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FIRST SOLAR INC (FSLR) Earnings Report: Q1 2016 Conference Call Transcript

The following FIRST SOLAR INC conference call took place on April 27, 2016, 04:30 PM ET. This is a transcript of that earnings call:

Company Participants

- Steve Haymore; First Solar; Investor Relations
- Jim Hughes; First Solar; CEO
- Mark Widmar; First Solar; CFO

Other Participants

- Vishal Shah; Deutsche Bank; Analyst
- Tyler Frank; Robert W. Baird & Company; Analyst
- Brian Lee; Goldman Sachs; Analyst
- Paul Coster; JPMorgan; Analyst
- Sven Eenmaa; Stifel Nicolaus; Analyst
- Philip Shen; ROTH Capital Partners; Analyst
- Julien Dumoulin-Smith; UBS; Analyst
- Patrick Jobin; Credit Suisse; Analyst
- Krish Sankar; BoA Merrill Lynch; Analyst
- Colin Rusch; Oppenheimer & Co.; Analyst
- Pavel Molchanov; Raymond James & Associates; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to First Solar's first-quarter 2016 earnings call.

(Operator Instructions)

As a reminder, today's call is being recorded.

I would now like to turn the call over to Mr. Steve Haymore from First Solar Investor Relations. Mr. Haymore, you may begin.

Steve Haymore (Investor Relations):

Thank you. Good afternoon, everyone. Thank you for joining us.

Today the company issued a press release announcing its financial results for the first quarter of 2016. A copy of the press release and the presentation are available on the investors section of First Solar's website at FirstSolar.com.

With me today are Jim Hughes, Chief Executive Officer; and Mark Widmar, Chief Financial Officer. Jim will provide a business and technology update; then Mark will discuss our first-quarter financial results and provide updated guidance for 2016. We will then open up the call for questions.

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Most of the financial numbers reported and discussed on today's call are based on US Generally Accepted Accounting Principles.

Please note this call will include forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from management's current expectations. We encourage you to review the Safe Harbor statements contained in today's press release and presentation for a more complete description.

It is now my pleasure to introduce Jim Hughes, Chief Executive Officer. Jim?

Jim Hughes (CEO):

Thanks, Steve. Good afternoon. Thank you for joining us today.

Before we discuss our first-quarter operational and financial results, I want to take a few minutes to talk about the leadership transition we announced earlier today.

As you may have seen in our press release, after four years with First Solar as CEO I have decided that I will step down on June 30 and hand the reins over to our current Chief Financial Officer, Mark Widmar, who will assume the role of Chief Executive Officer at that time. As part of the transition, I will continue to support the Company in an advisory role and as a member of the Board of Directors.

The Board and I worked jointly on the Company's leadership succession plan and Mark was our first and best choice as CEO as First Solar enters its next phase of growth. Mark is a strong, capable leader with an extensive knowledge of our business, having served as First Solar's Chief Financial Officer since 2011 and as First Solar's Chief Accounting Officer from February 2012 through June 2015. Mark and I have worked closely together over the past four years and I expect a seamless transition. I have deep confidence that the Company will be in good hands.

It has been a privilege to lead First Solar and I am proud of the significant milestones we accomplished as a team. When I joined First Solar in early 2012, the Company faced significant challenges from both industry-specific and macroeconomic factors. My intent from the start and my commitment to the Board of Directors was to work with First Solar leadership to establish a strategic plan that placed the Company on a trajectory of sustainable success.

As our most recent analyst day demonstrated, we have accomplished what we set out to do four years ago. We not only achieved our goals, but we exceeded expectations. I remain excited about the opportunities ahead for First Solar . With that let's turn to our results.

I will begin by briefly reviewing our first-quarter operational and financial performance. First, our 30 manufacturing lines ran at 100% capacity utilization and produced over 770 megawatts of modules in the first quarter. Our Q1 fleet average efficiency continued to improve, climbing to 16.2%. Our lead line efficiency continues to hold steady at 16.4% as new efficiency process improvements are not slated until later in the year.

Coming off of our recent analyst day, where we laid out a highly-compelling technology roadmap and potential capacity expansions, this represents an impressive start to 2016 and to achieving the objectives outlined at that meeting.

Turning to slide 4, I will review our latest comparison of bookings versus year-to-date shipments. We ended 2015 with 4.2 gigawatts DC of expected future module shipments. In the first quarter we shipped over 800 megawatts of modules against this total and have booked approximately 600 megawatts of new volume.

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Of the 600 megawatts of new bookings, around 400 megawatts were booked since our last earnings call in late February. The largest single booking was the previously-announced module supply agreement of over 200 megawatts DC with Silicon Ranch for deliveries to their projects scheduled for construction in 2017 and 2018. This agreement is another positive indication of the strength of solar demand in the southeastern United States beyond 2016.

