

SOLAR INTEGRATED ROOFING CORP. Raising Price Target with More Upside in the Cards

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SOLAR INTEGRATED ROOFING CORP. (OTC – SIRC - \$0.275)

Industry: Solar/Roofing Services

New 3-6 Mo. Target: \$0.75; Old Target \$0.25

COMPANY SNAPSHOT

Solar Integrated Roofing Corp. is an integrated, single-source solar power and roofing systems installation company specializing in commercial and residential properties in the Southern California market. The Company has grown rapidly by acquiring established solar and roofing companies and leveraging brand name recognition.

KEY STATISTICS

Price as of 12/31/20	\$0.275
52 Week High – Low	\$0.33- \$0.011
Est. Shares Outstanding	138.7M
Market Capitalization	\$38.1M
Average Volume	6,111,167
Exchange	OTCPK

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

The Bottom Line: Since our initiation just a month ago, SIRC's shares have leaped past our price \$0.25 price target, peaking at \$0.33 last week, a rise of over 420%. As a result, we have raised our target to \$0.75, up from \$0.25. Even at \$0.75, SIRC would trade at a meaningful discount to its peers. Plus, we believe additional upside to our new target exists, thanks multiple business drivers.

Business Driver #1, New M&A: SIRC has been built via successful M&A, and we believe this roll-up strategy will continue. **Each new \$5M in acquired business should translate into a \$0.10 per share rise, based on our valuation metrics.**

Business Driver #2, High Value Segment: The proliferation of EVs has prompted major growth in the installation of residential EV charging stations. Already a solar cell provider to this market, this vertical could be a sleeper growth driver in 2021.

Business Driver #3, Major Partnership: SIRC signed an agreement with a leading EV developer that is an applicant on a \$500M USTDA grant. SIRC will provide solar panels, electric storage, and installation services to the partner's existing and future customers and grant projects. While we cannot predict if/when the grant will be awarded to the partner, or the revenue impact on SIRC, we view it as a potential bonus for shareholders----a potentially huge bonus.

Top-Line Growth Hitting on All Cylinders. SIRC recently announced preliminary 3Q21 results, including an estimated \$5.2M in revenue, a 130% YoY rise. Clearly, cross-sales is execution is high.

SIRC: PROVING IT IS THE BEST SOLAR PLAY

M&A Strategy

Tracing its roots to 1989, California-based **Solar Integrated Roofing Inc. (OTC – SIRC)** is one of the leading integrated solar power and roofing installation services company in the industry. On track for a current annual revenue run-rate of \$25M, SIRC is poised to generate substantial growth ahead. The Company is actively engaged in a successful roll-up strategy whereby SIRC has recently acquired other roofing and solar services companies in the SoCal region, specifically in and around San Diego. Management plans to continue to acquire competitors outright or procure a majority stake in firms in the region and in key markets around the country in an effort to quickly achieve a large critical mass of sales.

Given the current solar panel roofing mandate by the State of California, a tremendous opportunity exists for SIRC, which boasts some of the most recognizable and in-demand service brands in the region. Based on the Company's price/sales metrics relative to our price target (2.7x next year's sales), we have determined that for each new \$5M in acquired business, SIRC's shares should enjoy a \$0.10 per share rise. Acquisitions could be in a variety of verticals and regions. Clearly, one segment in which the Company seeks to leverage its current residential installed base and branding involves residential EV (electric vehicle) charging stations.

New Cross-Sale Opportunities

In late December, the Company announced the launch of a dedicated EV charging solutions division to address emerging opportunities in the rapidly growing EV charging space. To date, SIRC has supplied solar cells to the network stations on a limited basis. However, going forward, SIRC's new division will focus on the sales, installation, and service of personal EV chargers at residential properties, as well as on public EV charging infrastructure for network operators. Sales efforts will be driven through cross-selling existing customers as well as through the potential acquisition of existing EV charging solutions providers, which could generate strong growth and profitability. California's growing EV market represented roughly 8% of all new car sales in the state in 2018 with a regulatory target of all new vehicle sales to be zero emissions by 2035.

New Partner Could Represent Biggest Single Client/Vertical

Last month, SIRC announced the signing of an agreement with Solectrac, Inc, an electric tractor developer and manufacturer located in Northern California and an applicant for a \$500M USTDA grant. Solectrac is 24% - owned by Ideanomics (NASDAQ – IDEX), a NASDAQ-traded company.

