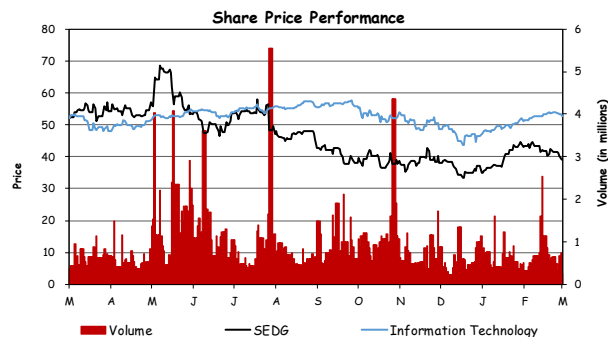


SolarEdge Technologies, Inc.	Symbol: SEDG
Analyst	Tournier Tiffany
Buy below	\$37.81
Sell above	\$49.60
Probability of Price Increase	98%
Last Price	\$38.88
Intrinsic Value	\$41.33
Target Dividends	\$0.00
Target Price	\$45.37



Description
SolarEdge Technologies, Inc., together with its subsidiaries, designs, develops, and sells direct current (DC) optimized inverter systems for solar photovoltaic (PV) installations worldwide.

Sector	Information Technology
Industry	Semiconductors and Semiconductor Equ
Last Guidance	December 11, 2018
Next earnings date	May 3, 2019

People
Sella, Guy, Co-Founder, Chairman of the Board & CEO
Handelsman, Lior, Vice President of Marketing & Product Strategy
Faier, Ronen, Chief Financial Officer
Lando, Zvi, Vice President of Global Sales
Adest, Meir, Founder & Chief Information Officer
Fishelov, Amir, Founder & Chief Software Architect

Top Competitors	
SMA Solar Technology AG	--
First Solar, Inc.	--
Enphase Energy, Inc.	--
Canadian Solar Inc.	--
--	--

Market Statistics	
Market Capitalization (mil)	\$1,859.97
Last Price per share	\$38.88
52 week high	\$70.74
52-week low	\$32.43
Volatility	0.00%
Daily volume (mil)	0.25
Short interest	14.81%
Days to cover short interest	10.35
Beta	1.18

Investment Thesis

STRONG ORGANIC GROWTH AND SEVERAL STRATEGIC ACQUISITIONS

I am initiating coverage of SolarEdge Technologies with a BUY at \$37.81 and a \$45.37 price target. I view SEDG as a new-age solar tech company with solid future growth. SolarEdge has displayed an important organic growth for years thanks to several innovations including solar inverters and virtual power plant management system. Focusing on solar component market helped the company to avoid the instability inherent in solar panel market. The solar company is now trying to grow by expanding into new market segments (smart homes, uninterruptible power and virtual power plants) as well as by expanding geographically to Europe and Australia. In 2018, SolarEdge also expanded from the residential market to the commercial and industrial ones. In addition to its strong organic growth in the solar industry, SolarEdge pursues an aggressive inorganic growth by engaging in several acquisitions such as SMRE, Kokam and Gamatronic in 2018. Moreover, SolarEdge presents a solid balance sheet with 2018 revenue of \$937.2 million, a 54.4% increase since 2017. I believe SEDG is one of few solar companies that offers both solid organic unit-driven growth in the development of solar arrays and aggressive expansion strategy. SolarEdge is well-positioned to defend and increase its market share as well as expand into other markets (solar storage for example).

For the long:

1. Development of PV solar market

Solar quickly became one of the most promising forms of energy in recent years. Solar technology has advantages over other energy technologies which makes this market very susceptible to grow in the future. The rooftop solar technology should represent over 10% of the global generating capacity in 2040 against less than 1% nowadays. By 2030, the annual solar growth is foreseen to exceed 500 GW driven by emerging markets. Indeed, the declining cost of the technology makes solar energy well suited to first-time electrification in emerging countries. SolarEdge will directly benefit from this growth.

2. Horizontal integration through acquisitions to diversify product portfolio

While SolarEdge continues to grow its solar business, the company also made strategic acquisitions in order to take steps towards its goal of becoming a leading smart energy solution provider. This horizontal integration strategy helps SolarEdge not only to diversify its product portfolio but also to go further than just being an inverter or optimizer company by operating outside the solar arena. Manufacturing supplementary products to solar panels components should help the company to take advantage of solar's general growth trend while avoiding the industry's pitfalls. SolarEdge acquires critically positioned "small-value" company in order to not raise too much debt.

3. Coming revolution of e-mobility

SolarEdge entered a new market with the acquisition of SMRE. Currently, SolarEdge does not operate in this industry yet but the company wants to accelerate the clean energy and e-mobility evolution. The rising trend for electric vehicles is a main driver for the PV market.

For the short:

1. Intense competition

Currently, SolarEdge has a position of leader in the US residential solar market with about 85% of market shares. However, the rate of innovation is quite rapid in this industry and there are potentially disruptive innovations that can be done. Moreover, some of SolarEdge's customers such as Tesla have the project to develop their own solar and storage system. This vertical integration would hurt demand for SolarEdge products.

2. Emergence of other alternative energy generation technologies

The future success of SolarEdge depends on continued demand for solar energy solutions and the solar industry has experienced significant changes in recent years. This demand can be significantly impacted if governments reduce economic incentives associated with the use of renewable energy.

Key Catalysts for price change

- Change in the government policy about solar energy.
- Competition in the utility-scale inverter market (with technology giants like Huawei).
- Integration risks associated with acquisitions made in 2018.
- New US tariffs on Chinese solar inverted.

Valuation

My \$45.37 price target is derived from Discounted Unlevered Free Cash Flow estimates.

