



Sunpower Corporation

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Industry Definition

- Companies in this industry own solar systems where solar energy is collected and converted into electricity for sale to various customers (residential, commercial, government)
- Firms make money by leasing/selling systems, distributing power, as well as maintenance and other related services
- Industry is in a growth stage at this time (many companies are struggling)
- Solar power is continuously getting less expensive

SUNPOWER®

NASDAQ: SPWR
3.9B



NASDAQ: FSLR
5.7B



NASDAQ: SCTY
2.8B



NASDAQ: CSIQ
1.3B

Sunpower Overview

SUNPOWER®

Company Snapshot

Revenue	\$1.576 B
Gross Margin	15.5%
EBITDA Margin	-4.3%
EPS	-\$1.39



Thomas H. Werner

President/CEO since May 2010

Previously CEO of Silicon Light Machines

Stock price: \$12.10 - \$21.00

Revenue Generation

Residential:

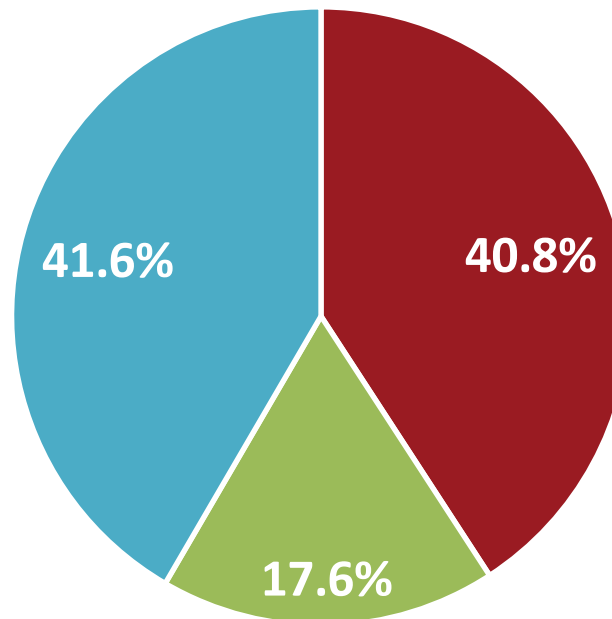
Smaller-scale systems
sold/leased to
residential consumers

Commercial:

System/energy sales to
commercial/public
customers

Power Plant:

Large-scale project sales,
maintenance, third-
party component sales



Accounting for Yieldco Sales

- Negative EBITDA: sales of systems to yieldco (8Point3) not recognized as revenue (GAAP)
 - Still considered Sunpower's asset (depreciated, income tax)
 - tax reflected on Sunpower's Balance Sheet, but actually paid by 8Point3
- \$524 million difference between GAAP and IFRS net income (FY 2015)

	3 rd Party	8Point3 (IFRS)	8Point3 (GAAP)
Revenue	\$100 M	\$100 M	\$0
COGS	\$(75 M)	\$(75 M)	\$0
Gross Margin	\$25 M	\$15 M	\$0
Equity in Earnings	\$0	> \$10 M	Minimal
Net Income	\$25 M	> \$25 M	\$0

Trends

Deferred Tax
Allowance

ITC
Extension

Competitive
Advantage

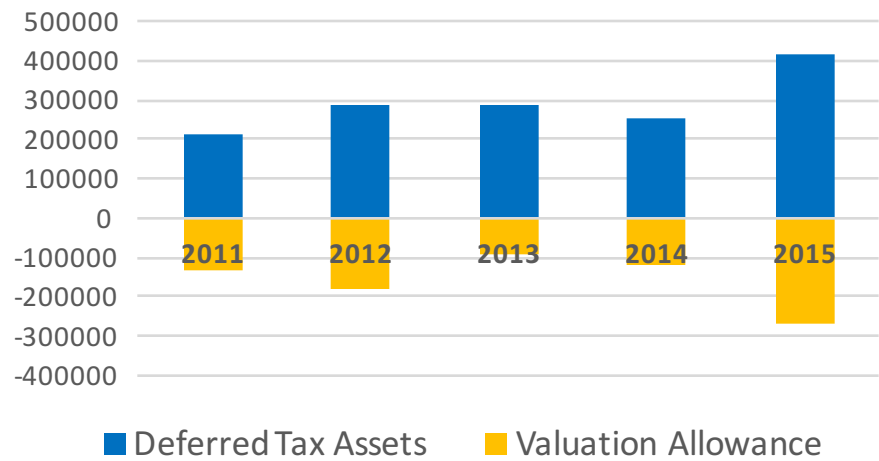
Deferred Tax Allowance

- Deferred tax assets from making losses in previous years
- Can choose when to realize these assets within a certain time period
- Valuation allowance – Management can alter the value of deferred tax assets that will be realized
- Recently writing down deferred tax assets – lack of confidence in future profitability

This proof of management's lack of confidence could have a negative effect on Sunpower's stock price.

