



Renewable Energy Corporation ASA
Investment Analysis & Recommendation

www.recgroup.com

OSL: REC

Investment Recommendation

- Institutional investors with 2-5 year investment horizon: BUY
- Key Assumptions
 - Capable of competing profitably as a low-cost manufacturer despite eroding profit margins
 - Increasing demand from Italy, France, Spain, and USA will sufficiently offset decreased German demand
- Income statement, balance sheet and credit & liquidity metrics forecast to improve
- Based on current share price of NOK 16.24, stock has significant upside potential

Presentation Agenda

- Company Overview
- Industry Overview
- Investment Highlights
- Investment Risks
- Financial Analysis
- Recommended Additional Research
- Summary

Company Overview

- Norway-based company established in 1996
- 3000+ employees globally organized in 3 business divisions
 - REC Silicon—produces polysilicon & silicon gases
 - LTM EBITDA margin of 49 percent
 - REC Wafer—produces multi- & mono-crystalline wafers and ingots
 - LTM EBITDA margin of 14 percent
 - REC Solar—makes solar cells & modules, develops & manages solar projects
 - Negative LTM EBITDA due to Singapore plant ramp-up
- Manufacturing facilities in Norway, Sweden, USA, Singapore
- Sales offices in Germany, Spain, Italy, USA, Japan, China
- Wholly owns Sovello AG, a Germany-based module producer

Industry Overview

- Supply Trends
 - Polysilicon supply was tight & spot prices were high
 - Solar manufacturers began adding production capacity & low-cost Asian producers entered the market
 - Increased supply has caused drop in spot prices
 - Unclear which manufacturers will produce profitably
 - Excess supply likely to depress solar panel prices
- Demand Trends
 - German demand likely to decrease after FiT expires
 - Increasing demand in Italy, France, Spain, United States
 - Solar market expected to grow from \$65.6B in 2010 to \$173.1B in 2014, constituting a CAGR of 27.5 percent
 - Panel prices, electricity prices & subsidies impact demand

Investment Highlights

- Corporate Strategy
 - “The world’s most integrated solar energy company”
 - Silicon→Wafers→Cells→Modules→Systems
 - Commercial, residential and industrial end-use customers
 - Targeting solar and semiconductor industries globally
- Low-Cost Production Advantage
 - Total control of raw materials manufacturing
 - Proprietary new FBR technology cuts energy costs by 90%
 - New production facilities are highly automated
- Expanded Production Capacity
 - Recently completed production facilities in USA, Singapore
- Long-Term Contract Agreements
 - Price and volume protection; increased business visibility

Investment Risks

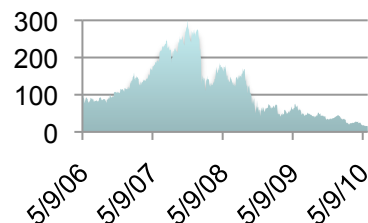
- Insufficient Demand
 - Expanded capacity a liability if sufficient utilization rates cannot be maintained
 - Reduced German demand must be sufficiently offset by increasing demand in other countries
- Long-Term Contract Risks
 - Increased legal risk if spot prices drop well below negotiated contract prices
- Currency Risk
 - Strong presence in European market
 - EU risk offset by global manufacturing & sales operations
 - If euro sufficiently declines, may need to cut prices to help customers stay cost-competitive

Financial Analysis

Snapshot Financials

Share Price (NOK)	\$16.24
FD Shares Out. (millions)	664.8
Earnings Per Share	NM
Price/Earnings	NM

Historical Stock Chart
(NOK)



<i>Historical Metrics & Assumptions</i>	<u>2007A</u>	<u>2008A</u>	<u>2009A</u>	<u>2010P</u>	<u>2011P</u>	<u>2012P</u>	<u>2013P</u>	<u>2014P</u>
Income Statement Metrics								
Revenue Growth	53.3%	23.3%	11.8%	15.0%	15.0%	15.0%	15.0%	15.0%
Gross Profit Margin	80.8%	79.2%	65.1%	75.0%	75.0%	75.0%	75.0%	75.0%
EBITDA Margin	47.8%	40.0%	19.0%	30.0%	40.0%	40.0%	40.0%	40.0%
Net Income Margin	20.1%	37.4%	-25.6%	13.1%	22.6%	24.4%	26.0%	26.8%
Earnings Per Share				2.08	4.12	5.12	6.26	7.44
Balance Sheet Metrics								
Days Accounts Receivable	55	98	103	103	103	103	103	103
Days Payable	378	647	353	353	353	353	353	353
Inventory Turnover	1.9	1.0	1.6	1.5	1.5	1.5	1.5	1.5
Other Current Assets as % Revenue	1.7%	4.1%	6.1%	6.0%	6.0%	6.0%	6.0%	6.0%
Other Current Liabilities as % COGS	55.5%	61.7%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
Other Non-Current Assets	\$1,671	\$4,657	\$1,828	\$1,828	\$1,828	\$1,828	\$1,828	\$1,828
Other Non-Current Liabilities	\$870	\$2,695	\$1,706	\$1,706	\$1,706	\$1,706	\$1,706	\$1,706
Additions to Intangibles as % Revenue	na	1.8%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
Accrued Taxes as % of COGS	37.7%	17.6%	4.4%	5.0%	5.0%	5.0%	5.0%	5.0%
Credit and Liquidity Ratios								
Net Debt to EBITDA	NM	1.9	5.9	3.4	1.8	1.2	0.6	3.3%
Debt/Equity Ratio	0.2	0.4	0.7	0.7	0.5	0.3	0.2	0.1
CapEx as % of Revenue	64.8%	119.0%	121.6%	10.0%	5.0%	5.0%	5.0%	5.0%

