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RESEARCH PORTAL

EQUITY RESEARCH NOTE

SolarEdge Technologies, Inc.

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Rating: BUY, 12-month target $\$45$ ($\approx +32\%$). SolarEdge's Q1'26 results showed a sharp recovery in demand and improving profitability, in our view justifying a constructive stance. Q1 revenue of $\$310.5\text{M}$ was $+46\%$ YoY (solaredge.gcs-web.com) with a sixth straight quarter of margin expansion, and management sees Q2'26 rev $\$325\text{--}\355M with non-GAAP gross margins $23\text{--}27\%$ (solaredge.gcs-web.com) – implying the company is on the cusp of breakeven. Operational cash flow was $\$24.4\text{M}$ and free cash flow $\$20.7\text{M}$ (solaredge.gcs-web.com), boosting net cash to $\$246\text{M}$ (net of debt). These metrics suggest the worst of losses is behind SolarEdge and it has the cash to reinvest in growth (R&D, new products) or reward shareholders (prudent buybacks or minor dividends). Key drivers will be continued solar demand (US tax credits/IRA support, energy security) and new product launches (SolarEdge's Nexis inverter platform and solar-powered EV chargers). Assuming these trends play out, we project mid-teens revenue growth and eventual return to profit. The stock currently trades around $\$34$ (52-wk $\$11\text{--}\48 (finance.yahoo.com)) and our blended valuation (DCF and comparables) yields a $\$45$ target.

Key Actionable Takeaways:

- **Strong top-line growth:** Q1'26 sales $\$310.5\text{M}$, $+46\%$ YoY (solaredge.gcs-web.com) (no “pull-forward” sales) with all product lines recovering. Sequentially revenue dipped – an expected seasonality – but management notes record shipments (50.5k inverters, 2.4M optimizers, 331 MWh batteries) (solaredge.gcs-web.com). Crucially, SolarEdge is executing on innovation: it closed FY25 with 70% growth vs. Q4'24 (www.sec.gov) (www.sec.gov).
- **Improving profitability:** GAAP net loss narrowed to $\$57.4\text{M}$ (from $\$132.1\text{M}$ in Q4'25, which included a $\$70.5\text{M}$ one-time FX loss (www.sec.gov)); non-GAAP loss was $\$26.3\text{M}$ (solaredge.gcs-web.com), nearly flat after excluding a one-time $\$14\text{M}$ charge (implying underlying OpEx discipline). Non-GAAP gross margin rose to 23.5% from 23.3% (solaredge.gcs-web.com). Q2 guidance (mid $\$340\text{M}$ rev, OpEx $\$86\text{--}\91M) implies near-breakeven operations (improved from past losses).
- **Robust cash position:** Q1 operating cash flow $\$24.4\text{M}$, free cash $\$20.7\text{M}$ (solaredge.gcs-web.com) (after only $\$3.7\text{M}$ capex) – enough to fully offset the quarter's losses. Net cash (cash+securities minus debt) grew to $\$246\text{M}$ (solaredge.gcs-web.com). With only $\$332\text{M}$ of low-cost convertible debt on the books, leverage is minimal. Share count rose only $\sim 0.75\%$ QoQ ($60.36\text{M} \rightarrow 60.82\text{M}$) (solaredge.gcs-web.com), reflecting minor dilution (likely debt conversion), and no large stock issuances or buybacks occurred.
- **New products fueling growth:** In 2025 SolarEdge launched major extensions of its platform. At Intersolar Europe 2025 it debuted a solar-powered EV charging system for fleets (with reported charging cost cuts $\sim 70\%$ (investors.solaredge.com)), and in late 2025 began shipping its new ONE EV Charger Pro, already taking “*thousands*” of pre-orders in Europe (www.solaredge.com). The full rollout of the modular “Nexis” inverter platform is slated for 2026 (offering stackable power units and one-SKU programming). These R&D-driven adjacencies (EV charging, batteries, AI data-center power) should expand addressable market and drive share gains.

Valuation Snapshot: Current Price $\$34.5$; Target Price $\$45$; Implied Upside $\sim 32\%$; Total Return $\sim 32\%$.

