Energy

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Industry Brief

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Alternative Energy and Clean Technology - Power: Industry Tidbit

Enterprise Energy Management: GridPoint Highlights 6x Market Growth by 2020

Yesterday we hosted a series of investor meetings with management from GridPoint, Inc., a leading provider of energy management solutions for enterprise customers. In this industry brief, we highlight our key takeaways, both from a high-level standpoint of the addressable market, and as it relates to GridPoint and its competitive landscape. While GridPoint is privately held, its leverage to the themes of energy efficiency, building automation, and demand response creates read-through for a number of public companies. (For analogous thoughts about the residential arena, see our industry brief from July 20, 2012, "Home Energy Management 101: The Smart Grid You Can Call Your Own.")

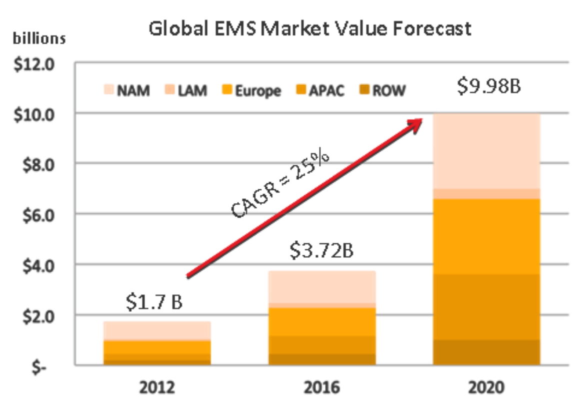
What is enterprise energy management?

America's 4.8 million commercial buildings and 350,000 industrial facilities account for approximately 51% of the nation's primary energy consumption, according to the Energy Information Administration (EIA), as compared to 28% for transportation and 21% for residential consumption. In the enterprise sector of the economy, annual energy costs (mainly power and heat) total approximately $200 billion. Looking at this by category, the single biggest line item (31%) is heating, ventilation, and air conditioning (HVAC), followed by lighting at 25%. The other main categories are electronics, water heating, refrigeration, and cooking. What's particularly striking is the EIA's estimate that 30% of this energy is used "inefficiently or unnecessarily." In some cases, the energy waste is obvious, such as an open window on a hot summer day while air conditioning is running. In many other instances, though, the problem – and hence the solution – is less readily apparent, requiring professional expertise.

While there are various "flavors" of enterprise energy management, we think a good working definition is a comprehensive system, comprising hardware and software, which collects and aggregates real-time energy usage, and integrates a broad set of functions based on the data. The various functions can include advanced lighting controls, demand response, distributed generation, utility bill management, and carbon tracking. Cloud-based systems and widely available wireless allow this technology to be more widely deployed than in the past, because it's affordable as well as relatively simple to install and maintain for multi-site enterprises.

How big is the EMS market, and who are the key players?

The global market for energy management systems (EMS) totaled $1.7 billion in 2012, according to the consulting firm Zpryme. Of this amount, North America accounted for 40%. As shown in the adjacent chart, Zpryme forecasts an annualized growth rate of 25% through 2020, rising six-fold to reach the $10 billion mark. North America is projected to remain the largest market, though its share of the total decreases to 30%.



Source: Zpryme

So, who is poised to get a piece of the action in EMS? This is a fragmented space – as is typical of small but rapidly growing addressable markets – and there are no dominant players. Energy service companies (ESCOs), such as Ameresco and divisions of Chevron and United Technologies, are one type of player in this market. There are also traditional building management vendors, such as Honeywell, Schneider Electric, and Siemens. Demand response providers can offer EMS services to enterprise customers; at EnerNOC, these services rose from 6% of revenue in 2010 to what we estimate is 11% this year. The vast majority of the companies in this space are, like GridPoint, privately held, including many venture-backed startups. The ease of creating startups is a function of the low capital intensity: software is often inexpensive to develop, and the hardware (e.g., smart meters or solar systems) can be bought off the shelf. Examples of U.S.-based EMS pure-plays, in addition to GridPoint, include C3 Energy, Enlighted, Hara Software, Powerit Solutions, SCIenergy, SkyFoundry, and Vigilent. International examples include BuildingIQ (Australia), eSight Energy (U.K.), and Panoramic Power (Israel).

Please read domestic and foreign disclosure/risk information beginning on page 3 and Analyst Certification on page 3.

How does GridPoint fit into the EMS arena?

