FOCUS

Generators and Developers Attract M&A Interest in Subdued 2Q

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Demand for renewable power-generating assets kept mergers and acquisitions alive in a generally muted second quarter, whereas more recent weeks have seen a pick-up in takeovers by international power engineering companies.

The volume of corporate clean energy mergers and acquisitions held steady in the second quarter. There were 31 deals, just two less than in the first quarter, according to data collected by Bloomberg New Energy Finance. In value terms, however, these represented a marked decline of over $1 billion, to $2.6 billion.

The number and value of transactions is bound to fluctuate considerably from quarter to quarter given the relatively small size of the sector. Taking a step back and looking at the longer term picture reveals 2Q's figure to be an increase on the $2.2 billion recorded in the equivalent period last year and marginally higher than the average of the preceding four quarters, yet very weak in the context of the last five or six years.

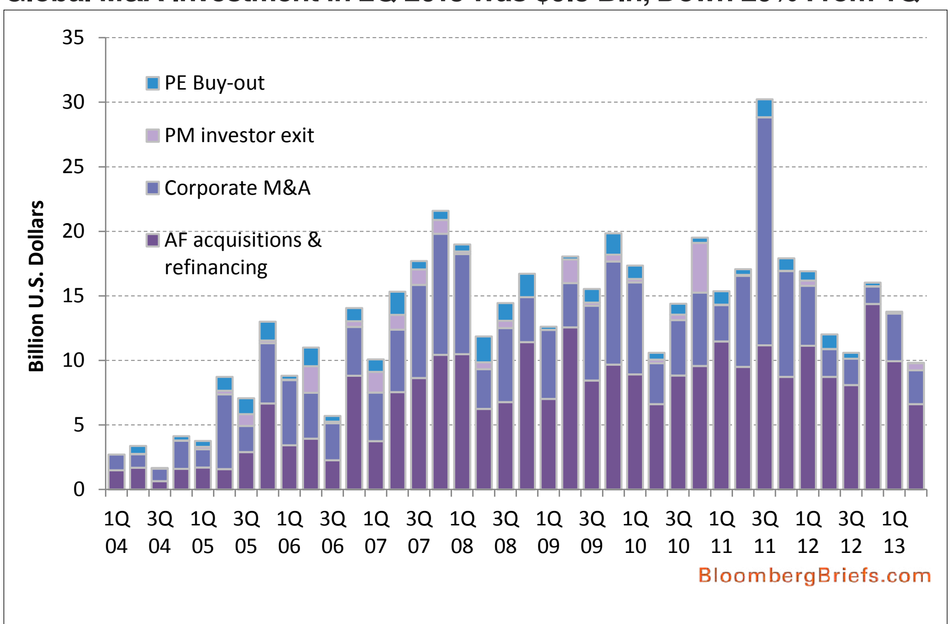
The general trend in global corporate mergers and acquisitions across all industries is steadily downward, both in terms of deal numbers and values. Bloomberg data for the second quarter show there were 5,956 transactions in the second quarter, down from 6,727 in the second quarter of last year, and that there was a 10 percent fall in value to $489 billion.

"It is a risk-off world from the perspective of M&A," said **Jeff McDermott**, founder and managing partner of New York-based boutique investment bank **Greentech Capital Advisors Securities LLC**. "A conservative macroeconomic environment casts a real chill on acquisition activity among future growth-oriented, disruptive technologies. It is more damaging to clean technology corporate M&A than to almost any other sector," he said.

"Corporate acquirers are concerned about the resilience of the global recovery and worries about the Chinese economy, among other things," he added. They are also mindful of the many mistakes that litter the sector's recent history. "When you see high-profile failures like Solyndra and Fisker, for an executive to champion a deal that might have a bright future but might also be dilutive to earnings for the next two to three years, then that has to be a pretty brave, gutsy executive."

In light of the prevailing economic mood it is perhaps unsurprising that the second quarter produced few acquisitions of equipment manufacturers or technology developers. Indeed, the former were targeted in only six deals, worth a combined $389 million, or 15 percent of the quarterly total. Trade in technology developers meanwhile was confined to just four deals worth a combined $57 million, or 2.1 percent of the overall tally.

Global M&A Investment in 2Q 2013 Was $9.8 Bln, Down 29% From 1Q



Source: *Bloomberg New Energy Finance*

SOLAR

Such is the state of manufacturing in the solar sector that many recent acquisitions have been driven by distress or bankruptcy. In July, Miami-based private equity firm **Kawa Capital Management Inc.** agreed to take over **Conergy AG**, once Germany's biggest solar company, two weeks after it filed for bankruptcy. Meanwhile, engineering and consumer electronics giant **Robert Bosch GmbH** is seeking a buyer for its 90.7 percent stake in German photovoltaic equipment manufacturer **Aleo Solar AG**.

Speculation over the fate of another former giant, debt-stricken Chinese module maker **Suntech Power Holdings Co. Ltd.**, has recently surfaced in the Chinese media. Two tier-one manufacturers, **Trina Solar Ltd.** and **Yingli Green Energy Holding Co. Ltd.**, have been identified as potential bidders. Any deal with a domestic player would be in line with official government policy encouraging market consolidation in what is still a chronically oversupplied sector.

China's **Hanergy Holding Group Ltd.** is one company that does not need any encouragement. It recently acquired yet another thin-film panel maker – its third in less than a year – although all were based overseas. The purchase of Arizona-based **Global Solar Energy Inc.** for an undisclosed amount in July follows its acquisition of **MiaSole Inc.** in January and Q-Cells' **Solibro AB** unit last September. Hanergy operates hydropower plants with 6 gigawatts of capacity and 131 megawatts of wind farms.