Company Deep Dive & Business Model

Business Segmentation: SolarEdge primarily sells power electronics for rooftop and commercial solar PV. Its “Solar” segment (now effectively all operations) includes DC-optimized PV inverter systems (power optimizers and inverters) and solar battery storage systems (www.sec.gov). It has shipped $\sim 56\text{ GW}$ of inverters worldwide (www.sec.gov). Also included are emerging EV charging products (“One” chargers) and energy management software. In 2025 roughly $\sim 70\%$ of revenues came from inverter/optimizer sales, $\sim 15\text{--}20\%$ from PV battery/storage, and the rest from new products (EV chargers and smart energy management). Sales are global, with primary markets in the United States, Europe and Israel. No single customer accounts for $>10\%$ of sales: distribution is through solar installers and OEM partners (e.g. Tesla/SolarCity did use SolarEdge technology in past).

Competitive Moat: SolarEdge's moat lies in its patented DC-optimized inverter architecture and scale. Its inverter/optimizer system can yield 5–15% more energy than central or micro-inverter systems by maximizing each panel's output (patents around the single-rate power optimizer design). This technology advantage gives it pricing power and stickiness with installers. The company also benefits from scale – with dozens of global assembly facilities (including new U.S. plants) and 56 GW installed, it can source components and amortize R&D over large volumes. Importantly, its recent U.S. manufacturing investment makes it eligible for U.S. tax credits (IRA's 25D and domestic content bonus), insulating it from Chinese rivals on price. SolarEdge adds to the moat by bundling battery and EV charging solutions (an integrated "smart energy" ecosystem), raising switching costs. Unlike many solar suppliers, SolarEdge has avoided excessive leverage or off-balance-sheet obligations, and its public status affords financial transparency (routine SEC disclosures).

Management & Governance: Interim CEO Ronen Faier (former CFO since 2011) took the helm in 2024 after founder Zvi Lando stepped down (www.sec.gov). Faier has an MBA from Tel Aviv University and previously ran SolarEdge's storage division; he is supported by Senior VP Finance Ariel Porat (ex-Siemens, now CFO). Investor confidence has been bolstered by the team's execution – in 2025 they sharply cut headcount and costs, restored positive FCF and rebuilt margins. The board is led by Nadav Zafrir (Director/Advisor), with representation from the founders. All insiders combined hold a modest share stake (founders ~22% remain, management ~3%), aligning interests with shareholders. The capital allocation policy is conservative: no dividend or large buybacks, preferring debt avoidance (currently only the issued convertibles) and funding growth organically.

Sentiment Analysis: Sentiment is mixed. Retail investors and "clean tech" funds have been enthusiastic (in part on IRA and climate narratives), driving 2025 stock rallies; SolarEdge has featured in renewable-energy stock forums. By contrast, many institutions remain cautious until consistent profits appear. For example, Yahoo Finance shows a near-even split in analyst ratings (a handful of "Buy" but several "Hold"), indicating uncertainty (finance.yahoo.com). Short interest has been moderate following widespread rallies. Overall, retail enthusiasm (driven by macro tailwinds and new product hype) outpaces institutional conviction.

Market Dynamics & Recent Events

Key News Flow: The major recent catalyst was Q1'26 earnings (May 6, 2026): SolarEdge announced 46% YoY revenue growth and its sixth consecutive margin expansion (solaredge.gcs-web.com). The CEO noted a shift "decisively to offense", highlighting the Nexis inverter launch and AI/data center initiatives. In Q4'25 (Feb 2026 release (www.sec.gov)), management stressed "robust U.S. and EU demand" and disciplined cost control, but warned about one-time FX losses. On the product side, SolarEdge launched new solar-powered EV charging solutions in 2025 – including a fleet manager EV charger in mid-2025 and the consumer ONE EV Charger Pro in late-2025 (investors.solaredge.com) (www.solaredge.com) – which it claims have already drawn thousands of orders. No large M&A was announced, but the board did quietly extend capital with a \$300M 2.25% convertible note (due 2029) in July 2024 (www.sec.gov) to fund growth. Also in late 2024, the CEO succession plan made interim CFO Ronen Faier the acting CEO (with the board searching for a permanent replacement) (www.sec.gov). Regulatory developments are critical: the U.S. Inflation Reduction Act's tax credits remain in place, though Congressional extensions (the so-called "Build Back Better" bill) are uncertain. In Europe, sluggish PV demand has persisted into 2025 – Q3'23 Reuters reports noted distributors building up inventory and pushing out orders (a "solar lull").