GridPoint, founded in 2003, is a leading EMS provider for commercial/industrial firms, utilities, and government agencies. GridPoint is based in Arlington, Virginia, with three other U.S. offices. While the company does not disclose its financials, here are a few metrics that give a sense of its scale: (1) current headcount is approximately 150; (2) over 12,000 sites have been serviced to date, with customers in the U.S. and Canada, and to a lesser extent, Latin America and Europe; and (3) the IP portfolio has 18 patents plus another 35 pending. In 2012, the consulting firm Verdantix ranked GridPoint as one of the top 14 EMS software vendors worldwide. Even more recently, Groom Energy's 2013 Enterprise Smart Grid Corporate Buyer's Guide for Energy Management Systems highlighted GridPoint as one of the top 10 companies to watch.

Similar to its policy of not disclosing financials, GridPoint does not typically report individual contract wins, but the company has noted that its U.S. customer base includes three of the top 10 casual dining restaurant chains; three of the top 10 convenience store chains; six of the top 10 retailers; and seven of the top 20 quick service restaurants. To put the U.S. addressable market in perspective, GridPoint estimates it at ~5.3 million buildings, with some of the major categories being ~750,000 office buildings, ~720,000 retail establishments, ~627,000 warehouses, and ~546,000 restaurants. (Of course, there are plenty more internationally.) The company's focus is on customers with more than 100 sites, which creates a high level of expertise in a limited number of industry verticals. However, the company is also starting to work with large individual sites, such as airports and universities.

What are the typical system economics?

The table below summarizes GridPoint's estimates of the addressable market in aggregate dollar terms, as well as the average for individual systems. Note that the revenue model is analogous to traditional software-as-a-service (SaaS) companies: there is a one-time upfront fee, followed by recurring revenue thereafter. As is intuitive, the larger the customer site, the larger the revenue opportunity – as it relates to the upfront fee (for hardware), and especially the recurring payments (for software and services). For customers that are comfortable managing their systems day-to-day by themselves, the company provides energy advisory services, while offering a more comprehensive suite of managed services for customers who prefer to outsource professional services for energy management.

As a general premise, GridPoint's EMS solutions have a proven track record, in actual customer implementations, of saving enterprises 10-30% in energy consumption, costs, and carbon emissions. (For context, recall the aforementioned EIA estimate that 30% of enterprise energy usage is wasteful.) The payback on GridPoint's systems is typically less than 24 months; in other words, the annual rate of return to the customer can exceed 50%.

	C-Store	Grocery	Quick Service Restaurant	Full-Service Restaurant	Small/Medium Box Retail	Big Box Retail	Institutional (Schools, Universities)	Total
Addressable Multi-site Market	66,000	23,000	227,000	107,000	231,000	42,000	124,997	820,997
Hardware	$396,000,000	$402,500,000	$1,816,000,000	$1,337,500,000	$2,310,000,000	$735,000,000	$2,499,940,000	$9,496,940,000
SaaS/Advisory + Managed Services Opportunity (5 years)	$138,600,000	$75,900,000	$476,700,000	$288,900,000	$485,100,000	$138,600,000	$637,484,700	$2,241,284,700
Total Five Year Revenue Opportunity	$534,600,000	$478,400,000	$2,292,700,000	$1,626,400,000	$2,795,100,000	$873,600,000	$3,137,424,700	$11,738,224,700

Source: GridPoint

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
Chevron Corp.	CVX	NYSE	$	120.86	2	RJ & Associates
EnerNOC, Inc.	ENOC	NASDAQ	$	14.37	1	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.

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Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.
Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.
Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.
Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

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Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.
Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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Strong Buy (SB1) Expected to appreciate and produce a total return of at least 25.0% over the next twelve months.
Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.
Market Perform (MP3) Expected to perform in line with the underlying country index.
Underperform (MU4) Expected to underperform the underlying country index.
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Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months.
Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months.
Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.
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	Coverage Universe Rating Distribution				Investment Banking Distribution			
	RJA	RJL	RJ LatAm	RJEE	RJA	RJL	RJ LatAm	RJEE
Strong Buy and Outperform (Buy)	50%	61%	43%	45%	24%	33%	0%	0%
Market Perform (Hold)	43%	39%	57%	34%	9%	23%	0%	0%
Underperform (Sell)	7%	0%	0%	21%	3%	0%	0%	0%

Suitability Categories (SR)

Total Return (TR) Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

Growth (G) Low to average risk equities with sound financials, more consistent earnings growth, at least a small dividend, and the potential for long-term price appreciation.

Aggressive Growth (AG) Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

High Risk (HR) Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

Venture Risk (VR) Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

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Company Name	Disclosure
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EnerNOC, Inc.	Raymond James & Associates makes a market in shares of ENOC.

