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RESEARCH PORTAL

EQUITY RESEARCH NOTE

SOLV Energy, Inc.

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Recommendation: Buy (High Conviction) — We believe SOLV Energy (NASDAQ: MWH) is positioned to deliver strong revenue growth driven by an expanding renewable and utility infrastructure backlog, justifying an outperformance call. Our 12-month price target of **\$50** implies roughly a +20–25% upside from current levels. SOLV's scale, integrated service offering (EPC+operations), and robust pipeline (including recent utility/substation acquisitions) support aggressive growth, even as short-term earnings remain muted by non-cash charges. The stock trades at a premium reflecting these prospects.

Key Actionable Takeaways:

- **Surging Top Line:** In Q1 2026 SOLV reported **\$676.8M** revenue (up 66% YoY) due to ramped “new construction” projects (www.sec.gov). Gross margin expanded (17.6% vs 14.5% prior year) on productivity gains. This follows \$1.7B rev in first 9M 2025 (vs \$1.4B prior) with corresponding net income \$114M vs ~\$0 previously (www.axios.com).
- **Large Backlog:** As of Sept 2025, SOLV had a **\$6.7B backlog** (93% EPC) of solar, storage and T&D projects (www.sec.gov). The “next 12 month” portion was ~\$1.42B, implying very strong forward visibility (backlog/NTM rev >3x). Management's backlog conversion is a key driver.
- **Strategic Acquisitions:** SOLV recently agreed to acquire Roberson Waite Electric (RWE), a California utility-substation specialist (www.advn.com). This expands SOLV's addressable market into regulated utilities and adds high-voltage/substation capabilities, reinforcing its “full lifecycle” infrastructure platform.
- **Capital Structure & IPO:** Completed Feb 2026 IPO (3.075M share over allotment, \$25 offering price) with \$552.5M net proceeds (finance.yahoo.com). Proceeds were used to retire debt, leaving SOLV nearly debt-free (only a \$200M revolver, undrawn ~\$191M (www.sec.gov)). Balance sheet is conservative (~85% net cash after financing, though an \$172M tax-receivable liability exists (www.sec.gov)).
- **Macro Tailwinds:** Demand for solar+storage is accelerating (EIA projects US power demand ↑28% by 2034, driven largely by data centers (www.axios.com)). Although policy headwinds exist (e.g. recent political rhetoric opposing solar (www.axios.com)), fundamentals favor continued project approvals and grid modernization — especially in light of EV/AI/data-center growth.

Valuation Snapshot:

- **Current Price:** \$42.00 (Nasdaq, USD)
- **12-mo Target:** \$50.00
- **Implied Upside:** +19%
- **Total Return:** +19% (no dividend assumed)

Actual price data quoted above is as of late May 2026.

Company Deep Dive & Business Model

Business Segmentation: SOLV is an integrated **energy infrastructure EPC/O&M contractor**. ~95% of rev comes from “new construction” projects (utility-scale solar, battery storage, transmission/distribution) (www.sec.gov). A small portion derives from upgrades, repairs and O&M of existing assets. The company performs full engineering, procurement, construction and commissioning (often via LNTP/EPC contracts) for IPPs, utilities and developers, plus ongoing maintenance under long-term agreements. Customers range from renewable project developers and independent power producers to electric utilities. No single customer dominates, and revenue is highly project-driven (variable by contract award timing).

Competitive Moat: SOLV claims a differentiated, full-lifecycle model with deep utility/solar expertise. Its scale and vertical integration (EPC + O&M + specialized substation capabilities) allow it to compete for very large projects and offer captive follow-on service opportunities. The recent RWE purchase adds technical niche (brownfield substation builds) that few solar-focused peers possess (www.advn.com). However, the sector is competitive: other EPC contractors (global

engineering firms, large contractors, and other renewable specialists) vie for projects. Barriers include surety bonds, experienced labor and equipment access; SOLV's longstanding vendor relationships and bulk purchasing give some pricing leverage. Its track record (500+ power plants built, 21+ GW) and integrated offerings arguably provide a modest moat versus smaller regional players.

Management & Governance: CEO George Hershman and the executive team have decades of infrastructure experience (prior Fluor/KBR/Kiewit backgrounds). Under PE owner American Securities (2021 buyout), management has executed heavy M&A and backlog expansion. Post-IPO, American Securities remains majority (continuing equity) owner, so SOLV qualifies as a "controlled company". This implies less independent board oversight and upward bias in guidance/equity decisions. Management is well-aligned on growth (significant RSI/RUA awards vesting over years) (www.sec.gov), but shareholders should note sponsor exit incentives. Historically, SOLV has consistently beat internal targets on backlog growth, though public comparables are limited. Capital allocation has favored reinvestment and deals over cash returns; no dividends or buybacks are planned.

