



## **Timminco soothes investors, cautions critics and shorts**

2008-06-04 12:53 ET - Street Wire

by Lee M. Webb

Timminco Ltd., a hot solar play trading on the Toronto Stock Exchange (TSX), treated investors attending its annual general meeting in Toronto on May 29 to an upbeat presentation about the company's accomplishments over the past year and its bright prospects as a low-cost producer of solar-grade silicon, thanks to a secret proprietary process.

Chief executive officer Heinz Schimmelbusch also offered some thoughts on short sellers and recent negative media coverage, warning critics of the black-box project that they will be sued if they cross some company-determined line.

### **Shuffle and schmooze**

Annual meetings are often sparsely attended, but Timminco had to scramble to book a bigger room to accommodate a larger turnout than previously expected. As part of the room shuffle announced on May 26, the company also had to change the time of the meeting, moving it from 1 p.m. to 4 p.m. on May 29.

The increased interest in Timminco's annual meeting was apparently prompted in part by a recent spate of less than boosterish news reports about the company, which has seen its stock price rocket from pennies to more than \$30 per share over the past year.

In another late wrinkle, Timminco executives decided to schmooze with some reporters in a media briefing in another meeting room at Toronto's Royal York Hotel an hour ahead of the shareholders meeting.

It is not clear just how many reporters made it to the schmooze session, but The Globe and Mail was represented at both the media briefing and the subsequent shareholders meeting.

As Globe reporters Andy Hoffman and Derek DeCloet remarked in a double-bylined report on May 30, it has been almost 15 years since Mr. Schimmelbusch has garnered this much attention.

It is not likely that Mr. Schimmelbusch has fond memories of the media attention he received when he was caught up in a billion-dollar trading scandal in the early 1990s.

In 1993, Mr. Schimmelbusch was sacked as chief executive officer of the once mighty Metallgesellschaft AG, a German conglomerate that he brought to the brink of bankruptcy with some bad bets in oil futures that reportedly led to approximately \$1-billion in trading losses.

If Timminco's brass hoped that the May 29 media briefing would get reporters back onside pumping out puff pieces, the fact that the Globe's May 30 article by Mr. Hoffman and Mr. DeCloet opened with a reference to the Metallgesellschaft debacle might not be seen as an auspicious harbinger.

In any case, following the special premeeting chinwag with reporters, Mr. Schimmelbusch and his fellow Timminco executives hustled off to the main event.

### **Dog-and-pony show**

Before calling the annual general meeting to order, Mr. Schimmelbusch apologized for any inconvenience caused by the late room shuffle and rescheduling.

"I won't apologize for the fact that Timminco's share price today, at the date of the annual meeting, has reached its all-time high and costs \$30 per share," Mr. Schimmelbusch went on to a round of applause.

The humdrum official business of the meeting including electing the slate of seven directors and, among other things, amending the company's stock option plan was wrapped up in less than 15 minutes and Mr. Schimmelbusch moved on to deliver a "management presentation," commonly known as a dog-and-pony show, to the approximately 100 people in attendance.

Mr. Schimmelbusch kicked off the upbeat presentation with a review of key Timminco events through 2007, which he characterized as a "pivotal year" marking the company's transformation to a low-cost supplier of solar-grade silicon for the booming solar energy industry.

Timminco's leader went on to offer something of a primer on solar silicon, noting that the company's plant in Becancour, Que., had been engaged in the production of silicon metal for more than 30 years before turning its attention to the production of much more valuable solar-grade silicon.

Most solar-grade silicon is produced through what is known as the Siemens process, which yields polysilicon that has a 99.9999-per-cent purity level.

Polysilicon is actually too pure to be used in solar cells, so the purity level is reduced to 99.999 per cent through adding primarily boron and phosphorous in a process known as "doping."

According to Mr. Schimmelbusch, the process is extremely expensive and can cost an experienced producer between \$25 per kilogram and \$30 per kilogram while a new entrant could face costs as high as \$70 per kilogram.

