

SUNNY DAYS

BY MATT MILLER

In the past few months, acquisitions and investments have radiated throughout solar power, invigorating an alternative energy source that is rapidly moving from quaintly exotic to nearly mainstream. As Michael Molnar, a partner at New York's **Greentech Capital Advisors, LLC**, an investment bank specializing in clean technology and alternative energy, says, "The solar industry is growing at a level where it's really attractive."

In late March, Silicon Valley's SunPower Corp. completed a \$277 million acquisition of Italy's SunRay Renewable Energy, which develops solar power plants. In February, French nuclear company **Areva SA** said it would buy Silicon Valley's **Ausra Inc.**, which makes solar thermal equipment. Details weren't released, though the price is likely to be between \$200 million and \$300 million. The biggest solar-related deal to date occurred in October, when German conglomerate Siemens AG paid \$418 million for Israeli solar thermal power company Solel Solar Systems Ltd.

Smaller investments are also being made. In February, London-based private equity shop Climate Change Capital Ltd. said it was investing £10 million (\$13.7 million) in Norway's Metallkraft AS, which has a process that cuts waste through recycling in making silicon solar cells. It was the third solar-related investment for the PE firm. In October, GE Energy Financial Services invested as part of a \$23 million round in Israeli photovoltaic company SolarEdge Technologies Inc.

PV technology remains the most ubiquitous solar play, with tens of thousands of mostly small-scale installations. At the end of last year, installed capacity totaled 22 gigawatts, up from 14.5 in 2008. PV converts sunlight into electricity through cell arrays, usually made from silicon. By contrast, thermal uses sunlight to heat water, which generates electricity. This allows for larger projects, although less than one GW worth has been installed.

Nonetheless, thermal is proving attractive to large engineering firms because the technology is "reasonably established," says Climate Change partner Simon Drury.

Projects are bigger than PV arrays; tend to be structured on a build, own and operate model; and "require large amounts of capital," he says.

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The industry anticipates more M&A. Molnar sees large, diversified companies using acquisitions to get into solar in a major way just as established solar companies realize they need deeper pockets to scale up and go global. "It's an interesting M&A market, with both bigger industrial companies and existing solar players looking around," he says.

The quickened pace of deals reflects more than an economic upswing. The cost of producing PV cells plunged last year by 40% to 50%. "The cost of [PV] modules has come down dramatically in the last 18 to 24 months, more than anyone predicted," says Drury. Costs will continue to fall, he says, giving it near parity with at least the retail cost of electricity. "That's why solar is a very, very important technology."

The installed base of solar power has exploded. In 2009, according to San Francisco-based energy consultancy Solarbuzz LLC, worldwide solar cell production hit 9.34 GW, up from 6.85 a year earlier. That should continue. It's this decade's fastest-growing energy technology.

In part, growth stems from falling costs. Josh Baribeau, an analyst with brokerage firm Canaccord Adams Inc., says the technology is "commoditizing pretty quickly," which actually has worked to dampen the attraction of some solar-related companies.

Government subsidies are critical. Germany this year is reducing its subsidy, causing concern that Europe's biggest user of solar power will retreat. This follows Spain's wild ride, granting unlimited subsidies in 2008 and then removing them last year.

At the same time, the U.K. and China have begun granting subsidies. "The regulatory risk does exist and will continue to do so," says Drury. "Solar is a global industry. Every year that goes by means the industry is less dependent on a single country."

China is fast establishing itself as the solar panel manufacturing center of the world and becoming a big user as well. Chinese companies, many publicly traded, are showing robust growth and may well be in the market for acquisitions to gain new technologies or enter new markets. "It's a strategic industry for them," says Molnar, both in terms of jobs and as an energy source.

There are concerns beyond being at the mercy of governmental largess. Solar energy-related companies tend to require lots of capital. If they can't get products to market fast enough, they hit a funding crunch. In January, Solyndra Inc., a Fremont, Calif.-based maker of PV systems, filed to go public. A subsequent S-1 filing carried a warning by its auditor, PricewaterhouseCoopers LLP, that it could run out of money if revenue doesn't pick up.