	Deferred Tax Assets	Valuation Allowance
2011	\$ 214,067	\$ (129,946)
2012	\$ 289,303	\$ (182,322)
2013	\$ 285,409	\$ (90,571)
2014	\$ 256,068	\$ (118,748)
2015	\$ 414,940	\$ (268,671)

Deferred Tax Assets Write-Downs



Trends

Deferred Tax
Allowance

ITC
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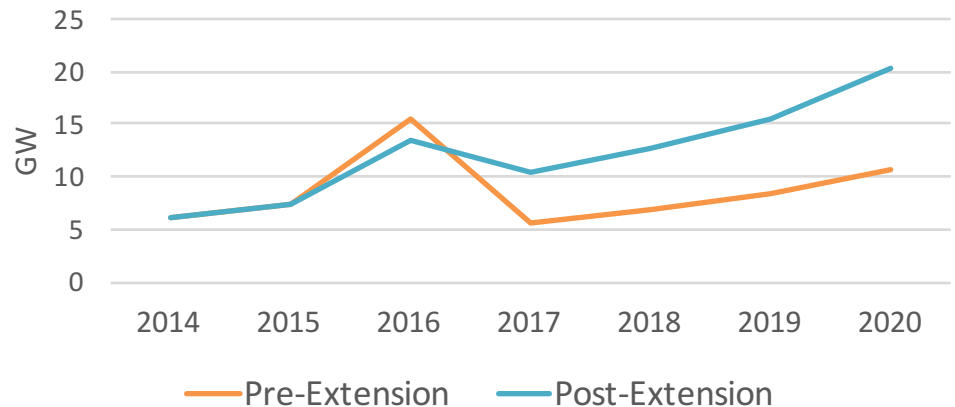
Competitive
Advantage

ITC Extension

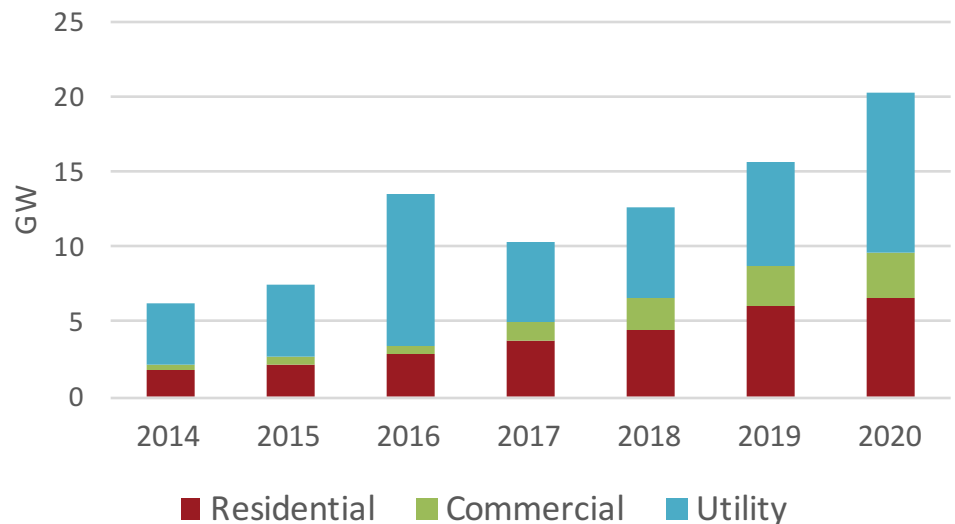
- Solar Investment Tax Credit (ITC) extended to remain 30% through 2019
- Extension will drive 70 GW of additional installations by 2020
- Breakdown of new installation:
 - 54% Utility
 - 32% Residential
 - 13% Commercial

ITC Extension will be a significant driver of industry-wide growth, especially benefitting industry leaders.

Planned Installation (U.S.)