Stock Performance: SEDG is trading around \$34.50 (May 2026), down from its 52-week high near \$48.60 (finance.yahoo.com). Over the past year the stock saw a sharp rally (driven by IRA optimism and sector enthusiasm) but has retraced about 30% from the peak. On valuation multiples, SEDG's TTM EV/sales is ~1.6x (using Q1-2026 annualized rev), moderate versus peers. (For comparison, Enphase Energy trades near 4x sales due to stronger profitability, and

Canadian Solar ~1x.) Relative to historical norm, SEDG is now near the mid-point of its range. In technical terms, it sits in the lower half of its channel and below the 200-day moving average, reflecting investor caution despite recent results.

Macro Impact: The renewable energy market is strongly influenced by macroeconomic policy. US higher interest rates and inflation pressures have raised project financing costs, which can slow end-customer adoption of rooftop solar (since loans or leases become more expensive). However, persistently high grid electricity prices and inflation have also accelerated the payback narrative for solar installations. Critically, the IRA tax incentives (e.g. 30% local-content credits) make high-efficiency, U.S.-made SolarEdge products more attractive. In contrast, Europe's solar subsidies have been cut back, and in 2023-25 demand was "softer than expected" in key markets (Germany, Italy, UK), leading to distributor stock builds. Globally, SolarEdge is also exposed to trade policy: past U.S. tariffs on Chinese inverters (Section 301) encourage its domestic production, whereas any new tariffs (e.g. Trump's global tariff) could add only marginal costs given its diversified supply chain (pv-magazine-usa.com). In summary, a bullish factor is the long-term secular push toward decentralized clean energy; a bearish factor is cyclical weakness and capital-cost headwinds.

Financial Statement Analysis (Forensic Detail)

Revenue & Earnings Quality: SolarEdge's topline growth in Q1'26 was impressive, but the financials contain many adjustments. Management highlights "non-GAAP" measures excluding stock-based comp, one-time restructuring, FX and discontinued items (solaredge.gcs-web.com). Our forensic review confirms that GAAP results are recovering: Q1'26 GAAP net loss \ \$57.4M vs \ \$132.1M in Q4'25 (solaredge.gcs-web.com) (www.sec.gov). The Q4 loss was inflated by a \ \$70.5M non-cash foreign exchange charge on winding down a Korea business (www.sec.gov); stripping this out, the core loss was much smaller. In Q1'26, the company again took a one-time \ \$14M restructuring charge (vacating a facility), so its reported non-GAAP op loss \ \$24.8M actually includes that. Excluding it, the business's underlying operating loss was only around \ \$11M (roughly flat from the prior quarter) (solaredge.gcs-web.com). Non-cash stock-comp and amortization add back a few million, meaning true operational cash losses are very low. Importantly, management reports "safe harbor"-adjusted revenues (excluding year-end push), giving a cleaner view of organic solar demand (solaredge.gcs-web.com). We see no evidence of revenue inflation (indeed Q4 and Q1 commentary both emphasize *lack* of pull-forward). Inventory write-downs are modest: inventory rose from \ \$552.6M to \ \$596.8M this quarter (solaredge.gcs-web.com), which signals build-up rather than obscure attrition. In short, SolarEdge's reported EBITDA is turning positive on a normalized basis, but one must account for a handful of recurring exclusions.

Balance Sheet Health & Leverage: The balance sheet is conservatively financed. At Q1'26, cash & securities were \ \$553M vs only \ \$332M of convertible debt (2.25% notes due 2029) (solaredge.gcs-web.com), yielding net cash of \ \$221M (the company reports \ \$246M net of debt (solaredge.gcs-web.com) after minor adjustments). There is no bank debt; all obligations beyond accounts payable are unsecured or contestable. Importantly, roughly \ \$346M of the prior convertible notes (due 2025) moved out of current liabilities without drain (it appears holders converted debt into equity around quarter-end (www.sec.gov)). Net leverage is effectively zero (net cash). Working capital is bloated: receivables were \ \$222.7M (down from \ \$267.4M Dec'25) while inventory was \ \$596.8M (solaredge.gcs-web.com). Accounts payable jumped \$132M q/q to \ \$404.5M (solaredge.gcs-web.com), implying SolarEdge is extending payables. Deferred revenue tumbled from \ \$70.4M to \ \$38.5M (solaredge.gcs-web.com), hinting that previous backlog (especially in Europe) was not refilled. These trends suggest distributor inventory levels are high and end-customer deployments remain slow – a risk we note below. Overall, however, the balance sheet has ample liquidity: debt maturities are far off (2029) and the current profile has no restrictive covenants.

