



AMERESCO (AMRC)

OVERWEIGHT

REVENUE DIVERSIFICATION; FAVORABLE
LEGISLATIVE AND MACRO CONDITIONS;
STRONG BUY RATING

AMERESCO

HIGH GROWTH POTENTIAL

THESIS

In recent years, renewable energy companies have seen a positive trend in value and profitability following the decreasing price in renewable energy as a whole. Identifying this ESG team and further analyzing both macroeconomic and company-specific catalysts, there is clear potential for the valuation of Ameresco to grow in the next few years, and an opportunity to make a play on the publicly traded stock. Through analyzing catalysts and Ameresco's financial statements, conducting DCF and public comparable analyses, and accounting for risk and impact, a target price per share of \$70.89 can be assumed.

COMPANY BACKGROUND

Ameresco is a leading cleantech company that focuses on energy efficiency, infrastructure upgrades, and asset sustainability in North America and the UK. By pairing their broad service lines with deep technical expertise, Ameresco provides technology solutions for lowering carbon footprints and reducing environmental impact. Their product lines are split into three main categories - energy efficiency projects, operations and management services, and the sale of energy assets.

INDUSTRY BACKGROUND

The cleantech (also known as Greentech) industry is a growing industry encompassing companies that are focused on environmentally sustainable products. The industry has a market size of 4.6T Euros in 2020, that is expected to grow at an annual rate of 7.3% to 9.4T Euros in 2030, according to management consulting firm Roland Berger. This aggressive growth is fueled by the three main sources: energy revolution, sustainable mobility, and sustainable water consumption. Within the energy revolution, growth not only in renewable energy sources like photovoltaics and wind power, but also stationary storage sources like batteries and hydrogen. Within sustainable mobility, demand is shifting towards electric mobility and its applications in drive technology. Lastly, within sustainable water management, the shift is towards efficient water utilization techniques which have a lot of untapped potential in many countries.

KEY DRIVERS

Global Trend Towards Renewable Energy Resources. There has been a growing transition towards renewable energy sources across the world. According to the International Energy Association (IEA), renewable energy is set to expand by 8% globally in 2021, with most of the growth coming from China, USA, EU, and India. Solar energy is expected to grow 18% globally as countries like India, Brazil, and Vietnam recover from the COVID-19 pandemic and prioritize renewable energy policies. Wind energy is set to grow almost 17%, with the US and China being key markets for wind energy. Moreover, emerging technologies like green hydrogen and advanced batteries have a growing interest that can create new opportunities for renewable power. Lastly, there is a growing focus on solutions for improving performance, reusability, and recyclability of renewable energy products. This drives the case for a circular economy that involves collaboration across industries and markets, further adding value to the renewable energy industry.

PRICE:
\$51.89
 (Reflects price on 02/23/21)

TARGET:
\$70.89

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SUMMARY

	Rating	Buy
Price Target		\$70.89
FY Rev (mil)		1,215.7
52-Week High/Low		\$101.86/\$40.26
Shares Out (mil)		51.7
Market Cap (mil)		4,290
Price/Earnings		1.88
EV/EBITDA		34.6
Debt/Equity		0.49

AMRC vs. NASDAQ 6M Performance



Expanding Geographical Footprint. Ameresco has been growing its presence internationally, focusing on the European market in particular. In 2020 the company launched a wind power project in Ireland, its first outside the US and Canada. With a strong operational presence in the UK as well, Ameresco is in position to expand its presence across the European market which has been prioritizing clean energy solutions.

Reducing Renewable Prices. With all time gas prices, following the Russia-Ukraine invasion, and reducing renewable energy prices, Ameresco's renewable energy solutions will be in higher demand as companies transition into using renewable energy. According to the International Renewable Energy Association (IRENA), YoY costs for Concentrating solar power (CSP) fell by 16%, onshore wind by 13%, offshore wind by 9% and solar PV by 7%. Moreover, 62% of the total renewable power added in 2020 was cheaper than fossil fuel options, in many cases having lower operational costs as well. With falling renewable power prices, high fossil fuel prices, the broad energy transition by many companies will only be expedited, creating demand for Ameresco's energy solution services.

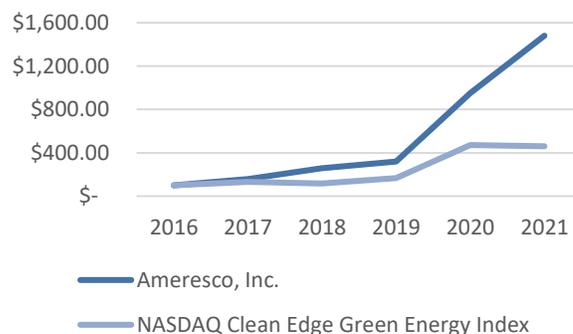
US Governmental Support for a Clean Energy Economy. President Biden has signed a Sustainability Executive Order that directs the federal government towards sustainability initiatives. These include 100 percent carbon pollution-free electricity (CFE) by 2030, 100 percent zero-emission vehicle (ZEV) acquisitions by 2035, A net-zero emissions building portfolio by 2045, Net-zero emissions from federal procurement no later than 2050, and Net-zero emissions from overall federal operations by 2050. Beyond a governmental energy transition, President Biden has outlined support for a Bipartisan Infrastructure Deal to boost the clean energy transition. This includes a \$66B investment in sustainable passenger transportation, \$7.5B investment in electric vehicle charger network, and \$42B to improve modern infrastructure. With support from the government, Ameresco's clean energy solutions will be in high demand as companies and industries transition to cleaner energy sources.

