bank was terminated in

December 31, 2016. With no debt outstanding, the Company has the opportunity to increase its leverage in order to take advantage of acquisition opportunities.

Comparable Companies Analysis

For the purposes of our comparable companies analysis, we decided to compare SolarEdge to companies that manufacture, sell, or market products that are part of a solar PV system. This is because although they may produce different components, they all have the same end customer and growth potential. Many of the companies used in the comparable were ranked as some of the top global PV inverter vendors in terms of MW shipped. With the exception of Schneider Electric SE and OMRON Corporation, each firm has a market capitalization under \$5 billion.

SMA Solar Technology AG

SMA Solar Technology AG is a German-based solar technology firm that manufactures solar inverters, AC converters, and other components for solar power systems.

TBEA Co., Ltd.

TBEA Co., Ltd is a manufacturer of electronic power transmission and transformation equipment based out of China.

First Solar Inc.

First Solar, Inc. is a provider of solar energy solutions based out of Tempe, Arizona. The Company operates within two segments including components, which includes solar modules, and systems, which include PV solar power systems and solar solutions.

Tabuchi Electric Co., Ltd.

Tabuchi Electric Co., Ltd. is a manufacturer of solar inverters which originally operated within Japan, but has since expanded into the North American market.

Canadian Solar Inc.

Canadian Solar Inc. is a Canadian based firm that manufactures solar PV modules.

Schneider Electric SE

Schneider Electric SE is a French corporation that specializes in providing solutions for energy management.

Omron Corporation

Omron Corporation is a Japan-based electronics company that produces a wide-range of electronics products including PV inverters.

Trina Solar Ltd.

Trina Solar Limited is a manufacturer of solar-power products for residential, commercial, and industrial customers. Products include PV wafers, ingots, cells, and modules.

Comparable Companies Analysis Summary

Our comparable companies analysis indicated a target share price of approximately \$18.50. This utilized an implied EV/EBITDA 7.7x. We decided to ignore the price to earnings ratio due to the uncertainty of the competitor's effective annual tax rate and capital structure.

Discounted Cash Flow Analysis

Revenue Forecasts

Our revenue forecasts for the second quarter of fiscal year 2017 was based on the management's outlook of revenue being within \$110 million and \$120 million. For the following two quarters, we assumed very modest growth over quarterly revenue from the previous fiscal year.

Our growth assumptions for fiscal year 2018 and 2019 were based on expected industry growth in terms of annual installed PV solar capacity. For 2020 and 2021, growth was primarily based on the expected growth of the global annual PV rooftop installation. We believe our growth assumptions are fairly conservative considering the expected increase in demand in 2019 and 2021 due to the reduction and expiration of the Solar Investment Tax Credit.

Gross Margin

SolarEdge has indicated that its gross margins for the second quarter of fiscal year 2017 to be between 30% and 32%. We believe that company's gross margin will be stagnant at 31%. Industry pricing pressures from Asian manufacturers will be offset by lower costs due to the introduction of the automated assembly lines and economies of scale from increased demand.

Research and Development

For firms that operating within the solar PV industry, research and development (R&D) is an important factor for organic growth. We believe that in order for SolarEdge to maintain its position as one of the industry leaders, it will need to increase its R&D expenditures. For simplicity sake, we assumed that the Company will have a R&D will grow to 13% by 2021.

Capital Expenditure

Over the last four years, capital expenditure has represented, average, 2.75% of annual revenue. Going forward, we believe that capital expenditure will need to be increased to align with firm's objective of introducing additional automated assembly lines. Therefore, we assumed that capital expenditure equivalent to 5.0% of revenue annually.

Depreciation and Amortization Expense

In the most recent quarter, the Company's property, plant, and equipment had an estimated useful life of 17.1 years. For our forecasted depreciation and amortization schedule, we used an estimated useful life of 8.0 years, which is similar to the historical estimated useful life and to account for higher capital expenditure spending.

Net Working Capital

We assumed that our net working capital growth would be, for the most part, in line with revenue growth. Management has not indicated any significant changes to its current net working capital, so for simplicity sake, we did not make any significant adjustments.

Effective Tax Rate

In the most recent quarter, the Company had an effective tax rate of 16.2%, which is much less than the Israeli corporate tax rate of 25%. Historically, SolarEdge has been paying less than 25% in taxes due to deferred tax assets attributed to their past net operating losses. Since the Company has indicated that they no longer have deferred tax assets and for simplicity sake, we decided to use an effective annual tax rate of 25%.