International volume was an important component of our bookings since last earnings call, with volume contracted in several different countries. In India, we signed module agreements for almost 100 megawatts DC of additional volume. As announced recently, we achieved a major milestone in this market with now over 1 gigawatt of volume sold into India.

These new bookings add to our strength in this growing solar market. In Honduras, we signed an agreement with Grupo Terra to provide modules and EPC services for a 25 megawatt AC solar project. This is the second project in Honduras we will have constructed for Grupo Terra and further expands our presence in this region.

For the balance of the year, we continue to see a number of domestic and international opportunities that would move us closer to a one-to-one book-to-bill ratio. In the US, the ITC extension has led to an increase in overall opportunity, but customers continue to work through revisions to project timing, which has led to some temporary delays in new contracted bookings.

Potential international opportunities continue to be strong as well, with the decision timing on a number of projects occurring in the second half of the year.

In addition, while the majority of bookings thus far in 2016 have been primarily module sales, this is timing related as we are pursuing a number of systems booking opportunities during the balance of the year. For example, in our mid- to late-stage potential bookings we have over 450 megawatts of opportunities with offerings ranging from AC power block to a full power plant.

In our early-stage opportunities, if we focus on the projects with the highest booking profitability, there are over 500 megawatts of additional potential systems bookings. In each case, these are projects with 2017 CODs and the majority of shipments occurring in that year. Note that in addition to the more than 950 megawatts of opportunities discussed there are a large number of other early-stage systems projects with lower probabilities that may materialize as well.

Our bookings in terms of expected revenue now stand at $6.4 billion as shown on slide 5. The decrease in expected revenue is a result of the timing of new bookings thus far in 2016 and the higher mix of module-only businesses compared to the revenue recognized in Q1. Note this includes revenue on any module sale or systems project that we have contracted; however, it does not include our contracted O&M revenue.

Slide 6 provides the updated potential bookings opportunities, which is now over 23 gigawatts, an increase of approximately 3 gigawatts from the prior quarter. Our mid- to late-stage bookings opportunities are at 3.1 gigawatts DC, with international opportunities across 20 different countries comprising almost 90% of this number.

Moving on to slide 7, our updated potential bookings opportunities by geography reflects a net increase in opportunities across all regions. The largest increase was in the United States where new opportunities were identified across multiple regions, but especially in the south and southeastern part of the country.

We also had a significant increase in opportunities in the Middle East, India, and Asia Pacific regions. The growth in opportunities in these regions, plus the large number of mid- to late-stage international opportunities demonstrates the results of our multiyear effort we have made to diversify into new markets.

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I will now turn it over to Mark, who will provide more detail on our first-quarter financial results and discuss updated guidance for 2016.

Mark Widmar (CFO):

Thanks, Jim. Good afternoon.

Before I delve into the numbers, I would like to take this opportunity to express my heartfelt thanks to Jim for his leadership and friendship over the past four years.

First Solar is the strong company it is today thanks to his guidance and dedication. I look forward to building upon this success in the future. Come July I will hit the ground running and work with our Board, management team, and associates to drive First Solar's next phase of growth while continuing to deliver strong results to our shareholders.

In addition, we announced today that Alex Bradley has been appointed Interim Chief Financial Officer. Alex has served as Vice President of Project Finance since 2012 with responsibilities for the treasury group added last year. Alex has been with First Solar for eight years and was instrumental in launching 8point3 Energy Partners last year. I have tremendous confidence in Alex's ability to step into the CFO role until a permanent successor is named.

Now I will begin by discussing our first-quarter operational performance on slide 9. In Q1 we produced 774 megawatts DC, an increase of 2% from the prior quarter, due to higher module efficiency and increased throughput. Production was 43% higher compared to the first quarter of 2015, due to higher efficiencies, improved throughput, and the addition of new capacity.

Our factory capacity utilization remained at 100% in Q1 and is 13 percentage points higher versus the same period in 2015. The higher year-over-year capacity utilization is due to fewer upgrade activities across the fleet.

Our best line conversion efficiency remains unchanged at 16.4% as planned in our technology roadmap. Compared to the first quarter of 2015, our lead line efficiency improved by 80 basis points. Average module conversion efficiency in Q1 for our entire fleet was 16.2%, an increase of 10 basis points quarter over quarter. Year over year our fleet average conversion efficiency increased by 150 basis points.

As indicated at the recent analyst day, efficiency improvements are expected to pick up later in the year as we are targeting a full-year average and lead line efficiency exit of 16.7% and 17%, respectively.

I will next discuss the P&L results for the quarter on slide 10. For Q1, net sales were $848 million in the quarter compared to $942 million in Q4. The decrease in sales resulted primarily from the timing of revenue recognition across multiple systems projects and the completion during the quarter of our Tenaska West and Seville projects.

