

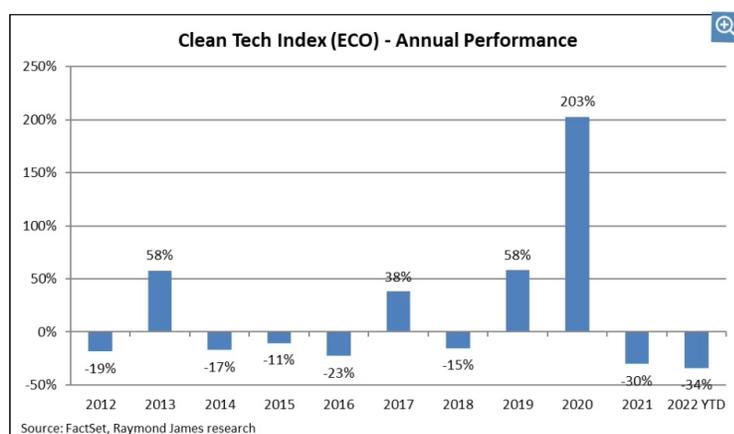
Excerpt from Raymond James, Industry Brief, June 14, 2022

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After Six Months of Market Rotation Out of Growth Equities, How Are Clean Tech Valuations Looking?

In a brutal tape overall, the average clean tech stock is down 34% year-to-date – tracking to the worst year since the global financial crisis.

The fact that clean tech stocks, on the whole, underperformed year-to-date is obvious: the WilderHill Clean Energy Index (ECO) is down 34%, as compared to the S&P 500's decline of 21%. To put it even more starkly, the ECO is tracking to its worst year since the global financial crisis. There was also underperformance in 2021: ECO down 30%, versus S&P 500 up 27%. On the other hand, 2020 was the ECO's best year ever, by far: up a stunning 203%, versus S&P 500 up 16%. We are **not** naive to the “what have you done for me lately” dynamic — investors always want to make money, not just in the past! — but the fact of the matter is that solely looking at the past six months would give an overly pessimistic perspective.



In any case, here are the two explanations for why the past six months were difficult. The first headwind, which is entirely fundamental in nature, was the continuation from the latter half of 2021 of, broadly speaking, too much money chasing too few goods. This manifested itself in commodity inflation (encompassing steel, glass, polysilicon, lithium, carbon fiber, and more); and, along the same lines, supply chain tightness (i.e., constrained ability to source the necessary inputs, particularly electrical components). The resulting margin pressure and occasional revenue shortfalls were **not** limited to clean tech — practically every manufacturing business faced these issues: it is purely a matter of degree. Notwithstanding generally noticeable improvement in the supply chain situation, a series of lockdowns in China, most recently Shanghai, provided a stark reminder that supply chain risk is **not** over. Likewise, it is clear that some commodity prices already peaked — [steel is a good example](#) — but with Russia's war in Ukraine in its fourth month, logistics/freight costs remain elevated. Second, and related to the point about inflation, the upward movement in interest rates presented a serious problem vis-a-vis stock multiples, despite having no meaningful read-through for industry fundamentals. The 10-year Treasury yield is currently at 3.2% — having

doubled from 1.5% at year-end 2021, and on par with peak 2018 levels. The current cost of capital environment provides a supportive and healthy backdrop for underlying clean tech demand, as well as [sustainability-themed bond issuance](#). However, adverse impact on valuations is unavoidable, particularly for yield-sensitive equities, until there is clear evidence that yields are stabilizing.

The risk-off trade spurred by the aforementioned issues canceled out the fundamental demand boost from the war and resulting jump in hydrocarbon prices: oil, natural gas, and coal. Across just about all clean tech verticals, demand was strong both before and after February 24. The war adds to the urgency of displacing fossil fuels, especially in the European context. It is crucial to underscore that [energy security](#) and energy transition both point in the same direction, mutually reinforcing the long-term shift away from fossil fuels. Before the war, approximately one-third of Europe's oil and gas consumption were sourced from Russia, with above-average levels of dependence among the frontline states in Eastern Europe. The immediate priority is disentangling from Russia,

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With the recent compression, the median EBITDA and revenue multiples erased more than half of their “ESG euphoria” from 2020.

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