Weighted Average Cost of Capital

We determined a weighted average cost of capital (WACC) of 9.84%. We calculated the WACC based on the cost of equity using a risk-free rate of 1.90%, which is the five year U.S. Treasury yield, an equity risk premium of 5.0%, and the Company's two-year raw beta of 1.59, which utilized the S&P 500 as its benchmark. We believe that a 9.84% WACC is fair for SolarEdge since it fully accounts for idiosyncratic risks associated with the solar technology industry and the fact that the Company has zero debt. We have included a sensitivity analysis to demonstrate how fluctuations of WACC will affect our target share price.

Terminal Growth Rate

We used a terminal growth rate of 2.0%. We believe that the Company will grow with GDP in perpetuity.

Discounted Cash Flow Analysis Summary

Utilizing the assumptions made above, which we believe are fairly conservative, our discounted cash flow analysis implies a target share price of approximately \$17.50.

Precedent Transaction Analysis

We believe that SolarEdge could be acquired by one of SolarEdge's customer since the solar technology industry has begun to consolidate. Utilizing Bloomberg's mergers and acquisition function, we believe that if the firm were to get acquired, the target share price would be approximately \$21 based on the historical target EV/EBITDA of 8.8x. The target EV/EBITDA was based on M&A activity within the alternative energy industry that had occurred over the last four to five years.

Recommendation

We believe that the market is currently overreacting to the expected decline in residential market for solar PV systems. Although there are pricing pressures, SolarEdge has positioned the firm in a way to maintain their margins, while being able keep prices in line with industry standard. With the introduction the firm's automated assembly line and plans to automated in the near future, the Company should be able to offset expected declines in the average selling price. The extension of the Solar Investment Tax Credit, which is now set to expire in 2023, will decrease short term demand for solar PV systems due to developers knowing that they have more time before implementing projects. Additionally, we believe that the market is not correctly pricing in the firm's introduction of the HD-Wave Inverter since the firm has had significant delays in the shipments and revenue for the single phase inverter will not be recognized until Q3 FY2017. HD-Wave inverters are not only the most efficient PV inverter offered in the market, but also has a lower manufacturing cost due to the smaller size and use of less magnetic components. HD-Wave Inverters are expected to account for the majority of single phase inverter sales by Q4 of FY2017.

SolarEdge currently trades at \$12.95, but based on our fairly conservative assumptions, we determined a fair market value of \$17. This represents an upside of approximately 31% and therefore will initiate a buy rating. If the company were to be acquired, we assumed a target share price of \$21. We recommend SolarEdge for investors with a medium to high risk tolerance who could bear short term fluctuations due to the stock's high short interest and the volatility of the solar industry.

Appendix 1: Pro Forma Income Statement

WESTPEAK RESEARCH

Income Statement

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	79,035	133,217	325,078	489,843	510,936	519,278	599,214	645,574	784,770	824,008
Cost of Goods Sold	72,784	109,268	241,042	333,508	350,734	358,302	413,458	445,446	541,491	568,566
Gross Profit	6,251	23,949	84,036	156,335	160,202	160,976	185,756	200,128	243,279	255,443
R&D	15,823	18,256	22,018	33,231	42,498	51,928	65,914	77,469	102,020	107,121
SG&A	14,968	21,004	28,552	37,877	41,568	41,542	47,937	51,646	62,782	65,921
EBITDA	-24,540	-15,311	33,466	85,227	76,136	67,506	71,906	71,013	78,477	82,401
D&A	1,842	1,978	2,253	4,379	7,500	20,229	23,097	26,529	29,404	34,321
SBC	1,078	1,082	2,956	9,089	9,100	9,100	9,100	9,100	9,100	9,100
EBIT	-27,460	-18,371	28,257	71,759	59,536	38,177	39,709	35,384	39,973	38,980
Interest expense (income)	612	2,787	5,077	-471	-390	0	0	0	0	0
Other items	0	0	104	0	0	0	0	0	0	0
Income Before Income Tax	-28,072	-21,158	23,076	72,230	59,926	38,177	39,709	35,384	39,973	38,980
Income Tax	108	220	1,955	-4,379	10,675	9,544	9,927	8,846	9,993	9,745
Net Income	-28,180	-21,378	21,121	76,609	49,251	28,633	29,782	26,538	29,980	29,235