Module plus revenue declined from the prior quarter, while third-party module sales increased slightly. Partially offsetting these decreases was the higher revenue on our Stateline project, which resulted from an amendment to the original sales agreement with Southern to include an additional 15% interest in the project. This leaves First Solar with the remaining 34% interest, which is expected to be dropped down to 8point3 in the second half of the year.

As highlighted at the analyst day, the sale of this incremental interest in Stateline does not impact our full-year guidance, but does have the effect of shifting earnings from the second half of the year to the first half.

As a percent of total quarterly net sales, our solar power systems revenue, which includes both our EPC

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revenue and solar modules to use in systems projects, decreased to 93% from 95% in the prior quarter. Gross margin for the quarter was 31% compared to 24.6% in the fourth quarter. The improved margin percentage resulted from the higher mix of Stateline revenue and significant system cost improvements. Our component segment gross margin improved to over 28% in the quarter and benefited from a lower module cost per watt.

Operating expenses decreased by almost $2 million from Q4 to $98 million. R&D expenses were lower versus the prior quarter, partially offset by higher development spend. First-quarter operating profit was $165 million compared to an operating profit of $132 million in the prior quarter.

Other income and expense was $36 million for the quarter, primarily due to a $38 million gain from the sale and rebalancing of certain restricted investments associated with our module end-of-life program. The transaction was completed in order to better align the currencies of the investments with those of the corresponding collection and recycling obligations. The gain was approximately $20 million net of tax.

Tax expense for Q1 was $34 million, including the tax on the gain from the sale of our restricted investments. Q1 earnings were $1.66 per fully-diluted share on net income of $171 million. This compares to earnings of $1.60 in the prior quarter.

Overall, it was a strong quarter for earnings and a positive start for 2016. We were able to sell an incremental interest in Stateline, which not only strengthens our ongoing relationship with Southern but also provides greater flexibility for 8point3. Our manufacturing and systems operations performed extremely well in the quarter and contributed significantly to the Q1 results.

Turning to slide 11, I will now discuss the selected balance sheet items and cash flow summary. Cash and marketable securities increased by approximately $50 million to $1.9 billion. Our net cash position also increased to $1.6 billion.

The improvement was achieved while our project-related asset balance grew to $1.5 billion from $1.3 billion in the prior quarter. For the quarter, net working capital, including the change in noncurrent project assets and excluding cash and marketable securities, increased slightly as compared to Q4. The increase in project-related assets was partially offset by a reduction in accounts receivable.

Total debt increased by $10 million from the prior quarter to $299 million as payments on our KLM debt facility were more than offset by additional financings for international projects. Cash flow from operation was $50 million, slightly lower as compared to Q4. Free cash flow was $13 million compared to $20 million in Q4.

Capital expenditures were $52 million as compared to $27 million in the prior quarter. Depreciation for the quarter was $55 million, or approximately $5 million lower than the prior quarter.

Continuing to slide 12, I will now discuss our updated full-year 2016 guidance. First, note that while the strong Q1 results could be perceived as the catalyst for a more substantial increase in our earnings guidance, it is important to keep in mind the factors that contributed to the revised guidance.

First, the amendment to the original Stateline sales agreement did not impact full-year earnings; rather it affected the timing of the earnings and the income statement presentation. In addition, we feel it is too early in the year to make more substantial updates to the guidance. While we have visibility to opportunities during the balance of the year that could result in making an upward revision, we believe a more measured approach at this time is prudent.

Turning to our guidance on net sales, we are keeping the range of $3.8 billion to $4 billion. We are maintaining the range primarily based on the expected accounting for the sale of Kingbird project, which

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we will reflect in our Q2 results. The tax equity structuring for this project sale will result in a partial deferral of revenue.

We will provide more information related to this transaction on the Q2 call, but for now we are highlighting that it is a factor in holding the net sales guidance unchanged.

Next, we are increasing our gross margin guidance range by 100 basis points to a revised range of 18% to 19%. The gross margin improvement is a result of the amendment to the original Stateline project sale, which results in movement of profit from equity and earnings to gross margin. In addition, the cost improvements in the first quarter have benefited gross margin and are reflected in the updated range.

It is important to keep in mind that the expected profit on the sale of our remaining 34% interest in Stateline is still reflected in equity and earnings in our guidance.

Operating expense is unchanged and operating income guidance has increased by $40 million, reflecting the improved gross margin. The effective tax rate is unchanged at 16% to 18%. We have increased the low end of our earnings-per-share guidance to $4.10 and left the high end unchanged at $4.50.

As noted on slide 12, our EPS guidance includes approximately $145 million, net of tax, from the expected sale of our remaining interest in Stateline and First Solar's share of the 8point3's earnings. In addition, approximately $0.20 of other income, net of taxes, included in the earnings guidance range from the Q1 sale of the restricted investments mentioned. The distribution of earnings for the year is expected to be slightly less than 50% in the first half of the year, although it is subject to the timing of when certain project sales close.

