

# The Daily Deal

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## JUDGMENT CALL

### Green consolidation

*Tight credit, low valuations and an inhospitable IPO climate make cleantech ripe for rollups*

BY STEPHANIE S. BRECHER

Cleantech companies will be looking for market share in 2009.

Despite record high investment in the cleantech sector—\$4.1 billion in 2008, up from \$1.4 billion in 2006—the credit market contraction has severely tested the sector with the usual sources of financing for large-scale solar, wind and alternative fuels projects—tax equity investors—taking a pass.

Valuations of privately-held cleantech companies have come down significantly from 2007 and even 2008 levels, and the initial public offering window is still effectively shut for these players.

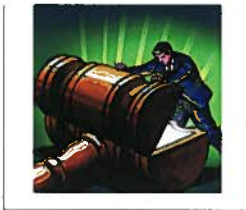
As a result of these difficulties, the few in the sector that are well-funded are well-positioned to acquire emerging companies that aren't so lucky. In certain cleantech product areas, consolidation makes sense, enabling a company that planned to go public to instead merge with a competitor or a company in a complementary space to create a more robust and diverse product line, beef up their customer base, and wring out efficiencies.

With many cleantech projects requiring millions in capital to move from product development to production, these deals will begin to look even more appealing.

The willingness of VCs to support the winners among their portfolio companies together with the long-term tax credit extensions in October 2008 and the Obama administration's ambitious plans to push cleantech as a primary driver of economic recovery and job growth has provided fuel for an acquisition strategy.

According to Whitney Rockley, of **Nomura International plc's** new energy and clean technology ventures group, some VCs are adapting their investment strategy to take advantage of a market ripe for consolidation by investing in developed companies that would have been "right on the verge" of going public and are looking for funding to bridge them to a profitable exit or support their own growth plans.

The market has experienced some M&A exits in the past few months, particularly in solar, but among efficient lighting and smartgrid players as well. On March 18, for example, **Recurrent**



**Energy Inc.** announced the acquisition of a solar project pipeline of up to 350 megawatts from **UPC Solar** in an effort to increase its footprint across North America. As Recurrent CEO Arno Harris recently noted in his blog: "This deal parallels other recent solar market activities that show how strong, well-capitalized developers are ...acquiring valuable assets as a result of the financial crisis. ... Combined,

these acquisitions showcase the beginning of a larger wave of consolidation in both upstream and downstream solar markets." Recurrent had received a capital infusion from **Hudson Capital Partners LLC** as part of a July 2008 investment.

With **First Solar Inc.'s** \$400 million acquisition of the 1.3 gigawatt **OptiSolar Inc.** development pipeline, announced March 2, First Solar gained a 550 megawatt AC solar development project under a power purchase agreement with **PG&E Corp.** as well as a significant solar power project pipeline. OptiSolar, which had raised more than \$200 million in funding and had more than 600 employees in 2008, announced a layoff of nearly half its workforce in January 2009.

In a similar move, **Municipal Mortgage & Equity LLC**, owner of MMA Renewable Ventures, also said March 2 it had agreed to sell the majority of MMA Renewable's assets for \$19.7 million to Spain's Fotowatio Renewable Ventures Inc., a subsidiary of **Fotowatio SL**. The deal will cover about 35 megawatts worth of solar projects now in operation, including a 14-megawatt plant at the Nellis Air Force base in Nevada. MuniMae CEO Michael Falcone said in a company press release the difficulty of raising capital in the current market environment coupled with the capital needs of the business was the impetus behind the sale.

**Acuity Brands Lighting Inc.**, one of the world leaders in lighting fixtures, agreed in a deal announced March 18 to buy **Sensor Switch Inc.**, a maker of lighting control systems, for about \$205 million to boost its green building materials portfolio. The acquisition follows its recent deal for Lighting Control & Design Inc., whose products include dimming controls, building interfaces and digital thermostats for commercial and institutional lighting systems. There are many small niche players but only a few strong companies in the illumination and



LED space, so a trend toward greater consolidation in the coming months seems likely.

When **GridPoint Inc.**, one of the largest companies in the emerging smartgrid sector, acquired V2Green, a Seattle company that provides plug-in electric vehicle grid integration technology, in September 2008, the company said the purchase was just the first step in GridPoint's acquisition strategy, which was fueled by a \$120 million equity financing. However, because of the high degree of fragmentation and diversity of platforms in the smartgrid sector, with companies in the generation, transmission, distribution, sub-station, automation, sensing and metering areas, consolidation may not be as rapid as in a more well-defined space like solar, according to Rockley. Opportunities will abound, she says, for those who can figure out how to use a rollup strategy to offer customers a complete solution.

Large players not historically associated with renewable energy may also play a significant role in the consolidation trend, with such names as **Intel Corp.**, **Samsung Electronics Co. Ltd.**, **Robert Bosch GmbH** and **Applied Materials Inc.** devoting more resources to the sector. The renewables industry appears to be following a tried-and-true industry model where small, specialized players develop disruptive technology and then more well-established companies in the sector snap up the winners after they prove their technology and sales traction. The solar industry in particular will see large industrial companies buying up mid- to larger-tier solar companies. On March 24, for example, **Siemens AG** said it would acquire a 28% stake in Italy-based **Archimede Solar Energy SpA** to expand its expertise in solar thermal power plants, with the option to acquire a majority stake of the company in the midterm. Alessandro Zago, director

of venture technology at Siemens Technology-to-Business Center (TTB), said he expects more consolidation, particularly in solar, as valuations go down, innovative companies need cash injections for survival and smaller companies go out of business, selling their technology assets to the highest bidder. Despite the downturn in solar, however, Zago expects to see more market entrants over the next six to 18 months, and Siemens will continue to scour laboratories, universities and start-ups for new technologies.

VCs seem to share the sentiment that M&A activity in cleantech may jump in the coming months. According to a recent survey by **KPMG LLP** of 304 venture capitalists, corporate executives, entrepreneurs and bankers in greentech, 46% of those surveyed said that they expect deal activity in the sector to increase over the upcoming year as the economy starts toward recovery.

In an April 2008 interview for the PwC/NVCA MoneyTree Report, Erik Straser of **Mohr Davidow Ventures** predicted that in 2009 and 2010, "we'll see lots of acquisitions from large companies that want to diversify into cleantech," with corporate investors, hedge funds and private equity groups joining the fray. The Wall Street Journal noted that cleantech investor **CMEA Ventures** is out raising up to \$500 million for a later-stage fund that may do buyout-type investments.

The challenge now may be whether the management teams of the acquiring companies have the expertise to do a successful roll-up and integrate the target without draining scarce cash. ■

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