



Akeena Solar, Inc.

(NASDAQ: AKNS)

Quarterly update: Q110 results

Current price: \$1.11

Rating: Outperform

April 30, 2010

Estimate changes: (new/old)

	<u>Revenue</u>	<u>EPS</u>
2010	\$47.1/\$48.1	(\$0.28)/(\$0.31)
2011	\$60.4/ n/a	(\$0.26)/ n/a

Executive Summary:

- **2010 first quarter results mixed** - Akeena Solar released financial results for the first quarter of 2010 that we view as mixed. Revenue of \$6.5 million was below our forecast of \$7.5 million, yet EPS of (\$0.07) bested our (\$0.08) estimate on better than expected gross margins of 23%. A favorable fair value adjustment of \$883,000 also contributed to the slight EPS beat. EBITDAS was below forecast, calculated at (\$2.6 million) vs. our (\$1.9 million) estimate. The mixed results and negative EBITDAS highlight our continuing liquidity concerns, yet management reiterated its Q410 guidance for EBITDAS breakeven on \$18 million in revenue.
- **Backlog jumps** - Company backlog, partially due to seasonality, jumped to \$11.4 million from \$9.4 million in the quarter. The company stated that the backlog consists solely of installation business and provides a fair amount of visibility into the next few quarters. Although we believe the distribution business ramp trajectory and penetration may impact Akeena’s second half performance in a material manner, the percentage revenue contribution is still small at 11% or \$729,000 for the quarter. We believe top-line growth should return for 2010 and continue to forecast Y/Y revenue growth of greater than 60% over 2009’s depressed levels.
- **Distribution strategy leverage** – During the quarter, the company successfully leveraged its distribution strategy and agreement with Lowe’s (NYSE – LOW) into an installation agreement. The initial arrangement covers 21 stores in California and provides Akeena with ample opportunity to further leverage its distribution channels into higher margin installation business.

Conclusion:

We believe Akeena Solar’s positioning in the US solar power market provides the company with an opportunity to generate above average top-line growth in 2010 and 2011. Our valuation metric remains price to sales and a target ratio of 1 for shares of AKNS. We believe, based on the current valuation of .68 times our new 2011 revenue estimate of \$60.4 million, AKNS should outperform our benchmark index (see disclosures) over the next 12 months, thus we are reiterating our Outperform rating.

Estimate Summary:

In millions (except per share data)

	Revenue		Net Income		EPS		EBITDA		EBITDA (adj.)*	
2007A	\$	32,211	\$	(11,046)	\$	(0.52)	\$	(10,562)	\$	(8,260)
2008A	\$	40,762	\$	(24,345)	\$	(0.87)	\$	(22,583)	\$	(15,504)
Q1A		7,595		(5,079)		(0.17)		(4,842)		(2,760)
Q2A		5,905		(4,686)		(0.14)		(4,535)		(2,540)
Q3A		7,671		(2,404)		(0.07)		(2,208)		(2,104)
Q4A		7,035		(3,676)		(0.11)		(3,526)		(2,929)
2009A	\$	28,206	\$	(15,845)	\$	(0.49)	\$	(15,111)	\$	(10,333)
Q1A		6,456		(2,434)		(0.07)		(2,295)		(2,626)
Q2E		9,183		(2,753)		(0.07)		(2,585)		(1,910)
Q3E		12,893		(2,782)		(0.07)		(2,584)		(1,884)
Q4E		18,572		(2,227)		(0.06)		(1,989)		(1,214)
2010E	\$	47,104	\$	(10,196)	\$	(0.28)	\$	(9,453)	\$	(7,634)
Q1E		7,747		(2,723)		(0.07)		(2,473)		(1,773)
Q2E		11,709		(2,690)		(0.07)		(2,440)		(1,740)
Q3E		16,761		(2,225)		(0.06)		(1,975)		(1,275)
Q4E		24,144		(2,044)		(0.05)		(1,794)		(1,094)
2011E	\$	60,361	\$	(9,682)	\$	(0.26)	\$	(8,682)	\$	(5,882)

*EBITDA (adj.) excludes stock comp. and other non-cash expenses
Source: Company and AERCA estimates

Valuation:

	P/S	P/E	EV/EBITDA	EV/EBITDA (adj.)
2008A	1.01	neg	neg	neg
2009A	1.46	neg	neg	neg
2010E	0.88	neg	neg	neg
2011E	0.68	neg	neg	neg

Recent Results:

Akeena Solar's Q110 financial results were released on 4/29/10. Revenue of \$6.5 million was below our forecast of \$7.5 million yet the EPS loss of (\$0.07) beat our (\$0.08) estimate. The primary factors contributing to the slight EPS beat were a better than expected performance on gross margins, 23% vs. our 19% forecast, and a fair value adjustment of \$883,000. Without the adjustment, the EPS loss would have been (\$0.09), a slight miss.

