

## Alternative Energy Generating Investment Opportunities

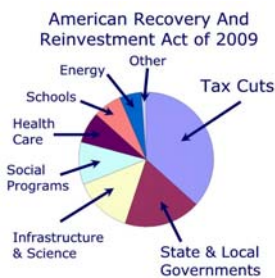
The excitement and urgency surrounding the alternative energy sector is generating quite a stir. The industry is being pushed by government mandates and consumer demand. And, utility companies are feverishly trying to manage the expectations of both key groups.

Government mandates require utility companies to acquire 15% of their total energy needs from renewable sources by 2020. This includes solar, wind, and bio-mass, among others.



Simultaneously, there has been a fundamental shift among consumers in this country. The desire to reduce the country's dependence on oil and other non-renewable energy sources in favor of renewables has permeated society crossing political lines. This desire, however, does not mean Americans are ready to pay a premium for alternative energy.

The ground swell and shift of attitudes toward energy will make it very difficult for future administrations to unwind any of the existing policies. "The incentives may change in the future, but the overall path we are on is unlikely to change," according to Fred Greguras, partner with K&L Gates LLP, focusing on investing in alternative energy.



The government continues to recognize the need to support alternative energy development with incentives. The American Recovery and Reinvestment Act of 2009 allocates approximately \$47 billion for renewable energy, smart grid, and energy efficiency programs.

An additional \$20 billion is available in the form of tax incentives, which includes an extension of the production tax credit (PTC) and a new investment tax credit (ITC) for manufacturers of renewable energy technology.

And most recently, there is an effort underway to create a cash grant program in lieu of investment tax credits. See related story in next column.

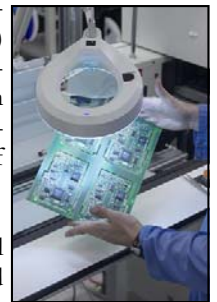
(See page 2, col. 1)

## Semiconductor Companies Begin Looking to the Future

There has been a subtle shift away from simply surviving toward planning for the recovery and the future.

Test and assembly business is usually a leading indicator of recovery followed by CAPEX. R&D's position in the recovery cycle is highly dependent on the individual company, but when done in mass it usually indicates that business is ready to invest in the future.

*EE Times* reports that analysis of the semiconductor packaging, assembly and test (SATS) sector by Gartner suggests that the SATS market seems to have bottomed out sooner than previously predicted and that a market inflection point was reached in the first quarter of 2009.



A separate Gartner report also suggests capital spending on semiconductor equipment should bottom out this year and start growing again next year.

(See page 2, col. 2)

## Cash Grant Program

On July 9, DOE and the Treasury Department (DOT) published details on the application process for the cash grant in lieu of investment tax credit (ITC) for renewable energy projects. The cash grant is authorized by Section 1603 of the Recovery Act. Such projects include most types of facilities used to generate electricity from renewable fuel sources. The payment will cover from 10% to 30% of the cost of such facilities that are placed in service during 2009 or 2010, and in some cases, if construction on the facility begins during 2009 or 2010.

(See page 2, col. 2)



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## Energy *(From page 1, col. 1)*

Companies are scrambling to capitalize on the incentives and create sources to feed the alternative energy needs of the utility companies now and into the future.

The challenge is that there are still many unanswered questions about how this money will be spent. "There is a tremendous amount of interest in alternative energy but investors are reluctant to move forward. We don't know what the rules are yet," commented Chris Baumann, a strategic business advisor with Core Capital Group's Electronics and Semiconductor Group.

Uncertainty about incentives and the fact that this is new and uncharted territory has made investment capital in alternative energy ventures difficult to find. "This is particularly true in the wind energy area," Baumann added.

Investing in alternative energy companies breaks down into two main areas according to Greguras.

Investing in companies that create technology used in the generation of alternative energy is the first area. Currently, it is very difficult for these companies to find early stage funding because there is so much confusion over what technology really works. Too often investors want to wait for companies to be successful before they take on the risk.

"This is a chicken and egg scenario that has caused many early stage energy technology companies to seek government stimulus funds," Greguras said.

Project financing is the second area. This is the creation of an entire project that will sell energy usually to utility companies and large businesses. The lack of investment capital due to the recent financial meltdown means that traditional investors will only invest in the most creditworthy companies. Consequently, most startups cannot attract project funds.

"Investing in alternative energy requires a very different mindset than we have seen in the past," Baumann stated. "Historically the investment mindset has been to go for the big win. Alternative energy offers a long-term revenue stream at 20 to 30 percent margins, but not necessarily the quick and big payout in the short-term."

There is a dearth of investors who understand the value alternative energy brings to the table and are willing to look at things differently in order to create the investment strategies needed to be successful on both sides of the equation. And as such, there is an opportunity for forward thinking investors to be able to write their own ticket and take a strong position in the market before it really takes off.

The recently announced cash grant program could be what it takes to change the financing math, making projects more feasible.

It has become clear that knowing and fully understanding the energy incentive packages is a key factor in getting any deal done.

## Future *(From page 1, col. 2)*

The analyst firm expects worldwide semiconductor capital spending to reach \$24.3 billion for all of 2009, a 44.8 percent drop from the estimated \$44.0 billion spent in 2008. Spending should rise 20.9 percent in 2010 to reach \$29.4 billion.

Senior management seems to have settled down and is more comfortable opening the purse on the development side.

"We have seen some companies hold onto their R&D budgets through the recession making the percent of revenue soar," according to Bert Bruggeman, VP of operations for Silicon Valley Technology Center, providing customers a cost-effective way to develop technologies and accelerate their product's time to market. "Overall R&D investment today seems to have stabilized and begun to ease upward as companies start to look to the future."

We will know the recovery is in full swing when investors and semiconductor companies rally around the next wave of industry-changing technology. Bruggeman identified three key areas — the first two are emerging as new drivers for the technology industry.

- Alternative energy technologies, including solar and smart grids that create new energies without being wasteful.
- Bio science applications for better disease detection and treatment. People want to live healthier.
- The next ambient intelligence. The next iPhone consumer application.

The economy is clearly not yet in a recovery period. However, the slide seems to have slowed and semiconductor companies may be looking up toward the horizon for the first time in many months.

## Cash Grant *(From page 1, col. 2)*

The DOT expects to provide at least \$3B in payments (an estimate not a cap; all qualifying applicants may receive the cash payments) to support about 5,000 solar, bio-mass, wind, and other types of renewable energy facilities placed in service after January 1, 2009.



What makes this incentive so attractive to investors is receiving cash from the DOT. Many potential investors in renewable energy financings can not use the ITC because they have tax losses from various sources to offset any possible tax liability. This direct payment program provides an immediate cash benefit (for example, \$3M in the case of a \$10M project using 30% ITC property) that can reduce the cost of capital and make a project financeable.

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