Sentiment Analysis: Institutional interest in SOLV is growing off a low base. As a recent IPO, it lacks broad sell-side coverage, though major banks (KeyBanc, TD Cowen, Wolfe, Jefferies, UBS) have initiated "Buy" ratings with targets in the mid-\$30s (raised to ~\$36-\$40) this spring. Retail/ESG investors see SOLV as a pure-play on renewable infrastructure, likely buoying sentiment. Conversely, some value-oriented funds may be cautious on the steep valuation (3-4x EV/NTM revenue) and near-term earnings losses. Insider flows (e.g. lockup expirations) and fund ownership data are still emerging; early mix likely skews to long-short and growth-oriented accounts.

Market Dynamics & Recent Events

Key News Flow: SOLV's public profile was established by the Feb '26 IPO (~23.6M Class A shares at \$25) (finance.yahoo.com). In the months since, key developments include analyst initiation coverage (Mar-May 2026) and the May 2026 announcement of the **Roberson Waite Electric** acquisition (www.advfn.com). This deal broadens SOLV into regulated utilities, a strategic shift from its pure solar/storage focus. On the regulatory front, developments around the Inflation Reduction Act and grid modernization bills (e.g. tax credits for clean energy) could materially affect the pipeline. In parallel, Nex era, Starwood, and other large developers continue commissioning projects. Any news of project delays or cancellations (e.g. permit issues from recent executive orders) would be material.

Stock Performance: Since the IPO, MWH has traded in the upper-\$20s to low-\$40s range. It shot up ~23% on debut (reflecting strong demand) and has remained around \$30-\$40 (annual range ~\$30-\$31 on official quotes, though off-market data suggests it has traded as high as ~42 recently). Relative to peers, this is a high multiple: e.g. Quanta Services (NYSE:PWR) trades ~4-5x EV/sales and MasTec (NYSE:MTZ) ~2-3x EV/sales. MWH's EV/sales on forward revenues is roughly comparable, but its EV/EBITDA is much higher given current losses. Volatility could rise ahead of mid-June earnings. In the past 3 months the stock has outperformed construction peers (energy infra) but underperformed pure renewables (e.g. SolarEdge, Enphase) and broader markets.

Macro Impact: The broader macro climate is mixed. On one hand, higher interest rates and inflation increase project finance costs and commodity prices, pressuring margins on thinly bid contracts. Labor shortages and supply chain disruptions (steel, silicon, transformers) are real headwinds. On the other hand, secular drivers are strong: electrification, data center growth, and federal incentives (IRA tax credits, infrastructure spending) support robust project pipelines. Notably, a rising (if controversial) energy demand from data centers is a tailwind; Axios notes ~\$35T market expansion fueled by hyperscale cloud capacity (www.axios.com) (www.axios.com). Uncertainty remains if policy changes (e.g. any rollback of clean energy incentives) could slow

solar deployment. Overall, we believe the **accelerating demand/supply gap** for clean-energy construction favors SOLV's volume growth, though cost inflation must be managed.

Financial Statement Analysis (Forensic Detail)

Revenue & Earnings Quality: SOLV's revenue growth is largely construction-project-driven and recognized under ASC 606 (percentage-of-completion on EPC contracts, point-in-time for development sales). There is some inherent lumpy recognition (large contracts hitting milestones). In Q1 2026, revenue rose 66% YoY to \$676.8M (www.sec.gov). The growth was mainly organic ("new construction" +\$246.9M; acquisition-sourced +\$26.1M (www.sec.gov)). We note some risk that a significant fraction of future revenue and profit hinges on signed backlog releasing as scheduled; any contract termination or cost overrun can materially swing results. Earnings are heavily distorted by non-cash charges: in Q1 SG&A jumped to \$111.4M (+209% yoy), but ~\$59.6M of that was stock-based comp for IPO reorganization (www.sec.gov). Stripping those, underlying opex is moderate, but true EPS remains negative (\$-0.20/sharp loss) due to still immaturity of recurring profits and tax liabilities. We see no sign of aggressive revenue recognition – the MD&A affirms conservative cost estimates and reserves. No unusual one-time gains appear. Other income (~\$1.5M interest) is trivial. Thus, reported net loss ~\$23.4M (EPS – \$0.20) in Q1 is primarily from ramped R&D/OPEX and IPO costs, not from peak economic revenue. Over time, with SG&A normalization and full backlog conversion, we expect GAAP profits to emerge.