Parsing the gross margin expansion, the company had distribution sales of \$729,000 during the quarter. Based on previous distribution margin guidance of 10-17% (now at 12-17%) and taking the mid-point of 13.5%, distribution contribution is estimated at \$98,415, leaving a \$1.387 million contribution for installations. Thus, the inferred gross margin for the quarter for installs equaled 24%, near the top of company guidance. Management has continually stated it would seek to execute higher margin business despite the potential for adding material commercial installation revenue. Although it has not fully abandoned the commercial segment, high margin installations most likely will continue to come from residential only and may limit potential large revenue growth.

Operating expenses during the quarter held steady at roughly \$4.8 million. As stated previously, the company successfully leveraged its distribution agreement with Lowe's to provide installation services to 21 California store locations. This leverage, if utilized successfully in the Lowe's and other distribution channels, may enable the company to improve top-line revenue, greatly enhance operating margins and ultimately turn cash flow positive.

The company had \$2.7 million in cash and equivalents on the balance sheet at the end of the quarter. Our most pressing concern remains the cash burn rate and the timing of an EBITDA inflection point. We are forecasting a diminishment of the burn rate into the latter half of 2010, yet capital infusions will most likely be in the form of further equity dilution until the inflection point arrives. To this end, Akeena is seeking to adjust its available common stock to 100 million shares from 50 million currently.

Outlook:

Our outlook for solar power deployment the United States remains favorable, and Akeena's positioning in the market should enable the company to return to top-line growth in 2010. Depressed levels of installs should abate and return to more normalized levels in 2010 and the addition of various distribution channels and the impact of the Lowe's installation agreement cannot be underestimated in terms of potential operating leverage. Despite these positive developments, general economic headwinds and remaining uncertainty exiting the Great Recession do remain fairly strong and confidence in our new 2011 forecast is lower than normal.

Our new 2010 estimates remain relatively unchanged. The top-line revenue estimate moves down slightly to \$47.1 million from \$48.1 million and EPS improves to a loss of (\$0.28) from (\$0.31) due to better margin estimates, cost controls and a slightly higher share count. EBITDA remains negative at (\$9.5 million).

To reiterate, our primary concern is cash-burn and eventual EBITDAS (cash-flow) break-even. Management has essentially drawn a proverbial line in the sand stating an \$18 million quarterly run-rate in Q410 should produce EBITDAS break-even. Even as we expect a slightly better top-line performance of \$18.6 million, we are not forecasting an inflection point. Discrepancies such as gross and operating margins may be the culprit, but we are remaining conservative on modeling large margin improvements at this time.

We have initiated a 2011 forecast. Company guidance remains very sparse and visibility remains low as the US solar industry recovers from the economic downturn, but we believe Akeena should benefit from the rebound. We are modeling another uptick in sales, 28% Y/Y, to \$60.4 million for 2011 and EPS of (\$0.26). Gross margins increase slightly to 22% with operating margins displaying the potential distribution channel leverage enabling a solid improvement to (16%) from (23%). EBITDA remains negative at (\$8.7 million).

Valuation:

Akeena Solar has restructured its strategic positioning and now has the opportunity to leverage its brand, its technology and its new distribution channels to return to growth in 2010. An inflection to positive cash flow remains, and it is perhaps the most difficult task to complete. As 2010 unfolds, management's target of EBITDAS break-even in the fourth quarter, and its level of success, will quickly become the defining benchmark for our long-term outlook for shares of AKNS.

Our confidence in Akeena's strategy and positioning remain strong, yet is offset by liquidity and operational leverage concerns. As the company moves toward a potential inflection point, our positive stance on shares of AKNS may change, for better or worse, with increased visibility into the outcome of this inflection. Recognizing the speculative nature of investing in Akeena and the prospect of an elongated inflection, we are reiterating our **Outperform** rating due to our belief that fair value remains roughly 1x our new 2011 sales estimate of \$60.4 million and that shares of AKNS should outperform our benchmark index (see disclosures) over the next 12 months.