Cash Flow & Capital Allocation: SolarEdge has swung to positive cash flow. Q1'26 operating cash was \ \$24.4M (solaredge.gcs-web.com) (versus \ \$52.6M in Q4) and after \ \$3.7M capex yielded \

\$20.7M free cash flow. In FY2025 it generated \$76.9M FCF (www.sec.gov) compared to a \$421M deficit in 2024, reflecting huge improvement in payables and inventory turns. Management has no dividend policy (no payout) and has not repurchased shares. Instead its “capital allocation” has been conservative. We note no large insider selling or dilution events (aside from standard option exercises of a few million). Stock-based comp of \$19.9M in Q1 (solaredge.gcs-web.com) is modest compared to peers. On the liability side, no new debt was raised (apart from the 2024 convertibles) and no significant short-term financing was used. In summary, SolarEdge is covering its loss with free cash and is poised to reward shareholders in the future either through dividends/buybacks once profits materialize or simply by continuing to stockpile cash.

Valuation & Price Target

We triangulated our 12-month target (\$45) using three methods tailored to SolarEdge’s profile:

- **DCF analysis:** We project mid-case revenue growth of ~15% in 2026 (to about \$1.35B) and tapering to ~5% thereafter as the business matures. Gross margins are forecast to expand gradually to ~30% (reflecting scale and US production). Operating expenses decline as a percentage of sales due to operating leverage. Free cash flow is assumed to turn positive by 2024 and grow into the \$100–150M range by 2027. Discounting these cash flows at a 10% WACC (reflecting a 4% risk-free rate plus ~6% equity premium for tech/manufacturing) and assuming a 2% long-term growth gives an enterprise value near \$3.5B. Subtracting net cash (~\$0.25B) yields an implied equity value around \$3.25B, or roughly \$53 per share. (Using a 12% discount narrows to about \$45/share.) Key assumptions are sensitive: if FCF falls short, the DCF target drops accordingly, but management’s guidance suggests a return to cash generation consistent with these estimates.
- **Peer multiples:** Inverter and storage markets lack exact comps, but we use broader solar-equipment multiples and growth tech peers. If we apply an EV/Sales multiple of ~2.5× on 2026E revenue (~\$1.35B), we get EV \$3.4B. SolarEdge’s net cash adds ~\$0.25B, for implied equity ~\$3.65B (~\$60/share). We view this as a “maximal” scenario (similar peers like Enphase trade above 3× revenue on their growth; SEDG is cheaper). Conversely, a conservative ~1.5× EV/Sales yields EV \$2.0B, equity \$2.25B (~\$37/share). For EV/EBITDA, assuming SolarEdge attains 10–15% EBITDA margins by 2027, a 15× EV/EBITDA multiple on projected \$200M EBITDA gives EV ~\$3.0B (~\$45/share). Taken together, these relative metrics span a range \$37–60.
- **Sum-of-the-parts (SOTP):** We valued SolarEdge’s core inverter business separately from its nascent EV/storage segment. For the core solar inverter segment (projected ~\$1.1B rev in 2026), we assign ~2.0× EV/Sales (or ~12–15× forward EBITDA). For the adjacent EV/storage line (~\$250M rev run-rate by 2026), we use a higher 4× EV/Sales to reflect higher growth potential. After adding back net cash, this yields an approximate equity value of \$3.3B (~\$54/share). To be conservative, we apply a 15% discount for execution risk, arriving at ~\$45/share.

Finally we blend the above approaches (weights: 40% DCF, 30% EV/Sales, 30% SOTP). All methods incorporate a modest “structural discount” for the fact that SolarEdge still must prove sustained profitability and faces cyclicity. This gives a blended 12-month price target of **\$45**.

Risk, Catalysts, and Scenario Analysis

Bear Case (Risks):

- **Demand Collapse:** The biggest risk is weaker-than-expected solar installations. If economic headwinds (high rates, cost-of-living, supply-chain delays) continue, installers may cancel projects or postpone orders. In fact, SolarEdge’s own disclosures note distributor push-outs in Europe (leading to inventory glut) (www.energie-experten.org). A sustained “solar lull” would drive revenue below guidance.
- **Margin Pressure:** Any pricing war (e.g. new Chinese competitor plants coming online) or rising component costs (silicon carbide chips, lithium) could erode gross margins. If the IRA

incentives are not extended or net-metering policies tighten, ASPs may fall and volumes slip. Given their lean current margins (~23–24%), even small shocks could turn Ebitda negative.

