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Why the Value of Solar Installers Is Rising: Report By Jennifer Kho



As solar panel prices fall, installers' valuations appear to be climbing. A report from NeXt Up Research that was released Monday on SharesPost, an online marketplace for trading shares of private companies, estimates that solar developer SolarCity's exit valuation would be between \$375 million and \$443.8 million, or \$15.49 to \$18.36 a share. That's up from a per-share estimate of \$12.43 to \$13.90 back in July.

Solar panel prices, which have fallen by more than half from their peak last year, are helping to drive demand for solar power systems, and as such should help boost SolarCity's revenue, according to the report, written by NextUp research analyst Suresh Balaraman and downloadable for free here. Since panel prices make up more than a third of SolarCity's cost of goods sold, the lower cost should also help lift SolarCity's profit, he wrote.

Balaraman also expects to see bigger and more profitable projects in the wake of the \$2,000 cap on federal tax credits for residential solar power systems being lifted this year, and pointed to financing programs — specifically SolarCity's SolarLease, which pays the upfront installation costs in exchange for monthly lease payments and contracts to sell the electricity to customers at a fixed rate — as a significant advantage. And of course, part of the increased valuation is tied to the general market recovery, as overall valuations have grown in the last few months, he said.

The predictions and raised valuation for SolarCity, the largest U.S. residential solar installer, are good signs for the solar market, especially for installers. “For system

integrators, it's going to be easier to make money under the circumstances because panel prices were a high part of the bill of materials," Balaraman told us. Many other solar installers and financiers also have gone up in valuation as a result of the same trends, he added.

A growing market for solar also may be good for some panel manufacturers that are able to grow their market share in spite of squeezed margins from the lower panel prices, Balaraman said. Not everyone will win, however. "You can have a situation when the entire food chain grows, but the guys who supply the commodity get hurt," he said.

Valuations of later-stage solar companies are of particular interest now, as the industry eagerly awaits more cleantech exits after the successful initial public offering of battery manufacturer A123Systems in September. The lack of exit markets has slowed private funding, as investors have had to allocate more money to portfolio companies waiting for market conditions to improve. The National Venture Capital Association expects to see venture-backed IPOs start to return next year.

But the question of when solar exits will come back en masse has been difficult to predict as valuations for U.S. public solar companies have remained fairly flat since September, although prices are up slightly in December from November. For example, thin-film solar company First Solar saw prices dip in November, remaining below \$125 per share, then rise somewhat this month to trade at \$136.95 per share Monday afternoon, which still represents a drop from prices that hovered around \$150 per share in October. Solar manufacturer SunPower and solar installer Akeena Solar also saw shares grow from November this month, but remain well below their 52-week highs.

Does the raised valuation for SolarCity mean we're likely to see a SolarCity exit – or other solar installer exits – leading the charge soon? Not necessarily. While increased valuations are a good sign – most companies go public starting at valuations of around \$500 million and up, according to Balaraman, so growing valuations could indicate an exit is closer to becoming viable – valuations are only one of several factors involved in a company's decision about when and how to exit. But a report that indicates a growing valuation "is naturally going to attract people interested in buying companies that they [hope will] go public in the near future," said SharesPost CEO Greg Brogger. "A candidate for an IPO probably grows the size of the buying pool."

Image courtesy of NREL.