Risks:

Financing and Credit – Akeena’s current operations may not be able to fund the company from internally generated cash flow. The company may need to raise additional capital or access to credit to continue to operate at full capacity. In addition, the company’s prospective customers may also need access to capital and/or credit, which may prove difficult in the current environment. Given the uncertain nature of the current global economic downturn, no assurance can be given that future financing terms for the company or its customers will remain favorable and acceptable. A lack of financing or access to needed capital could pose a substantial risk to future growth and our estimates.

Governmental Programs – Although continued favorable and increasingly favorable incentives in the United States and abroad for solar energy are predicted, no guarantees can be made as to the changing regulatory and incentive based government programs. Akeena’s end-markets are highly reliant on the continuance of these programs and the company’s ability to develop financially viable projects would be diminished upon dissolution. A substantial curtailment or elimination of these various programs would reduce our confidence in the outlook for the company.

Economic conditions – The company is subject to normal economic cycles that impact residential and small commercial customers. The current economic weakness and credit crisis could curtail Akeena’s ability to grow.

Technology Implementation – Akeena Solar’s innovation and module technology is untested and unproven. Market acceptance, product supply, strategic missteps and other issues associated with new technology may impede the successful rollout of new system technology and place our estimates in doubt.

Akeena Solar, Inc.
Income Statement

(in 000s except per share data)

	2008A	2009A	1Q10A	2Q10E	3Q10E	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E
Net Revenues	\$ 40,762	\$ 28,206	\$ 6,456	\$ 9,183	\$ 12,893	\$ 18,572	\$ 47,104	\$ 7,747	\$ 11,709	\$ 16,761	\$ 24,144	\$ 60,361
Cost of Sales	(34,797)	(21,625)	(4,970)	(7,232)	(10,250)	(14,579)	(37,031)	(6,159)	(9,192)	(13,157)	(18,832)	\$ (47,340)
Gross Profit	5,965	6,581	1,486	1,951	2,643	3,993	10,073	1,588	2,517	3,604	5,312	13,021
Operating expenses												
Sales and marketing	(8,618)	(6,183)	(1,689)	(1,469)	(2,063)	(2,600)	(7,821)	(1,085)	(1,639)	(2,246)	(3,151)	(8,121)
Inventory revaluation	(2,646)	-	-	-	-	-	-	-	-	-	-	-
General and administrative	(19,051)	(13,719)	(3,124)	(3,225)	(3,342)	(3,570)	(13,261)	(3,176)	(3,519)	(3,532)	(4,155)	(14,382)
Total operating expenses	(30,315)	(19,902)	(4,813)	(4,694)	(5,405)	(6,170)	(21,082)	(4,261)	(5,158)	(5,778)	(7,306)	(22,503)
Operating income (loss)	(24,350)	(13,321)	(3,327)	(2,743)	(2,762)	(2,177)	(11,009)	(2,673)	(2,640)	(2,175)	(1,994)	(9,482)
Interest income (expenses), net	5	(35)	9	(10)	(20)	(50)	(71)	(50)	(50)	(50)	(50)	(200)
Total other income (expenses)	-	(2,489)	884	-	-	-	884	-	-	-	-	-
Loss before provision for income taxes	(24,345)	(15,845)	(2,434)	(2,753)	(2,782)	(2,227)	(10,196)	(2,723)	(2,690)	(2,225)	(2,044)	(9,682)
Provision for income taxes	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(24,345)	(15,845)	(2,434)	(2,753)	(2,782)	(2,227)	(10,196)	(2,723)	(2,690)	(2,225)	(2,044)	(9,682)
Basic/Diluted EPS	\$ (0.87)	\$ (0.49)	\$ (0.07)	\$ (0.07)	\$ (0.07)	\$ (0.06)	\$ (0.28)	\$ (0.07)	\$ (0.07)	\$ (0.06)	\$ (0.05)	\$ (0.26)
Weighted average shares outstanding	28,124	32,155	36,110	37,152	37,200	37,700	37,041	37,850	37,850	37,850	37,850	37,850
Gross Margin	15%	23%	23%	21%	21%	22%	21%	21%	22%	22%	22%	22%
SG&A/Sales	74%	71%	75%	51%	42%	33%	45%	55%	44%	34%	30%	37%
Operating Margin	-60%	-47%	neg	neg	neg	neg	-23%	neg	neg	neg	neg	-16%
Net Income/sales	-60%	-47%	neg	neg	neg	neg	-23%	neg	neg	neg	neg	-16%
Year over Year Growth												
Sales	27%	-31%	-15%	56%	68%	164%	67%	20%	28%	30%	30%	28%

