

SOLAR INTEGRATED ROOFING CORP.

Hyper-Revenue Growth Ahead; Raising 6 Mo. Price Target by 40%

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June 29, 2021

SOLAR INTEGRATED ROOFING CORP. (OTC – SIRC - \$0.603)

Industry: Solar/Roofing Services

New 6 Mo. Target: \$1.05; Old Target: \$0.75

COMPANY SNAPSHOT

Solar Integrated Roofing Corp. is an integrated, single-source solar power and roofing systems installation platform company specializing in commercial and residential properties throughout the United States. The Company serves communities by delivering the best experience through constant innovation & legacy-focused leadership. The Company's broad array of solutions include sales and installation of solar energy systems, battery backup and electric vehicle (EV) charging stations to roofing, HVAC and related electrical contracting work.

KEY STATISTICS

Price as of 6/25/21	\$0.603
52 Week High – Low	\$3.00 - \$0.03
Est. Shares Outstanding	339.7M
Market Capitalization	\$203.8M
Average Volume	2,228,692
Exchange	OTCPK

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

The Bottom Line: While we are raising our 6-month target price to \$1.05, up from \$0.75, SIRC is still grossly undervalued in our view. As illustrated in Table I, the stock trades at a paltry 2.7x FY22 revenue versus the average multiple of 4.9x afforded its peers and 7.9x the industry leader Sunrun. Even at the \$1.05 level, SIRC trades at a big discount to Sunrun, despite the expectation of a substantially greater revenue growth rate.

We believe that in a year's time, when revenue reaches \$100M+ as management preliminarily expects, these shares could approach the \$1.50 mark or higher. Clearly, this would be a strong performance for a stock that was one of our big winners at \$0.063 when we initiated in December 2020 and when it reached \$3.00 earlier this year.

SIRC Has Enjoyed Huge Growth in Revenue...Revenue for fiscal year 2021 increased 87% to a record \$17.1M, as compared to \$9.1M in fiscal year 2020, and we expect a 341% jump to \$75M this fiscal year.

...and Positioning, Via its Roll-up Strategy. The Company's bi-coastal and burgeoning national reach, broad service/product offerings, and diverse customer bases indicate that hockey-stick type growth in is in the offing, going forward.

Looking Ahead...SIRC has been built via successful M&A, and we believe this roll-up strategy will continue. Plus, we anticipate an up-list will occur in the second half of 2021, with a potential NASDAQ up-list next year. Each of these moves enhances liquidity and shareholder value.

SIRC: THE BACKSTORY

M&A Strategy

Tracing its roots to 1989, California-based **Solar Integrated Roofing Inc. (OTC – SIRC)** is one of the leading integrated, single source solar power and roofing installation services company in the industry. The Company is actively engaged in a successful roll-up strategy whereby SIRC has recently acquired other roofing and solar services and products companies in the SoCal region, and with a presence in California and other regions, around the country. Going forward, 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.

The Company appears to be on track for a 341% jump in annual fiscal revenue from FY21 (ending in February 2021) to FY22E, with last fiscal year sales of \$17M estimated to reach \$75M in the current fiscal year. Moreover, management has projected revenue north of \$100M by the end of May 2022, a substantial rise. Given the current solar panel roofing mandate by the State of California, and strong demand in most states, a tremendous opportunity exists for SIRC, which boasts some of the most recognizable and in-demand service/product brands in its the region. In addition to the M&A transactions themselves, the Company is leveraging a number of cross-sale opportunities via its core business and SIRC's dedicated EV charging solutions division.

Recent Business Development Activity

In February 2021, SIRC closed the acquisition of Cornerstone Construction, a \$15M in annual sales provider of roofing and solar solutions in South Carolina and adjacent markets. Not only does this deal provide considerable revenue and cash flow to the Company but it expands the Company's footprint from the West Coast (California) to the East Coast. Plus, Cornerstone CEO Hunter Ballew is a true industry thought leader, having created a movement in the roofing and solar industry that helps tens of thousands of roofers & solar providers across the country every year through retreats, a mastermind and an annual conference, *RoofCON*.