Segment Growth (GW Installed)



Trends

Deferred Tax
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Competitive Advantage

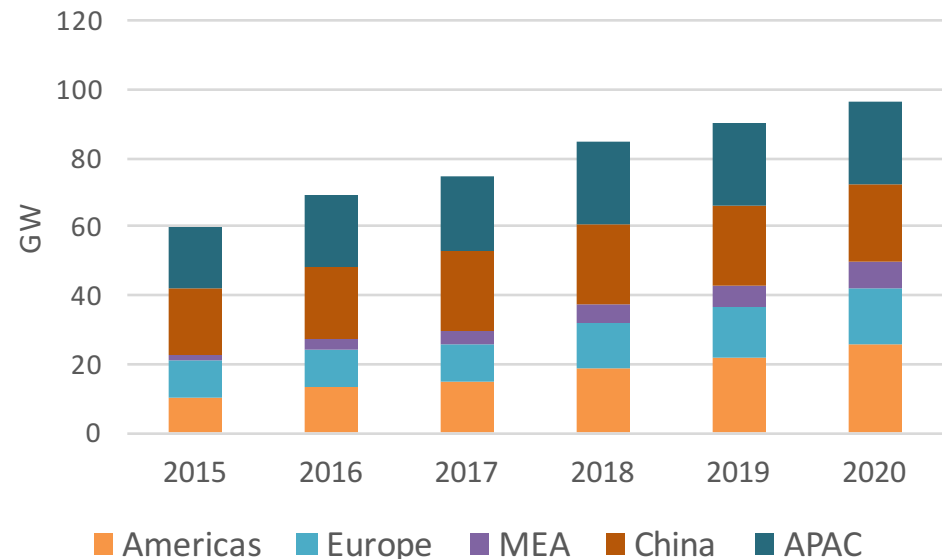
- Sunpower consistently breaking panel efficiency records
- Unique microinverter technology in products
- Expanding into emerging markets across the globe (South Africa, Chile, Middle East)
- Mainly expect to install P-series panels – lower upfront costs (Cogentra acquisition)

Strong advantages position Sunpower to benefit most from industry growth.

Panel Efficiency

Sunpower	22.8%
SolarCity	22.0%
Panasonic	22.5%
First Solar	18.6%

Global Deployed GW



Comparable Companies

Comparable Company Analysis

LTM data (04-01-2016)

Company	Ticker	EV	Market Cap	Revenue	EBITDA	Net Income	P/E	EV/EBITDA	EV/Revenue
Sunpower	SPWR-US	1,882.6	2,827.2	1,580.0	(76.5)	(187.0)	-15.1x	-24.6x	1.2x
First Solar	FSLR-US	5,350.0	6,352.0	3,577.0	774.5	546.4	11.6x	6.9x	1.5x
Canadian Solar	CSIQ-US	2,410.0	1,006.0	3,300.0	355.7	185.3	5.4x	6.8x	0.7x
SolarCity	SCTY-US	4,910.0	2,620.0	399.6	(481.1)	(58.3)	NEG	NEG	12.3x
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

High	5,350.0	6,352.0	3,577.0	774.5	546.4	11.6x	6.9x	12.3x
Mean	4,223.3	3,326.0	2,425.5	216.4	224.5	8.5x	6.8x	4.8x
Median	4,910.0	2,620.0	3,300.0	355.7	185.3	8.5x	6.8x	1.5x
Low	2,410.0	1,006.0	399.6	(481.1)	(58.3)	5.4x	6.8x	0.7x

EV/Revenue

LTM Revenue \$ 1,580.00

Implied Price Target \$24.52

Upside (Downside) % 17.0%

Discounted Cash Flows

Valuation Summary		
Method	Price	Weight
Discounted Cash Flow		
Perpetuity Growth Method	\$ 8.89	10%
Exit Multiple Method	\$ 12.69	50%
Comparable Company Analysis		
P/E	\$ (11.82)	0%
EV/EBITDA	\$ 3.12	0%
EV/Revenue	\$ 24.52	40%
Target Price	\$ 17.04	

Key Statistics:

Current Trading Price (04-15-2016)	\$ 20.96
Market Cap	\$ 2,827.17
Net Debt	\$ (944.61)
Beta	2.31
Shares Outstanding	134.88
Marginal Tax Rate	35.00%

WACC Calculation:

Cost of Debt	2.02%
% Weight	0.35%
Cost of Equity	19.03%
% Weight	99.65%
WACC	18.97%

Risks

- Government support for solar industry could change with political changes
- Emerging international markets may be underwhelming
- System sales to 8Point3 Partners following IPO may not have been realistic to include in revenue
- Market may factor in management's lack of confidence regarding profitability in near future
- Trend of decreasing cost of solar power may change

Recommendation

Sell

Recommendation Summary

Company (Ticker)

SPWR

Current Trading Price (04-15-2016)

\$ 20.96

Recommendation

Sell

Target Price

\$ 17.04

Downside Potential

-18.7%

- Attributable to industry uncertainty
- Potential for better performance in more distant future

