

First Solar's 5-year Strategic Plan

Written by Pierce Lee
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The obvious new component in First Solar's 2012-Q1 Conference Call on 2012-05-03 is the 5-year strategic plan. Except for the plan, the restructuring, the warranty claim, the roadmap of its module cost and efficiency largely fell into past statements and expectations.

Obviously this is a tumultuous transitional period for First Solar. The brutal module price war has taken a toll on many manufacturers, with a majority of companies in the space (either the suppliers or the module makers) bleeding in red since late last year. Trina Solar, which is usually considered the best of the breeds, has a sizable loss at 2011-Q4 and is expected to report another loss for 2012-Q1 soon. The decline in module price, however, is a boon for project developers and the EPC companies. The demand this year so far has leapfrogged last year with most large module companies in China running at near full capacity. For companies with a development arm like First Solar, SunPower and MEMC, the situation is much better than those without. It is not surprising to see all the three companies are cutting back on manufacturing and shift focus to project development. Therefore, the ability to excel in the development space is critical to all of the three, plus SolarCity which is scheduled to have an IPO soon.

The key target in FSLR's 5-year plan is to reach a 3 GW annual installation by 2016. Board Chairman and former CEO Ahearn justified the target by giving a 2016 world-wide installation of 37-40 GW and FSLR should be able to grab less than 10% of the market. Of course, FSLR is currently the largest project developer in the world and controlled over 2/3 of the utility-scale market of 100 MW and larger. Therefore, this is not a particularly aggressive plan by numbers. However, analysts were not convinced in the conference call and kept coming back about the plan as it indeed lacks substance. It is known that the RFP announcements for giant utility scale projects have dwindled dramatically. At the latest GTM Solar Summit (just finished in May), Tom Doyle of NRG Energy stated that giant projects are a thing of the past and the sweet spot is 20-60 MW ones. Therefore, the analysts' doubts really lie in whether First Solar can successfully scale down to the market of smaller projects. A few recent announcements such as the 20-MW Maryland project in March 2012 seemed unable to dispel the doubts. Jefferies' Jesse Pichel issued a report today saying the 5-year plan lacks credibility after First Solar pulled out of Europe. Europe has been the largest solar market for many years and the retreat from Europe does not speak well for First Solar.

First Solar's decision of scaling back at Europe is actually a practical decision in the face of fierce competitions there. The lower efficiency of First Solar's CdTe module (compared to c-Si module) and the drastic cutback in subsidies for large, ground-based projects at several

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countries are big headwinds for FSLR in Europe. The past decision of doubling Germany plant's capacity was made by previous CEO Gillette and it is an obvious mistake which First Solar is paying a price today. However, one should not count FSLR out in Europe in the future as there are utility-scale projects in planning in Eastern and Southern Europe. With a rather aggressive roadmap in increasing its module efficiency to 14% in 2014, FSLR may regain some of competitiveness in the efficiency game (<http://solarpvinvestor.com/spvi-news/193-the-game-of-high-efficiency-and-first-solar>). Ahearn talked about the "irrational market participants" and there are components in the market that do not want to do business with "irrational market participants" as they do not have long-term staying power.

Today, First Solar is in a precarious situation with its success hinged on the new 5-year plan. The plan, although reasonable on surface, does need a lot of hard work and luck. First Solar's newly installed CEO, Jim Hughes, previously worked in the electricity utility industry and has wide connections. In the conference, he talked about 'conversations', 'discussions' with other partners in the project development market. Being at early stage of the plan, we have to wait and see how successful First Solar is doing down the road. But for now, it is good for First Solar to recognize the trend inside solar industry and try to adapt to it