In the first half of 2021, the Company acquired Pacific Lighting Management Inc., a diversified energy services and electric vehicle charging station solutions provider to large commercial and government customers. Since 2003, Pacific Lighting has specialized in the design and implementation of solar photovoltaic systems, energy efficiency measures and electric vehicle (EV) charging stations for both commercial and government facilities throughout the southwest. Past Pacific Lighting customers include federal, state and local governments, school districts, hospitals and large commercial clients. Pacific's strong relationships with government agencies, forged over 18 years of business, represent a unique, valuable opportunity for SIRC's growing portfolio of operating companies.

Additionally, with a full complement of products and services, SIRC can offer nationwide customers opportunities across solar, battery backup installation, roofing and related HVAC/electrical contracting work.

In an effort to lead as an integrated, nationwide platform company for roofing and solar installers, SIRC continues to expand the breadth and depth of its partnerships with key industry players. The most recent partnership includes Sunrun (NASDAQ – SUN), the nation's leading home solar, battery storage, and energy services company, to become a roofing installation partner. This strategic relationship could eventually scale to 30 installations per month. Plus, the Company is working on approvals with both Sunrun and Vivint to utilize their sales platforms to see Power Purchase Agreements (PPAs) in several key states nationwide.

During the current quarter, SIRC closed the acquisition of Balance LLC, a Business Process Outsourcing (BPO) firm - finalizing the buildout of the Company's unified back-office capabilities to support all recent and future acquisitions. Founded in 2015, Balance is a BPO firm focused exclusively on assisting contractors to manage their businesses as efficiently and effectively as possible. Recognized as "America's Services Company for Contractors", Balance is one of the most admired brands servicing the contracting industry in the US. To date, Balance has service relationships with over 900 contractors across the nation providing industry leading administrative, estimating, supplementing, back office, billing, and project file management for over 30,000 jobs. Management expects this transaction to foster swift, effective synergy and integration with other acquired firms as SIRC scales its business.

In early June, the Company closed its acquisition of Future Home Power, a solar, roofing and battery storage sales company. Future Home Power specializes in the sales of residential solar panels, roofing as well as battery storage. The company has garnered a strong reputation for providing customers a smooth, simple process for solar panel and battery storage consultation and installation. The Company expects the acquisition to be immediately accretive and to rapidly grow to \$1M per week in incremental sales at a robust 45% gross margin profile, capturing value across the full customer lifecycle. Already the newly acquired firm has about 60 sales representatives and is poised to generate \$2M in weekly revenue in the near-term.

Finally, as part of its roll-up strategy SIRC has hired a number of high-ranking industry executives to operational and BoD roles in recent months, which we believe ensures future integration success and the ability to meet financial and operational objectives.

Financial Snapshot

Last week, SIRC recently published its FY21 financial results. Revenue for fiscal year 2021 increased 87% to a record \$17.1M, as compared to \$9.1M in fiscal year 2020. Gross profit increased 44% to \$3.5M, or 20% of total revenue as compared to \$2.4M, or 26% of total revenue, in fiscal year 2020. Operating expenses totaled \$7.8M in fiscal year 2021, as compared to \$5.9M in fiscal year 2020. As a percentage of sales, operating expenses decreased in fiscal 2021 from 65% to 46%. Net loss for fiscal year 2021 totaled **(\$5.9M)**, or **(\$0.03)** per share, versus a loss of **(\$4.6M)**, or **(\$0.04)** per share last year.

The Company was able to achieve its impressive top-line growth via the accretive acquisitions of several solar, roofing, and battery firms. Looking ahead, management expects to continue to execute targeted opportunities and on a preliminary basis, forecasts that revenue for the 12 months ended May 31, 2022, could grow to at least \$100M. Plus, the Company appears on track to file for an up-listing to the OTCQB in the second half of 2021, to be followed by a proposed up-list to NASDAQ.

In an effort to compare industry comps and peers' projected financials with SIRC, we have produced an updated projected P&L for SIRC, reflecting its potential, future operating performance. For FY23 ending in February 2022, we forecast revenue will reach \$75M with operating profit of \$825K and \$900K in net income. The 341% top-line growth is largely expected to be driven by its recent acquisitions along with the closing of new targets in the second half of calendar year 2021. Profit margin expansion will be led in part by Future Home and prospective cross-sale opportunities in California and the Southeast US. For FY23E, we project revenue will reach \$ to \$135M, an 80% rise, with operating income of \$4.9M and net income of \$4.8M. Although margins could be materially higher, we elected to be conservative, pending further clarity on existing and future M&A integration and synergy.

