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# Expecting Consolidation in the Wind Industry – Not So Fast

**by Philip Totaro, Principal, Totaro & Associates**

Totaro & Associates has released a new research note regarding the price pressure and overcapacity within the wind industry.

## Global Outlook

Consolidation within the wind sector has been largely talked about over the past 12 – 18 months due to weakening demand and ongoing price pressure. However, with Global demand down and a manufacturing overcapacity already existing, the consolidation of Tier 2/3 wind OEMs into Tier 1 Global competitors is not likely unless there are other factors at play.

Those other factors include leveraging an intellectual property portfolio, gaining strategic access to a market, gaining a manufacturing footprint in an underserved market or providing some level of vertical integration.

The order books of Tier 1s will continue to remain relatively full, but they may or may not seek strategic acquisitions to increase that manufacturing capacity. However, Global demand is expected to turn around in the coming years, so in anticipation of future demand there may be some need to add manufacturing footprint in strategic markets.

Unfortunately, with margins already being squeezed to the limit, cash may be hard to come by for acquisitions. A number of companies have already expressed interest in seeking JVs, which may be the better option than using all available cash on hand or leveraging what financing may be available.

## Asia Pacific

Within China, it has largely been expected that consolidation will occur. Formerly cash rich Tier 1 Chinese companies who were looking at acquisitions both domestically as well as throughout Europe are now struggling with profitability. This obviously reduces their willingness to spend on acquisitions.

Additionally, with ~30 – 40GW of annual manufacturing capacity and only about 15GW in annual capacity additions projected for the next 5 years, there will have to be a removal of that capacity from the market in order to stabilize prices. Otherwise, the capacity can be sustained if the Chinese OEMs can branch out globally.

While some Chinese companies may be interested in branching out to Europe, Latin America, and Africa, few will be able to do so in a sustainable manner. In the past 3 months, both Goldwind and Sinovel have raised substantial funds from development banks and other lenders in order to do grow their international footprint. Quality and availability still remain issues in order for Chinese companies to compete globally.

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**Europe**

Within Europe there are a number of regional Tier 2/3 wind OEMs who are struggling to figure out their next move. Without scale they have found it difficult to continue to compete within their core markets, which have now been invaded by Tier 1s looking to grow their international footprint and supplant expected orders in markets where demand is eroding. Tier 1s are now actively competing for projects in countries like Turkey, Poland, and Romania. There are still select underserved markets with demand both for onshore and offshore capacity like Malta, but total capacity may be small.

Where does that leave the Tier 2/3 OEMs? It simply doesn't make sense to acquire a competitor if demand is not robust enough to support the breadth of the combined company. This may lead to failures unless some type of JV or other arrangement can be made to sustain the operation until robust demand returns.

**North America**

Even in the US, there is now ~11 - 13GW of annual manufacturing capacity online, with more in the pipeline looking back to the projections of 2009/10. With the PTC uncertainty and likelihood that it will not be addressed until after the Presidential election, this leaves substantial excess capacity with ever weakening demand.

There are a number of factories in the US with orders, but order books amongst the Tier 2/3s are likely too small to sustain a full complement of staff. Tier 1 order books are largely full, but as with other regions, the Tier 2/3 OEMs continue to limp along with modest sales in the hopes that demand returns in a robust way. If they cannot garner enough sales to break even you could see massive layoffs and even closure of domestic factories before the close of 2012.

Canada continues to expect some growth in their markets and with the PTC threatening to expire in the US without extension, many OEMs with manufacturing capacity in NA are looking to Canada and Mexico for new orders.

**Latin America**

Expansion here is likely to continue with Brazil, Uruguay, Peru, Chile, and Argentina leading the way. Many Tier 1/2 turbine OEMs have already established factories here based on initial orders and are hoping to continue the growth.

While demand continues and wind is relatively cost competitive in Latin America, whether or not a turbine OEM can maintain profitability will have a large impact on their ability to support a global footprint.

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**Conclusion**

Overall, what can be expected in the wind industry in the next two years are regional Tier 2/3 wind OEMs joining forces in the hopes of forming a Tier 1/2 in which the sum is more Globally competitive than the regional parts.

We expect Korean turbine OEMs to seek M&A deals with European and Latin American companies. They have had less exposure to the boom and bust of the Chinese market and several have the backing of large industrial conglomerates who expect to grow the revenue of their wind business.

Within China you are likely to see Goldwind, Sinovel, Guodian United Power, Dongfang, and Mingyang sustain themselves while the majority of the rest fade away or get folded into these top 5. Overall, we expect the 50 - 70 or so OEMs remaining in this market to be reduced down to 12 – 15.

In certain markets manufacturing capacity simply exceeds demand, so layoffs as well as divestments of manufacturing assets can be expected. Consolidation further down in the supply chain is also possible as some companies may look to divest the portion of their business related to wind.

Failure of certain struggling wind companies or component suppliers is also not out of the question. As mentioned before, unless they have an IP portfolio worth acquiring or they offer other strategic value, then they are likely to simply fail under their own weight.

While everyone expects consolidation to happen, the complexity of the global demand picture and the overall excess in manufacturing capacity makes it difficult to expect the industry to just continue to limp along. The good news is the truly competitive technologies and companies behind them will rise to the top and emerge from this period stronger, more globally diverse, likely more vertically integrated, and able to fulfill the promise of cost-competitive clean energy.

**About the Author**

Mr. Philip Totaro is the Principal at Totaro & Associates, a consulting firm focused on innovation strategy, market research and competitive intelligence, product development and patent search for the wind industry. To find out more or get in touch please visit www.totaro-associates.com.