(NOK in millions, except per share data)

Financial Analysis

- **Revenue**
 - Projected revenue growth conservatively estimated to be 15 percent annually, based on doubled production capacity but offset by uncertain market demand
- **Gross profit margin**
 - Gross margin expected to improve due to energy efficiency of FBR technology
- **EBITDA margin**
 - EBITDA margin forecasted to improve based on reduced SG&A expenses associated with high degree of automation of new manufacturing facilities
- **Net income margin**
 - 2009 net income margin was negatively impacted by a one-time impairment charge; net income margin forecasted to continually improve going forward
- **Earnings per share**
 - Forecasted EPS projected to rise due to rising net income; projections based on assumption that no additional shares will be issued
- **Capital expenditures**
 - Capital expenditures spending is projected to drop dramatically due to completion of manufacturing facilities; no plans for new construction

Financial Analysis

Valuation Summary

(NOK in millions, except per share data)

Methodology	Representative Level	Multiples Range			Implied TEV Range			Share Price Range		
		Low	--	High	Low	--	High	Low	--	High
<u>Comparable Public Companies</u>										
TEV / Revenue										
LTM	\$9,580	1.60x	--	1.90x	\$15,329	--	\$18,203	\$7.58	--	\$11.90
FYE + 1	10,530	1.10x	--	1.20x	11,583	--	12,636	1.95	--	3.53
TEV / EBITDA										
LTM	\$1,646	6.0x	--	7.0x	\$9,875	--	\$11,521	NM	--	\$1.85
FYE + 1	3,159	8.0x	--	9.0x	25,272	--	28,431	22.54	--	27.29
Net Income										
LTM	(\$150)	15.0x	--	17.0x	\$8,037	--	\$7,737	NM	--	NM
FYE + 1	1,382	15.0x	--	16.0x	31,458	--	32,840	31.84	--	33.92
<u>Precedent Transactions</u>										
FYE Revenue	\$9,156	2.50x	--	3.50x	\$22,891	--	\$32,047	\$18.96	--	\$32.73
<u>Discounted Cash Flow Analysis</u>										
Perpetuity Growth Method					\$38,709	--	\$40,360	\$42.75	--	\$45.23
Exit Multiple Method					32,332	--	35,913	33.16	--	38.54
Median								\$22.54	--	\$30.01
Mean								22.68	--	24.38

Financial Analysis

- **Comparable public companies**
 - Assessment of comparable public companies implies a share price range of NOK 16-20
- **Precedent transactions**
 - Publicly available information is limited
 - Analysis of EV/revenue multiples implies a share price range of NOK 18-33
- **Discounted cash flow model**
 - DCF analysis conducted using the exit multiple method (range 6-8) and perpetuity grow method (range 2.5-3.5%)
 - DCF analysis implies a share price range of NOK 33-46

Recommended Additional Research

- Recommended additional research to complete before investing
 - Meet with management team to gain insight into future capital expenditures & plans for debt or equity raises
 - Also assess management team's execution capability
 - Speak with management consultants focused on the solar industry to better understand market demand forecasts
 - Review long-term contracts to assess potential legal risk
 - Research industry cost curves

Summary

- Solar manufacturing industry expected to be plagued by excess supply & eroding margins
- REC is well-positioned to compete profitably
 - Superior vertical integration strategy
 - Proprietary energy-efficient technology
 - Highly automated manufacturing facilities
- Insufficient demand may result in low capacity utilization
- Financial analysis indicates that key metrics will improve
- Current share price of NOK 16.24 represents significant upside potential
- Overall BUY recommendation for institutional investors with 2-5 year investment horizon

Questions?

