

# From Spinout to IPO

The challenges Alternative Energy companies face in raising venture capital finance

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Carbon Trust Investments

# Overview

- 1. The Carbon Trust**
- 
3. The basic challenges of raising venture capital finance
- 
5. Creating the dream
- 
7. Growing pains
- 
9. Realising value or just fund raising



# Making business sense of climate change

## Reducing carbon emissions now

- Personalised advice
- Carbon Management
- Interest free loans
- Enhanced Capital Allowances
- Local Authority Energy Financing

## Developing clean technologies

- Carbon Vision
- RD&D grants
- **Incubator services**
- Tech acceleration
- **Venture capital**
- Commercialisation

## Responding to climate change

- Business awareness raising campaigns
- Informing institutional investors
- Advising on climate change policy

Since 2002 invested over £6m  
...into start-ups that raised over £60



Biomass CHP  
**Lead Investor**



SOFC Fuel Cell  
**Co-lead Investor**



Innovative Building Materials  
**Co-lead Investor**



Biomimetic Fluid Flow  
**Lead Investor**

**Whitfield Solar**

Concentrated PV Solar  
**Lead Investor**



Mixed Reactant Fuel Cell  
**Co-lead Investor**



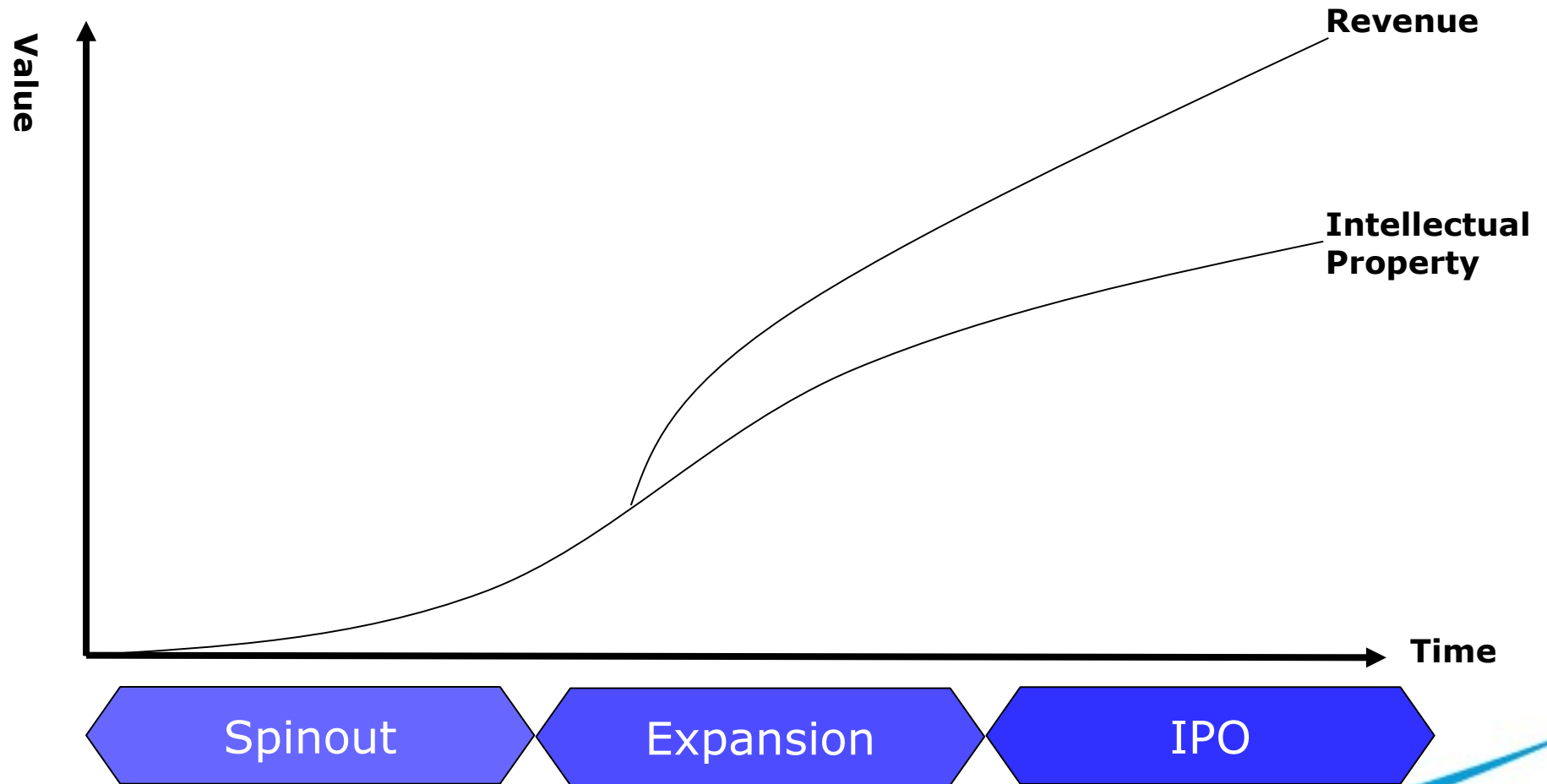
Marine Energy Device Developer  
**Syndicate Investor**

