About Ceres Capital

• Ceres Capital LLP is a London-based corporate finance firm with associates throughout Central & Eastern Europe.

• We focus on providing early-stage equity finance for projects in the natural resources, renewable energy and environmental technology sectors.

• We raise equity finance of €2-10 million and guide companies through the processes of private equity placement, IPO and debt financing.
Introduction

• Whatever the business, planning and preparation are the keys to successful fund-raising:
  – Understand your business
    • People
    • Project
    • Price
  – Understand your market – where does your project fit into the universe of opportunities
  – What do investors need and want to see
  – Present your business accordingly

Given the competition for capital, projects need to be well prepared and presented to stand out from the rest and have a chance of being considered for financing
Renewable Energy Returns

• Renewables present a development challenge
  – Often seen as too risky for debt finance at an early stage
  – But provide bond-like returns

• Private equity will only be attracted if there is a clear ‘story’ to enhance returns above the norm for a conventional investment project

A range of tools, techniques and support mechanisms is available to bridge the ‘debt/equity’ gap
Investor Expectations

<table>
<thead>
<tr>
<th>IRR</th>
<th>Low</th>
<th>Risk/Return</th>
<th>High</th>
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<tbody>
<tr>
<td>5%</td>
<td>Yes</td>
<td>Current Income</td>
<td>No</td>
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<tr>
<td>10%</td>
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<td>&gt;30%</td>
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Typical Renewables Returns

90-95% of Institutional Capital

5-10% of Institutional Capital

The Financing Gap

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Typical Private Equity Criteria

- Experienced management team
- Clear business plan
- Strong intellectual property (IP)
- Expansion opportunities
- Ability to exit within 3-5 years
- IRRs >20-30%

*Most equity providers have a very simple checklist of ‘must haves’ for them to consider a project*
Understand the Business

• Equity providers will be looking for similar things in any business (regardless of sector):
  – Good management & staff
  – A clear business plan
    • Minimise risks
    • Maximise upside
  – A clear understanding of capital requirements and what proportion of the business management is prepared to give away
People, People, People

- People are the key asset of any new business, potential investors will be looking for:
  - Management with vision and business sense
  - Managers who manage

- Key questions asked by investors
  - The key players’ track record and their background
  - Are they people who know how to run business?
  - Do they know how to build a business?
  - Commitment to the business

The importance of good management cannot be over-emphasised
Project

- The Company will be attractive to investors if it can demonstrate that it has spotted and exploited opportunities
  - New technology
  - Growing market share
  - (Inter)National expansion
- A business that generates cash
- Understanding of market positioning
  - Manufacturers: Technology and commercials in place
  - Power producers: Value chain in place

*Investors examine market positioning and product competitiveness*
Project Growth

• Management needs to have a clear vision for where the business is going

• Investors will closely examine:
  – Growth projections
  – Assumptions
  – Robustness of projections to changing market conditions

• Investors will want to see a flow of good news to help them to sell their interests in due course

*Equity investors require significant growth potential to generate their required returns*
Price

• Management expectations vs. investors’ willingness to pay often a key stumbling point
  – Illiquidity adds a premium
  – Emerging sectors (renewable energy) & emerging markets add a risk premium
  – To compensate for the risk of investing in new companies, investors will typically receive a discount of 20-60% on the company’s value
  – Investors may well require options/warrants to allow them to benefit from any up-side

• What additional value can the project provide to investors?

*Management has to be prepared to offer a discount to attract equity investors*
Understanding the Investor Perspective

• Understanding & anticipating investor needs and questions will help the proposition to be accepted for appraisal
  – While the market for renewables may be growing, investors may see they can get better returns for the same risk exposure elsewhere

• The sector and the geography narrows down the universe of interested investors

• Why should they be interested in you?
  – What do you add to them?
Concerns for Institutional Investors

- Long-term economics vs conventional & nuclear power: *Renewables too expensive*
- Concern over degree of government support: *Renewables can’t survive without subsidies*
- Dot.com syndrome: *Is there too much hype?*
Marketing the Opportunity

• Immaturity of the sector makes informal networking crucial
• Identify your investor targets in terms of:
  – Focus on Central & Eastern Europe
  – Interest and contacts in renewable energy
  – Capability to support the business and management team
• Investors may include:
  – Private equity (and other) funds
  – RES operators and electricity producers
  – Individual investors
Resolving the Financing Conundrum

• On average, renewable energy projects provide annual returns of 5-20% - this is below typical commercially required returns.

• Routes to address this issue include:
  – Understanding investor!
  – Investor driven by non-financial issues
  – Linkage to carbon-offset programmes (JI/CDM)
  – Enhance returns via asset roll-up programmes (Zephyr)
  – Use of ‘soft’ equity/loan facilities to change risk/return profile & bridge the equity/debt ‘gap’

• Package the project before seeking equity financing
In Conclusion

• The private equity evaluation process is relatively standard, regardless of sector

• A clear grasp of the ‘3Ps’ is crucial
  – People
  – Project
  – Price

• Anticipation of investor requirements and careful ‘packaging’ will enhance the chance of success
  – Project preparation and structuring can enhance returns to attract equity investment