Deutsche Bank

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Industry Update

Better Place

Comments Reinforce Our Electrification Thesis

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Companies featured

A123 Systems Inc. (AONE.OQ),USD8.83			Buy
	2009A	2010E	2011E
EPS (USD)	-0.79	-1.18	-0.85
P/E (x)	–	–	–
EV/EBITDA (x)	–	–	–

Ener1 Inc. (HEV.OQ),USD3.44			Buy
	2009A	2010E	2011E
EPS (USD)	-0.44	-0.34	-0.10
P/E (x)	–	–	–
EV/EBITDA (x)	–	–	290.7

Better Place's progress appears to be on track for late 2011 launch in Israel
We met with management of BPLC in NYC to get an update on their business plan, which we continue to view as having the potential to dramatically alter EV adoption trajectories. Of 250 consumers per day that enter its visitors center near Tel Aviv, 20% are currently signing up to purchase a Renault Fluence (1st veh in the network). 5,400 consumers have signed up so far; additionally, BPLC indicated that 150 of the largest commercial fleet customers in Israel (which collectively own/operate 100,000 vehicles) have signed up to offer BPLC's veh's in their fleets.

The economics of veh electrification already look convincing in many markets, and should become even more compelling as battery prices decline
BPLC estimates that EV battery pack prices are currently in the $10,000 range (at least for large potential purchasers such as Better Place). These packs maintain more than 80% of their original performance specs for approximately 1500 cycles. At 100 miles per cycle, this implies 150,000 miles of initial life expectancy, or $0.06 per mile ($10,000 / 150,000 miles). Even without major technical breakthroughs (which appear to be increasingly likely), battery packs are expected to drop to the $7500 range by 2015 (based on 8% per year reductions), and advancements in chemistry and process technology should increase life expectancy to at least 3,000 charges in this timeframe. This should increase life expectancy to at least 300,000 miles, and reduce depreciation to $0.025 per mile. Adding in $0.02/mile for electricity cost implies a $0.05 per mile electricity/battery cost. With those economics, retail gasoline prices would have to decline to $1.75/gallon to be competitive with electricity ($0.05 per mile x 35 miles per gallon). Gasoline prices in Europe and Israel are $6.00-$8.00 per gallon.

Recent financing developments support the business model
On Wednesday Better Place announced a technology and financing partnership with General Electric. Part of this partnership involves a pilot project to finance 10,000 batteries in Israel and Demark. We view asset-based and consumer-receivable based financing of batteries as an important milestone in improving the economics for battery service companies and consumers.

Within our coverage universe, we view A123 as the most compelling vehicle for gaining exposure to the electrification phenomenon (BPLC is private)
A123 is amongst 4 global battery suppliers that appear to be winning disproportionate market share in the light vehicle, commercial vehicle, and grid storage market. Based on contract awards and high confidence projects that are underway, A123 projects that its revenue will grow to $1.5 bn by 2013 (our model projects $1.1 bn, vs. $103 MM in 2010). Our $17 target is based on a DCF valuation approach, but valuation looks compelling on other measures as well, i.e. current share price of $8.83 is only 1.3x book value of $6.70 per share (BV includes $2.10 / share of gov't grants that A123 will use for manufacturing capacity).

Sector Valuation / Risks
We utilize an EV/EBITDA valuation methodology for companies with extensive liabilities and P/E valuation methodology for companies that generate adequate free cash flow and exhibit an ability to consistently grow earnings. Principal sector risks include the outlook for successful restructuring at U.S. automakers and significantly higher/lower than expected global auto demand.

We met with management of Better Place in New York to get an update on their business plan, which we continue to view as having the potential to dramatically alter EV adoption/market share trajectories for the Global Auto Industry. Details of the company's business model are discussed in our November, 2009 "Plugged In 2" report. Key takeaways from our meeting included the following:

Better Place's progress appears to be on track with the plan that management had described to us 2 years ago (although mgmt acknowledges that deployment is perhaps 6 months behind schedule). Interestingly, the total EV infrastructure cost for Israel is projected to be in the $150 MM range, which equates to roughly 6-7 days of gasoline usage in that country. And BPLC estimates that 6-7 days of gasoline usage is a reasonable rule of thumb for infrastructure requirements in most of the world. BPLC will be initiating a full system test of its network with Renault EVs starting in late October. These tests will expand over a 12 month period, and the company's EV Services platform will become open to consumers in late 2011.

