

Company Factsheet

17 October 2008 | 8 pages
 (Price as of 24 October 2008)

Evergreen Solar Inc. (ESLR)

Recent results

Evergreen Solar, Inc., a manufacturer of String Ribbon™ solar power products with its proprietary, low-cost wafer technology, today announced financial results for the quarter ended September 27, 2008.

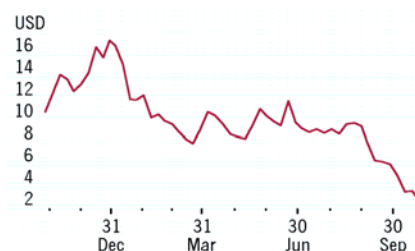
Product sales were \$17.8 million for the third quarter of 2008, compared to \$18.1 million for the second quarter of 2008 and \$15.4 million in the third quarter of 2007. The sequential decrease in product revenue was due to slightly lower average selling prices resulting from the strengthening U.S. dollar during the third quarter of 2008. Fees from EverQ, Evergreen Solar's joint venture with Q-Cells AG and Renewable Energy Corporation ASA, were \$4.3 million for the third quarter of 2008, compared to \$4.6 million for the second quarter of 2008 and \$2.8 million in the third quarter of 2007. These fees consist of royalties associated with licensing Evergreen Solar's wafer technology and reimbursement for marketing and sales support provided by Evergreen Solar for EverQ product.

Gross margin was \$1.2 million, or 5.7%, for the third quarter of 2008, compared to \$7.9 million, or 34.7%, for the second quarter of 2008 and \$4.5 million, or 24.9%, in the third quarter of 2007. Gross margin decreased sequentially, as expected, due to higher costs associated with the initial production of our Devens facility. Higher initial production costs are temporary and result from inefficiencies that companies typically incur in the initial stages of significant capacity changes.

Net loss was \$23.8 million for the third quarter of 2008, or \$0.18 per share, compared to a net loss of \$8.9 million, or \$0.08 per share, for the second quarter of 2008 and a net loss of \$3.7 million, or \$0.04 per share, in the third quarter of 2007. The sequential increase in the net loss was principally due to costs related to the start-up and initial production of the Devens facility, combined with net foreign exchange losses of \$5.0 million. Approximately 4.4 million and 1.5 million shares were included in the per share computation for the quarter and year-to-date periods ended September 27, 2008, relating to shares of common stock previously issued in connection with a common stock lending agreement with Lehman Brothers International (Europe) ("Lehman"), pursuant to which Evergreen loaned 30.9 million shares of its common stock to Lehman. The common stock lending agreement was consummated in connection with the Company's recently completed \$375 million convertible

Hold/Speculative	2S
Price (24 Oct 08)	US\$2.58
Target price	US\$6.00
Expected share price return	132.6%
Expected dividend yield	0.0%
Expected total return	132.6%
Market Cap	US\$425M

Price Performance (RIC: ESLR.O, BB: ESLR US)



Timothy M Arcuri

See Appendix A-1 for Analyst Certification and important disclosures.

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notes financing. Under current accounting rules, since there was an obligation of Lehman to return the borrowed shares, such shares would have been excluded from the company's per share calculation. However, due to the recent filing by Lehman, the company will now include these shares in its per share calculation on a weighted average basis pending the company exercising all of its legal remedies.

Company description

Evergreen Solar, founded in 1994, develops, manufactures and sells solar power products, primarily solar panels. The three markets the company serves are: wireless power, rural electrification, and grid-connected applications. The company expects to exploit its proprietary and patented technology to produce distinctive products, to reduce manufacturing costs through lower materials use and streamlined processes, and to manufacture internationally for global market penetration. The solar panels produced by Evergreen Solar incorporate proprietary crystalline silicon technology known as String Ribbon wafer production, which uses approximately half the silicon and avoids the sawing of conventional approaches.

Investment strategy

We rate shares of ESLR Hold, Speculative Risk (2S) rating. Evergreen Solar is pioneering a new, proprietary crystalline silicon technology known as String Ribbon wafer production that it hopes will allow them to produce solar panels at a cost of \$1.50/W in 2011. It is currently in the process of constructing plants that will utilize the company's latest furnaces with this technology. Should the company prove the viability of String Ribbon, there is significant licensing opportunity. However, production costs in the industry are coming down quickly, and the window for capitalizing on String Ribbon could be closing. Management intends to take on significant leverage during this buildout phase and insists it will not need to raise equity.

Valuation

We rate ESLR Hold, Speculative Risk (2S) with a \$6.00 target. Our valuation framework for other solar names (~1.0x PEG on 2010 EPS using 2008-2012 CAGR) is problematic when applied to ESLR given its very low base as it transitions from negative earnings in 2008 to positive earnings in 2009. For ESLR, we've weighed EPS outcomes implied by three different scenarios: achieve 850MW in 2012 with all debt; achieve 850MW in 2012 with some equity; and curtail buildout, take in royalties. We conclude that EPS for ESLR does not meaningfully exceed \$1.00 per share in any of these scenarios, and growth, once earnings turn positive in 2009, is only modest. Based on these scenarios, we do not believe ESLR should warrant a premium to a general market multiple of 10x PE on 2010E earnings. Lower-tier peers in the sector trade at a multiple of 8x PE on 2010E. Applying a 10.0x multiple to our 2010

EPS of \$0.59 yields a share price of \$5.90 and hence our target price of \$6.00 per share.

Risks

We rate ESLR Speculative Risk primarily due to high earnings and stock price volatility.

