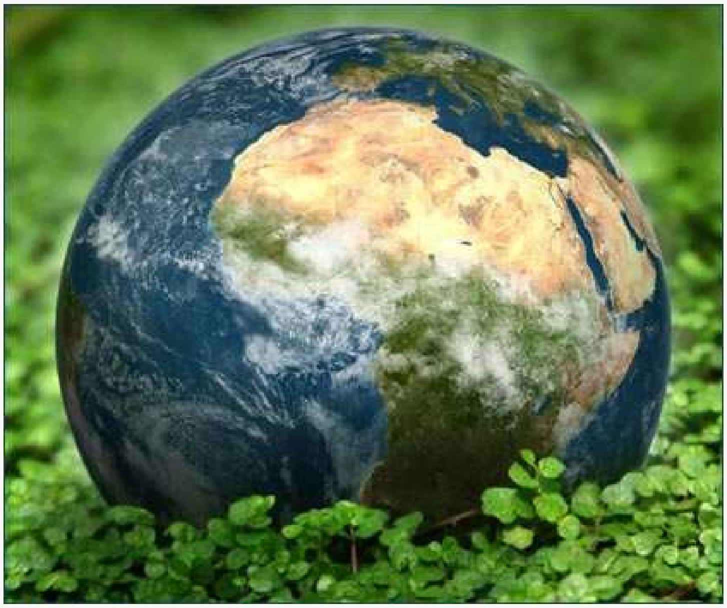
Do Cleantech Companies Need a Chief Capital Officer?

Part I- http://www.celsias.com/article/do-cleantech-companies-need-chief-capital-officer/

Part II- http://www.celsias.com/article/cleantechs-chief-capital-officer-must-be-capable-i/

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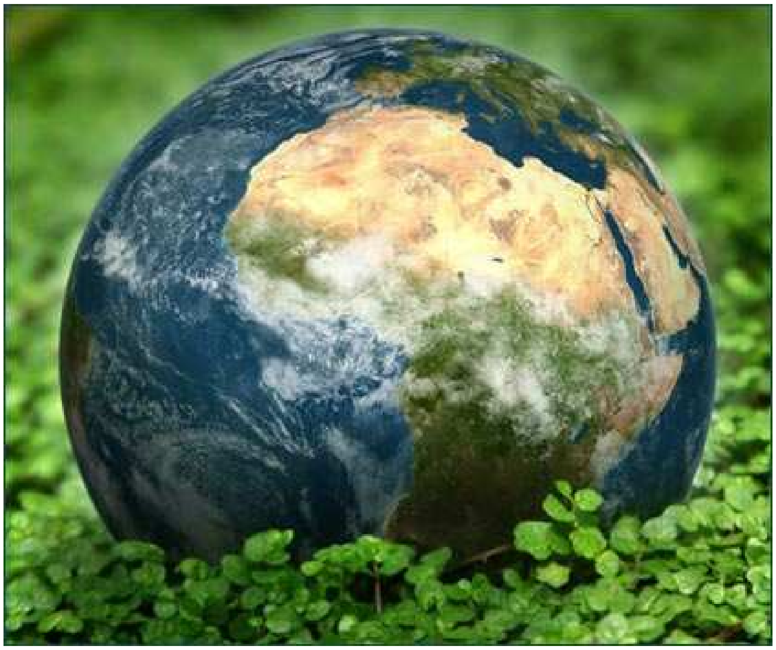
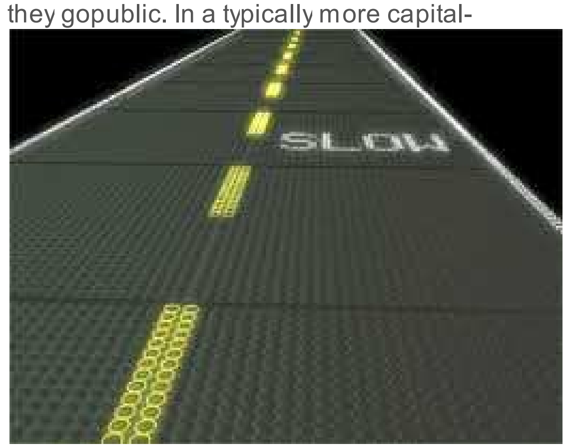


One of the huge issues for cleantech companies is finding the capital to do the work they want to do.Many renewables have a large up front cost and the question of capital is daunting to many companies soErnst & Young's analysis of whether in fact a CCO is needed in cleantech companies is fascinating.

Just as the world thirsts for clean energy, the companies striving to provide it thirst for capital. The structure of the venture capital and private finance industry was largely established in the 1980s to serve information technology companies based mainly in the United States. Since that time, business has become more globalized, and companies now need to address global markets and global competition much earlier in their life cycles. Further,because of evolving regulations and more exacting investors,finance departments face ever-increasing demands.