Source: Company and AERCA estimates

Akeena Solar Balance Sheet

(in thousands except per share data)

	12/31/2006	12/31/2007	12/31/2008	12/31/2009	3/31/2010
Assets					
Current Assets					
Cash and cash equivalents	\$ 992	\$ 22,314	\$ 148	\$ 5,804	\$ 2,665
Restricted cash	-	-	17,500	-	-
Accounts receivable, net	3,434	9,465	7,660	4,118	3,460
Other receivable, net	5	279	331	274	81
Inventory	1,792	8,848	10,496	4,870	6,551
Prepaid expenses & other current assets	833	3,056	3,704	1,819	1,570
Total current assets	7,056	43,962	39,839	16,885	14,327
Property, plant and equipment, net	195	1,797	1,806	1,249	1,117
Customer list	231	85	-	-	-
Goodwill	-	318	299	299	299
Other assets	25	163	194	151	150
Total Assets	\$ 7,529	\$ 46,325	\$ 42,138	\$ 18,584	\$ 15,893
Liabilities and Stockholder's Equity					
Current Liabilities					
Accounts payable	\$ 2,053	\$ 6,716	\$ 1,923	\$ 4,278	\$ 3,514
Customer rebate payable	1,196	346	271	60	4
Accrued liabilities	622	1,432	2,410	1,175	1,388
Accrued warranty	509	648	1,057	1,188	1,210
Common stock issuable	176	236	-	-	-
Common stock warrant liability	-	-	-	2,536	1,563
Deferred purchase price payable	-	20	-	-	-
Deferred revenue	981	1,443	1,058	619	543
Credit facility	500	-	18,746	-	-
Current portion of capital lease obligations	12	24	23	18	14
Current portion of vehicle loans	-	-	-	-	226
Current portion of long-term debt	17	192	220	223	-
Total current liabilities	6,066	11,057	25,708	10,097	8,462
Capital lease obligations, less current portion	43	47	21	3	1
Long term debt, less current portion	29	645	535	353	-
Vehicle loans, less current portion	-	-	-	-	295
Other long-term liabilities	-	-	-	19	13
Total liabilities	6,138	11,749	26,264	10,472	8,771
Shareholders' Equity					
Common stock	16	27	28	36	37
Additional paid-in-capital	2,956	47,176	52,821	59,897	61,342
Accumulated deficit	(1,581)	(12,627)	(36,975)	(51,821)	(54,257)
Total shareholders' equity	1,391	34,576	15,874	8,112	7,122
Total Liabilities and Stockholders' Equity	\$ 7,529	\$ 46,325	\$ 42,138	18,584	15,893
Book value/share	\$ 0.13	\$ 1.64	\$ 0.56	\$ 0.25	\$ 0.20
Net cash/share	\$ 0.09	\$ 1.06	NM	\$ 0.18	\$ 0.07
Debt/Capital	3.3%	2.0%	27%	1%	1%

Source: Company and AERCA estimates

Stock Data:

3 year stock chart:



Source: Bigcharts.com

Companies mentioned in this report:

- Lowe's (NYSE: LOW)

Data Table:

Average volume (mill. shares)	0.20
52 week range	\$0.89 - \$1.98
Short interest (mill. shares)	0.85
Shares outstanding (mill. shares)	37.2
Market Capitalization (\$ millions)	41.3
Enterprise value (\$ millions)	39.1

Analyst Disclosures:

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Ratings Definitions:

Outperform: Our Outperform rating is based on our belief that the subject company is anticipated to produce a total return greater than our benchmark index, The Wilderhill Clean Energy Index (ECO), over the coming 12 months.

Marketperform: Our Marketperform rating is based on our belief that the subject company is anticipated to produce a return equal to our benchmark index, The Wilderhill Clean Energy Index (ECO), over the coming 12 months.

Underperform: Our Underperform rating is based on our belief that the subject company is anticipated to produce a return less than our benchmark index, The Wilderhill Clean Energy Index (ECO), over the coming 12 months.

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