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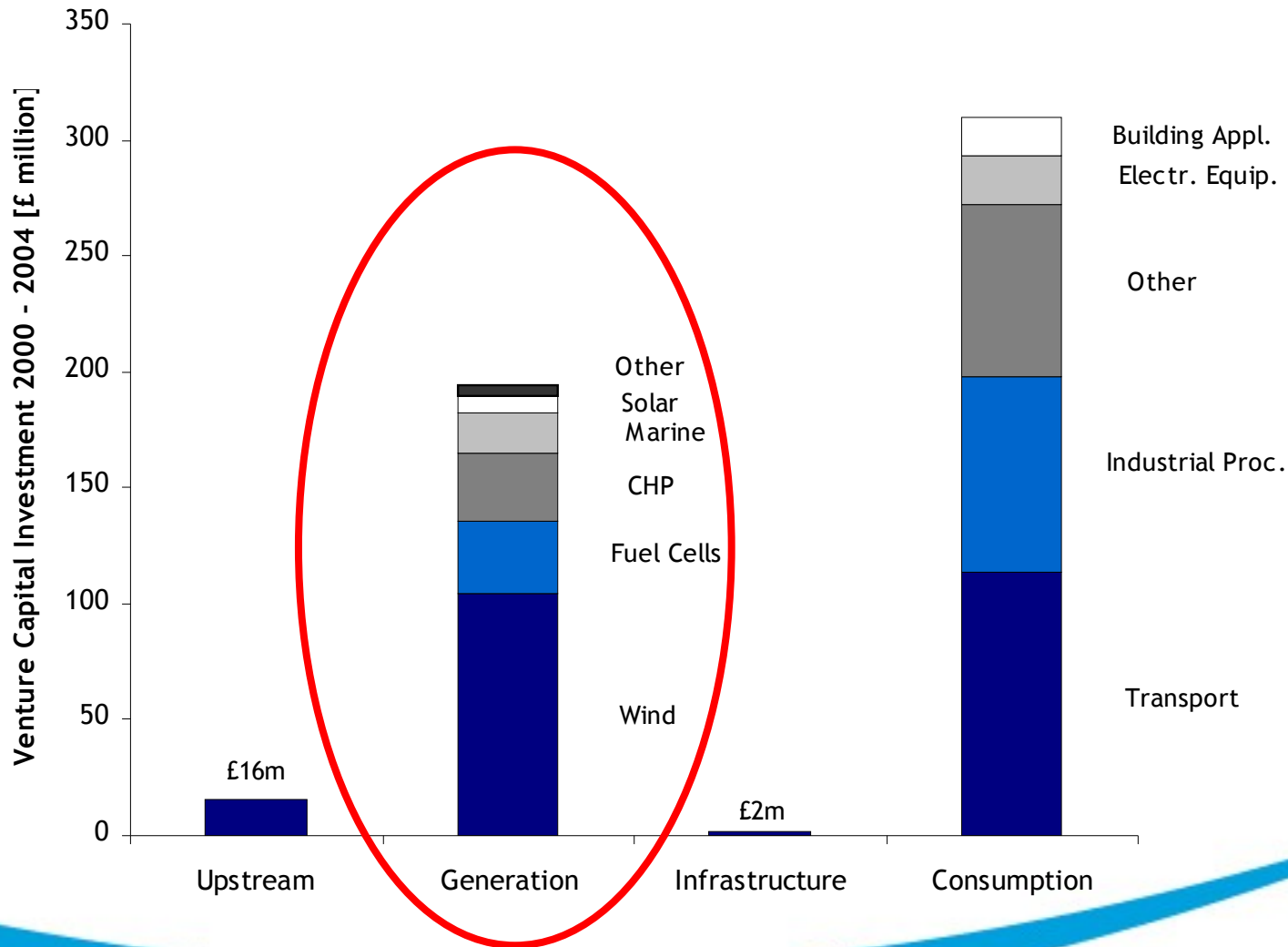
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