

BUY

REVIEW OF EARNINGS/OPERATING RESULTS

Financial Summary

Changes	Previous	Current
Rating	—	Buy
Target Price	—	C\$0.65
FY22 Revenue	—	C\$12.9
FY23 Revenue	—	C\$82.7

Price (08/29/22):	C\$0.40
52-Week Range:	C\$0.64 - C\$0.21
Market Cap.(mm):	C\$176.6
Shr.O/S-Diluted (mm):	441.6
Enterprise Val. (mm):	211.1
Avg Daily Vol (3 Mo):	450,758
Dividend / Yield:	0.00 / 0.0%
FYE	Sep

Revenue	2021A	2022E	2023E
Q1	C\$2.3	C\$1.3A	C\$13.6
Q2	C\$0.3	C\$0.3A	C\$17.4
Q3	C\$1.4	C\$2.3A	C\$22.8
Q4	C\$3.1	C\$9.1	C\$28.9
	C\$7.2A	C\$12.9	C\$82.7

EV/Rev	29.4x	16.3x	2.6x
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EBITDA	2021A	2022E	2023E
Q1	C\$(1.2)	C\$(1.9)A	C\$(0.1)
Q2	C\$(1.7)	C\$(2.0)A	C\$0.7
Q3	C\$(1.6)	C\$(2.3)A	C\$1.8
Q4	C\$(1.9)	C\$(1.3)	C\$3.5
	C\$(6.4)A	C\$(7.5)	C\$5.9

EV/EBITDA	NM	NM	35.5x
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Note: Financial quarterly and annual data don't match tables in note because of fiscal quarters vs. calendar quarters. EGT has Sept 30 year end. The models and tables use Dec 31 year end.

Price Performance



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The focus is on C23E

Summary

In C2Q22, EGT commissioned the important San Jose energy storage assembly plant and executed its first microinverter sales. At San Jose, the company is focused on improving first-pass yield improvement to 95% from 65%, which will drive significant revenue growth. Separately, microinverter sales are progressing well with shipments scheduled in 2H22E largely spoken for by customers. Overall, we believe EGT continues to be a small cap worth owning due to secular growth trends and support from large partners such as Itochu and Duracell. A re-rate should occur once material sequential revenue improvements materialize. We are retaining our \$0.65/sh target price and BUY rating.

Key Points

C2Q22 results: In June 2022, EGT began first production at its San Jose assembly which will help service the all-important Duracell white label initiative. As with any operation, there were some hiccups which was a revenue headwind. As a result, EGT posted C2Q22 revenue of \$2.3 mm, which was in line with our estimate. The company recorded its first sales of the microinverter in the quarter, which accounted for 50% revenue, per management commentary. Gross margins of nil missed our forecast of 7.0%, largely due to higher costs caused by global supply chain issues and a one-time inventory rationalization related to relocation to San Jose. We believe gross margins should normalize once production starts to accelerate. EBITDA loss of \$2.3 mm came in lower than our estimated loss of \$2.1 mm.

Operations update: The San Jose facility has a current production capacity of 400 units/month. Albeit, throughput was much lower in June 2022. A second IFT is planned for installation in San Jose for September 2022, which is going to double production capacity to 800 units. A third IFT is currently in the procurement process and is planned to be installed in March 2023. At that time, production capacity is expected to exceed 14,400 systems annually (revenue capacity of \$178 mm at current pricing).

First-pass yields for energy storage: The company is currently going through a product fine-tuning process as the first-pass yield rate of the current products is at roughly 65%. The company is prioritizing on improving the first-pass product yields to above 95% by the end of C22E. We believe revenue should start to accelerate in upcoming quarters as first yield throughput rate improves and additional IFTs are installed.

Order book update: The company's order book is valued at \$27 mm, including over \$7 mm in microinverter orders. The demand for microinverters has been strong and the company has initiated a \$12 mm inventory investment in microinverters in conjunction of battery modules to build North American availability, reducing port and logistics-related delays. Moreover, the company continues to be in discussion on a white label agreement with a utility in France, inclusive of both the ESS and microinverter. Overall, we believe the demand for both storage units and microinverters continues to be robust and the key step is to ramp up production through the initiatives discussed above.

Estimate changes: We have made no changes to our forecast in this update. The changes in Figure 2 only reflect input of C2Q22 results. Our C22E revenue stands at \$25 mm and C23E revenue is at \$102 mm.

Valuation: In C2023E, EGT trades at 1.6x EV/Sales compared to the median solar average of 5.2x. The obvious crux to closing at least part of this valuation gap is the delivery of sustainable revenue growth on a q/q basis.

Ian Gillies, MSc | (416) 943-6108 | ibgillies@stifel.com
Kevin Shi | (416) 943-6104 | kshi@stifel.com

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Investment Thesis

Eguana stands to benefit from the following key items, which helps us form our positive view on the stock: 1) Residential solar is set to undergo transformational growth globally due to supportive government policy; 2) Residential solar is being augmented by improving attachment rates for battery storage; 3) we anticipate rapid revenue and EBITDA growth from these events; 4) there is potential for new business lines; and 5) the company is a potential takeover candidate.