Demand for the EV product appears to be strong. BPLC is now receiving 250 consumers per day at its visitor center near Tel Aviv, and it is getting 20% to sign up for the Renault Fluence sedan, which will be the first EV to become available through the BPLC network (5400 consumers have signed up so far). In consumer surveys, take rates increase to as much as 50% when consumers are provided more definitive purchasing terms (also note that delivery is 1.5 years away). In addition to these takers, BPLC indicated that 150 of the largest commercial fleet customers in Israel (which collectively own/operate 100,000 vehicles) have signed up to offer Better Place vehicles in their fleets.

The economics of vehicle electrification already looks convincing in many markets, and they should become even more compelling as battery prices decline. BPLC estimates that EV battery pack prices are currently in the $10,000 range (at least for large potential purchasers such as Better Place). These packs maintain more than 80% of their original performance specs for approximately 1500 cycles. At 100 miles per cycle, this implies 150,000 miles of initial life expectancy, or $0.06 per mile ($10,000 / 150,000 miles). But battery prices appear to be dropping by roughly 8% per year, and cycle life expectancy is increasing by 20-30% per year. In other words, even without major technical breakthroughs (which appear to be increasingly likely), battery packs are expected to drop to the $7500 range by 2015, and advancements in chemistry and process technology should increase life expectancy to at least 3,000 charges in this timeframe. This should increase life expectancy to at least 300,000 miles, and reduce depreciation to $0.025 per mile. Adding in $0.02/mile for electricity cost implies a $0.05 per mile electricity/battery cost. With those economics, retail gasoline prices would have to decline to $1.75/gallon to be competitive with electricity ($0.05 per mile x 35 miles per gallon). Gas prices in Europe and Israel are currently in the $6.00 and $8.00 per gallon range.

Recent developments on the financing side also appear to support the business model. On Wednesday Better Place announced a technology and financing partnership with General Electric. Part of this partnership involves a pilot project to finance 10,000 batteries in Israel and Demark. We view asset-based and consumer-receivable based financing of batteries as an important milestone in improving the economics for battery service companies and consumers.

Other validating developments are likely. BPLC expects China to announce a strong push for EV's by year-end. In addition, we see a barrage of EV models being introduced by the world's leading automakers in the 2012 timeframe.

Within our coverage universe, we continue to view A123 Systems as the most compelling vehicle for gaining exposure to the vehicle electrification phenomenon (Better Place is private). A123 is amongst 4 global battery suppliers that appear to be winning disproportionate market share in the light vehicle, commercial vehicle, and grid storage market. Based on contract awards and high confidence projects that are underway, A123 projects that its revenue will grow to $1.5 bn by 2013 (our model projects $1.1 bn, vs. $103 MM in 2010). Valuation for companies such as A123 Systems is complicated, given that revenue and earnings don't ramp up for several years (they become meaningful in the 2012-2013 timeframe). Our $17 target is based on a DCF valuation approach. Valuation looks compelling on other measures as well. We note, for example, that the company's book value was approximately $5.35/share following its IPO in Sept. 2009. While book value has declined a bit (to $4.59 as of Q2) over the past year due to startup losses, we note that A123 also has approximately $2.10/share of government grants that it will use for manufacturing capacity. A123's shares are currently trading in the $8.80 range, which doesn't appear to reflect a productive (i.e. reasonable return) deployment of these assets. Nor does it reflect the growth that we anticipate based on A123's strong market positioning.