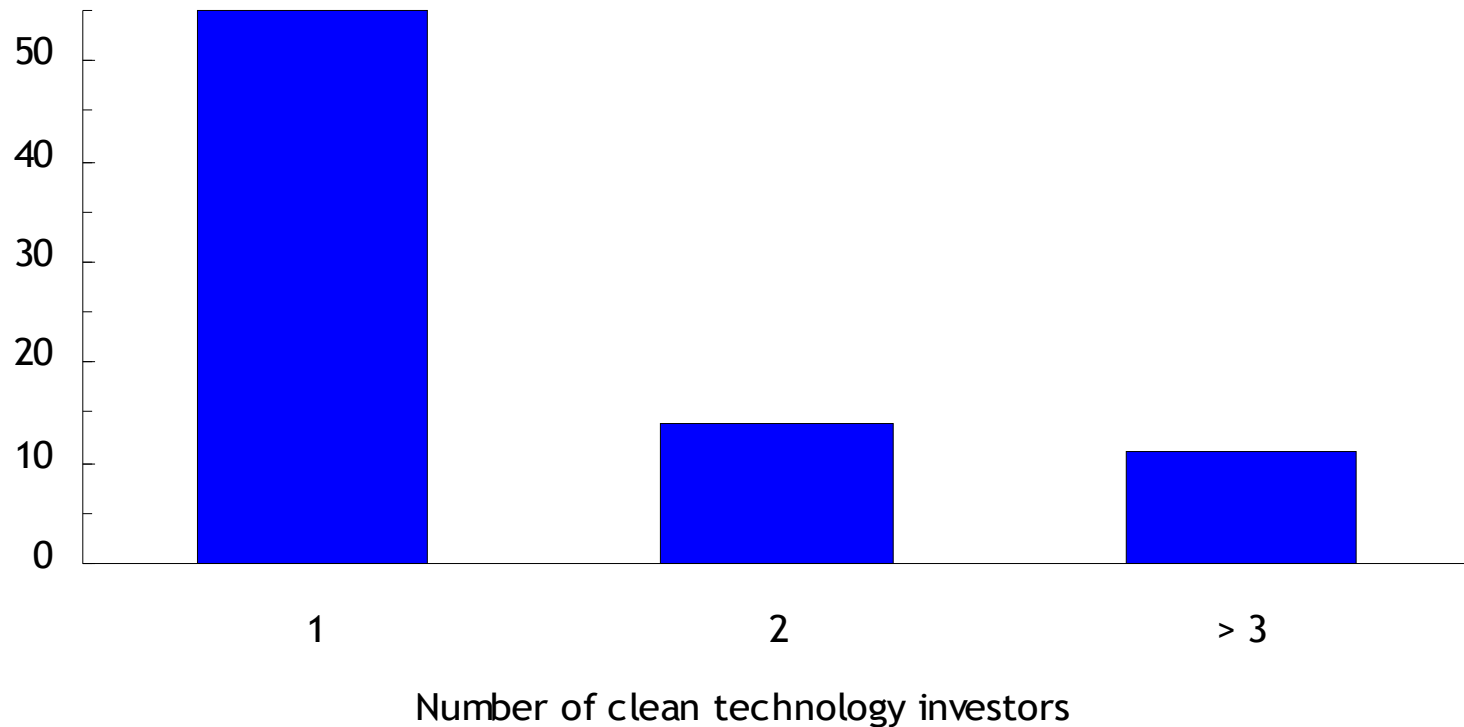
The basic challenge is generating sustained business value to meet investor's expectations