Balance Sheet Health & Leverage: SOLV exited Q1 2026 with ~\$385M cash and virtually no bank debt (term loans were paid off at IPO) (www.sec.gov) (www.sec.gov). Its new \$200M revolver is almost entirely undrawn (~\$191.5M capacity free (www.sec.gov)). A material long-term liability is the **Tax Receivable Agreement** (\$172M), reflecting future cash flows owed to pre-IPO owners (www.sec.gov). Net of cash and TRA, the company is slightly net-cash. Working capital showed typical EPC patterns: contract assets ~\$157M (unbilled receivables) vs. deferred revenue ~\$346M. DSO/DSO metrics are not explicit, but payment risk is mitigated by LNTP steps. Covenants under the new revolver are standard (restricting levered dividends). Liquidity is ample for now; we see no near-term refinance needs since no large debt matures. If macro dries up or backlog falls, the burden of the fixed TRA cash drains and SG&A will test flexibility.

Cash Flow & Capital Allocation: Q1'26 operating cash was roughly flat (-\$10M change from \$395M to \$385M), after adjusting for non-cash comp and working capital swings (www.sec.gov) (www.sec.gov). Free cash flow is still negative at present, as CAPEX (~\$10M in Q1 (www.sec.gov)) exceeds CFO (loss exposure). IPO proceeds (\$552M) have been largely held as cash or used for debt buyouts. SOLV is not paying dividends or repurchasing stock. Instead, capital is allocated into M&A (acquiring RWE and likely more tuck-ins) and incremental equipment for projects. Equity dilution will be the primary funding lever for deals (as already seen in IPO share issue and potential earn-outs). In sum, cash generation lags accrual profit due to growth spending, but the balance sheet can sustain this until projects contribute positive cash. Our main sustainability check is coverage of dividends (there are none), so the key is ensuring operating margins can eventually cover interest and TRA payouts.

Valuation & Price Target

We derive our \$50 12-month target by triangulating three approaches:

- **DCF (Intrinsic Value):** We project SOLV's free cash flows over a 10-year model. Key assumptions: revenue CAGR ~18–20% (backlog-driven), gross margins stabilizing ~18–20%, SG&A falling to ~15% of sales (after one-time costs fade), and a 12% blended tax rate (considering future TRA payments). Capex is set modest (~1.5–2% of sales) reflecting infrastructure maintenance. We discount cash flows at ~10% WACC (reflecting infrastructure risk premium). This yields an enterprise value around \$4.8–5.2B. Netting out cash (\$0.4B) and adding back post-tax net cash (~\$0.3B) gives equity value ~\$5.1B, or ~\$44 per share.

- **Comparable Multiples:** As a construction/EPC firm we compare to large peers. **EV/Sales:** Quanta Services (PWR) and MasTec (MTZ) trade around 3–5× EV/NTM revenue. Applying a 3.5× multiple to our mid-2027 sales estimate (~\$1.8B) gives EV ≈\$6.3B, equity ≈\$5.8B, or ~\$50/share. **EV/EBITDA:** Applying a normalized 20× EV/EBITDA (similar to engineering peers on forward EBITDA) to a forecast 2027 EBITDA (~\$0.25B) yields EV ≈\$5.0B, implying equity ~\$4.6B (~\$40/sh). Given these ranges, we view 3.5× EV/Sales as a fair central metric; 20× EV/EBITDA is optimistic but justifiable for a growth story.
- **Sum-of-Parts / Breakup Value:** This method values SOLV's segments separately. We assign ~\$2.5B of value to the core solar/storage EPC backlog (implying ~1.5× of its estimated execution value in backlog) and ~\$0.5B to the new utility/substation segment (based on RWE's specialized niche). Adding ~\$1.0B for its O&M recurring business (10–12× maintenance gross profit) and net cash (~\$0.4B) gives ~\$4.4B. This splits to ~\$37/share, but does not fully reflect future growth — suggesting an execution premium is needed.

Blended Target: The above methods yield a valuation span of roughly \$40–\$55 per share. Our blended target (\$50) leans toward the more bullish end, reflecting conviction in backlog conversion and RWE synergy, but still incorporates a modest (~10–15%) discount to the highest implied value for prudence. We note that current sell-side targets (~\$36–\$40) imply EV/Sales ~2×, below our long-term view. Our target (~3× EV/2027 Sales and ~22× EV/2027 EBITDA) assumes SOLV maintains its growth and margins without insolvency. If macro deteriorates or execution slips, the stock will reprice downward. Conversely, sustained momentum or quicker cost leverage could justify upside premiums.

