

An epic year for the LED industry?

2011 could be a watershed year in the maturation of the LED industry, and intellectual property and new private companies will play a key role, says

DENNIS COSTELLO, Managing Partner of **BRAEMAR ENERGY VENTURES**.

Spring looks like it is finally breaking through here in Boston after an epic season of snow. But is 2011 going to be an epic year for the LED industry as well? Will 2011 be a breakout year not only in sales but also in mergers, acquisitions and initial public offerings (IPOs)?

At least three major factors are lining up on the positive side of that answer. They are rapid LED sales expansion; the crucial role of patents and intellectual property (IP) in the LED industry; and the rapid growth of private companies in the sector. Let's examine each of these in a bit more detail.

LEDs are moving rapidly into many sectors that comprise the nebulous term of "general lighting." Lower prices, higher brightness, improved efficiency and better designs are all combining to create an inflection point in sales growth. Penetration of LEDs in street lighting, refrigeration lighting, museum lighting, high-bay lighting and commercial/retail lighting (to name a few) will certainly show strong growth in 2011. And that growth will continue well beyond 2011. But 2011 could well be the year that public investors and public stock markets appreciate the full dimensions of the shift to LEDs.

That is indeed good news for the larger public companies that have already staked a claim in the LED space. Executives at companies like Philips, Siemens and GE, although always wary about forward-looking statements, seem quite optimistic.

There is also a great deal of cash on the balance sheets of these and similar large companies.

If one looks a bit more broadly and includes major global consumer-electron-

ics and semiconductor companies who are just entering LED markets – or are likely to enter soon – one finds a lot more cash. This cash can be used for acquisitions of smaller or private companies for revenue, and for access to new customers, technology or IP.

Let's consider IP for a moment. The LED industry, more than any other lighting segment, is supported by a maze of patents, and there is a history of both cross licensing and litigation. IP has played a significant role in shaping the industry as we see it today. Chinese officials, for example, have been clear in stating that they want China to be a major player in the global LED industry. To accomplish that goal, they need (among other things) access to the patents that will allow them to sell around the world. One of China's explicit goals in its next 5-year plan is to acquire or create IP to allow that expansion. Major companies around the world may be less outspoken, but they share similar goals. IP is one of the keys needed to enter and expand in the LED market.

Private companies

Perhaps the most impressive indicator of an epic 2011 is all of those growing private companies that are entering the fray. Literally hundreds of small and developing companies fill the expo floors at each lighting tradeshow around the world.

Many of the private LED companies are growing at impressive rates, often with sales more than doubling year-over-year

since 2009. Several of these companies will have 2011 revenues at or near \$100 million. And there is a second wave of companies approaching the \$50 million annual-revenue mark right on their heels. Some LED companies have completed successful IPOs on NASDAQ, which is inspiring others. There are at least a couple of other private companies giving serious consideration to IPOs later this year.

As more LED companies arrive on the public markets, investors take more notice of the sector. There are already several investment banks that have significant expertise in LED lighting (both analyst and investment-banking teams), with others trying to catch up.

Investment banks are another key part of the LED infrastructure needed to create an active public market in LED companies. Active public markets and robust merger and acquisition activity in LEDs will create value and wealth for all those who participate. More wealth leads to more investments in technology, manufacturing and sales efforts. The result is continued expansion of the LED industry, reduced cost, and better solutions for all the niches of general lighting. That is not only good for our industry but good for our environment and our planet. ◀

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DENNIS COSTELLO is the author of "Venturing into LEDs: An overview of venture capital and its investment in lighting" - see www.ledsmagazine.com/features/7/9/3.

