

PErspective in CLEANTECH

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE CLEAN TECHNOLOGY INDUSTRY

Global clean energy investment is on a downswing as low commodity prices took the urgency out of replacing existing energy modalities. But investors might see opportunity in South Africa and India as these countries seek to leverage domestic solar and wind resources.



Cleantech investment last peaked in 2007, when favorable climate change policies and high oil prices led institutional venture

capital (VC) firms to spend \$150 billion on clean technologies, according to the Colorado Cleantech Industries Association (CCIA). However, the recession brought some lean years where capital was concerned – and the discovery of shale oil and natural gas reserves, coupled with the collapse in the price of oil, took the urgency out of replacing existing energy modalities.

In 2015, clean energy investment in the first quarter of the year slumped to its lowest level in two years globally – and dropped 15 percent year-on-year, according to data from Bloomberg New Energy Finance. Cleantech investment dropped significantly in Brazil, Europe and China, but South Africa and India saw big increases as they sought to expand power capacity and leverage domestic solar and wind resources.

“Although there have been recent declines in investment, we still see an overall positive outlook for clean technologies and, in renewable energy in particular, there is subsector growth in areas such as storage and smart grid technologies,” said **Tim Clackett, partner with BDO’s Technology & Life Sciences practice**. “Additionally, water shortages in the U.S. have focused attention on innovation and conservation, and this is still a vibrant business sector.”

Additionally, IPOs have been thin on the ground in recent years. Cleantech startups require a longer time

frame, bigger budget and different investor skill sets than IT startups, according to *Green Tech Media*. Just one cleantech company went public in the first quarter of 2015 – Tel Aviv-based SolarEdge Technologies, which raised \$126 million in its IPO and has performed well since. Previous backers included a number of VC funds and General Electric’s GE Energy Financial Services unit, according to *Bloomberg*. The fact the firm was already turning a profit when it filed for an IPO made it something of an outlier, according to *Forbes*.

However, despite these unfavorable statistics, investor interest may be picking up again in early-stage cleantech companies requiring capitalization to scale up, according to the CCIA. VC firms are looking at a variety of technologies from air and water monitoring software to smart buildings and recycling technologies – but they are looking for experienced management teams and are avoiding companies with complicated investor pools and tax situations, and low-margin, long-return horizons, the CCIA reports. VC funds also now face competition from private equity, angel investors, family groups and global corporations looking to make strategic, socially conscious investments. For example, Goldman Sachs is devoting \$40 billion to cleantech over the next decade, according to the CCIA.

Solar power is one of the brightest stars of clean technology. As solar technology has matured and prices for solar panels have come down, solar-powered electricity is increasingly being integrated into the traditional grid. Solar companies saw record fundraising in the first quarter of 2015, with \$6.4 billion in total global corporate funding, according to *AltEnergyMag.com*. This was almost twice the \$3.4 billion raised in the previous quarter. The largest solar-related VC deal in Q1 of this year was the \$45 million raised by solar-downstream company Conergy, from RWE Supply & Trading and Kawa Capital Management, *AltEnergyMag.com* reports.



M&A activity in the solar sector is also robust, with 50 deals spread over the last two quarters, and with a heavy concentration in small, solar downstream companies. The largest disclosed deal by dollar amount was the \$265 million acquisition of Recurrent Energy, a solar project developer, by Canadian Solar, according to *AltEnergyMag.com*.

Whether the cleantech boom times will return remains to be seen, but there are still plenty of dealmaking opportunities – especially involving solar downstream companies, and companies making software and electronics products designed to enhance and increase the output of existing technology.

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Technology & Life Sciences Industry Contacts:

TIM CLACKETT

Los Angeles
310-557-8201 / tclackett@bdo.com

SLADE FESTER

Silicon Valley
408-352-1951 / sfester@bdo.com

HANK GALLIGAN

Boston
617-422-7521 / hgalligan@bdo.com

PAUL HEISELMANN

Chicago
312-233-1876 / pheiselmann@bdo.com

AFTAB JAMIL

Silicon Valley
408-352-1999 / ajamil@bdo.com

RYAN STARKES

Woodbridge
732-734-1011 / rstarkes@bdo.com

DAVID YASUKOCHI

Orange County
714-913-2597 / dyasukochi@bdo.com

Private Equity Industry Contacts:

LEE DURAN

San Diego
858-431-3410 / lduran@bdo.com

SCOTT HENDON

Dallas
214-665-0750 / shendon@bdo.com

KEVIN KADEN

New York
212-885-8000 / kkaden@bdo.com

RYAN GUTHRIE

Costa Mesa
714-668-7385 / rguthrie@bdo.com

DAN SHEA

Los Angeles
310-557-8205 / dshea@bdocap.com

JOE BURKE

McLean, VA
703-770-6323 / jburke@bdo.com

FRED CAMPOS

Miami
305-420-8044 / fcampos@bdo.com

JERRY DENTINGER

Chicago
312-239-9191 / jdentinger@bdo.com

JOE GORDIAN

Dallas
214-969-7007 / jgordian@bdo.com

TUAN HOANG

Los Angeles
310-557-8233 / tmhoang@bdo.com

TODD KINNEY

New York
212-885-7485 / tkinney@bdo.com

MATT SEGAL

Chicago
312-616-4630 / msegal@bdo.com

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