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Back-Up Slides

Income Statement

	<u>Historical</u>					<u>Forecasted</u>				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,374.4	2,417.5	2,507.2	3,027.3	2,116.3	2,222.08	2,333.18	2,449.84	2,523.34	2,599.04
% growth		1.8%	3.7%	20.7%	-30.1%	5.0%	5.0%	5.0%	3.0%	3.0%
COGS (excl. D&A)	(2,148.2)	(2,171.1)	(2,016.1)	(2,402.1)	(1,331.8)	(1,822.1)	(1,983.2)	(2,008.9)	(1,968.2)	(2,027.2)
% of Revenue	90.47%	89.81%	80.41%	79.35%	62.93%	82.00%	85.00%	82.00%	78.00%	78.00%
Gross Profit	226.2	246.4	491.1	625.1	784.4	400.0	350.0	441.0	555.1	571.8
% Margin	9.5%	10.2%	19.6%	20.6%	37.1%	18.0%	15.0%	18.0%	22.0%	22.0%
SG&A	(200.9)	(192.5)	(173.3)	(179.5)	(207.5)	(173.63)	(182.3)	(191.4)	(197.2)	(203.1)
% of Revenue	8.46%	7.96%	6.91%	5.93%	9.80%	7.81%	7.81%	7.81%	7.81%	7.81%
R&D	(57.78)	(63.46)	(58.08)	(73.34)	(99.06)	(64.34)	(67.56)	(70.94)	(73.07)	(75.26)
% of Revenue	2%	3%	2%	2%	5%	3%	3%	3%	3%	3%
Restructuring Charges	(21.40)	(100.82)	(2.60)	(12.22)	(6.39)	(26.14)	(27.45)	(28.82)	(29.68)	(30.57)
% of Revenue	1%	4%	0%	0%	0%	1%	1%	1%	1%	1%
Goodwill and other intangible asse	(350)	(60)				(76)	(28)	(23)	(28)	(35)
% of Revenue	15%	2%	0%	0%	0%	3%	1%	1%	1%	1%
EBITDA	(403.6)	(169.9)	257.1	360.0	471.5	59.4	45.1	127.2	227.2	228.3
% Margin	-17.0%	-7.0%	10.3%	11.9%	22.3%	2.7%	1.9%	5.2%	9.0%	8.8%
Depreciation	(130.5)	(117.8)	(98.2)	(108.8)	(138.0)	(108.6)	(114.0)	(119.7)	(123.3)	(127.0)
Amort. of Intangibles	-	-	-	-	-	-	-	-	-	-
Total D&A	(130.5)	(117.8)	(98.2)	(108.8)	(138.0)	(108.6)	(114.0)	(119.7)	(123.3)	(127.0)
Other Operating Expenses	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	(760.3)	(534.1)	(332.2)	(373.9)	(450.9)	(449.1)	(418.9)	(433.5)	(451.2)	(470.5)
Operating Income (EBIT)	(534.1)	(287.7)	158.9	251.2	333.5	(49.1)	(68.9)	7.4	103.9	101.3
% Margin	-22.5%	-11.9%	6.3%	8.3%	15.8%	-2.2%	-3.0%	0.3%	4.1%	3.9%

Discounted Cash Flows

	2016	2017	<u>Forecasted</u> 2018	2019	2020
EBIT	-49.15	-68.91	7.43	103.92	101.28
- Taxes	0.00	0.00	0.00	-20.78	-20.26
	\$ (49.15)	\$ (68.91)	\$ 7.43	\$ 83.14	\$ 81.02
+ D&A	108.59	114.02	119.72	123.31	127.01
- CAPEX	(120.58)	(141.25)	(148.31)	(141.33)	(145.57)
- Δ in NWC	243.27	(28.11)	(1.99)	9.64	(9.42)
Unlevered FCF	\$ 182.13	\$ (124.24)	\$ (23.15)	\$ 74.77	\$ 53.05
Net Present Value	\$111.14				