Additional risk factors include: 1) other than EverQ, licensing opportunities for String Ribbon have been limited, but should there be greater adoption of the technology, earnings for ESLR could increase 2) ESLR's business model is capital-intensive and could limit the company's ability to generate positive cash flows while also driving increased need to raise additional capital, potentially via dilutive equity/debt offerings, 3) the company has not yet given full details as to the location and costs associated with its next manufacturing facility, but if they are meaningfully better than expectations, shares could rally, 4) if there is a sustained period of higher poly-silicon prices, the company could have meaningfully lower production costs than its competitors, and its proprietary manufacturing technology would have more licensing interest, 5) if the company can achieve its targeted costs per Watt more quickly than we assume, earnings will be higher than we currently forecast, 6) there is currently only one sole supplier of the specialty string used in ESLR's manufacturing process, and until the company can ramp up its own string production facility, production issues at this supplier could have detrimental impacts on ESLR, and 7) if ASPs do not regularly decline as expected over our forecast horizon, ESLR's margins will expand, increasing profitability, driven by lower costs associated with new manufacturing facilities.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, the stock will likely have difficulty achieving our target price or could exceed it.

Fiscal year end 31-Dec	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	-6.4	-13.5	-7.1	4.7	4.4
EV/EBITDA adjusted (x)	na	nm	nm	4.1	3.3
P/BV (x)	1.9	0.7	0.8	0.7	0.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (US\$)					
EPS adjusted	-0.41	-0.19	-0.37	0.55	0.59
EPS reported	-0.41	-0.19	-0.37	0.55	0.59
BVPS	1.36	3.85	3.40	3.95	4.54
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (US\$M)					
Net sales	102	70	118	527	677
Operating expenses	-131	-95	-181	-453	-575
EBIT	-28	-26	-64	73	101
Net interest expense	2	7	6	-1	-11
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	-26	-19	-58	72	90
Tax	0	0	0	0	-18
Extraord./Min.Int./Pref.div.	0	2	10	19	27
Reported net income	-27	-17	-48	91	99
Adjusted earnings	-27	-17	-48	91	99
Adjusted EBITDA	-19	-18	-16	127	222
Growth Rates (%)					
Sales	na	-31.7	68.8	346.6	28.4
EBIT adjusted	na	17.5	-195.0	243.8	35.5
EBITDA adjusted	na	4.7	10.4	902.6	74.1
EPS adjusted	na	52.9	-91.3	249.1	7.5
Cash Flow (US\$M)					
Operating cash flow	-10	-12	-85	162	250
Depreciation/amortization	10	8	48	54	120
Net working capital	3	-6	-42	9	22
Investing cash flow	-86	-141	-360	-10	-719
Capital expenditure	-108	-51	-406	-110	-719
Acquisitions/disposals	22	-90	46	100	0
Financing cash flow	75	175	453	0	250
Borrowings	59	0	285	0	250
Dividends paid	0	0	0	0	0
Change in cash	-24	23	8	152	-219
Balance Sheet (US\$M)					
Total assets	207	553	1,044	1,237	1,678
Cash & cash equivalent	49	100	135	287	68
Accounts receivable	20	9	25	78	111
Net fixed assets	51	115	486	543	1,141
Total liabilities	114	160	485	579	912
Accounts payable	18	57	76	171	254
Total Debt	90	90	375	375	625
Shareholders' funds	93	393	560	658	766
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	-18.2	-25.4	-13.5	24.2	32.8
ROE adjusted	na	-6.8	-10.0	14.9	13.8
ROIC adjusted	na	-10.9	-11.6	11.5	9.0
Net debt to equity	43.7	-2.5	42.8	13.4	72.7
Total debt to capital	49.2	18.6	40.1	36.3	44.9

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Appendix A-1

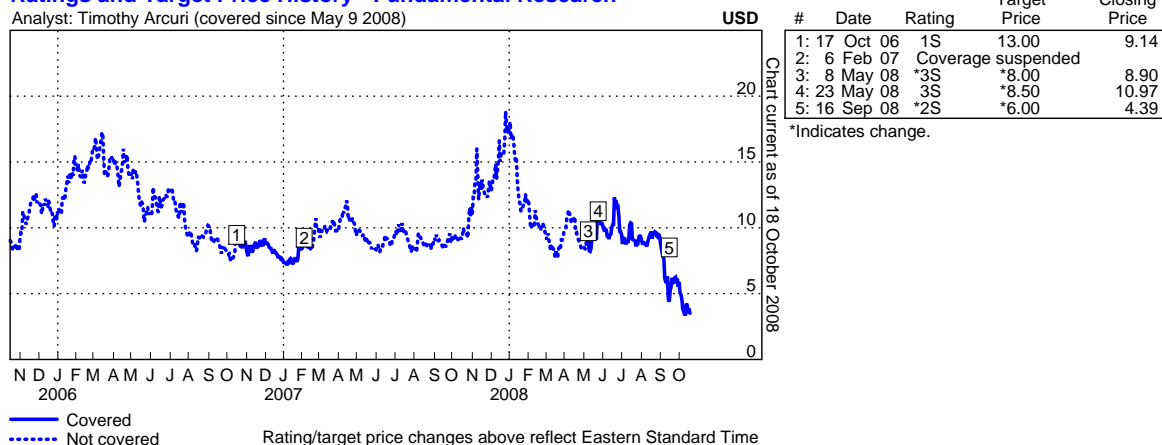
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Evergreen Solar Inc. (ESLR) Ratings and Target Price History - Fundamental Research

Analyst: Timothy Arcuri (covered since May 9 2008)



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Data current as of 30 September 2008

	Buy	Hold	Sell
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