Our expected ending net cash balance is unchanged and operating cash flow range has increased by $100 million compared to our prior guidance. The increase in operating cash flow has a net zero impact to the overall cash balance as it is a movement from investing to operating cash flow.

With the sale of an incremental 15% interest in Stateline to Southern , the cash associated with this transaction will be treated as operating cash flow rather than the prior expectations of an investing cash flow from the sale of the residual interest in the project to 8point3. Keep in mind that our operating cash flow guidance does not include approximately $320 million of an expected sale of the remaining interest in Stateline to 8point3, which we expect to be treated as investing cash flows.

Our capital expenditures and shipment guidance remains unchanged. Related to our CapEx guidance in the year, it should be noted that included in this number is approximately $130 million related to the launch of our Series 5 product, which we introduced recently at our analyst day. Our drop-down plans for Kingbird, Stateline, and Moapa to 8point3 are unchanged; however, the actual execution is subject to market conditions.

Following our recent analyst day, some have expressed concerns that we did not provide more specifics around 2017. I wish to reiterate that there are still a number of moving pieces and uncertainties related to 2017 which do not make it meaningful to provide an outlook at this time.

The reality should not overshadow the significant opportunities and technology advances we have laid out in detail at the event. We feel the Company is better positioned than at any time during the past five years from a technology, operations, and balance sheet strength standpoint and we look forward to the many opportunities to come.

Turning to the next slide, I will summarize our progress during the quarter. First, we delivered solid financial results for the first quarter with gross margins of 31% and earnings per share of $1.66. We

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updated our 2016 earnings guidance range from $4.10 to $4.50, which represents a $0.05 increase of our guidance midpoint.

Our technology performance continues at a strong pace with a fleet average efficiency of 16.2% and a best line of 16.4%. We have booked 600 megawatts so far this year and we continue to see the number of opportunities increase and our potential bookings now stand at over 23 gigawatts. With a number of opportunities in the second half of the year, we see -- anticipated the bookings momentum to continue.

With this, we will conclude our prepared remarks and open the call for questions. Operator?

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Vishal Shah, Deutsche Bank.

Vishal Shah (Analyst - Deutsche Bank):

Thanks for taking my question. Jim, congratulations. And, Mark, I wanted to just follow up on your comments about 2017.

I think you guys mentioned in the prepared remarks that there were 450 megawatts of systems bookings opportunities that you expect to execute in the second half. So based on some of the backlog that you have announced, should we think about systems business in the 800 to 900 megawatt range for next year? Is that a good starting point?

And then, as you think about CapEx for next year, can you just maybe provide us some updated thoughts on how you think about -- how we should think about CapEx and capacity ramp in the remainder of this year and next year? Thank you.

Mark Widmar (CFO):

I think what we said is -- in Jim's comments, it was in our late stages. I think it was maybe about 450. But we also indicated that if you look at the earlier-stage projects, at least the ones that we have determined with higher level of probability there's another 500 megawatts or so in there.

So there is the potential of about 1 gigawatt of bookings that can happen between now and the end of the year that would be systems related. That is also one reason why, as we think about providing guidance for 2017, until we can crystallize those opportunities it is not meaningful at this point in time to provide guidance for 2017. So I just want to make sure that you connected those dots.

But as it relates to next year, somewhere in that 1 gigawatt range of systems level that is probably about right. We have indicated that we would expect it to be maintained at around that range, at least in the foreseeable future. Trending upwards, obviously, as we start to ramp capacity. So I think that is the right way to look at it.

CapEx, I can just really point you back to what we said in the analyst day at this point in time. We gave the view of what we see capacity expansion and gave the view of what the associated CapEx would be for that capacity expansion.

We haven't given the Street impact to 2017/2018 versus 2019, but I think the best thing to do is just go back and review the slides that we presented at analyst day. I think that will give you the color that you are looking for.

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Operator:

Tyler Frank, Robert Baird.

Tyler Frank (Analyst - Robert W. Baird & Company):

Thanks for taking the question and congratulations, Mark. I was hoping -- could you discuss a little bit about what you are seeing in terms of overall demand trends in the US? And has pricing improved with the recent bankruptcy announcement of SunEdison or has projects gotten easier to bid on?

Jim Hughes (CEO):

First, let's talk about the impact of SunEdison. At this point I think it is too early for us to really be able to distill any impact of SunEdison on the market. And I think the concerns that SunEdison was pricing aggressively and impacting the market; I mean we really haven't seen that dynamic in the market for at least six to nine months as their financial distress has become apparent. So I don't expect any sudden change as a result of the filing.

They, at least on the North American front, had been far less active over probably the last six to nine months. Generally, what we are seeing in the North American market is very robust demand. I think we have a lot of customers and a lot of opportunities where customers are having to re-sort the timing, given the IPC change and try to figure out what they are going to do when and how their procurement programs are going to be built up.

