

## AMERESCO, INC. (AMRC)

## AMRC: Mixed 2023 Guidance Prompts Uncertainty Around 2024 EBITDA Target

### Q4 Earnings Recap, Price Target & Estimate Updates

**AMRC: Q4 Earnings Recap.** AMRC reported Q4 Adjusted EBITDA of \$41.3MM, slightly below Consensus (\$45.0MM) and our estimate (\$45.8MM). Net revenue of \$332MM was also below Consensus (\$368MM) and our estimate (\$375MM), as was Non-GAAP EPS of \$0.35 (vs. Consensus of \$0.38 and our estimate of \$0.42). The miss stemmed from revenue slippage into 2023 from supply chain constraints, scheduling and permitting issues, and unplanned maintenance at two RNG facilities.

**Mixed 2023 Guidance But Maintains 2024 EBITDA Target:** AMRC also introduced formal FY23 and Q123 guidance. FY23 revenue is expected to be in the \$1.45B-\$1.55B range, modestly below Consensus (\$1.56B) and our estimate (\$1.76B) while EBITDA is expected to be in the \$210MM-\$220MM range, more inline with expectations (Consensus: \$212MM, our estimate: \$213MM). On the other hand, Q123 guidance of \$220MM-\$240MM in revenue, \$20MM-\$30MM in Adjusted EBITDA, and "slightly positive" Non-GAAP EPS were all well below Consensus (\$365MM; \$46.5MM; \$0.36) and our estimates (\$425MM; \$48.1MM; \$0.43). However, despite the relatively mixed 2023 guidance, AMRC maintained its 2024 Adjusted EBITDA target of \$300MM (our thoughts below).

**Our Thoughts:** Despite AMRC's formidable \$6B backlog visibility, we think there is still a general sense of uncertainty around its ability to reach \$300MM in Adjusted EBITDA by YE24. On one hand, it implies 40% y/y EBITDA growth from the midpoint of its 2023 guidance with contracting revenue and relatively timid margins. On the other hand, it implies a ~25% 3-year CAGR from YE21, a more sensible number by *somewhat* neutralizing SCE project lumpiness; however, we still wouldn't call that a "gimme" amidst ongoing supply chain constraints, RNG facility delays, and uncertainty around interest rates, policy development, RIN prices, etc. It's also worth pointing out that AMRC introduced that \$300MM EBITDA target in March 2022 when D3 RINs were near their peak and *before* any complications with SCE had surfaced – and even with the strong backlog and IRA support, we tend to think it looks a tad more aggressive than it did a year ago. When combined with the looming uncertainty over SCE force majeure and cost recovery, which continues to trend positively but remains a notable loose end, we're remaining on the sidelines for now.

**Price Target:** \$55 (from \$64) based on our NTMe EBITDA of \$218MM and an EV/EBITDA multiple of 17x. Market Perform.

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Please see important disclosures at the end of this report.

Stock Rating	Market Perform
Price Target	\$55.00
Current Price	\$46.37
Upside/Downside	19%

52 Week Range \$40.73-\$86.73



Source: FactSet

Market Cap (\$MM)	\$2,409
Enterprise Value (\$MM)	\$3,557
Dividend Yield	N/A
CF Yield	-22%
P/E (NTM)	26.5x
EV/EBITDA (NTM)	15.2x
Debt to Cap	53%

Webber ESG Quartile	N/A
Carbon Disclosure	N/A

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## Q4 Highlights & Earnings Call Notes:

### Outlook & Guidance

- **2023 Guidance:**
  - Revenue: \$1.45B-\$1.55B (Consensus: \$1.56B, our estimate: \$1.76B).
  - Gross Margin: 19.5%-20.0%.
  - Adjusted EBITDA: \$210MM-\$220MM (Consensus: \$212MM, our estimate: \$213MM).
  - Interest Expense & Other: \$30MM-\$35MM.
  - Effective Tax Rate: 5-10%.
  - Adjusted EPS: \$1.80-\$1.90 (Consensus: \$1.84, our estimate: \$2.03).
  - Operating Income: \$132MM-\$140MM.
  - D&A: \$59MM-\$60MM.
  - Stock-Based Compensation: \$19MM-\$20MM.
  - Capex: \$325MM-\$375MM.
- **Q123 Guidance:**
  - Revenue: \$220MM-\$240MM (Consensus: \$365MM, our estimate: \$425MM).
  - Adjusted EBITDA: \$20MM-\$30MM (Consensus: \$46.5MM, our estimate: \$48.1MM).
  - Non-GAAP EPS: "slightly positive" (Consensus: \$0.36, our estimate: \$0.43)
- **2024 Guidance:**
  - Maintaining Adjusted EBITDA target of \$300MM.
- London Investor Day scheduled for 5/11/23.