Balance Sheet Assumptions

	Historical					Forecasted				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<i>Restricted Cash, Current % Revenue</i>	2.2%	0.6%	0.6%	0.6%	1.2%	1.0%	1.0%	1.0%	1.0%	1.0%
<i>Accounts Receivable % Revenue</i>	16.4%	16.5%	14.4%	16.7%	9.0%	14.6%	14.6%	14.6%	14.6%	14.6%
<i>Other Receivables % Revenue</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Costs and Estimated Earnings in Excess</i>	2.3%	1.5%	1.3%	6.2%	1.8%	2.6%	2.6%	2.6%	2.6%	2.6%
<i>Inventory % COGS</i>	18.5%	13.4%	12.2%	8.7%	28.7%	16.3%	16.3%	16.3%	16.3%	16.3%
<i>Advances to Suppliers, Current % COGS</i>	2.0%	2.3%	2.9%	4.1%	6.4%	3.5%	3.5%	3.5%	3.5%	3.5%
<i>Project Assets- Plants and Land, Current</i>	1.1%	3.5%	3.4%	4.2%	36.0%	9.7%	9.7%	9.7%	9.7%	9.7%
<i>Prepaid Expenses % COGS</i>	22.5%	28.2%	32.1%	13.7%	27.0%	24.7%	24.7%	24.7%	24.7%	24.7%
<i>Other Current Assets % COGS</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Net PP&E as a % of Sales</i>	25.6%	21.8%	21.3%	19.3%	34.6%	24.5%	24.5%	24.5%	24.5%	24.5%
<i>Restricted Cash, Net of Current % Revenue</i>	1%	1%	1%	1%	2%	1.2%	1.2%	1.2%	1.2%	1.2%
<i>Solar Power Systems Leased and to be I</i>	-	0.114	0.171	0.163	0.399	16.9%	16.9%	16.9%	16.9%	16.9%
<i>Project Assets- Plants and Land, Net of C</i>	1.6%	0.3%	0.3%	0.6%	0.4%	0.7%	0.7%	0.7%	0.7%	0.7%
<i>Advances to Suppliers, Net of Current %</i>	13.0%	13.9%	16.1%	13.0%	20.6%	15.3%	15.3%	15.3%	15.3%	15.3%
<i>LT Financing Receivables, Net % Sales</i>	1.5%	0.3%	0.3%	0.5%	0.2%	0.6%	0.6%	0.6%	0.6%	0.6%
<i>Accounts Payable % COGS</i>	19.4%	19.1%	22.0%	17.5%	38.6%	23.3%	23.3%	23.3%	23.3%	23.3%
<i>Accrued Exp. % SG&A</i>	116.8%	128.5%	206.7%	184.4%	151.1%	157.5%	157.5%	157.5%	157.5%	157.5%
<i>Billings in Excess of Costs and Earnings</i>	7.2%	9.3%	12.3%	2.8%	5.5%	7.4%	7.4%	7.4%	7.4%	7.4%
<i>Curr. Inc. Taxes Pay. % Tax Expense</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<i>ST Debt % of COGS</i>	0.0%	0.7%	2.8%	0.8%	1.6%	1.2%	1.2%	1.2%	1.2%	1.2%
<i>Other Crt. Liabilities % COGS</i>	11.3%	2.7%	24.4%	11.5%	2.5%	10.5%	10.5%	10.5%	10.5%	10.5%
<i>Convertible Debt, Net of Current % Sales</i>	17.8%	18.1%	12.0%	22.9%	52.5%	24.7%	24.7%	24.7%	24.7%	24.7%
<i>Customer Advances, Net of Current % Sa</i>	7.7%	9.8%	6.7%	4.9%	6.0%	7.0%	7.0%	7.0%	7.0%	7.0%

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Income Statement Assumptions

	2011	2012	Historical 2013	2014	2015	2016	Forecasted 2017	2018	2019	2020
Tax Rate	(2.86%)	(5.74%)	28.63%	4.75%	22.42%	0.00%	0.00%	0.00%	20.00%	20.00%
Shares Outstanding	97.7	117.1	139.0	162.8	134.9	134.9	134.9	134.9	134.9	134.9
SG&A % Revenue	8.5%	8.0%	6.9%	5.9%	9.8%	7.8%	7.8%	7.8%	7.8%	7.8%
R&D % Revenue	2.4%	2.6%	2.3%	2.4%	4.7%	2.9%	2.9%	2.9%	2.9%	2.9%
Restructuring Charges % Revenue	0.9%	4.2%	0.1%	0.4%	0.3%	1.2%	1.2%	1.2%	1.2%	1.2%
Goodwill and other intangible assets	14.7%	2.5%	0.0%	0.0%	0.0%	3.4%	3.4%	3.4%	3.4%	3.4%
Depreciation as % of Net PP&E	21.5%	22.4%	18.4%	18.6%	18.9%	19.9%	19.9%	19.9%	19.9%	19.9%
Interest Income as % of Cash	0.4%	0.2%	0.8%	0.3%	0.2%	0.4%	0.4%	0.4%	0.4%	0.4%