Solar Integrated Roofing will provide solar panels, electric storage, and other power devices along with installation services to Solectrac's existing and future customers and grant projects where applicable.

The \$75B global agricultural tractor market is largely supplied by diesel-powered equipment and is ripe for widely deployed conversion to EV. Global demand to reduce pollution with sustainable electric vehicles has propelled the electric-powered tractor market to the forefront of agricultural development, efficiency, and sales. Solectrac already has a 30 HP-equivalent compact electric tractor (CET) and a 40 HP-equivalent eUtility in the

largest segment, the under 40 HP category, and is developing a 70 HP-equivalent utility model and a 40 HP row crop model, further expanding their market opportunities.

In our view, this partnership offers SIRC a meaningful presence in a vertical that demands change away from fossil fuels to a sustainable, efficient power system. Solectrac management noted that SIRC can now enable Solectrac to supply complete systems across the globe, regardless of the power grid connectivity or lack thereof, while reducing the equipment costs for its clients, by melding the SIRC solar technology with the Solectrac's farming equipment. Together, the firms can provide significant efficiency and savings to the cash-strained agricultural markets.

It should be noted that while we cannot predict if/when the grant will be awarded to Solectrac, or the revenue impact on SIRC, we view it as a potential bonus for shareholders----a potentially huge bonus. It could be \$5M or \$50M, over time. As a result, we have not assigned any revenue or valuation contribution to SIRC from this relationship at this juncture. We expect to get clarity later in 2021.

Financials and Valuation

SIRC recently issued preliminary, unaudited third quarter fiscal 2021 revenue totaling a record \$5.2 million.

This fiscal third quarter 2021 figure represents a 130% year-over-year growth from \$2.3 million in the third quarter of fiscal 2020, driven by continued operational execution and cross-selling synergies across the Company's core business lines. We expect final results to be released in mid-January.

Management noted in its release that they continue to see exciting acquisition opportunities in existing verticals markets as well as in complementary adjacent markets, at attractive multiples. The Company is truly integrated, with services now spanning solar, battery backup, EV charging, roofing installation, HVAC work and electrical contracting. Moreover, this background sets the stage for entire new residential developments with builder partners throughout California.

Clearly, these results, M&A opportunities, and verticals reflect the fact that SIRC is better positioned for growth than at any prior time in its history.

As noted above, we have raised our price target to \$0.75, up from \$0.25 now that the shares have achieved our near-term objective. Plus, the huge move higher has been accompanied by a 181% increase in average daily volume. The stock chart on page 5 below boasts an enviable chart with the stock trading at substantial multiples to SIRC's daily moving average. These noteworthy features are key, near-term bullish catalysts.

Fundamentally, the peer table on page 4 illustrates that the current and projected growth are driving value for SIRC's stock. Moreover, the discount between the price/sales valuation afforded SIRC and its peers has narrowed considerably during the recent run. We expect this is just the beginning. Even at the \$0.75 level, SIRC's valuation metric is still essentially half that of the peer group. Thus, we believe that these shares could trade north of \$1.00 and beyond in 2021, especially as new companies are brought into the SIRC family.

Table I. SIRC Publicly-Traded Peer Group

Company Name	Symbol	Price (12/31/20)	Mkt Cap (mil)	FY20E Revs (mil)	FY21E Revs (mil)	20E - 21E Revs Growth	2020E Price/Revs	2021E Price/Revs
First Solar	FSLR	\$98.92	\$10,725	\$2,830	\$3,020	6.7%	3.8	3.6
Sunrun	RUN	\$69.38	\$13,191	\$910	\$1,410	54.9%	14.5	9.4
Sunpower	SPWR	\$25.64	\$4,392	\$1,170	\$1,440	23.1%	3.8	3.1
Gibraltar Ind	ROCK	\$71.94	\$2,335	\$1,150	\$1,250	8.7%	2.0	1.9
Average			\$7,661	\$1,515	\$1,780	23%	6.0	4.5
				FY21E	FY22E		FY21E	FY22E
SIRC*: Today		\$0.275	\$38					
SIRC*: 12 Mo Tgt		\$0.75	\$104	\$19.8	\$38.5	94%	5.3	2.7

*SIRC is on a February fiscal year.

Sources: www.Yahoo!Finance.com, Company websites, Goldman Small Cap Research

RECENT TRADING HISTORY FOR SIRC

(Source: www.StockCharts.com)





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Rob Goldman founded Goldman Small Cap Research in 2009 and has over 25 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

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