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Solar Purge Drives Weakest Into Buyouts, to Spur More Deals (1) 2011-08-30 08:59:02.51 GMT

(Updates share prices from fifth paragraph.)

By Ehren Goossens and Andrew Herndon

Aug. 30 (Bloomberg) -- The solar-equipment industry is beginning a consolidation that's already the biggest in at least two years as plunging prices for photovoltaic systems force weaker companies to team with competitors or close shop.

Mergers and acquisitions announced so far this year total \$3.3 billion, up 33 percent from the \$2.47 billion in all of last year, data compiled by Bloomberg show. Evergreen Solar Inc. of the U.S. filed for protection from creditors this month and Germany's Q-Cells SE in July said it's open to takeover bids.

Tumbling solar-cell prices are provoking deals. Their 42 percent drop in 2011, stemming from tougher Chinese competition and declining solar-energy incentives in Europe, contributed to California's Sunpower Corp. and Roth & Rau AG of Germany agreeing to takeovers. Ascent Solar Inc. took a Chinese partner.

"Weaker companies who did not get their product costs down to competitive levels are going to disappear," said Christopher Blansett, an analyst for JP Morgan Securities LLC. "They'll be bought up. They'll go away. There is significantly more supply of solar modules than demand."

A sell-off in solar stocks has made acquisitions cheaper. The Bloomberg Industries Global Large Solar Index dropped 36 percent this year through yesterday, compared with a 3.8 percent decline in the Standard & Poor's 500 Index in that period.

The pace of acquisitions is the fastest since 2009, when \$6 billion were recorded. The biggest deals that year involved GCL-Poly Energy Holdings Ltd., the Chinese maker of polysilicon. That's the raw material used in solar cells, which are combined into modules, or panels, that convert sunlight into power.

'Ripe for Consolidation'

"The industry is ripe for consolidation," Michael Schostak, director of business development and communications at Auburn Hills, Michigan-based Energy Conversion Devices Inc., a maker of thin-film solar laminates, said in an interview.

Adam Krop, an analyst at Ardour Capital Partners in New York, put Energy Conversion on his list of vulnerable companies. Aaron Chew, an analyst at New York-based Maxim Group LLC, named Daystar Technologies Inc. and Q-Cells.

Energy Conversion and Daystar Technologies are U.S. manufacturers that have both lost more than 80 percent of their market value this year through yesterday. Energy Conversion had 112 days of inventory in the second quarter, the most of any company in Bloomberg Global Leaders Solar index, according data compiled by Bloomberg.

Evergreen said it plans to sell itself at an auction. Hopewell Junction, New York-based cell maker SpectraWatt Inc. this month also filed for protection from creditors.

Q-Cells, once the world's largest maker of solar cells, hired investment bank and bankruptcy adviser Houlihan Lokey to look at financing options, it said last week.

Q-Cells Distressed

"It's totally feasible that Q-Cells goes under," Chew of the Maxim Group said in an interview. The company's shares reached a record low Aug. 10 after forecasting a "three-digit million-euro" loss for the year.

Q-Cells spokeswoman Ina von Spies said the company is "well-positioned" to compete. She said it has an established brand, an innovative portfolio of solar cells and modules, technological know-how and a strategy to "continuously drive down costs," in e-mailed comments yesterday. Q-Cells "has already led talks with potential partners, which haven't resulted in an agreement."

Other German solar companies are struggling. Solon SE said on Aug. 16 that it will cut 15 percent of its jobs after inventory rose 45 percent in the first quarter to 160 million euros (\$230 million) from a year earlier.

Roth & Rau, the German maker of solar-cell manufacturing equipment, agreed in April to a takeover by Swiss competitor Meyer Burger Technology AG, after first-quarter inventory more than tripled to 97 million euros.

Schostak of Energy Conversion said the most likely takeover targets offer commodity crystalline silicon products and that his company is talking to potential partners about integrating its flexible cells into products from roofing tiles to backpacks. He didn't name the companies.

Daystar 'in Discussions'

Daystar Technologies, a Milpitas, California-based maker of thin-film solar cells, is "in discussions" with potential investors to "provide financing, manufacturing capabilities or other opportunities," Chief Financial Officer Chris Lail said in an interview.

"U.S. solar manufacturing consists of legacy laggards" and innovators that have "stuff so new that it's not even on the shelves," Chew said. "The question is, will the shakeout result in consolidation or closures?"

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