Recent Acquisition of Plugsmart. Ameresco acquired Plugsmart in December 2021, an energy-services company that focuses on improving building solutions by implementing budget-neutral capital projects and developing building automation systems. This acquisition serves to expand Ameresco's presence in the smart buildings sector. By

complementing Ameresco's approach to providing energy solutions tailored to customers' needs, we expect this acquisition to create revenue synergies and improve Ameresco's market share in the smart buildings industry and beyond.

Expansion of New Projects. Ameresco recently announced a 537.5-megawatt battery energy storage contract with Southern California Edison. This is the largest Ameresco contract to date and highlights the growth opportunities in the battery storage industry, especially in Southern California where extreme weather events drive energy supply emergencies and the need for battery storage solutions. After this project is completed, it will directly contribute to the State of California's carbon neutrality goals, further signaling opportunities with other State governments. As companies, institutions, and governmental entities exit the COVID-19 crisis, many face constrained operating budgets with the need to improve upon vital infrastructure. Furthermore, they are also placing more importance on incorporating environmental sustainability objectives into their business lines. This represents a great opportunity for Ameresco's energy efficiency and distributed energy assets projects that guarantee cost savings. Most notably, Ameresco has and continues to drive partnerships with small-and-medium size colleges and universities.

Comparison of Five-Year Cumulative Total Shareholder Return (2016-2021)



FINANCIAL OVERVIEW

Explosive Growth and Operational Excellence.

Historically, Ameresco exhibited slow, standardized growth levels. However, in the past five years – through the expedition of large government contracts and impactful ESG initiatives – Ameresco grew from an average revenue growth percentage of 7.6% between 2008 and 2017 to 20% between 2018 and 2021. Supporting this, Ameresco demonstrated operational efficiency with its rampant expansion by increasing its net income margin percentage from 4% to 5.6% in the same time period. Ameresco's excellent historical performance and cream of the crop management only amplifies their long-term bull case.

Ameresco's government contracts and project-based business model implies there is a huge dependency on backlogs. Backlogs are not an incorporation of Ameresco's top line and convey strong forward-looking growth as contracts are confirmed, but not awarded. Specifically, Ameresco's 12-month project backlog grew from \$593,860 in 2020 to \$1.296,410 in 2021. According to Ameresco's 10K, awarded projects take between 12 and 24 months to become a fully contracted backlog. This model ensures future revenues are secured far in advanced and allow Ameresco to operate on a forward-looking basis with an eye for expansion.

Solvency and Strong Utilization of Capital.

Ameresco is becoming highly levered, displaying a 138.7% debt-to-equity ratio. Despite this capital structure, Ameresco still maintains a strong interest coverage ratio of 8.4x. Ameresco's growing cash account and improved margins bolster their ability to expand and experience continued explosive growth. Although their debt accounts are initially alarming, they face no foreseeable short-term insolvency risks. Ameresco is anticipated to grow at a faster rate moving forward and can easily incur more debt-financing given its current interest coverage ratio.

The utilization of capital has also been highly efficient, displaying a return on equity of 21% compared to the peer average of -2.9%. Ameresco's return on capital also exhibits peer superiority at 3.8% compared to their peer average of 2.9%. On all ends, Ameresco is not only demonstrating internally strong fiscal performance, but also exogenous peer dominance.

Geographical Revenue Mix.

Operations are heavily focused in the United States and Canada. Ameresco's largest market share is within the United States and splits between U.S. Regions and U.S. Federal. U.S. Regions have seen a 30.7% increase year-over-year, growing from \$528,293 from \$404,152 between 2020 and 2021. This exhibited growth is the result of stable, consistent inter-city regional contracts awarded to Ameresco. Although the United States is their primary revenue source, we anticipate stronger growth potential in their Other category. Namely, the incorporation of Asia and Europe geographical project which demonstrate a lack of market penetration in the hottest emerging renewable energy markets. This segment has only seen a 12.2% year-over-year increase, with projects in the United Kingdom and Greece being the majority of the production. Further penetration and support of developed countries within Asia and Europe have the potential to multiply Ameresco's current top line and unveil untapped market potential.