But the conversations are robust and the demand is there, so I think we all feel remarkably positive about the North American market.

Operator:

Brian Lee, Goldman Sachs .

Brian Lee (Analyst - Goldman Sachs):

Thanks for taking the questions. I will try to sneak two in here.

First, if you take the 50/50 first-half/second-half guidance for the earnings mix, it does suggest a fairly big downtick here in Q2, Mark. I realize you are not giving quarterly guidance, but can you help us with the puts and takes of mix and timing that is driving that? Because even though you ex out the Stateline sale and equity gain in Q1, you earned a good $1 of EPS. So just trying to reconcile there.

And then the second question. As you think about potentially adding new capacity, I know that is still up in the air, but how much is really dependent on the visibility into new project demand and converting pipeline into project wins versus module-only?

And would the US be most critical in terms of that visibility, or is there another reason that you highlighted it as being the biggest swing factor as you move through the year? Thanks.

Mark Widmar (CFO):

So when you think about the guidance, we provided about 50% in the first half, 50% in the second half. So really where we are right now, it is kind of a transitionary period for our systems business. So we are starting to see projects such as Silver State South, McCoy, and even Stateline start to ramp down.

At the same time, we are starting to see other projects like CA Flats; we haven't sold Moapa yet. We are expecting to sell Moapa in the second half of the year and then we are seeing our switch station projects

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start to ramp up in the second half of the year as well. So it's really this -- it's a ramp down of some of our system projects that have been in construction over the last year and then we don't start to see a ramp up with the new assets until we start to enter into the July timeframe.

So it is just a transitionary period. We will see more module-only type of and module-plus type revenue in the second quarter, so you will see a slight drop in earnings associated with that.

In terms of capacity visibility, as we have always said, it is going to be driven by highly reliable, predictable demand. And so it is a demand-driven pull versus a capacity push. We are starting to see obviously, not only here in the US, but internationally a significant increase in demand in our pipe -- what was reflected in our pipeline and you can see there is a lot more international.

So it's not necessarily discrete to one particular region. It is not discrete to module versus systems, and so it is a holistic, comprehensive analysis of the global demand expectations across multiple product offerings. And it will ultimately form our view around capacity and the right time to add it.

Jim Hughes (CEO):

A couple of follow-ons. One thing to understand about the systems business is, even though the ITC got extended, we had a large number of system projects that were slated for delivery in 2016. Some of those had PPA requirements such that, even though the ITC was extended, they still had to be delivered.

So we had a, what I would call, an unusual alignment of deliveries at the end of 2016. And that leaves a bit of a gap until you can redeploy your workforce, start new projects, and get those projects to the finish line. And that is a little bit of what we are seeing.

We are seeing plenty of demand, but normally our systems business, the projects sort of roll off at a steady rate, as opposed to all being aligned to a single point in time. So it is a little bit a historical function of the ITC fall off that never happened because it got extended. So I think that is just an important thing to keep in mind.

The other is one of the things we tried to highlight at the analyst day, and I think people need to try to get a greater understanding of is, we have got a number of factors coming together in terms of our production platform. We have got a new product we are rolling out in the form of the Series 5. We have a new product under development in the form of the Series 6.

There is a lot of complicated decisions that we need to make about the production platform related to those and we are trying to make sure that we are thoughtful, careful, and detailed in our analysis. So it is not as simple as what is the demand and when do we build the plant to supply it. It is a more complicated equation because we have got new products in the equation.

We will respond to demand when and where we see it and we will also communicate to investors when we have a clear view of what our plan is going to be. But as we always have been, we are always going to be a little bit conservative and a little bit thoughtful about putting those plans together.

Operator:

Paul Coster, JPMorgan .

Paul Coster (Analyst - JPMorgan):

Thanks. Jim, you alluded to the next phase of growth. If you step back from things and were to characterize the last phase and how it is different from -- how the next phase will be different from it, can you try and sort of summarize that for us?

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Jim Hughes (CEO):

The last four years we had a couple of overriding factors that drove a lot of what we were trying to accomplish as a company. One was we wanted to restore cost leadership and substantially improve our technology and that was an overwhelming sort of focus of what we wanted to do.

In addition, you had the potential ITC fall away, which created a very significant distortion in the marketplace, and you were trying to plan around that distortion. And it is not an easy business task to sort of flow those two together and figure it out.

As I look at the task that Mark and the team are going to take on over the next four years, we have a much clearer view as to demand with no big distorting events within the next four- to five-year time horizon. At least that we know about today. And we have a position of technology leadership that we are going to increase upon, as opposed to try to get back to and achieve.

So I think it will be a little less lumpy and feel a little more robust than perhaps the last four years, where we had a lot of challenges to overcome, which we successfully overcame. I think this is less about overcoming challenges and more about capitalizing upon the incredible opportunities that are out there for the Company.