The result is that today, all emerging companies require more capital before they gopublic. In a typically more capital-intensive industry such as cleantech, the challenges are even greater. The CFO and treasurer of a cleantech company may know a gooddeal about capital formation. But with the need for a more robust finance function and an expanded role for the CFO, they are already juggling significant calls on their time. Thus, cleantech companies are left facing some inescapable questions: are our capital formation requirements so omnipresent, so significant and at the same time, so essential to strategy that they beg for focused attention and specialized skills? And do we in fact need a chief capital officer (CCO) with those specialized skills to focus exclusively on capital formation and deployment?

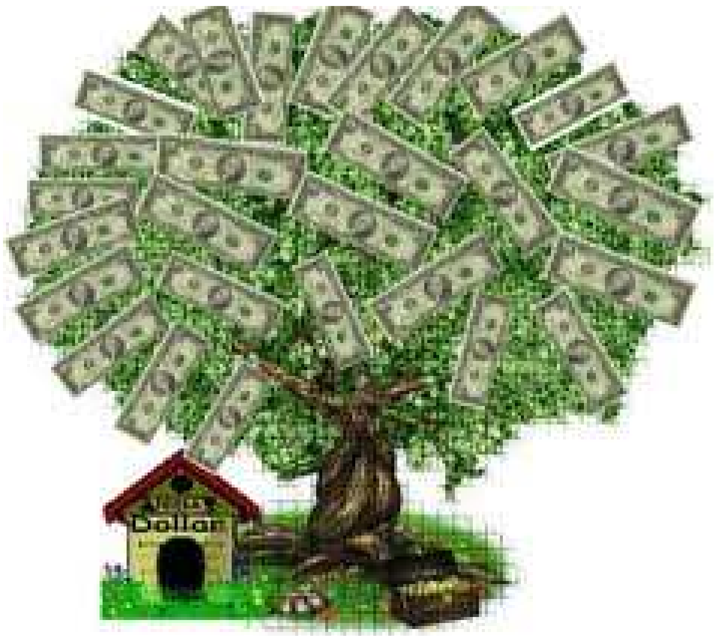


The most capital-intensive segments of cleantech include renewable energy production, biofuel commercialization, electric vehicle charging and other grid development or enhancement.Over the coming years, each will likely require many hundreds of billions of euros, yen, US dollars and renminbi spanning investment horizons of a decade or more.

In their analysis of How to meet the financing challenges of capital intensive cleantech companies Ernst & Young argue that within certain segments of cleantech, the capital needs are enormous because most of the technologies and infrastructure that will power the future are still in early-stage development or just entering commercialization. Consider the companies whose technologies call for extensive manufacturing, large-scale power plants or bio-refineries or wide-ranging infrastructure for distribution. For such companies, capital requirements become even greater as they move into the commercialization phase. Still others will need a strong capital base in order to provide, for example, warranty assurance in wind and solar. Obviously, demand for capital on this scale goes far beyond customary venture capital, IPO or other traditional sources of financing for high-growth companies.

Financing of this magnitude typically calls for a project-financing approach, sayErnst and Young . The challenge here, however, is that classic project financing typically accrues only to ventures with proven technologies and secure cashflows. Even a demonstration-scaleproject can involve hundreds of millions of dollars, and it still may fail. Clearly, the rewards of getting it right are also much greater, particularly for global solutions, but the evolving nature of the capital markets and a still-nascent understanding of thecapital formation, regulatory changes, governmental support and technological risks involved make navigating these financial waters a much more complicated proposition. For the industry, this leaves a funding gap that will require focus, innovation and no smalldegree of determination to fill.

One obvious piece of the solution is government financing. Since it is in the public interest to put in place the engineering and infrastructure needed to fulfill the promise of cleantech, it is entirely appropriate that governments around the world provide support for such projects. But government grants, tax incentives,subsidies and regulatory inducements are only a partial solution and one that has come under severe pressure in the wake of the global economic downturn that began in 2008.



For the capital-intensive sectors of cleantech to gain real traction,their development must be backed by the full faith and credit not only of governments but also of the private sector. Over the long term, financing the future of renewable energy will involve a complex interplay among diverse capital sources. These will ultimately include banks, international investors, corporations, legacy utilities and energy firms, and broad industry coalitions,as well as local, regional and national governments. Securing capital from one source will in large part become dependent on securing financing from the others as well. At the company level, orchestrating such a symphony will require a conductor of considerable talent.

But do cleantech companies then need a CCO ?

For immediate answers click here or to allow yourself time to ponder check in tomorrow on Celsias for the answer when we bring you more on the concept of a CCO to answer the serious capital needs of cleantech companies.

But do we need a Chief Capital Officer in a cleantech company?