Timminco claims that it has developed a secret low-cost proprietary process to produce upgraded metallurgical silicon that meets the 99.999-per-cent purity level of solar-grade silicon.

Essentially, the company says that it can turn the \$4-per-kilogram silicon metal produced at its Becancour operation into more than \$60-per-kilogram solar-grade silicon at a fraction of the cost of other producers.

"Timminco has developed a breakthrough innovation," Mr. Schimmelbusch said. "We have developed a new process to produce solar-grade silicon that is significantly cheaper. We are very proud of this achievement."

Mr. Schimmelbusch says that the company will vigorously protect its proprietary process and has already applied for a patent.

According to Timminco's leader, the company has a number of competitive advantages including its patent-pending low-cost proprietary process, ready access to hydroelectric power, constant supply of raw materials and easy access to transportation.

"Combined, these make Timminco a force to be reckoned with in the solar energy industry," Mr. Schimmelbusch proclaimed.

Mr. Schimmelbusch went on to say that customers and a leading analyst have validated the company's process. That may be something of a stretch, particularly when it comes to customers validating Timminco's black-box project.

Timminco reportedly has received positive feedback about its upgraded metallurgical silicon from customers, but early assessments of relatively small shipments of the company's product should not necessarily be construed as a validation of the secret proprietary process.

"We received an extremely positive endorsement of our manufacturing process and production capabilities from PHOTON Consulting, the leading analyst for the solar energy industry," Mr. Schimmelbusch said.

It is not clear just how PHOTON attained its ranking as the leading analyst for the solar energy industry, but Timminco's paid-for "operational review report," delivered by solar booster Michael Rogol, was indeed extremely positive. In fact, outside of the pages of a paid tout sheet, it might be difficult to find more extremely positive cheerleading.

As previously noted by Stockwatch, Mr. Rogol's so-called operational review report was extremely long on bullish, perhaps even fantastic, financial projections and remarkably short on any details about the company's ballyhooed breakthrough process to produce solar-grade silicon.

Mr. Schimmelbusch worked some of Mr. Rogol's financial ruminations into his May 29 presentation, taking care, of course, to give full credit to the compensated consultant. After all, notwithstanding the fact that Mr. Rogol's calculations were based on information provided by Timminco, it might be unseemly, if not downright foolish, for the company to take ownership of such lofty projections.

According to Mr. Rogol's "realistic" assessment, Timminco could produce 20,000 metric tons of solar-grade silicon worth \$1.3-billion and realize an operating profit of \$1-billion in 2010.

It is not clear whether Mr. Rogol gave any thought to the notion of gouging when forecasting a rather amazing operating margin of 80 per cent.

After touching briefly on Timminco's plans to spruce up its magnesium business for divestiture and the company's hope that it will eventually be able to unload its interest in an aluminium wheels

operation, Mr. Schimmelbusch wrapped up the dog-and-pony show with some final words about the upgraded metallurgical silicon project.

"Based on the progress we have made in respect to production levels, the number of customer agreements and the purity levels, I believe we are well on our way," Mr. Schimmelbusch said before inviting questions from shareholders.

### **Big player**

The first question was posed by an investor who wanted to know something about Timminco's majority shareholder, AMG Advanced Metallurgical Group N.V., which controls approximately 52.6 million shares representing more than 50 per cent of the company's outstanding stock.

"Can you tell me about this large shareholder and what would happen if they wanted to sell?" the investor asked.

"They don't," Mr. Schimmelbusch replied, chuckling.

The investor wanted that response fleshed out a bit and Mr. Schimmelbusch obliged, beginning by explaining that AMG is a public company trading on the Euronext exchange in Amsterdam. As a matter of possible interest, he provided the company's trading symbol.

"AMG is a global specialty metals and specialty metals technology and engineering company," Mr. Schimmelbusch continued, noting that the company went public last July with "a very successful public offering."

It was indeed a successful public offering, both for AMG, headed by Mr. Schimmelbusch, and its founder and largest shareholder, Safeguard International Fund L.P., also headed by Mr. Schimmelbusch.