Operator:

Sven Eenmaa, Stifel.

Sven Eenmaa (Analyst - Stifel Nicolaus):

Thanks for taking my questions. First, I wanted to ask about the international growth into 2017. If you'd prioritize for us the markets where you see the kind of system and module business coming in, in terms of bookings in the second half of this year.

The second question relates to SunEdison. Are you seeing some of those PPAs, in essence, which are now in a bankrupt company backlog coming back to the market as COD dates are being missed?

Mark Widmar (CFO):

I will take the international growth one and I will let Jim sort of -- he already commented on SunEd. I will let him add a little bit more color on that.

But what we said, I think, on the international growth side of it is, of our late-stage opportunities that is in our pipeline, about 90% of that is international. So you got a little over 3 gigawatts and 90% of that is actually international.

And it is relatively diverse. It is in a number of markets. We are seeing a lot of activity clearly in India, but we are starting to see more activity across Asia Pacific. Seeing activity through the Mid East. We are starting to see -- we actually just are close to signing an agreement in South America for about 40 megawatts.

So there is a lot of opportunities, even in parts of South Africa. It's a very diverse -- and that is what we wanted to see. I mean over the years we made a decision to invest in our demand generation and in our sales team, and we felt that over time we would create diversity of the demand profile. That is starting to show up and it is reflected in our pipeline.

So it is not any one discrete market. It is pretty robust and that's what we want to see, that type of diversification.

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Jim Hughes (CEO):

What was your question on SunEdison?

Sven Eenmaa (Analyst - Stifel Nicolaus):

In terms of -- there is obviously that entity had a number of projects in backlog where PPAs were signed. And we are at the stage now where the questions remain whether these projects will be delivered based on their original CO dates. Then my question was whether we were seeing actually utilities coming back and re-sourcing or finding alternative sources for those requirements -- in essence, energy generation requirements -- in the market.

Jim Hughes (CEO):

So I think everybody is going to get a bit of an education on the bankruptcy process over the next six to nine months. The bankruptcy court has very broad powers to deal with contracts that SunEdison has entered into and utilities will not be able to terminate those contracts, even if they have the right to do so, without the approval of the bankruptcy court. So I think what we will see happen is there will be a long period of uncertainty.

I personally don't think we are going to see a lot of progress or a lot of definition around their projects for certainly the next three to four months and probably closer to six months. And then, as the creditors committee and the bankruptcy estate works through all of the mechanics of bankruptcy they have got to figure out everything that is going to be challenged as a preference, everything that is going to be challenged as a fraudulent conveyance. And bear in mind the very large transactions that were done in the year prior to the bankruptcy filing.

They will have to work through the big pieces of litigation with the yield co's and the failed deals and try to resolve all of that. So, as bankruptcies go, there is a lot of big issues that are going to have to be dealt with before, I think, they can get to some of the more mundane, sort of ordinary course business types of issues.

I think the impact on the market, whether the volumes are going to get built and whether utilities are going re-procure, procure, I simply think that that will play out very slowly over the remainder of 2016.

Operator:

Philip Shen, ROTH Capital Partners.

Philip Shen (Analyst - ROTH Capital Partners):

Thank you for taking my questions. In terms of Series 5, can you talk about the feedback that you are getting across your customer base as you introduce the Series 5 module? What kind of risk is there for pushback from your customers and do you have any contingency plans in place in case you get too much pushback, especially when you form factor?

Jim Hughes (CEO):

There has not been a lot of pushback from customers. There has generally been an enthusiastic response from customers, especially in the North American circumstance, which is where the economics work the best.

There are projects or bidding opportunities out there where we have qualification issues where Series 5 has not been in existence long enough to qualify. That is not really a challenge for us, because we are going to continue to manufacture Series 4 as far into the future as we can see. We can also adjust the

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ratio of Series 4 to Series 5 production relatively easily. It is the same basic production platform with a different backend added.

So there is a great deal of flexibility in shifting production between Series 4 and Series 5. And as we begin to see where the demand is going to be over 2017, 2018, and 2019, and begin to see where the adoption of Series 5 is going to be, we will be able to tailor the rollout of that and adjust the production of 4 versus 5 fairly easily. So I don't think we feel like there is a whole lot of challenge in those issues.

Operator:

Julien Dumoulin-Smith, UBS.

Julien Dumoulin-Smith (Analyst - UBS):

Actually just a follow-up on that. How long for Series 5 does it need to be in the marketplace to qualify?

And then perhaps the core of the question was you talked about 1 gigawatt of, call it, potential projects for 2017. Where and when -- well, I suppose where are those projects principally and when will you find out about those opportunities?