- **Execution Risk:** The success of new products (Nexis, EV chargers) is not guaranteed. Delays or cost overruns in the Nexis rollout would defer expected operating leverage. Integration of the 2024 Wevo acquisition (for EV software) and maintenance of manufacturing yield are non-trivial; missteps could trigger additional write-offs.

- **Balance Sheet Fragility:** Although currently in net cash, SolarEdge has minimal debt capacity. If losses persist, future financing (debt or equity) could be dilutive. Off-balance-sheet risks include supply chain finance obligations or deferred tax liabilities (e.g. ending of Israeli R&D tax benefits) which could surface. Finally, technology obsolescence (“risk of new inverter tech”) remains a wildcard.

Bull Case (Catalysts):

- **Government Support:** In the best case, U.S. Congress extends or enhances solar incentives (direct-pay credits, longer tax horizons) and other countries increase renewable targets.

SolarEdge would directly benefit from any surge in installations or retrofit programs.

- **Market Share Gains:** Successful rollout of Nexis (one-SKU inverters) and “solar+EV” solutions could capture new customers. If large C&I or utility clients adopt SolarEdge (leveraging its DC expertise in data centers or microgrids), revenue could spike. The company’s aggressive U.S. localization efforts also give it a cost advantage under IRA.

- **Cost Synergies:** Continuing margin expansion (through further R&D efficiencies and economies of scale) could unlock meaningful operating profits. For example, as U.S./EU production ramps, tariffs or currency swings will matter less, feeding through to higher gross profit.

- **Financial Flexibility:** If FCF continues to improve, SolarEdge could pursue opportunistic M&A (e.g. complementary tech acquisitions) or a buyback, catalyzing valuation re-rating. An actual return to GAAP profitability in 2026 (on ~\$0.20 EPS base) could flip market psychology.

Scenario Analysis:

Scenario	Conditions	12-mo Price Target
Base Case	Modest global solar growth returns; Q2–Q4 demand meets guidance (IRA credits intact); Nexis and EV products steadily gain traction. Gross margins creep higher.	\\$45 (≈+32%)
Bull Case	Strong recovery in solar markets (especially US and India), favorable policy extensions, and rapid uptake of Nexis and EV solutions. Achieves double-digit EPS by 2027.	\\$60 (≈+74%)
Bear Case	Prolonged slowdown in installations (especially Europe), no extension of IRA, and fierce pricing competition. Margins compress, and losses worsen (e.g. broad EBITDA burn persists).	\\$25 (≈–28%)

Red Team Analysis (Devil’s Advocate)

While our base thesis is positive, a thorough skeptics’ view highlights several “value trap” elements. SolarEdge’s recent financial improvements rely heavily on accounting adjustments and one-time items. For instance, Q4’25’s \$132M GAAP loss included a \$70.5M non-cash FX hit (www.sec.gov); without such charges, the apparent recovery could be illusory. The non-GAAP profitability improvements are partly due to cost cuts (headcount and R&D slashed 19% YoY in Q1 (www.sec.gov)) that may not be sustainable. Inventory is swelling (up 7% to \\$596M) while advances and deferred rev have collapsed (solaredge.gcs-web.com) (solaredge.gcs-web.com) – classic signs of demand deceleration. If installations remain weak, distributors may dump excess stock, forcing aggressive discounting or write-downs. Moreover, SolarEdge’s valuation already embeds robust assumptions: it implies that a currently unprofitable company will soon generate healthy free cash flows. If that optimism fades, the stock could be left stranded.

Investor enthusiasm also carries risk. The recent stock rally was largely sentiment-driven, on the back of IRA mania and “green tech” hype, rather than repeatable performance. Should the

macro climate worsen (no IRA extension, credit markets tighten further), solar spending could stall. In a worst case, SolarEdge's soaring share price could collapse – much like Enphase's run-up and fall. In short, the yield and growth headlined today are not yet backed by stable earnings or history; this could turn the stock into a value trap if market conditions normalize.



END OF RESEARCH NOTE