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Appendix 2: Pro Forma Cash Flow Statement

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Cashflow Statement

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Income	-28,180	-21,378	21,121	76,609	49,251	28,633	29,782	26,538	29,980	29,235
Depreciation and Amortization	1,842	1,978	2,253	4,379	7,500	20,229	23,097	26,529	29,404	34,321
Cash Flows before Working Capital	-24,446	-17,896	30,792	90,077	65,851	57,962	61,978	62,167	68,484	72,656
Cash Provided By Operating Activities	-23,107	-17,845	12,054	52,427	65,086	35,404	34,314	37,092	43,376	46,009
Cash Used in Investing Activities	-2,778	-3,147	-13,937	-125,837	-24,444	-25,964	-29,961	-32,279	-39,238	-41,200
Cash Provided By (Used In) Financing Activities	19,676	17,676	136,953	2,779	273	0	0	0	0	0
Foreign Exchange Impact	-86	-72	-74	-87	-174	0	0	0	0	0
Beginning Cash Balance	19,437	13,142	9,754	144,750	74,032	114,773	124,214	128,567	133,380	137,517
Net Change in Cash	-6,295	-3,388	134,996	-70,718	40,741	9,440	4,353	4,813	4,138	4,809
Ending Cash Balance	13,142	9,754	144,750	74,032	114,773	124,214	128,567	133,380	137,517	142,326

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Appendix 3: Pro Forma Balance Sheet

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Balance Sheet

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
ASSETS										
Cash and Cash Equivalents	13,142	9,754	144,750	74,032	114,773	124,214	128,567	133,380	137,517	142,326
Total Current Assets	44,173	69,273	290,412	309,750	355,758	383,889	421,951	455,345	487,698	521,750
Property and equipment	4,339	5,351	14,717	27,831	40,459	46,193	53,057	58,807	68,642	75,522
Total Non-Current Assets	4,913	5,725	15,246	87,688	99,673	105,407	112,271	118,021	127,856	134,736
Total Assets	49,086	74,998	305,658	397,438	455,430	489,296	534,223	573,367	615,554	656,485
LIABILITIES										
Total Current Liabilities	40,814	72,943	105,592	87,271	81,351	77,484	83,528	87,034	90,142	92,738
Long Term Debt	6,611	3,444	0	0	0	0	0	0	0	0
Total Non-Current Liabilities	17,743	21,146	33,122	54,059	59,499	59,499	59,499	59,499	59,499	59,499
Total Liabilities	58,557	94,089	138,714	141,330	140,850	136,983	143,027	146,533	149,641	152,237
SHAREHOLDER'S EQUITY										
Total Shareholder's Equity	-9,471	-19,091	166,944	256,108	314,581	352,313	391,195	426,833	465,913	504,248

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Appendix 4: Comparable Companies Analysis

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Comparables Analysis

	Cash	Debt	Market Capitalization	EV	TTM EBITDA	Share Price	TTM EPS		EV/EBITDA	P/E
SMA Solar Technology AG	391	33	890	531.5	127	\$25.63	\$2.02		4.2 x	12.7 x
TBEA Co., Ltd.	1,899	3,202	4,447	5750.6	579	\$1.37	\$0.09		9.9 x	15.2 x
First Solar, Inc.	1,414	826	3,241	2653.0	721	\$31.19	\$4.91		3.7 x	6.4 x
Tabuchi Electric Co., Ltd	23	38	144	158.7	18	\$3.56	-\$0.05		8.7 x	n / a
Canadian Solar Inc.	481	2,481	677	2676.7	344	\$11.71	\$2.47		7.8 x	4.7 x
Schneider Electric S.E.	2,303	8,488	41,620	47805.3	4,063	\$71.46	\$2.86		11.8 x	25.0 x
OMRON Corporation	894	0	8,786	7892.6	831	\$41.09	\$1.83		9.5 x	22.5 x
Trina Solar Limited	456	2,041	935	2519.9	419	\$9.99	\$1.60		6.0 x	6.2 x
SolarEdge Technologies Inc.	152	0	554	402.6	80	\$12.95	\$1.93		5.1 x	6.7 x