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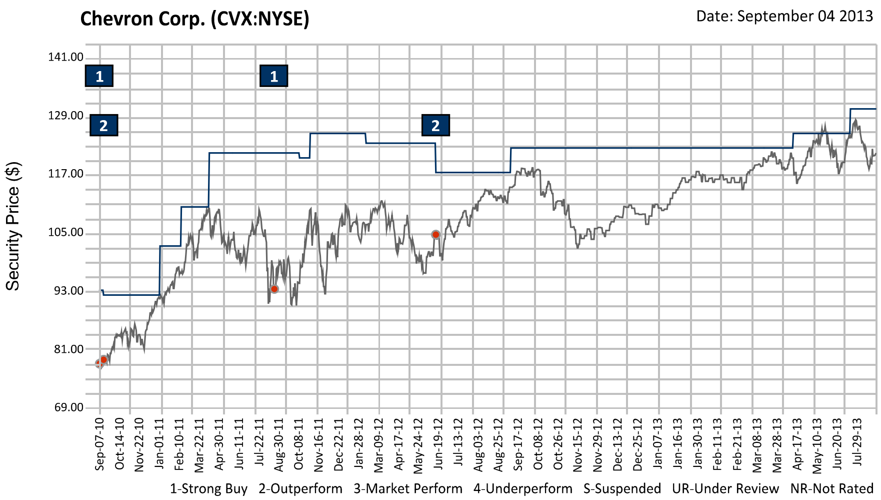
Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. Only stocks rated Strong Buy (SB1) or Outperform (MO2) have target prices and thus valuation methodologies.

Target Prices: The information below indicates target price and rating changes for the subject companies included in this research.

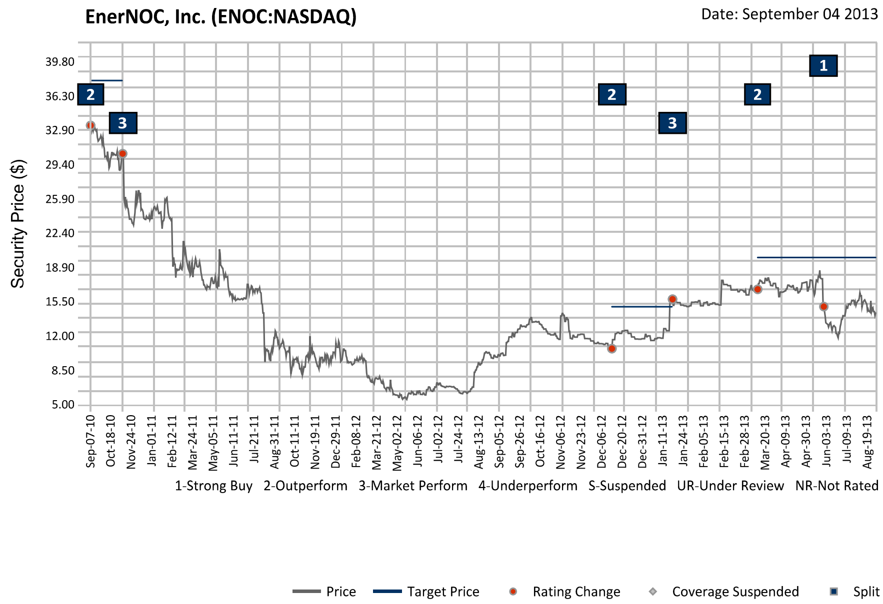


Rating & Target changes

Date	Curr.	Price	Target	Rating
Jul-17-13	$	124.12	130.00	2
Apr-15-13	$	119.94	125.00	2
Sep-10-12	$	114.00	122.00	2
Jun-18-12	$	104.33	117.00	2
Feb-14-12	$	106.38	123.00	1
Oct-28-11	$	109.46	125.00	1
Oct-10-11	$	94.40	120.00	1
Aug-19-11	$	93.24	121.00	1
Apr-11-11	$	109.66	121.00	2
Feb-14-11	$	96.45	110.00	2
Jan-03-11	$	91.25	102.00	2
Sep-13-10	$	78.82	92.00	2
Sep-07-10	$	78.00	93.00	1

Price Target Price Rating Change Coverage Suspended Split Adjustment

Valuation Methodology: Our valuation methodology for Chevron is centered on a target multiple of share price to projected forward-year EPS. The methodology also takes into account a target multiple of enterprise value to projected forward-year EBITDA and our estimate of the company's current proved reserve net asset value (NAV).



Rating & Target changes

Date	Curr.	Price	Target	Rating
May-29-13	$	15.01	20.00	1
Mar-13-13	$	16.77	20.00	2
Jan-16-13	$	15.76	NM	3
Dec-13-12	$	10.74	15.00	2
Nov-09-10	$	30.56	NM	3
Sep-07-10	$	33.43	38.00	2

Valuation Methodology: Our valuation methodology for EnerNOC is based primarily on a target multiple of enterprise value to projected forward-year EBITDA.