Sector Valuation / Risks

We utilize an EV/EBITDA valuation methodology for our companies with extensive liabilities and P/E valuation methodology for companies that generate adequate free cash flow and exhibit an ability to consistently grow earnings. Principal sector risks include the outlook for successful restructuring at U.S. automakers and significantly higher or lower than expected global auto demand, driven by changes in credit availability, government stimulus programs, and/or changes in consumer employment levels.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
A123 Systems Inc.	AONE.OQ	8.83 (USD) 22 Sep 10	2,6,7
Ener1 Inc.	HEV.OQ	3.44 (USD) 22 Sep 10	2,8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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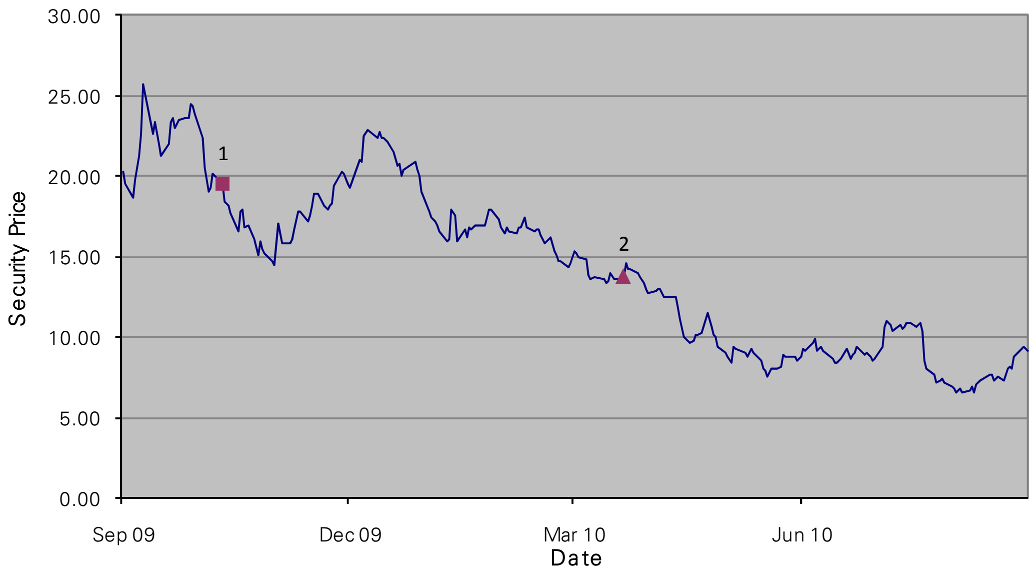
Historical recommendations and target price: A123 Systems Inc. (AONE.OQ)

(as of 9/22/2010)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

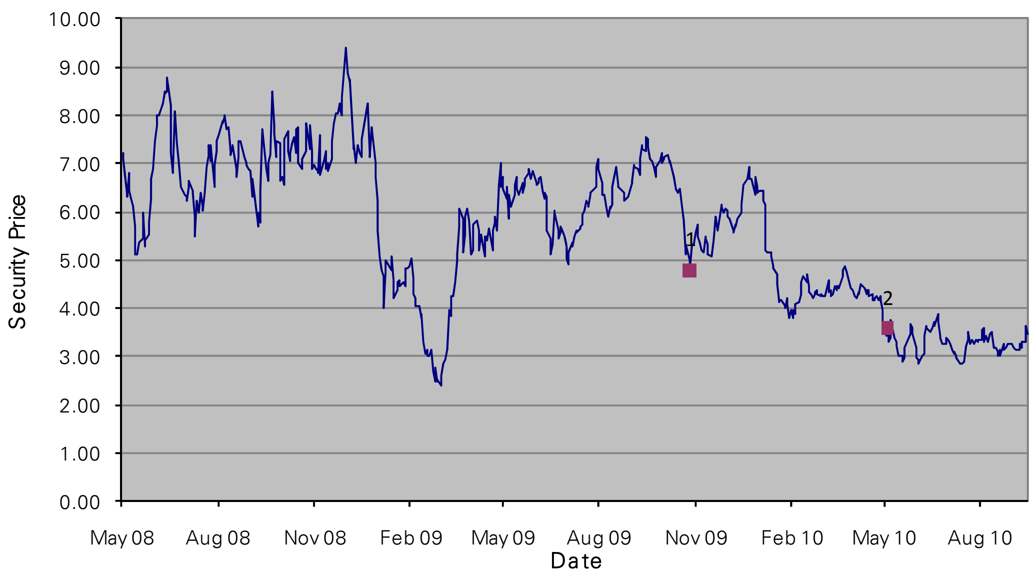
Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	11/3/2009:	Hold, Target Price Change USD17.00	2.	4/13/2010:	Upgrade to Buy, USD17.00

Historical recommendations and target price: Ener1 Inc. (HEV.OQ)

(as of 9/22/2010)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	11/3/2009:	Buy, Target Price Change USD11.00	2.	5/11/2010:	Buy, Target Price Change USD8.00

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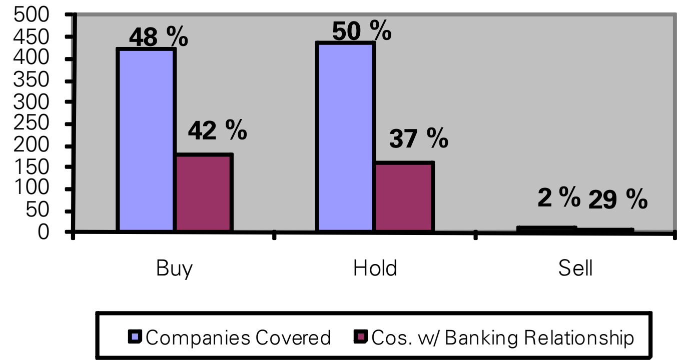

North American Universe

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