	HIGH	AVERAGE	LOW	IMPLIED TARGET	EMPLIED TARGET	SHARE PRICE
EV/EBITDA	11.8 x	7.7 x	3.7 x	611.88	\$	18.66
	HIGH	AVERAGE	LOW	IMPLIED P/E	MPLIED TARGET	SHARE PRICE
P/E	25.0 x	13.2 x	4.7 x	13.2 x	\$	25.56

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Appendix 5: Discounted Cash Flow Analysis and WACC Calculation

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DCF Analysis

	2013	2014	2015	2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017	2018	2019	2020	2021	2022
WACC Calculation														
Book Value of Debt	0													
Market Value of Equity	532050													
Total Capitalization	532050													
Debt														
Pre-Tax Cost of Debt	3%													
Effective Tax Rate	20.0%													
After-Tax Cost of Debt	2.4%													
Capital Asset Pricing Model														
Risk-Free Rate	2%													
Equity Market Risk Premium	5%													
Beta	1.59													
Cost of Equity	9.8%													
Debt Weight	0.0%													
Equity Weight	100.0%													
WACC	9.84%													
Growth Rate	2.0%													
Free Cash Flow Analysis														
EBIT	-27460.0	-18371.0	28257.0	71759.0	18240.0	12919.4	14042.7	14333.7	59535.8	38176.7	39709.0	35384.5	39973.3	38979.7
Tax Rate	-0.4%	-1.0%	8.5%	-6.1%	16.2%	17.0%	18.5%	20.0%	17.9%	25.0%	25.0%	25.0%	25.0%	25.0%
D&A	1842.0	1978.0	2253.0	4379.0	1624.0	1776.4	1955.6	2144.1	7500.1	20229.5	23096.7	26528.7	29403.7	34321.1
Change in NWC	1339.0	51.0	-18738.0	-37650.0	4029.0	6066.4	-8515.3	-2344.5	-764.4	-22558.0	-27664.5	-25075.5	-25107.6	-26646.5
Capital Expenditures	-1539.0	-2990.0	-11765.0	-15690.0	-3815.0	-4839.4	-5179.4	-5939.3	-19773.0	-25963.9	-29960.7	-32278.7	-39238.5	-41200.4
Free Cash Flow	-28601.6	-19625.0	35089.1	102448.4	9069.1	1593.8	16736.3	10016.3	37415.4	45456.1	50582.2	45863.9	45252.8	49002.0
<i>Discount Period</i>						0.25	0.5	0.75	1	1.75	2.75	3.75	4.75	5.75
Discounted Free Cash Flow						1556.8	15969.4	9335.8	34065.1	38574.1	39080.6	32262.1	28981.9	28572.9

Share Price Calculation

Free Cash Flow Sum	194333.6
Terminal Value	364682.8
Enterprise Value	559016.4
Less: Debt	0.0
Add: Cash & ST Investments	151800.0
Equity	710816.4
Shares Outstanding	40926.9
Implied Share Value	\$ 17.37

		WACC				
		8.8%	9.3%	9.8%	10.3%	10.8%
GROWTH	1.5%	\$ 18.64	\$ 17.68	\$ 16.84	\$ 16.09	\$ 15.43
	1.8%	\$ 18.99	\$ 17.98	\$ 17.10	\$ 16.32	\$ 15.62
	2.0%	\$ 19.37	\$ 18.30	\$ 17.37	\$ 16.55	\$ 15.83
	2.3%	\$ 19.78	\$ 18.65	\$ 17.67	\$ 16.81	\$ 16.05
	2.5%	\$ 20.22	\$ 19.02	\$ 17.98	\$ 17.08	\$ 16.28

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Henry Zhang | Contact@westpeakresearch.com