In the UK alternative energy raised over £200m, but it is focused on mature, revenue generating businesses



85 unique investors identified in the UK, but the challenge is finding an educated investor



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# In trying to realise the dream the biggest mistake is forgetting the basics of building a business

- Most spinouts that try to raise money fail because they are not ready
- The basic building blocks
  - Solid Chairman/CEO with a technology venture capital background
  - A rounded understanding of the competition
  - Rational view of how you can generate revenue in the short and long term
  - Understanding your weaknesses and plan how to address them
  - Bringing on engineering expertise through partnerships
  - Get expert advice on drafting the business plan
- IF YOU CREATE THE PRODUCT THE MARKET WILL NOT BEAT A PATH TO YOUR DOOR!!

# Your first investors need to bring added value, but this always comes at a price

- Basic value add skills that an investor should bring
  - Understanding of the market you are in
  - Ability to build your management team
  - Contacts for future fund raising
  - Understanding the engineering challenges
- Adding value to risky early stage businesses is expensive
  - Do not expect IPO valuations on day one
  - Completion and management fees are a price of added value
  - Expect the investor to protect his position with investor rights

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# Before raising additional finance need to justify value creation

- Move technology from the laboratory to the customer site
  - On site location with a real, commercial buyer
  - Must show long term reliability in a harsh environment
- Developing engineering manufacturing standards early
  - Ensure QA process for sub-contracted parts
  - Develop ISO standard manufacturing procedures
- Development or commercial partnerships from key customers
  - Prove the route to market
  - Show early revenue from development contracts
- Build the team to meet the commercial vision
  - Search for high calibre commercial and financial directors
- Start to develop exit options for the new investors

# Make sure you still have a venture capital investment and not a project finance business

- Biggest challenge is the capital intensive nature of early demonstration devices
  - If the funding is only used for demonstration devices this will not generate sufficient future value
  - There is the trap of too risky for the banks, but not enough upside for a venture capitalist
- You will need to bring on a range of investors
  - Don't expect your existing investors to follow their investment
  - The larger the deal the longer it will take
  - The investor base will be international
- The principles of the last round should not be ignored
  - Get external advice
  - Plan early and always have sufficient funding to complete the round

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# Plan early for an IPO, but remember it is never an easy option

- An IPO is never an exit for a venture capital investor
  - Very rarely get cash out on floatation
  - May be restricted on share dealings
- Always have sufficient funding to follow through
  - IPO's are expensive
  - Need financial strength to be attractive to the market
- Timing is crucial
  - Keep up to date on the market
  - Talk to a number of advisers well in advance
  - Discuss the proposal with potential new investors
- It will take up to 50% of management's time
  - Process can take up to 12 months
  - Could destroy future commercial value

# The market was open, but is it now closed?

- AIM market was seeing 1 new IPO per month in clean technology sector, but this dried up in May 2006
  - Range of different businesses
  - Global political news and oil prices is creating investor appetite
- There are a limited number of sector specialist investing
  - A small number of high quality NOMADS emerging
  - Very few analysts covering the sector
  - Limited number of specialist funds in this area
- Expect that some early IPOs will come back to the market
  - Failure to meet commercial milestones
  - Technical challenges much bigger than communicated to market
- Investors can loose appetite very quickly
  - Need for constant news flow
  - Meet milestones set in placement document

# Making Business Sense of Climate Change

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