

Mossberg's Investor Digest

Best Idea Profile:

Plug Power, Inc. (NASDAQ:PLUG)

DESCRIPTION:

Headquartered in Latham, New York; Plug Power Inc., is the premier systems integrator in the rapidly emerging "proton exchange membrane" (PEM) fuel cell market. It is currently shipping fuel cells for use primarily in material handling equipment (Fork lifts & pallet trucks). This type of fuel cell technology has developed to have the highest energy density, provide superior reliability and longevity, and the quickest start up times. As a result, PEM has been favored for applications such as vehicles, portable power, and backup power. The Company has invested heavily in research and development and has more than 150 patents issued and a couple dozen more pending.

KEY INVESTMENT CONSIDERATIONS:

Shift from developmental to commercially viable –

Businesses using forklifts and lift trucks have had an interest in fuel cell power for two decades. A reduction in CO2 emissions, stable power consumption and easy refueling make them an ideal alternative to industrial batteries. However, the technology had not been entirely perfected for commercial use until recently. Plug Power's technology has reached a point where it is no longer considered developmental and has become commercially viable. PLUG has more than 2,000 fuel cells deployed with over 5.5 million hours of runtime.

Value Proposition – While customers are able to reduce carbon emissions by 75% to 80% using PLUG's technology, at the end of the day, it is the significant cost savings that can be achieved that is driving customers' decisions. According to Plug Power, the payback for customers replacing 100 lift trucks, is just over 1 ½ years in brownfield facilities and can be immediate in new facilities.

Marquee Customer Base – Nearly 50% of the Company's revenues come from large and financially stable customers such as Wal-Mart, Federal Express, Coca-Cola and BMW.

Market Potential – The revenue opportunity from the existing customer base over the next 10 years could be as much as \$200MM per year. Fuel cells have many other potential uses, and the Company could have an addressable market up to 1.3 million units. While surely the average selling price will decline over time, even at 1/10th of the current ASP of \$18,000, this is a multi-billion dollar market.

Accelerating Growth – The Company received orders for \$46.1 million (2,503 units) during 2011, 40% of which were received during the fourth quarter. This represents a 5 fold increase in the order rate from the prior year. This growth is from existing and new customers, as well as expansion into Europe.

Risk – Financing remains Plug Powers biggest risk. The Company used \$14MM to fund operating activities during 2011 and ended last year with \$14MM in cash. PLUG is targeting positive gross margin for 2012 (10%) and has reduced operating costs. However, it is still probably 12 to 24 months away from profitability. The Company is likely to continue burn cash to finance working capital. And, while they have a \$7 million line in place, it is likely PLUG will need to finance growth with potentially dilutive capital.

VALUATION:

Like many alternative energy companies, the company did not deliver against aggressive growth expectations. As a result, the market cap has contracted from a once lofty \$5 billion to \$40 million. However, unlike many of alt energy that never delivered a commercially viable product, PLUG clearly has, and it appears to be an inflection point in its growth curve. PLUG is the leading company in this new and emerging technology and as it demonstrates its ability to accelerate growth, the valuation should follow suit.

Plug Power, Inc. (NASDAQ:PLUG) Investment Data (as of 3/19/12)

Recent Price	\$1.77
52-Week Range	\$1.35 - \$8.00
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	22.7MM
Average Trading Volume (3 mos)	178k
Market Capitalization	\$40MM
Cash	\$14MM
Long Term Debt	N/A
Enterprise Value (EV)	\$26MM
Book Value	\$1.28
TTM Revenue	\$27.6MM
P/ Revenue	1.5x
TTM EPS	(\$1.46)
P/ EPS	NA
TTM EBITDA	(\$25MM)
EV/ EBITDA	NA

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