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Financing Growth for cleantech companies: learning from the pioneers



by [Richard Youngman](#) | June 19th 2012

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In April, at [Cleantech Forum Europe in Munich](#), I had the pleasure of moderating a panel on this subject, where we discussed some recent and current company case studies, to draw out the very real financing challenges facing growing cleantech companies and some of the possible solutions.

One of my original invitees, Richard McCombs, was unable to be with us that day, but I recently caught up with him and this inspired this interview-style blog post. Richard recently retired as CEO of [MBA Polymers](#). Through that lens we discussed the financing challenges for growth companies with newer technologies, to draw out some tips for the future.

Richard Youngman (RY): MBA Polymers is the global leader in recycling plastics from end-of-life electronics, appliances and automobiles. What has been your experience in financing its growth journey?

Richard McCombs (RMc): When we prepared to build our first commercial scale facility, we realized that we could not meet venture capitalists' expected returns if we built our facilities with 100% MBA equity. Our first facility was in China. So we structured it as a joint venture with MBA owning >50% and having full management control. We also negotiated that our partner would arrange for debt financing in order to further reduce MBA's equity requirement. We later used this same financing model for our Austrian and UK facilities, which significantly reduced the amount of MBA equity needed to build three world-class commercial facilities

RY: Venture Capital's appetite for cleantech as a theme has certainly dropped off from the high-points of 2007-08. [Cleantech Group's i3 data service](#) tracked \$1.8bn of venture and growth equity investments into global cleantech companies in Q12012 (with North America accounting for \$1.3bn), [which is down 19% from Q42011, down 31% from Q12011](#). There is no doubt that cleantech as an innovation and investment theme for financial investors (distinct from corporates) is certainly out of favour right now. What do you make of this?

RMc: Traditional venture capitalists are reluctant to invest where they do not see a timely path to a liquidity event. The public markets remain extremely volatile, and the appetite for IPO's has been limited and unpredictable over the last two years. Cleantech companies have suffered more than most. Last year saw a number of pre or early-revenue biofuel companies go public, but their valuations have suffered dramatically since. Companies typically cannot participate in the public market unless they have both significant revenue and positive cash flow. In order for many, though not all, cleantech companies to reach such a stage of maturity, they will need to build their own commercial scale facilities

RY: Why do you think has it been so difficult for cleantech companies to build bricks and mortar facilities to commercialize their technology?

RMc: VC's, in particular, know that they cannot provide all the financing needed to commercialize a fundamentally bricks and mortar business and meet their expected returns. VC's don't experience this limitation in technology and social media companies. Private Equity investors and the debt markets are only willing to finance proven business models, which means commercial scale facilities will already have been built.

RY: This kind of catch-22 certainly came up in the discussion in Munich. Such market 'failures' are where governments can usefully step in and reduce the bottle-necks. What is your experience of government support for cleantech companies?

RMc: The U.S. Government support for cleantech is slowing. The Obama administration has been severely criticized for its financing of the now [bankrupt Solyndra](#). In addition, the US government has been backing away from regulatory encouragement of the cleantech industry due to the political gridlock. This is quite different from other mature economies like the EU and Japan.

Some other governments offer funding support. A recent report from China's Ministry of Finance, for example, stated that "[China's central government plans to spend 170 billion Yuan](#) (\$27 billion) this year to promote energy conservation, emission reductions and renewable energy."

In MBA Polymers' JV in China, our partner was a State Owned Enterprise. They provided capital efficient financing for our plastics recycling business because it supported the Chinese government's five year plan. This equity and debt financing for MBA's China facility would never have been available from traditional financing sources. It reduced MBA's equity requirement by over \$10 million.

RY: Your experience is a good example of a western cleantech company finding an 'untraditional' source of finance, a necessity of today, a 'key success factor' that came across strongly in our panel in Munich. Why? Because the traditional sources of company borrowing, banks, are closed for business. Whatever they say on stage in conferences, the reality for those in the market (in the room in Munich, at least) is that they are not open for business for financing 'proving' technologies, except, perhaps, on uneconomic terms. As a result, it is imperative for most cleantech companies to identify and court non-traditional sources of finance early in their

growth journey. Family offices, hedge funds, retail bonds, community finance, leasing, customers (keen to see the technology develop), and local government (keen to secure the investment and jobs), were all mentioned as avenues to explore to find possible financing sources that could get them through the proving technology phase.

What are your thoughts on this? What advice would you give to cleantech companies to find capital efficient financing?

RMc: My experience at MBA is that VC's will support cleantech investments if they can see how their investments can be used for capital efficient financing. We utilized two sources of funding to accomplish this: strategic investors and Joint ventures.

RY: What is the key issue to consider in seeking strategic investors?

RMc: Obviously strategic investors are interested in the technology. Access to technology is almost as valuable as owning the technology outright. But there are questions to be addressed, such as if large strategic investors have access to a cleantech company's technology, what does this mean for that company's valuation? And would other potential strategic partners or acquirers have less (or no) interest as a result?

RY: What are some of the other the issues for strategic investors?

RMc: You can see where this gets complex pretty quickly. A cleantech company should be asking questions such as:

1. Are they investing in the equity of the parent company or directly in the commercial facility?
2. Are they assisting in the development of the technology? If so, will they have rights to that technology or any improvements in that technology?
3. Will their access to the technology be royalty free? Will it be global or for just a specific geographical area? Will the strategic investor have any rights to the technology outside of their industry?

We brought in two strategic investors into MBA; however, we did not give them rights to our technology.

RY: What about Joint Ventures?

RMc: My experience with JV's has been very positive; however it takes a great deal more senior management time. We built three commercial scale facilities with JV partners which reduced MBA cash equity requirements by over \$50 million. However a cleantech company should be careful if their JV partner is potential competition. MBA always invested a lot of time to understand exactly what the partner expected from the partnership: Technology? Market for their product? Access to new businesses? Compliance to upcoming government regulations?

A Joint Venture partner should contribute cash equity to the JV. This equity investment will reduce the equity requirements by at least the minority interest partner's ownership percent. In addition, the JV partner often has access to debt financing not available to the cleantech company.

JV's are often difficult due to the challenges of managing a business with a partner who may have different objectives or approaches to the business. But these obstacles need not prevent a company from seeking joint venture partners, particularly when building in foreign markets. There are ways to minimize these difficulties.

RY: Your experience seems to be quite in tune with my panel in Munich – namely, that there is a path to bankability. It is just not easily and neatly laid out. It needs thought, creativity and perseverance to chart it. Thanks for sharing your insights, Richard.