Ownership		Change in Ownership (6 months)
Shares outstanding (mil)	47.26	
Diluted shares outstanding (mil)	47.98	
Options and Warrants (Shares equivalent)	1.86	
% shares held by institutions	105%	29.37%
% shares held by investments Managers	83%	2.43%
% shares held by hedge funds	8.09%	-3.94%
% shares held by VC/PE firms	2.187%	0.59%
% shares held by insiders	4.38%	0.00%
Poison Pill Type	NONE	

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Quarterly Earning Surprises (Actual Vs. Median Estimates)

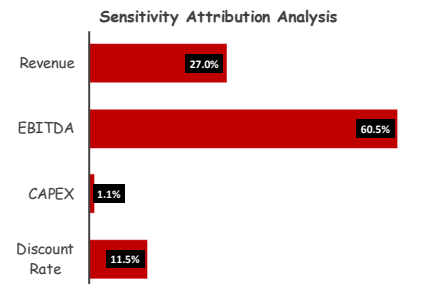
Revenue	
12/31/2017	4.88%
3/31/2018	2.70%
6/30/2018	0.76%
9/30/2018	1.17%
12/31/2018	5.38%
Mean (Standard Error)	2.98% (1.04%)

EBITDA	
12/31/2017	-9.86%
3/31/2018	4.24%
6/30/2018	-13.42%
9/30/2018	13.04%
12/31/2018	-24.89%
Mean (Standard Error)	2.98% (5.76%)

Valuation

DCF Valuation						
	Revenues	Net Margin	LCF	Ke	ROE	Price Per Share
Base Year (Actual)	\$937.24	18%	\$28.31	13.37%	28.25%	\$42.39
year 1	\$1,115.17	14%	\$165.00	13.37%	21.49%	\$44.83
year 2	\$1,291.25	13%	\$175.32	13.37%	18.80%	\$47.31
year 3	\$1,381.47	14%	\$209.69	13.37%	18.55%	\$49.54
year 4	\$1,475.25	14%	\$220.86	13.37%	16.58%	\$51.85
year 5	\$1,570.75	14%	\$232.22	13.37%	15.24%	\$54.25
year 6	\$1,667.47	14%	\$243.71	13.37%	14.11%	\$56.74
year 7	\$1,764.88	14%	\$255.26	13.37%	13.15%	\$59.35
year 8	\$1,862.41	14%	\$266.89	13.37%	12.31%	\$62.08
year 9	\$1,959.44	14%	\$278.41	13.37%	11.58%	\$64.96
year 10	\$2,055.35	14%	\$289.67	13.37%	10.92%	\$68.00
year 11	\$2,149.46	14%	\$300.54	13.37%	10.32%	\$71.24
year 12	\$2,241.09	14%	\$310.95	13.37%	9.77%	\$74.72
year 13	\$2,329.55	14%	\$320.93	13.37%	9.26%	\$78.46
year 14	\$2,414.15	14%	\$330.40	13.37%	8.80%	\$82.53
year 15	\$2,494.19	14%	\$340.56	13.37%	8.40%	\$93.56
Continuing Period	\$2,569.02	23%	\$461.39	13.37%	13.37%	
Relative Valuation						
Multiple	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)	Asset Based Valuation	
Median (Peers)	10x	8.6x	1.3x	17.0x	Recovery Rate	100%
Base	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)	Capital	\$1,472.77
SEDG	\$1,147.49	\$160.17	\$690.58	\$160.17	Intangibles	\$73.38
Implied EV	\$1,100.08	\$1,373.48			Claims	\$66.23
Total Net Claims	-\$382.97	-\$382.97				
Implied EQ	\$1,483.05	\$1,756.45	\$886.40	\$2,716.82		\$1,333.16
Valuation Summary						
Model	Intrinsic Value		Target Price		Weight	
DCF Valuation	\$42.39		\$44.83		50.00%	
EV/Rev (FW)	\$29.76		\$33.73		25.00%	
EV/EBITDA (FW)	\$35.24		\$39.95		0.00%	
P/BV (TTM)	\$17.78		\$20.16		0.00%	
P/E (FW)	\$54.51		\$61.80		25.00%	
Asset Based Valuation	\$26.75		\$30.32		0.00%	
Price per Share	\$42.26		\$46.30		100%	

Financials			
Profitability	SEDG (LTM)	SEDG Historical	Peers' Median (LTM)
Return on Capital	25.6%		
Adjusted EBITDA Margin	18.5%	12.02%	21.03%
Return on Equity	28.3%		
Adjusted Net margin	17.6%		
Invested Funds	SEDG (LTM)	SEDG Historical	Peers' Median (LTM)
Cash/Capital			
NWC/Capital			
Operating Assets/Capital			
Goodwill/Capital			
Capital Structure	SEDG (LTM)	SEDG Historical	Peers' Median (LTM)
Total Debt/Market Cap.			
Reported Cost of Borrowing			7.6%
Cash Interest/Total Debt			4.5%
CGFS Credit Rating	B		CC
Credit Model Rating	bbb-		b+ to bb-
Probability of Default	0.46%		0.58%
Cost of Capital			
	CGFS Credit Rating	Credit Model Rating	Probability of Default
Implied Cost of Borrowing (SEDG)	6.0%	6.0%	6.0%
Implied Cost of Borrowing (Peers)	7.1%	7.4%	6.1%
Cost of New Debt Estimate	6.5%		
Market Risk Premium Estimate	6.9%		
Cost of Equity Estimate	13.4%		
WACC Estimate	13.4%		



Intrinsic Value Distribution--Probability (Upside)=98%