SIRC Grossly Undervalued, Wind at its Back

When we initiated coverage of SIRC in late 2020, the Company was just beginning to enjoy the fruits of its M&A strategy. Today, the Company has proven its roll-up model via its outstanding revenue growth and we expect to begin to see the full fruits of its labor in the second half of calendar year 2021. The Company's bi-coastal and burgeoning national reach, broad service/product offerings, and diverse customer bases indicate that hockey-stick type growth in is in the offing, going forward.

Table I. SIRC Publicly-Traded Peer Group

Company Name	Symbol	Price (6/28/21)	Mkt Cap (mil)	FY21E Revs (mil)	FY22E Revs (mil)	21E - 22E Revs Growth	2021E Price/Revs	2022E Price/Revs
First Solar	FSLR	\$92.46	\$9,829	\$2,930	\$2,810	-4.1%	3.4	3.5
Sunrun	RUN	\$56.39	\$11,500	\$1,460	\$1,690	15.8%	7.9	6.8
Sunpower	SPWR	\$29.72	\$5,126	\$1,510	\$1,870	23.8%	3.4	2.7
Average			\$8,818	\$1,967	\$2,123	12%	4.9	4.3
				FY22E	FY23E		FY22E	FY23E
SIRC*: Today		\$0.60	\$204	\$75	\$135		2.7	1.5
SIRC*: 6 Mo Tgt		\$1.05	\$378	\$75.0	\$175.0	133%	5.0	2.2

*SIRC is on a February fiscal year.

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

While we are raising our 6-month target price to \$1.05, up from \$0.75, the stock is still grossly undervalued in our view. As illustrated in Table I, at current levels, the stock trades at a paltry 2.7x FY22 revenue versus the average price/sales multiple of 4.9x afforded its peers and 7.9x the industry leader Sunrun. Moreover, even at the \$1.05 level, the stock trades at the industry multiple and a big discount to Sunrun, despite the expectation of a substantially greater revenue growth rate. Thus, we believe that in a year's time, when revenue reaches north of \$100M as management preliminarily expects, these shares could approach the \$1.50 mark or higher.

Table II. Solar Integrated Roofing Corp.

Pro Forma Income Statement

(\$,000)

	<u>FY20A</u>	<u>FY21A</u>	<u>FY22E</u>	<u>FY23E</u>
TOTAL REVENUE	\$9,123	\$17,047	\$75,000	\$135,000
Cost of Sales	<u>\$6,707</u>	<u>\$13,561</u>	<u>\$55,500</u>	<u>\$95,850</u>
Gross Profit	\$2,416	\$3,486	\$19,500	\$39,150
<i>Gross Margin</i>	26.5%	20.4%	26.0%	29.0%
Salaries & Wages	\$1,141	\$4,988	\$13,275	\$22,950
Professional Fees	\$907	\$1,082	\$1,500	\$2,430
Marketing	\$602	\$196	\$900	\$2,363
General & Administrative	\$3,061	\$1,560	\$3,000	\$6,480
Total Operating Expenses	\$5,711	\$7,826	\$18,675	\$34,223
Operating Income	(\$3,295)	(\$4,340)	\$825	\$4,928
<i>Operating Income Margin</i>	N/A	N/A	1.1%	3.7%
Interest income and finance fees	(\$749)	(\$1,701)	\$250	\$400
Change in FV of Deriv Liab	(\$296)	(\$146)	\$125	\$100
Total Other Income (Expense)	(\$1,045)	\$275	\$375	\$500
Pre-Tax Income (Loss)	(\$4,340)	(\$5,912)	\$1,200	\$5,428
Income Taxes	\$13	\$0	\$300	\$651
<i>Tax Rate</i>	N/A	N/A	N/A	12.0%
Net Income	(\$4,353)	(\$5,912)	\$900	\$4,776
Diluted Earnings Per Share	(\$0.03)	(\$0.03)	\$0.00	\$0.01
Wtd. Est. Shares Outstanding	126,153	198,527	360,000	375,000

Note: SIRC is on a February Fiscal Year

Sources: SIRC, OTC Markets, and 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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