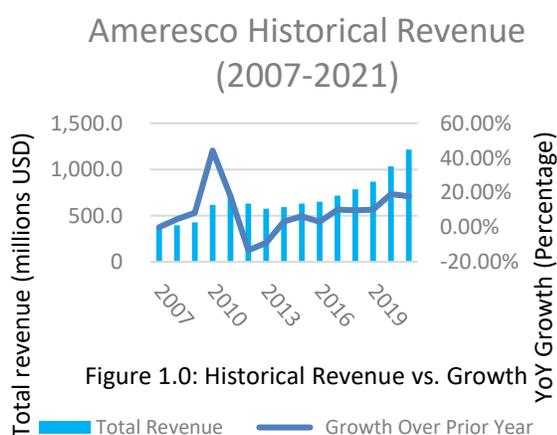


Figure 1.0: Historical Revenue vs. Growth

Ameresco Net Income (2007-2021)

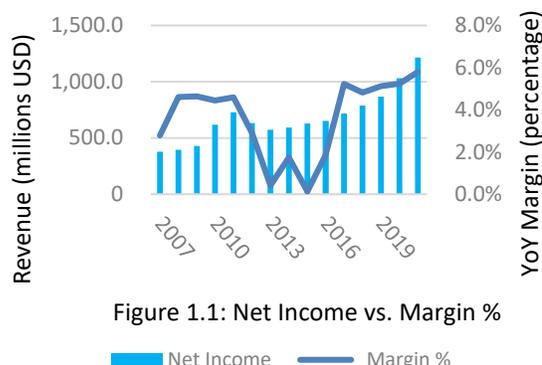
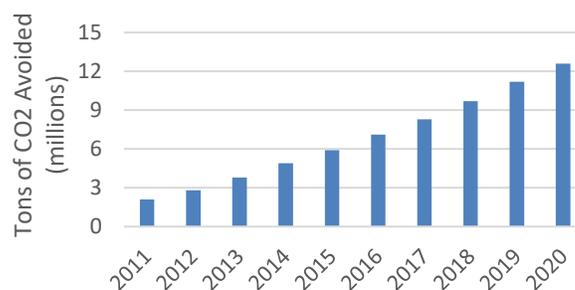


Figure 1.1: Net Income vs. Margin %

IMPACT REPORT

As an all-encompassing sustainability partner, Ameresco's value add to businesses is embedded in sustainable solutions. This includes supporting clients' net zero emissions objectives, upgrading energy infrastructure to include more renewables, and even creating distributed energy sources. As such, sustainable solutions are core to Ameresco's cleantech mission. Additionally, the company is taking steps to reduce its carbon footprint. Cumulatively, from 2010-2020, the company has offset 60M metric tons of carbon dioxide emissions from their renewable energy assets and customer projects. We forecast emission reductions to continually increase as Ameresco broadens its client list and geographical footprint.

Average Metric Tons of CO2 Avoided per Year (2011-2020)



VALUATION ANALYSIS

Discounted Cash Flow.

Based on our discounted cash flow analysis, our price target sits at \$70.89. We based our assumption on key trends, catalysts, and changes in the company's operations, using the fiscal years of 2018 through 2020 as our historical period with an explicit forecast period of seven years through 2027. We then utilized our projections to calculate the present values of our cash flows and

discounting them based on our WACC of 5.32%. Combined with the present value of our terminal value based on a growth rate of 3.00%, we arrived at an EV of \$4,447.95M. After accounting for cash and debt and using the current quantity of shares outstanding, we arrived at our implied share price of \$70.89.

RISK FACTORS

Long-Term Debt. Ameresco is incurring heavy amounts of long-term debt, growing from \$494.9 million to \$904.5 million between 2019 and 2021. Currently, their capital structures show higher leverage with 57.5% debt to 39.6% equity. Although Ameresco has exhibited exponential growth in the past decade – they approach risks of insolvency if they are unable to continue expansion.

Faltering ESG Trends. There is no doubt that Ameresco's massive expansion in the past two years has been heavily influenced and facilitated by the impressive ESG awareness and trends in our global economy. As pressures rise for large enterprises and governments to indulge in ESG activities, Ameresco will serve as the beneficiary of these promotions. However, should the promotion of ESG initiatives like the rise of renewable energies and net zero initiatives slow down, we anticipate that Ameresco will experience stunted growth.

Reliance on Project Flow. Ameresco's largest revenue mix has been a function of huge government contracts ranging from Canada to the UK and even Chicago. These long-term contracts may be more difficult to secure as Ameresco continues to expand and there are signs of diminishing market penetration. However, we anticipate issues such as this will not impede Ameresco's growth until the far future – in the 10-15 year time horizon.

CONCLUSION

Current economic conditions complemented by Ameresco's demonstrated market resilience – it is quite evident that Ameresco's growth potential is yet to be fully realized by the market. Ameresco's current project initiatives and revenue diversification will be key factors that play into their long-term growth and recessionary-proof model. Ameresco has experienced colossal growth in the past three years as the tailwinds of ESG have given prevalence and we believe that there are no impediments to prevent or stagnate their continuing momentum. Given Ameresco's impressive financial track record, the favorable macroeconomic environment, and the undeniable demand for Ameresco's diverse product line, we assign them a strong buy rating with utmost confidence.