### Q4 Recap

- **Revenue:** \$332MM (Consensus: \$368MM, our estimate: \$375MM).
- **Adjusted EBITDA:** \$41.3MM (Consensus: \$45.0MM, our estimate: \$45.8MM).
- **Adjusted EPS:** \$0.35 (Consensus: \$0.38, our estimate: \$0.42).
- Results reflect pushout of revenue due to supply chain issues, short-term scheduling changes, and unplanned maintenance at 2 RNG facilities, as well as utility and permitting delays delaying new assets coming online.
- Gross margin of 18.6% was largely inline with internal expectations and our estimates as **AMRC** recognized a smaller portion of the lower gross margin SCE project revenue as the project nears completion.
- New Contracts: ~\$315MM.
- New Awards: ~\$260MM.
  - 12/31 Awarded Project Backlog: \$1.639B.
  - 12/31 Contracted Project Backlog: \$1.001B.
  - 12/31 Total Project Backlog: \$2.640B.
- In 2022, 14% of revenue and 50% of EBITDA came from recurring Energy Assets and O&M business.
- **Energos:** **AMRC** announced it signed a definitive purchase agreement to acquire ENERQOS Energy Solutions S.r.l., an Italian energy efficiency company for an undisclosed amount. Energos operates a large portfolio of cost saving and carbon reduction projects across multiple markets in Italy with no owned energy assets on its balance sheet. The transaction is expected to close in March 2023, is included in guidance, and is expected to be modestly accretive in 2023.

### Projects

- Revenue of \$247MM on continued SCE project recognition.
- Adjusted EBITDA: \$15.5MM (6.3% margin).

- **New Project Highlights:**

- Signed new streetlight contracts in Philadelphia, PA, Memphis, TN, and Chandler, AZ.
- Added energy efficiency and solar projects with schools in Lakeland and Ossining, NY.
- Won 8.8MW solar project with CFB Gagetown in Canada.
- New solar carport project in Buckeye, AZ with the H&M Company.

### Energy Assets

- Revenue of \$39.1MM.
- Adjusted EBITDA: \$20.1MM (51% margin).
- \$2.3B visibility (~\$1.1B on 14-year weighted average PPA remaining and ~\$1.2B estimated from remaining operational capacity and market price assumptions for RNG).
- 389MWe operating assets
  - 94MW non-RNG biogas
  - 38MW RNG
  - 244MW solar
  - 13MW other
- 530MWe assets in development
  - ~150MWe RNG
    - Expects to add 80-100MWe in 2023 - ~22MW from 2022 scheduled facilities slipping into 2023 and remaining being solar/battery.
      - Previously expected 1 plant to reach mechanical completion in Q422, two more in Q123, and 2-3 more throughout 2023 – now likely only the first three plants reach mechanical completion in 2023 with remaining slipping until 2024.
  - ~239MW Solar
  - ~122MW Battery
- Acquired three turbine 5MW wind farm in Cork, Ireland.
- Awarded rights to landfill gas at County's Central Maui Landfill in Hawaii. AMRC will design, engineer, construct, operate, and maintain a 3.2MW landfill gas electric generating facility.
- Broke ground with Bright Canyon Energy on the Kupo Solar Project at the Joint Base Pearl Harbor-Hickam in Hawaii.

### O&M

- Revenue of \$21.6MM.
- Adjusted EBITDA: \$3.3MM (15.3% margin).
- Revenue Backlog: \$1.23B.