Appendix 6: Precedent Transaction Analysis

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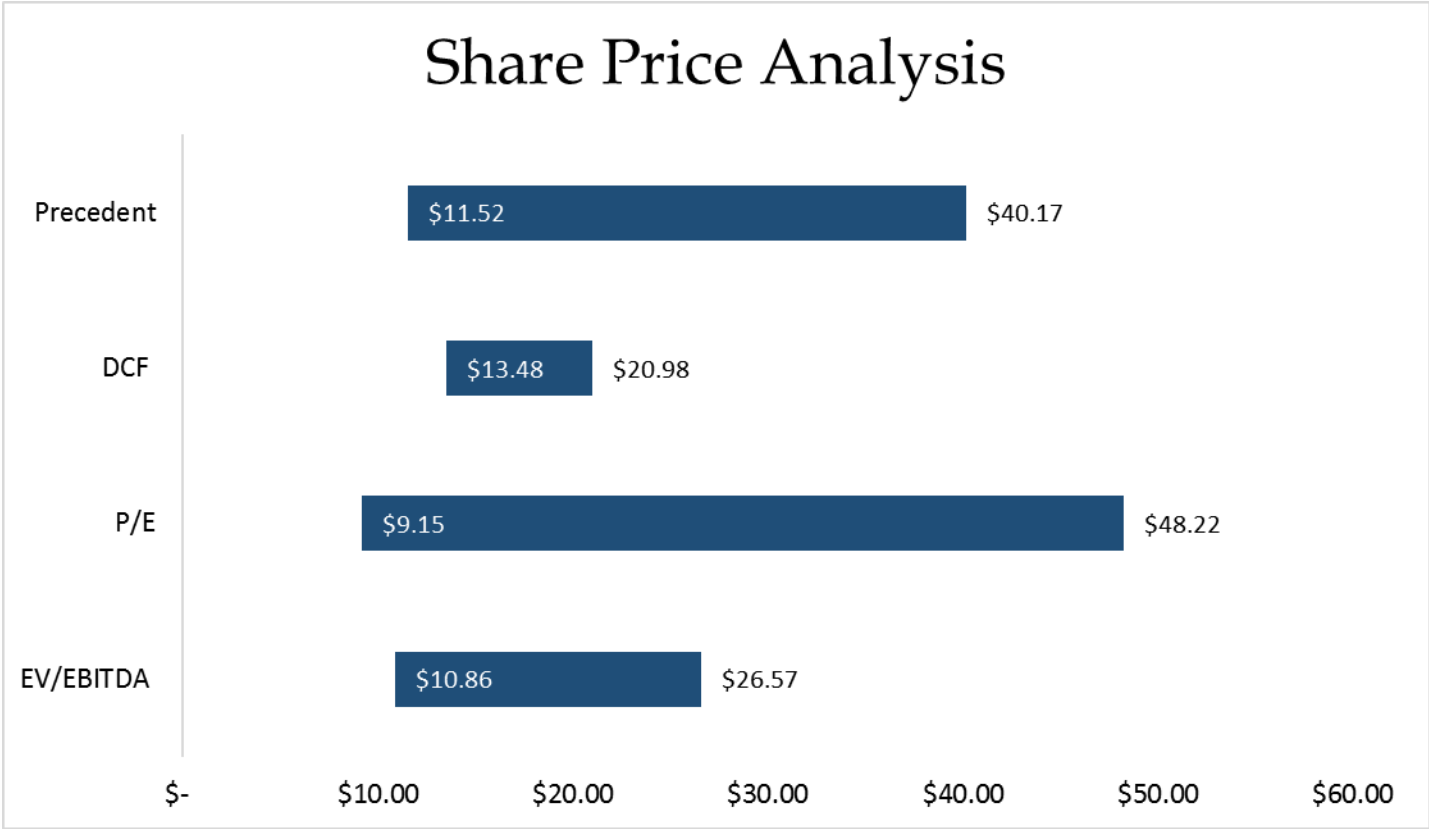
Precedent Transaction Analysis

Target Name	Acquirer Name	TV/EBITDA
Renewable Energy Developers Inc.	Capstone Infrastructure	18.8 x
Chorus Clean Energy AG	Capital Stage AG	13.7 x
Chemrez Technologies Inc.	D&L Industries Inc	13.6 x
Alerion Cleanpower SpA	Multiple Acquirers	11.0 x
Capstone Infrastructure	iCON Infrastructure LL	8.6 x
Ormat Industries Ltd.	Ormat Technologies Inc.	6.9 x
TerraForm Power Inc.	Multiple Acquirers	6.6 x
Infinis PLC	3I Infrastructure PLC	5.0 x
Renewable Energy Generation	Multiple Acquirers	4.6 x
Futuren SA	Multiple Acquirers	4.5 x
JA Solar Holdings Ltd	Multiple Acquirers	4.0 x

Current EV/EBITDA	5.1 x
Target EV/EBITDA	8.8 x

Implied EV	702.56
Target Share Price	20.88

Appendix 7: Valuation Summary



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Henry Zhang | Contact@westpeakresearch.com

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Henry Zhang
Analyst

WestPeak Research Association
contact@westpeakresearch.com