Ceres Capital

# Keys to Successful Private Equity Raising – Renewable Energy in Central & Eastern Europe

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# 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

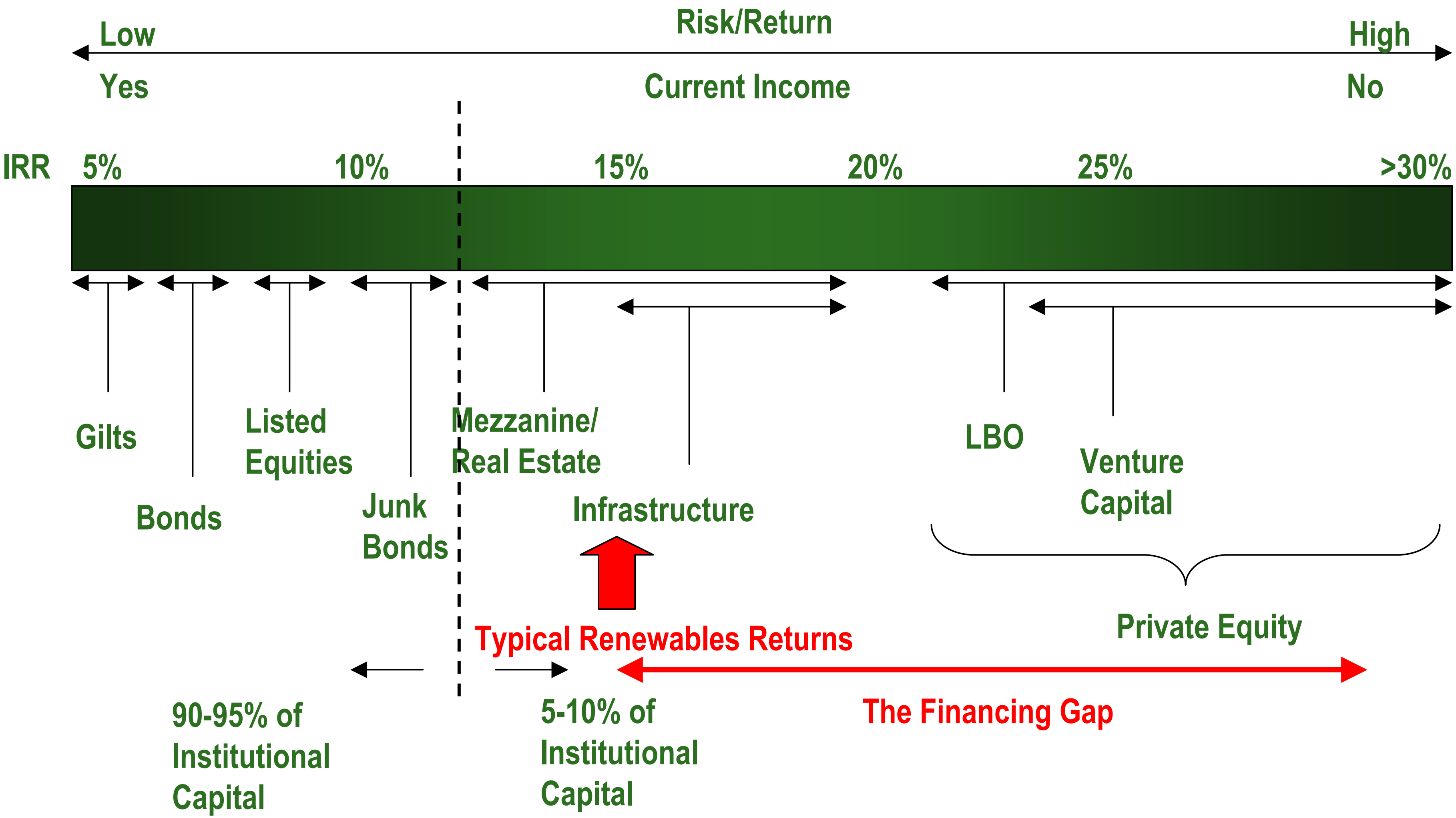
***Given the competition for capital, projects need to be well prepared and presented to stand out from the rest and have a chance of being considered for financing***

# 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



# 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 <u>and</u> 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**