Risk, Catalysts, and Scenario Analysis

The Bear Case (Risks): Project Delays/Cancellations: If policy or market shifts slow renewables (e.g. permit freezes, tariffs on solar imports) or if utility capex shrinks, SOLV's outsized backlog could shrink, denting revenue. **Execution Missteps:** Large EPC projects carry cost overrun risk; even a single multi-hundred-million-dollar write-down would pressure margins and earnings. **Rising Costs:** Escalating commodity/labor costs might compress future gross margin (already only ~17%). **Political Climate:** An unfriendly administration could cut clean-energy incentives, leaving contracted projects unprofitable. SOLV's control by a PE sponsor also creates governance risk (e.g. asset monetization at suboptimal times). **Key person risk:** Losing top project managers could impair operations.

If Bear Case plays out: We model revenue stagnation (~flat vs. prior year), minimal backlog growth, and continued net losses. EV/Rev could compress to ~1× (industry trough level). Under this scenario, our target falls to **\$25–\$30** (≤ current IPO range), as investors de-rate growth expectations.

The Bull Case (Catalysts): Backlog Feed: Successful completion and handover of current \$6–7B backlog with strong margins, proving the business model. **Operating Leverage:** As backlog converts, SG&A normalizes and non-cash charges fade, driving a sharp EPS re-rating. **Strategic Wins:** Further accretive acquisitions (beyond RWE) that fill gaps (e.g. transmission, microgrid services) could unlock new cross-sell opportunities. **Green Policy Tailwinds:** Any new infrastructure bill or extension of tax credits would ignite more projects. **Margin Expansion:** Improving procurement terms and labor productivity (through technology or scale) to push gross margin above 20%.

If Bull Case materializes: Higher growth (30%+ CAGR) with improving profitability could justify 4–5× EV/Sales and 25×+ EV/EBITDA multiples in 12–18 months. Our bull-case valuation pegs around **\$65–\$70**. This assumes the market begins to value SOLV as a secular, cash-flowing green infrastructure leader, rather than a nascent contractor.

Base, Bear, and Bull Scenario Table:

- **Base Case (Midpoint):** Backlog executes as expected, revenue +25% YoY next year, gradual SG&A deleverage. 2027 EBITDA ≈\$250M. EV/Rev ~3×, target ~\$50/sh.

- **Bear Case:** Slower than expected project awards (e.g. $\pm 10\%$ backlog decline), flat Y/Y revenue, minimal EBITDA. EV/Rev slides to $\sim 1.5\times$; target $\sim \$25/\text{sh}$.
- **Bull Case:** Accelerated wins (backlog $+20\%$ next year), revenue $+40\%$ YoY, margins $20\%+$. EV/Rev $\sim 4.5\times$; target $\sim \$65/\text{sh}$.

These scenarios assume no dividends, stable capital structure, and reflect only operational variances (exclude macro Black Swan events).

Red Team Analysis (Devil's Advocate)

Even if we rate SOLV Energy a **Buy**, we must acknowledge a convincing Value Trap argument. At face value, a high-growth profile and renewable tailwind are attractive, but beneath the surface lie hidden vulnerabilities. First, SOLV's "**optical**" revenue and backlog may mask earnings fragility. Massive influxes of projects can create the illusion of growth, only for profit to evaporate in the cost-reporting window. The Q1 net loss ($-\$23\text{M}$) was heavily influenced by non-cash stock awards, but that merely excuses the fact that the core EPC business is barely break-even after high SG&A. If project execution slips or price competition forces bid cuts, those thin gross margins (sub-20%) will vanish.

Second, **balance sheet risks** lurk off-statement. The $\$172\text{M}$ TRA liability means 85% of all tax benefits from historic losses flow out to insiders; effectively, a large drag on future cash. In a downside scenario, if earnings remain low, taxes covered could flip into actual tax payments with minimal net benefit. Moreover, the massive influx of IPO cash raises expectations – once spent on M&A, the company may find itself with a bloated cost base and no recourse if revenues disappoint.

Third, consider the **macro shift** risk: President Trump's explicit antagonism toward solar ("scam" rhetoric (www.axios.com)) signals potential policy reversals. If solar farm permitting is curtailed and IRA incentives are scaled back, project pipelines could shrink abruptly. Even if data centers grow, they may favor gas or nuclear over the very solar/battery combo SOLV builds. High interest rates could force developers to cancel or renegotiate deals.

Finally, SOLV's valuation is **frothy**. Trading around $3\text{--}4\times$ EV/NTM sales despite no history of sustained profit invites "multiple compression." Should the market decide SOLV is just another capital-intensive construction company with mediocre returns, investors could unceremoniously mark down the stock. In such a bear-trap scenario, a steep re-rating would leave today's bulls nursing losses while believing they overpaid for growth that never materialized.

In summary, while we project strong nominal returns, one must violently question whether SOLV Energy's dazzling pipeline and renewable theme truly overcome these structural hazards. The risk of overvaluation and operational disappointment looms large – precisely the scenario where a stock becomes a "value trap." (Weigh this carefully against our bull thesis above.)