This is the second part of an Ernst & Young investigation on cleantech companies unique needs and structures

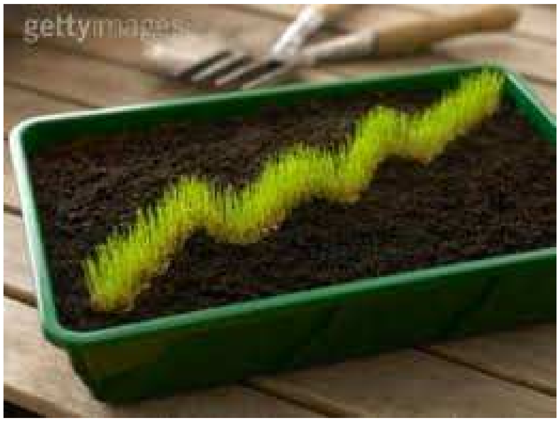
The financing needs of a company pursuing the commercialization of cleantech infrastructure are immense, and the ecosystem necessary to satisfy them will be complex. Hence the question:

Do cleantech companies need a C-level executive whose sole purpose is to tend to the strategy and practice of capital formation and deployment?

The immediate response may be to say no, capital formation is the job of the CFO or CEO. That may well be so in much larger, well-developed industries and businesses. But look again at the unique situation of cleantech companies, especially those in the renewable energy segments, which tend to be young and fast-growing.

While the CFOs of such companies may play an important role in financing, their primary charge in most cases is to create the wellhoned reporting, compliance and control-oriented finance function required to facilitate fast growth. This is a vital role, without which few firms would be able to attract the necessary baseline investment. At the same time, however, particularly in a high growth company, it is also a highly specialized and demanding role that can leave little time for much else. For example, the CFOs of high-growth companies are increasingly required to undertake the financial integration of the company's global operations and activities. Such duties reflect a largely inward focus whereas the responsibilities of the chief capital officer are primarily focused outward. Among them are marketing the company to potential investors and partners and negotiating the eventual deals that will provide the needed capital.

The other alternative, say Ernst & Young is to assume that capital formation is one of the primary responsibilities of the CEO. It is true that for many companies, particularly in their early stages, the CEO tends to act as the CCO, treating the function almost as a full-time and continuous duty. However, as companies mature, he or she quickly becomes saddled with too broad a range of duties to be able to focus sufficient attention on the formation of capital. So at some point, the CEO must choose whether to retain capital-raising as a primary role or to bring in a CCO.



Arguably, however, the role is best filled by someone who is a terrific company spokesperson and salesperson, who has very broad financial industry contacts, who can do both business development and project development and can negotiate complex financing structures; someone who is able to travel constantly (recognizing that the sources of capital are now worldwide and highly dispersed),has international savvy and can combine a broad range of financial instruments into a coherent whole that can be readily explained to investment bankers. If that sounds like your current CEO or CFO and that person can do all those things in addition to his or her regular day job, you are in great shape. Otherwise, you might well consider whether you need a chief capital officer.

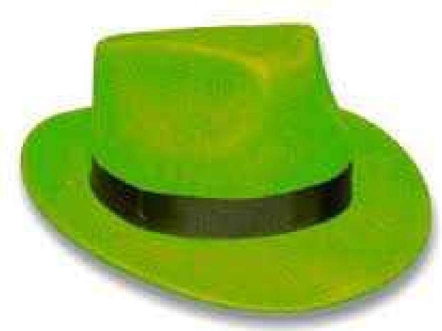
Defining the role

Analyzing the responsibilities of the CCO function, a number of essential attributes become clear. A CCO, must, says Ernst & Young :

• Know the markets. First and foremost, the CCO must have in-depth knowledge of global capital markets, which is more than simply a theoretical understanding of funding mechanisms.

Rather, any executive performing the role must be at home in the marketplace. He or she will have considerable experience and even credibility and clout with investors and analysts. And most important, the CCO must be able to sell to the disparate community of investors and lenders.

• Understand counterparty needs. A CCO will recognize that satisfying a company's appetite for capital will mean attracting a wide range of investors. A CCO may be talking to a syndicate of investment banks in the morning and a pension fund manager in the afternoon, or a potential merger partner one day and a government agency the next. The CCO must know how to speak to each class of investor or partner in the most appropriate andappealing terms.



• Be capable of innovation. Many of the templates and models for the types of financing transactions the cleantech industry needs either have not yet been created or are not yet well understood.

Further, the CCO must understand how to manage the process of raising additional capital with the longer lead times required for new sources compared with the venture capital that probably funded the company until this point.

• Understand corporate and project development. As cleantech evolves, its capital needs and its future will be shaped by acquisitions, partnerships and alliances. The CCO must be experienced in navigating the ins and outs not only of mergers and acquisitions, but also of project finance, leverage, tax issues and cross-corporate boundary collaboration within extended commercial ecosystems.