As previously reported by Stockwatch, Safeguard took approximately \$350-million off the table through the AMG initial public offering and subsequent sale of shares.

"The rationale of combining Timminco as a subsidiary into AMG is based on the fact that AMG is the world leader in the technology of the second step in the solar value chain," Mr. Schimmelbusch went on.

"You have heard that Timminco is preparing itself to become the leader in the first step -- the transformation of silicon metal into solar-grade material which can be used in the further steps in the value chain," he said.

Mr. Schimmelbusch suggested that "a joint learning process" with respect to the first step will be of enormous value as Timminco and AMG co-operate in the interface between the production of solar-grade silicon and the second step in the solar value chain, which is the production of solar-grade silicon ingots in the parent company's vacuum furnace systems.

### **Protection**

Timminco's chief financial officer, Robert Dietrich, was called upon to respond to a question about the company's patent application to protect its secret proprietary process.

According to Mr. Dietrich, the process involves filing a patent application and within a certain period of time the application is published.

"Most people are aware that our first patent application was published in March of this year," Mr. Dietrich said.

Concurrent with that publication, examiners begin the process of reviewing the patent claims to determine whether they can be upheld, Mr. Dietrich explained, adding that the company has been through the "first pass of that patent examination."

According to Mr. Dietrich, it can take between three years and four years from the time an application is filed until a patent is granted. Timminco, he said, is in "about the middle of that process."

Mr. Schimmelbusch chimed in to say that while the patent application is proceeding, the company's secret technology has "sort of a second level of protection" because one key element of its purification process relies on very proprietary equipment for which Timminco has exclusive use.

It may be worth noting that while Timminco is evidently confident that it has a lock on its secret process, many other players are piling into the market with their own upgraded metallurgical silicon.

In fact, Q-Cells AG, a Timminco customer and the world's largest producer of solar cells, is reportedly evaluating upgraded metallurgical silicon from 16 companies.

### **Short story**

After offering his sunny perspective on the future of the solar energy industry, one in which he believes both Timminco and AMG will play significant roles, Mr. Schimmelbusch fielded a question about recent negative news articles.

Timminco's leader said that the company is analyzing the negative press, which he believes is related to short selling.

"There are short sellers running up and down the streets here telling idiotic, bizarre -- my English is not good, in German I would be much more eloquent on this -- statements on the company because they were short," Mr. Schimmelbusch said. "And when you are short in a volatile stock which has a rising trend it is dangerous. And I really hope that they are still short."

"So some journalists obviously have been influenced by these guys."

"And the matter is, by the way, before courts because we are following such statements very carefully."

"If somebody oversteps a certain line, he's over the line, its straight going to the courts."

In the wake of Mr. Schimmelbusch's remarks, Stockwatch contacted Timminco for some basic information about the court action, but the company refused to disclose the nature of the action, the names of the defendants or even where the suit was filed.

Notwithstanding the company's evident reluctance to discuss the matter beyond Mr. Schimmelbusch's animated commentary at the annual meeting, a June 3 Globe and Mail article by Mr. Hoffman disclosed that Timminco is suing Ravi Sood and his Lawrence Asset Management Inc. for libel.

Stockwatch will review the lawsuit in more detail in a future article.

Returning to Mr. Schimmelbusch's May 29 remarks, Timminco's chief executive officer went on to offer what he characterized as the interesting observation that in Toronto, while you might expect applause for an innovation, you are met with skepticism.

Mr. Schimmelbusch said that the company has decided to focus completely on execution, report quarter by quarter and the negative media coverage will be replaced by "a normal reception by the press."

It is not clear whether Mr. Schimmelbusch thinks that a normal reception by the press and skepticism are mutually exclusive.

In any event, Timminco's chief executive officer had some parting advice for shareholders as he wrapped up the meeting a short time later.

"If you read another negative article, just put it aside," Mr. Schimmelbusch said.

With more than 1.6 million shares changing hands, Timminco closed at \$30.60 on June 3.

Comments regarding this article may be sent to [lwebb@stockwatch.com](mailto:lwebb@stockwatch.com).