Jim Hughes (CEO):

I will let Mark comment on that. On the when does it qualify, the rules are different everywhere in the world and even different places within the US and I can't really generalize an answer. To date, we have only come across one circumstance where a customer has an issue -- has a problem. So it is not going to be widespread and not something that we are losing a lot of sleep over.

Mark Widmar (CFO):

As it relates to the potential systems bookings, it is somewhat diverse, but mainly concentrated -- the US, Japan, India are the main areas that would make up the vast majority of that 1 gigawatt of opportunity.

Operator:

Patrick Jobin, Credit Suisse.

Patrick Jobin (Analyst - Credit Suisse):

Thanks for taking the question. Just two quick follow-up items here or housekeeping items, rather.

I think in your remarks you said that the asset sale, the restricted asset wasn't or was included in guidance. Are there any other asset sales remainder of 2016? I guess is the first question.

Then the second question is, backing into about a $0.50 ASP figure here, I guess that was all modules for bookings in the quarter. Just trying to get a sense of where your cost is, I guess, directionally compared to the 28% component margins today; your comfort level of your ability to extract value, your energy density advantage today in module sales.

I know it's a convoluted way to ask about extracting value from modules. I'm just trying to get a sense relative to that $0.50 ASP. Thanks.

Mark Widmar (CFO):

On the asset sales, we included the investments, the gain on the sale of the restricted investments as we rebalanced the portfolio to again better match the currency of those investments with the underlying currency of the obligations. So that happen during the quarter and, as I indicated, it was about $0.20

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and yet that is in our guidance for the full year.

As it relates to other asset sales, there are not any other items in our guidance at this point in time. Are there any other potential asset sales that could happen during the balance of the year? There is a couple.

We still have facilities in Europe and Asia Pacific that we are marketing. There is always the potential opportunity that something like that could happen, but there is no assumed benefit of that included in our guidance at this point in time.

Look, we are very confident in our ability to extract value from the module and the energy density advantages that we have. We showed that in the analyst day that that advantage will improve over time.

And then with Series 5 in particular, when you normalize for effectively the same form factor as crystalline silicon, there is advantages. We talked about that in terms of labor cost. Fewer flips and connectors and those types of things that will help drive down the cost of that product as it relates to the overall cost to install.

We are very comfortable in terms of translating our technology advantage and, ultimately, normalizing the form factor that that will translate into value.

The bookings, yes. The bookings that were reflected in the quarter were primarily modules and there was -- I will refer to it as low-bin inventory that we sold during the quarter that would be below market expectations around value for the modules. There was some of that that we ended up selling. I think it was around 40 megawatts or so, so that did bring down the average ASP that is implied by the booking.

I also will tell you that there is rounding in those numbers. I understand the simple average based off the math is going to tell you that, but there is rounding both ways that won't get you to that exact same answer.

Operator:

Krish Sankar, Bank of America Merrill Lynch.

Krish Sankar (Analyst - BoA Merrill Lynch):

Thanks for taking the question. I had three quick ones. First one is the rest of the Stateline, about 35% or so, that you are going to drop into 8point3, is that all going to happen in calendar 2016 or do you think it could spill over into early 2017?

The second one is, in terms of the module supply being added, not just by you guys but even by some of the Asian makers, do you worry about any kind of oversupply in the second half of this year for modules?

Just a final question. Jim, congratulations; curious on the timing of your transition. If you can give us any color or any thought process behind it, why now; any such insights would be very helpful. Thank you.

Jim Hughes (CEO):

Sure. First, on the timing of the transition. Succession is something the Board and I have been discussing for quite a while. I would describe this as perhaps slightly accelerated from maybe where we would have thought it was going to be a year ago, but it was clearly a plan that we had in place. We'd taken some organizational steps to prepare for it, some of which the market was aware of.

We are transitioning from one strategic plan that we satisfied and we are embarking upon a second, the Vision 2020 plan. We have a lot of big fundamental decisions. They are good decisions; they are how are

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we going to best capitalize on opportunities.

And I think the Board and I felt like this was the right time to let the new management team coalesce around those decisions, so that they don't have my heavy hand hanging over them and they reflect the views, the thoughts, and the beliefs of that team. Because, obviously, both I and the Board want that team to be accountable for meeting the results that are promised.

Just, for a variety of reasons, it felt like the right time. It felt that way to the Board; it felt that way to me. Mark was comfortable that it was the right time to transition in terms of having a candidate available to fill his role, at least on an interim basis. So it is a whole variety of reasons and everybody is very, very comfortable with it.

Mark Widmar (CFO):

The other ones I think you had on Stateline. We still have a 34% interest in Stateline. The guidance assumes that we dropped that down into 8point3 this year. We have always said, though, there is optionally around that.