Figure 1 - Financial and operating data

Eguana Technologies Corp. (EGT-TSXV)

All figures in C\$ (Calendar year end, not fiscal year end)

Financial & Operating Information		2020A	2021A	2022E	2023E
Segment Revenue					
Energy Storage	\$mm	\$7	\$6	\$21	\$82
Enfuse Microinverter	\$mm	n/a	n/a	\$5	\$20
Financial Performance					
Sales	\$mm	\$7	\$6	\$25	\$102
Gross Margin	\$mm	\$1	\$0	\$4	\$22
EBITDA	\$mm	(\$5)	(\$8)	(\$7)	\$11
Free Cash Flow	\$mm	(\$6)	(\$16)	(\$15)	(\$8)
Net Earnings	\$mm	(\$9)	(\$10)	(\$9)	\$4
EPS (fd)	\$/sh	-\$0.04	-\$0.03	-\$0.02	\$0.01
Capitalization					
Net Debt	\$mm	\$14	(\$1)	\$11	\$19
Adj. Net Debt	\$mm	\$2	(\$1)	(\$22)	(\$14)
Adj. Net Debt/EBITDA	x	na	na	na	-1.3x
Share Count (EOP)	Basic	240.3	390.6	401.8	401.8
Share Count (EOP)	Diluted	342.8	441.6	450.0	450.0
Share Count (Weighted Avg.)	Diluted	229.1	333.9	406.1	450.0
Share Price at Period End	C\$/share	\$0.22	\$0.48	\$0.40	\$0.40
Market Cap	C\$mm	\$53	\$187	\$161	\$161
Enterprise Value (FD)	\$mm	\$77	\$211	\$158	\$166
Insider holdings	%		34.4%		
Yield & Capital Expenditures					
Dividend per Share	\$/share	\$0.00	\$0.00	\$0.00	\$0.00
Yield	%	0.0%	0.0%	0.0%	0.0%
Capital Expenditures	\$mm	0	1	1	1
Financial Growth Rates and Margins					
Revenue	%	0%	-18%	313%	303%
EBITDA	%	nmf	nmf	-20%	-264%
EPS	%	0%	-20%	-30%	-143%
Gross Margin	%	12.5%	4.7%	14.8%	22.0%
EBITDA Margin	%	-72.9%	-136.4%	-26.4%	10.7%
Net Income Margin	%	-120.5%	-171.2%	-33.9%	4.2%
Valuation		2020A	2021A	2022E	2023E
EV/Sales		10.3x	34.5x	6.3x	1.6x
Target EV/Sales	x		46.8x	10.7x	2.7x
EV/Adj. EBITDA		nmf	nmf	nmf	15.2x
Target EV/EBITDA	x		nmf	-40.6x	25.6x

Source: Stifel GMP estimates, company reports

Figure 2 - Estimate changes

Estimate Changes

		2022E			2023E		
		New	Old	Chg	New	Old	Chg
Revenue	\$mm	25	25	0.1%	102	102	0.0%
Gross Margin	\$mm	4	4	-4.1%	22	22	0.0%
Gross Margin	%	14.8%	15.5%	-0.6%	22.0%	22.0%	0.0%
Adj. EBITDA	\$mm	(6)	(6)	nmf	11	11	-4.3%
Adj. EBITDA Margin	%	-22.7%	-22.1%	-0.7%	10.7%	11.2%	-0.5%
EPS	\$/sh	(0.02)	(0.02)	17.2%	0.01	0.01	0.8%
Energy Storage							
Revenue	#	21	21	0.0%	82	82	0.0%
Units Sold (est)	#	1,663	1,663	0.0%	6,600	6,600	0.0%
Revenue per unit	\$	12,389	12,370	0.2%	12,435	12,435	0.0%
Enfuse Microinverter							
Revenue	#	5	5	0.0%	20	20	0.0%
Units Sold (est)	#	31,200	31,200	0.0%	131,750	131,750	0.0%
Revenue per unit	\$	150	150	0.0%	150	150	0.0%

Source: Stifel GMP estimates, company reports

Figure 3 - C2Q22 actuals versus estimates

Estimates versus actuals

		2Q22			2Q21		1Q22	
		Actual	Estimate	Diff.	Actual	Y/Y Diff.	Actual	Q/Q Diff.
Revenue	\$mm	2.3	2.3	1.4%	1.4	67.7%	0.3	712.7%
Gross Margin	\$mm	0.0	0.2	-99.4%	0.1	-98.7%	0.1	-98.6%
Gross Margin	%	0.0%	7.0%	-7.0%	5.6%	-14.0%	25.1%	-21.0%
Adj. EBITDA	\$mm	(2.3)	(2.1)	8.6%	(1.6)	43.3%	(2.0)	11.3%
Adj. EBITDA Margin	%	nmf	nmf	nmf	nmf	nmf	nmf	nmf
EPS	\$/sh	(0.01)	(0.00)	105.5%	(0.01)	4.0%	(0.01)	31.1%
FCF	\$mm	(7)	(2)	181.2%	(7)	-3.3%	(2)	276.7%
Units Sold (est)	#	153	175	-12.6%	153	0.0%	38	302.6%

Source: Stifel GMP estimates, company reports

Target Price Methodology/Risks

We have applied a target 2023E EV/sales multiple of 3.0x, using the company's diluted share count, to set a target price of \$0.65/share.

Key risks to our target price include: 1) margin erosion from supply chain issues; 2) lack of customer adoption; 3) deterioration in relationship with key suppliers and customers; 4) a degradation in capital investments for public and private enterprises and 5) changes in government incentive programs.

Company Description

Eguana Technologies Corp. (EGT-V), based in Calgary, Canada, offers a suite of energy storage systems, which are primarily focused on the residential markets in California, Hawaii, Germany, and Australia. The company was incorporated in 1998, but its product market fit is now hitting an inflection point due to changing consumer preferences and regulatory policies. Eguana utilizes an expansive dealer network to distribute its product and third party manufacturing to reduce capital intensity.

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Eguana Technologies Inc. (EGT CN) as of August 26, 2022 (in CAD)



*Represents the value(s) that changed.

Buy=BUY; Speculative Buy=SBUY; Hold=HOLD; Sell=S; Discontinued=D; Suspended=SU; Initiation=I

For a price chart with our ratings and target price changes for EGT CN go to
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¹ This rating is only utilised by Stifel Canada.

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