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the projected target prices included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Specific Investment Risks Related to the Industry or Issuer

Risks - Energy
1. Commodity price Risk – Cash flows are directly or indirectly impacted by fluctuations in commodity prices and foreign exchange rates, most notably the Canadian-US dollar.
2. Operational Risk – Production from oil & gas properties could be impacted by unforeseen events - weather-related disruptions, downtime at processing facilities and unexpected pipeline breaks could all have an impact on a company's financial and operating results.
3. Exploration and Development Risk – There is no guarantee that the exploration spending will result in economically viable discoveries; production and reserves can be materially impacted by lower than expected well productivity, weather conditions and construction delays could also impact production. Failure of development programs to deliver targeted reserves and production could also impact a company's financial and operating results; this includes the potential for dry holes, unexpected production delays and higher than expected decline rates.
4. Regulatory Risks – The operations of an oil & gas company could also be materially impacted by regulatory changes; this includes but is not limited to changes in provincial royalty rates.
5. Environmental risks – Oil & gas companies are exposed to capital and operating costs associated with meeting environmental laws and regulations; this includes remediation expenditures; changes in the associated laws and/or regulations could have a material impact on a company's financial and operating results.
6. Financial Risk – The oil & gas business is capital-intensive, which increases a company's reliance on external sources of financing. Significant changes in the outlook for a company could impact its ability to fund capital program from cash flow and/or secure debt and/or equity financing. Lower cash flow could force a company to sell assets or reduce dividends if applicable to repay debt and other financial obligations. For companies with debt, a significant increase in interest rates could have a negative impact on cash flow. Oil & Gas companies are also exposed to potential changes in federal and provincial income taxes, which could have a material impact on cash flow.
7. Acquisitions – Some oil & gas companies have historically relied on acquisitions to maintain per unit production, reserves and dividends/distributions. Should the availability and quality of acquisitions be limited, the quality of the reserves and production of a trust may be negatively affected. This could have a negative impact on dividends/distributions if applicable to shareholders.
8. Political risk – International Oil & Gas companies may face inherent political risks when operating in unstable jurisdictions. Unexpected actions taken by such regimes or other recognized or non-recognized entities or parties could negatively affect the production, development, and/or operation of these companies.

Company-Specific Risks for Chevron Corp.

OPEC Quota Risk
Chevron has upstream operations in several countries that are members of OPEC, including Nigeria, Angola, the Neutral Zone between Saudi Arabia and Kuwait, and Venezuela. Because oil production in OPEC countries is subject to OPEC's output quotas, there is a risk that quota reductions could result in lower production from the company's properties.

Chemicals Segment Risk
Chevron's chemicals segment is exposed to risks that are inherent in this industry. These risks include sensitivity to adverse changes in market prices of chemicals that the company produces, which are not always offset by lower feedstock costs. In addition, there are environmental and liability risks arising out of the operation of chemical plants.

Ecuador Lawsuit Risk
Chevron is a defendant in a civil lawsuit in Ecuador, brought in 2003 over alleged environmental damage caused by an oil production consortium of which Texaco (since acquired by Chevron) was a minority member. In November 2008, a mining engineer appointed by the court issued a report recommending that the court assess $18.9 billion in financial compensation for purported damages and another $8.4 billion for purported unjust enrichment. Chevron will continue to defend itself in this case, but the ultimate resolution cannot be predicted.

Company-Specific Risks for EnerNOC, Inc.

Concentrated Customer Base
A substantial majority of EnerNOC's revenue has been historically generated from a small number of grid operator and utility customers. In 2012, for example, the PJM grid operator accounted for 40% of the company's revenue.

Competitive Market Environment
The market for energy efficiency solutions is fragmented. Some traditional providers of advanced metering solutions have added, or may add, demand response services to their existing business. In addition to strong competition from energy efficiency solutions providers, EnerNOC also competes against traditional supply-side resources, such as natural gas-fired peaking power plants. In addition, some utilities and competitive electricity suppliers offer their own demand response solutions, which could decrease the base of potential customers.

Revenue Timing Risk
Most of EnerNOC's operating costs, such as employee compensation and rental expense for properties, are either relatively fixed in the short term or incurred in advance of sales. Moreover, spending levels are based in part on expectations regarding future revenue. If revenue for a particular quarter is below expectations, the company may not be able to proportionately reduce operating costs. For example, if a demand response event or metering and verification test does not occur in a particular quarter, the company may not be able to recognize revenue for the undemonstrated capacity in that quarter.

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