As you noticed in our prepared comments, we said our current plan is to drop down Kingbird, Moapa, and Stateline to 8point3, but we also highlighted that was subject to market execution and conditions. So there could be some issues timing-wise as it relates to that. We have flexibility, if we wanted to, to take Stateline into next year or a portion of Stateline, if we chose to do that. That optionality will play itself out, subject to many different variables, as we progress through the second half of the year.

As it relates to oversupply concerns, we always have a healthy dense concern of what is going on in the market. We said before the ITC extension that there was a concern around oversupply as we went into 2017. Clearly, I think the ITC extension provides a different view of the horizon beyond 2016. You may not have as much resiliency or robustness of demand in 2017, but clearly it drives more demand into 2018, 2019, and 2020 in particular.

We are very, though, encouraged by where the international markets are trending; a lot of new opportunities happening internationally. But we are obviously aware of what is going on in terms of what the additional capacity plans are and the implications relative to demand.

What I will say, though, as well is we increase the overall competitiveness of our product, especially as we move from Series 4 to 5 and then eventually get into Series 6. We believe we have a very strong, differentiated technology and the cost-advantage technology that will weather those types of potential disruptions around supply and demand.

Operator:

Colin Rusch, Op Co.

Colin Rusch (Analyst - Oppenheimer & Co.):

Can you talk a little bit about the pricing dynamics as you move through the middle of the year and into the back half of the year, relative to the kind of clarity that we are expecting to get out of China in terms of their policy? And talk a little bit about your ability to have pricing power in the market as you move into the higher efficiency range with your products in the back half of this year and into next year?

Jim Hughes (CEO):

I will comment a little and then I will let Mark add to it. The dynamics on pricing vary from market to market. There are some markets where we feel like we have leverage, oftentimes that is tied to specific

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competitive factors related to the technology or customer relationships. Other markets, less so.

I would say at this stage, with respect to the back half of the year and certainly for next year, we are still in a mode where we are optimizing sales against margin. In other words, we are not chasing every opportunity that presents itself. We have the ability to pick and choose the opportunities that we are chasing in order to maximize the margin on every incremental sale that we achieve.

So that is generally indicative of an environment where I wouldn't say we have pricing power, but we have that ability to optimize. That is a sign of at least -- well, it is a reasonable sign of health with respect to the market is I guess how I would describe it.

Mark Widmar (CFO):

The only thing I guess I would add to that is just it does vary by region. It varies by customer and, ultimately, what does that overall customer relationship with that particular customer and their understanding of kind of the First Solar value proposition and bankability. It all does somewhat vary and so you can see different behaviors across the region based off of customers and what they value. Ultimately, if they look to be the long-term owner of the asset or they looked upon to just be the developer and then sell down of the asset.

All that comes into play as we think about how do we engage the customer and then, ultimately, how do we capture the best value for our product. Now, as Jim indicated, because we have optionality, that plays to our strength. We will target those types of opportunities that we can capture the highest margin entitlement relative to the product and solution that we provide to the customer.

Operator:

Pavel Molchanov, Raymond James.

Pavel Molchanov (Analyst - Raymond James & Associates):

Thanks for taking the question, guys. Just one from my end. At the beginning of the year you said that 300 megawatts would be the upper end of drop downs and it would depend on where CAFD is trading. Given the yield compression in the stock since the start of the year, are you comfortable with 300 megawatts as a baseline or is that still a fairly aggressive target?

Jim Hughes (CEO):

We are continuing to assess and evaluate -- work very closely with Sun Power, as well as the independent directors of the board of 8point3, understanding current market dynamics -- the ability to drop down projects that are accretive for 8point3 as well as provide right return to First Solar shareholders. We still believe that there is a tremendous value and investment thesis -- I guess is the best way to say it -- to a shareholder of 8point3.

Clearly, there are some market dislocations right now that are impacting that. We believe over time the investor will better understand quality of these assets and the investment-grade offtakers of the relatively low variability around the solar assets. The equity will perform over time.

Now, whether that completely happens in time for us to drop down Moapa and Stateline, yet to be determined. We will evaluate that and we have other options if we choose to pursue them. Similar to what we did with the Stateline when we sold a portion of Stateline to Southern , we went and then increased the ROFO by identifying switch, which is a large project that will hit a COD in 2017 as a potential drop down to 8point3.

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So if we make a decision around one of the other assets, whether it is Moapa and Stateline, we have more than enough contracted assets that if we chose to we could replace them in the ROFO and put them into a cadence with some more natural dropdown to 8point3.

As we said in the 8point3 earnings call, we already have with the current assets that have been dropped down now with Hooper Henrietta being completed here recently -- or excuse me, Hooper and Kingbird being completed here recently, we have the ability to grow our dividend through the end of 2017. So we have the luxury of optionality and patience and we will evaluate that and see what makes the most sense over time.

Pavel Molchanov (Analyst - Raymond James & Associates):

Appreciate it, guys.

Operator:

Ladies and gentlemen, that concludes today's conference call.

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