ENERGY EFFICIENCY

"Acquisitions are more of a cultural issue," said McDermott. "It is not sector-specific; instead it is leadership-specific. It is about CEOs and company boards empowering

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divisional leaders to make the changes, to grow aggressively and to be involved in these sectors." He cites the example of France's **Schneider Electric SA**, which is expanding into integrated software and control systems, factory floor automation and broader energy efficiency.

In recent weeks, it agreed to buy U.K. industrial controls giant **Invensys Plc** for 3.4 billion pounds ($5.2 billion). The deal, which brings software and control systems used by chemicals makers, oil refineries and mining companies, marks Schneider's biggest takeover since the $6.1 billion purchase of **American Power Conversion Corp.** in 2006. More recent moves include the 1.4 billion-euro ($1.9 billion) acquisition of Spanish industrial automation software company **Telvent GIT SA** in 2011.

Rival **ABB Ltd.** is another active acquirer. In April, the Swiss power and automation technology giant agreed to buy **Power-One Inc.** for about $1 billion. The California-based company makes inverters that allow solar power to be fed into the electricity grid. **Maxine Ghavi**, head of ABB's solar business, says the company is open for growth opportunities in the solar sector if they make strategic sense. Significantly, **Ulrich Spiesshofer**, who oversaw the Power-One deal, will take over as ABB's new CEO in September.

Japanese multinational engineering and electronics conglomerate **Toshiba Corp.** has also been active. At the beginning of July, it announced that it had taken a 76 percent stake in **CyberGRID GmbH**, an Austrian developer and provider of energy management systems, but did not say how much it paid. Previous purchases include Swiss electronic-metering company **Landis+Gyr AG** in 2011 and U.S. energy management company **Consert Inc.** in February this year.

PROJECT DEVELOPERS

On the whole, acquirers were lukewarm on equipment manufacturers and technology developers in the second quarter, preferring instead the returns promised by project developers or power generators. The current low-interest-rate environment has heightened the appeal of renewable power assets because they offer investors that rare thing – attractive, stable, long-term income in a regulated market. There were 15 such deals valued at $1.9 billion, or 73 percent of the total, in the three months to the end of June.

Japanese firm **Marubeni Corp**, for instance, has been very active in buying up wind and solar assets in Europe and the U.S. It recently agreed to pay 100 million euros ($133 million) for a 25 percent holding in Ireland's **Mainstream Renewable Power Ltd.**, and snapped up a 50 percent stake in a company holding **GDF Suez SA**'s Portuguese thermal and renewable power assets.

Meanwhile, troubled French wind developer **Theolia SA** is to be bought by a Macquarie Group infrastructure fund for an estimated 356 million euros ($458 million) after a debt restructuring helped stave off bankruptcy.

One particularly active niche is the small-scale solar installer market in the U.S. Colorado-based **Real Goods Solar Inc.** announced lately that it is to acquire **Mercury Energy Inc.** to expand its presence in key solar markets on the East Coast. "It also strengthens our balance sheet with additional working capital," Real Goods Chief Executive Officer **Kam Mofid** said in a statement.

Interest among utilities in this area is increasing as more people opt for solar and so tap less electricity from the grid. **Edison International**, owner of California's second-largest electric utility, recently bought solar rooftop developer **SoCore Energy LLC** for an undisclosed price. In April, Edison bought a stake in **Clean Power Finance Inc.** to expand its online financing service for residential solar systems.

Deals targeting developers and power generators may have dominated the market for corporate acquisitions in the second quarter, yet appetite for standalone renewable power assets was not as keen as might have been expected. There were 48 renewable infrastructure acquisitions in the second quarter, four more than in the first quarter, and these were valued at $3.9 billion, a somewhat smaller amount than the $5.5 billion recorded in the first three months of the year.

The volume and value of solar and wind asset acquisitions remained largely constant, with the main difference being a very large small-hydro deal in the first quarter. Bermuda-domiciled **Brookfield Renewable Energy Partners LP/CA** paid **NextEra Energy Resources LLC** approximately $760 million for its 351-megawatt White Pine Hydro portfolio located mainly in the U.S. state of Maine in March.

VARIETY OF ACQUIRERS

The stand-out feature in recent months is the sheer variety of acquirers. They include the **Ikea Group**, the world's biggest home-furnishings retailer, which is to buy a wind farm in Ireland from Mainstream Renewable Power as part of plans to invest 1.5 billion pounds ($2.3 billion) in wind and solar by 2015. As always, there was considerable interest from utilities, as well as a growing number of institutional investors and specialist renewable asset funds.

A sample of news in August reveals that **Allianz SE**, Europe's largest insurer, has bought two wind farms in France and that **JPMorgan Chase & Co.** bought a stake in the 99-megawatt Anacacho wind farm in Texas from German utility **EON SE** for $76.6 million. Bluefield Solar Income Fund, one of a new breed of listed asset-owning funds, also announced that it is to buy its first photovoltaic plant, for 12 million ($18.5 million) from **Ikaros Solar NV**.

PENSION FUNDS

Retirement funds too are potentially very significant for the sector. "We are seeing large, sophisticated pension funds in coalitions coming together and aggressively looking to acquire contracted generating assets as fixed income alternatives," said McDermott. "We think that in the U.S. we will see 10 gigawatts of wind assets change hands over the next five years and that a very large percentage of these will go to pension and institutional investors and not to infrastructure funds."

The market for renewable power assets is being transformed as a wider range of institutional investors realize they are a source of steady income. More generally, the outlook for acquisitions of all types within the sector will remain overcast while the macroeconomic conditions remain inclement and the wind and solar supply chains oversupplied. The exceptions to this will be certain large forward-looking power engineering companies that are blazing a trail or two.

Note: This article will also be available to Bloomberg New Energy Finance clients at www.bnef.com.