



# E3 2010

The Midwest's Premier Energy,  
Economic and Environmental Conference  
November 30 at the Saint Paul RiverCentre



## Session II: Legal Challenges to Developing Renewable Energy

### Financing a Clean Technology Business the Old Fashioned Way

# Trends in Cleantech Financing

- In 2009, global cleantech venture investments totaled \$5.5 billion, down 35% from the peak of \$8.5 billion in 2008, and down 8% from \$6.0 billion in 2007
  - 579 deals in 2009 v. 569 in 2008
- In Q3 2010, global cleantech venture investments totaled \$1.53 billion, down 30% from Q2 2010, and down 11% from Q3 2009
  - 152 deals completed, down from 158 in Q4 2009
  - Top three sectors were transportation, biofuels and smart grid
- 2009 Venture financing has been driven by later-stage funding rounds
- Q3 2010 Venture trended to more early stage deals
- As of 6/2010, over 900 VC backed cleantech companies
- 53% of VC backed companies “walking dead”
- Increasing M&A activity the most dominant trend going forward
- There were 32 cleantech IPOs in 2009, totaling \$4.6 billion and 46 through Q3 2010, totaling \$5.3 billion (majority outside U.S.)

Thanks to John Hamer at Burrill & Company for select information

# New v. Old School

New Financing

Good

Bad

Old Financing

Good

Bad

Combination?



# New Financing – Uncle Sam

- The \$787 billion American Recovery And Reinvestment Act of 2009 ("ARRA") stimulus Plan
- PTC
- ITC
- ARPA-E
- New Market Tax Credit ("NMTC")
- VEETC
- CREBs
- DOE Integrated Biorefineries Grant
- DOE Loan Guarantee Program
- USDA Loan Guarantee
- DOE EERE Grants
- Vehicle technology program
- B&I Loan Guarantee
- Joint DOE/USDA Advanced Biofuels Grant Program
- Renewable Fuels Standard
- And so on and so on and so on...
- Not even including proposals such as Cap and Trade, Federal RPS, CEDA, Green Bank

# New Financing

- Heavy reliance on Government to fund, guarantee or set policy to give investors assurances of demand
- Focus on either R&D (ARPA-E) or Project Financing.
- Unrealistic expectation of Venture Funding
- Still no bridge for Valley of Death

# Old School Project Finance

- Local angels provided Seed Money
- Banks provided loan for 80% project cost
- Local community provided 20% equity
- Input and Output contracts not required
- No technology risk
- Process Guarantees

# Old School Technology Finance

- Local angels fund R&D and startup
- Customers identified
- SBA or Local bank financing based on orders
- Bank finances growth
- Buy competitor to grow faster
- Sell to competitor or private equity
- IPO

# Old Financing

- Is not realistic in today's economy
- Banks reluctant to lend at all
- Angel investors scarce
- Fewer customers survive
- Most new projects have significant technology risk
- No process guarantees
- No track record
- M&A and Private Equity still available, but later stage and EBITDA based

# Best of Old and New

- Focus on technology differentiation and strong customer value proposition
- Seek, but do not rely on Gov't \$\$ or policy
- Establish input and output contracts early
- Cast wide, but smart, net for seed and early stage financing
- Drive to revenue as soon as possible

# Final Thoughts

## Courtesy of a Venture Capitalist

- The recovery will take awhile
- \$1 Trillion in stimulus/bailout with no effect on unemployment
- Looming Corporate debt and large deficits
- Austerity measures by governments worldwide could reduce capital availability
- Mid-term elections lead to a more polarized US congress.
- Slow GDP growth in US/Europe (1-3%) and stronger growth in other markets will send capital and technology elsewhere (Think China)
- *US Venture financings will stay flat for several years primarily because of reduced capital availability and challenging exit environments.*
- *Companies with a relentless focus on capital formation will survive.*
  - *Quality management teams*
  - *Large channel to market partners*
  - *Competitive economics*

# Thank You

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