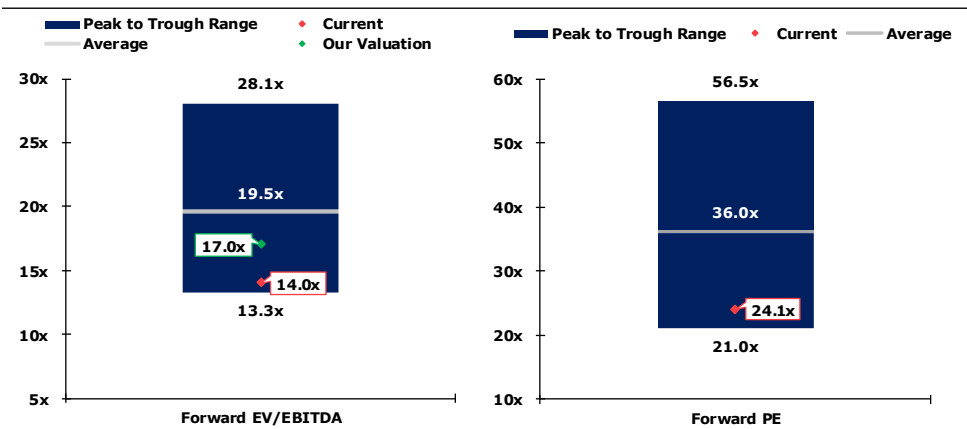
### SCE Update

- **SCE Project Background:** In Q421, **AMRC** announced it signed a Turnkey Engineering, Procurement, Construction, and Maintenance (EPCM) Agreement with Edison International (**EIX**) subsidiary, Southern California Edison (SCE) to design, build, and install 3 grid-scale Battery Energy Storage Systems (BESSs). The three BESSs will be installed at existing SCE substations in Rancho Cucamonga (112.5MW), Long Beach (200MW), and Porterville (225MW) totaling 537.5MW with 4-hour duration for a total of 2.15GWh. The Total EPC Price is \$892MM with a Guaranteed Completion Date of 8/1/22 in which **AMRC** would be responsible for various liquidated damages if not met. **AMRC** subsequently announced delays to the project due to COVID shutdowns in China and supply chain complications which *should* qualify under force majeure. In late-2022, SCE instructed **AMRC** to adjust project schedules into 2023 – likely to capitalize on IRA-related tax credits beginning in 2023. We note **EIX**

(SCE parent) expects to receive ~\$270MM in tax credits available under the IRA for all three projects.

- o ~\$30-\$35MM of **AMRC** project revenue expected to slip into 2023 likely unchanged.
- **AMRC** entitled to recover costs associated with schedule adjustment – working with SCE to analyze costs, as well as previous force majeure impact.
- Continue to expect projects to be in service and achieve substantial completion by summer 2023.

**Figure 1. AMRC’s 2-Year Historical Fwd EV/EBITDA & P/E Valuation**



Source: FactSet

**Figure 2. Webber Research AMRC Estimates**

(\$MM except per share data)	Adjusted EBITDA			Revenue			Gross Profit			EPS		
	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
<b>Q1 2023E</b>	\$27.0	\$48.1	(\$21.1)	\$234.0	\$424.8	(\$190.8)	\$39.8	\$72.2	(\$32.4)	\$0.05	\$0.43	(\$0.38)
%Y/Y Growth	-40.1%	6.6%		-50.6%	-10.4%		-41.8%	5.6%		-86.4%	19.9%	
<b>Q2 2023E</b>	\$46.1	\$49.8	(\$3.7)	\$355.4	\$446.7	(\$91.3)	\$64.0	\$75.9	(\$12.0)	\$0.36	\$0.45	(\$0.09)
%Y/Y Growth	-23.5%	-17.4%		-38.4%	-22.6%		-21.3%	-6.6%		-42.2%	-27.2%	
<b>Q3 2023E</b>	\$69.6	\$56.8	\$12.8	\$427.6	\$446.7	(\$19.1)	\$89.8	\$82.6	\$7.2	\$0.70	\$0.56	\$0.14
%Y/Y Growth	20.3%	-1.8%		-3.1%	1.2%		12.9%	3.9%		29.9%	4.3%	
<b>Q4 2023E</b>	\$75.3	\$58.6	\$16.7	\$450.1	\$440.5	\$9.6	\$96.8	\$83.7	\$13.1	\$0.77	\$0.59	\$0.19
%Y/Y Growth	82.4%	28.1%		35.7%	17.4%		57.1%	24.0%		118.3%	40.4%	
<b>2023E</b>	\$218.0	\$213.3	\$4.7	\$1,467.0	\$1,758.6	(\$291.6)	\$290.3	\$314.5	(\$24.2)	\$1.88	\$2.03	(\$0.15)
%Y/Y Growth	6.6%	2.1%		-19.6%	-5.8%		-0.2%	6.0%		0.6%	4.9%	
<b>2024E</b>	\$259.2	\$277.1	(\$17.9)	\$1,559.8	\$1,848.0	(\$288.3)	\$335.4	\$351.1	(\$15.8)	\$2.44	\$2.73	(\$0.28)
%Y/Y Growth	18.9%	29.9%		6.3%	5.1%		15.5%	11.7%		30.1%	34.7%	

Source: Webber Research & Advisory, LLC estimates, Company filings

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