Technology & Capital

Unlocking New Sources of Finance

GreenNRG

Training Solutions

Curriculum

- Overview of Initial Capital Options
- Moving on From “Start-up”
- Myths
- “Project” Financing
- SPACs
- Leveraging ESG & Trading Credits

Why Are We Here Today?

What Keeps You Awake at Night?

Early-Stage Finance

- Initial Capital
- Angels & Crowdfunding
- Incubators & Accelerators
- Venture Capital
- Industry Sector Myths

Review of “Early Stage”

- Friends and Family (F&F)
- Angel Investors (Fools?)
- Incubators/Accelerators
- Venture Capital
- Strategic Investors
- Venture Debt/Commercial Banks
- Government Grants

Initial Capital

- “Sweat” Equity & Bootstrapped
  - Founders/Initial employees—shares of common stock in exchange for assignment of IP
  - They fund the company until investment (i.e. bootstrapped)
- Friends & Family (F&F)
  - Accredited Investors?
    - Net worth of $1M (excluding residence) income of $200K for past two years & this year
  - Non-Accredited but are they “Sophisticated Investors”?
- Vendor discounts & payment terms

Angels & Crowdfunding

- Traditional Angels
  - High net worth individuals with personal funds
  - Large groups can be difficult to manage . . .
- Crowdfunding
  - Selling small amounts of equity to many investors
  - Jobs Act has loosened regulations limiting investments by non-accredited investors
  - Many risks and high administrative costs

Incubators/Accelerators

- Incubators Initial Investment
  - $15-$150,000
  - Common or preferred stock (1-10% of company)
  - Investment terms and amount are standardized
  - Access to advisors, VCs, strategics and super angels
- Arrange Discounts & Credits Towards Services
  - Many are funded by VC firms and “super” angels

Venture Capital

- **VC's are Long-term Investors**
  - Take a very active role in their investments
  - Don't expect a return for 7-10 years on average
  - Most are structured as limited partnerships with a managing general partner
  - Investors in VC funds (limited partners) are pension funds, insurance companies, endowments, foundations and high net worth individuals
  - Investments are $25M and go way up
  - Most focus on a particular stage of a company and industry
  - VCs bring managerial and technical expertise
  - Great help in finding key personnel

Venture Capitalists

- **What are They Looking For?**
  - Team, product/technology & market potential
  - First investment is in preferred stock
  - Some will do SAFEs*/convertible notes, but not many
  - Will insist on one or more seats on the Board, separate voting rights, and often restrictive operational pre-approval rights
  - Expect to make follow-on investments in portfolio companies—in the form of convertible loans between equity financings or in subsequent equity financings
  - Make money when company is sold - or they can sell stock in public markets through an IPO

**Simple Agreement for Future Equity*

VC Due Diligence Factors

CEO & Management Team

Market Opportunity

Technology Data

Competition

IP

Capital Structure, Valuation & Exit Analysis

VCs Most Important Factors

- Team: **50%**
- Product: **13%**
- Business Model: **9%**
- Market: **8%**
- Fit: **8%**
- Industry: **7%**
- Valuation/Ability to Add Value: **2%**

VC Facts on Executive Summaries

- Each receives an average of 200 submittals per month
- Less than 5% invited to meet with partners
- 2% will reach due diligence phase
- 1% will be offered a term sheet
- 0.3% will obtain VC funding

Successful Commercialization Post-VC

- Historical common perception: 1/3, 1/3, 1/3
- Recent analysis:
  - 65-75% fail/lose investors' money or do not produce expected returns
  - 11% go public (IPO)
  - 25% M&A (different valuations)

Typical Pre-financing Equity

Position	Range %
Founding CEO	30 - 60%
Active Founding Scientist	20 - 25%
Passive Founding Scientist	1 - 5%
CEO	10 - 20%
C-Level	4 - 10%
Director	1 - 2.5%
Lead Engineer	1 -2%
Engineer (5+ years)	0.66 – 1.25%
Engineer (Junior)	0.2 – 0.66%
Industry Board Member/Advisor	1%

Strategic Partners
Corporate Venture Capital

- Generally larger companies—often in same industry
- Have a strategic interest in your business so that it may complement their own growth
- Purchase equity on terms similar to VCs
- Interested in:
  - ✓ License agreement
  - ✓ Marketing or distribution arrangement
  - ✓ Collaborative development agreement
  - ✓ Preferred pricing arrangements
  - ✓ Right to negotiate to acquire the company

Strategic Partners Sources

https://cleanedge.com/indexes/overview

So . . .

- **Incubators:**
  - ✓ Want a kick-start and exposure, and willing to give away a relatively large piece of company
- **Angels:**
  - ✓ Only need a smaller amount of capital and do not want to give away control—***but willing to herd cats***
- **VCs**
  - ✓ Need significant capital and want guidance and expertise of VC—harder to attain
- **Strategics:**
  - ✓ Need cash <u>and</u> desire to form a relationship with a larger player in the industry

Myths

Where there is conflict between an available clean technology and an entrenched dirty one, the challenge is politics and the need for legislative action, not technology . . . We can do it, we just have to want to.

David Suzuki, Canadian scientist, environmentalist and broadcaster.

Industry Sector Myths

- Myth 1: <u>The Technical Myth</u>
  - *The price of renewable energy & sustainable buildings will be reduced by technical breakthroughs*

- Chicken & Egg: as long as demand is small, production will remain small scale and expensive—as long as production is small-scale and expensive, the price will remain high and the demand small.

Catch 22

Industry Sector Myths

- No shortages in the supply
- New technology will be brought to commercialization quickly
- Rest of the world doesn't use ________ more than we do

Typical behavior—doubling in installed capacity has an accompanying 20% decline in the commodity's price.

Industry Sector Myths

- Myth 2: The Myth of the Righteous
  - *A good idea will always succeed and intervention is unnecessary*

- Most societal changes have been identified and fast-tracked by governments—the "judge" is price.

Pointed and well-conceived government intervention is required. Most often in the form of legislation.

Industry Sector Myths

- **Myth 3: Renewable energy and sustainability is too expensive and can never compete.**

  - *1980 cost of solar = $50 per watt*
    Less than $2 per watt today!
  - *Payback has dropped for 30+ years to less than 8 years after incentives, tax credits, material costs, etc.!*
  - *Useful life is greater 40 years!*
  - *Longest warranty in all equipment industries!*

Industry Sector Myths

- Myth 4: Renewable energy & sustainable building costs are more expensive than conventional energy and buildings.

Only if "externalities" are not considered:

- *Environmental cost*
- *Societal cost*
- *Security cost*
- *Productivity life*
- *Rebates & incentives don't exist or work*

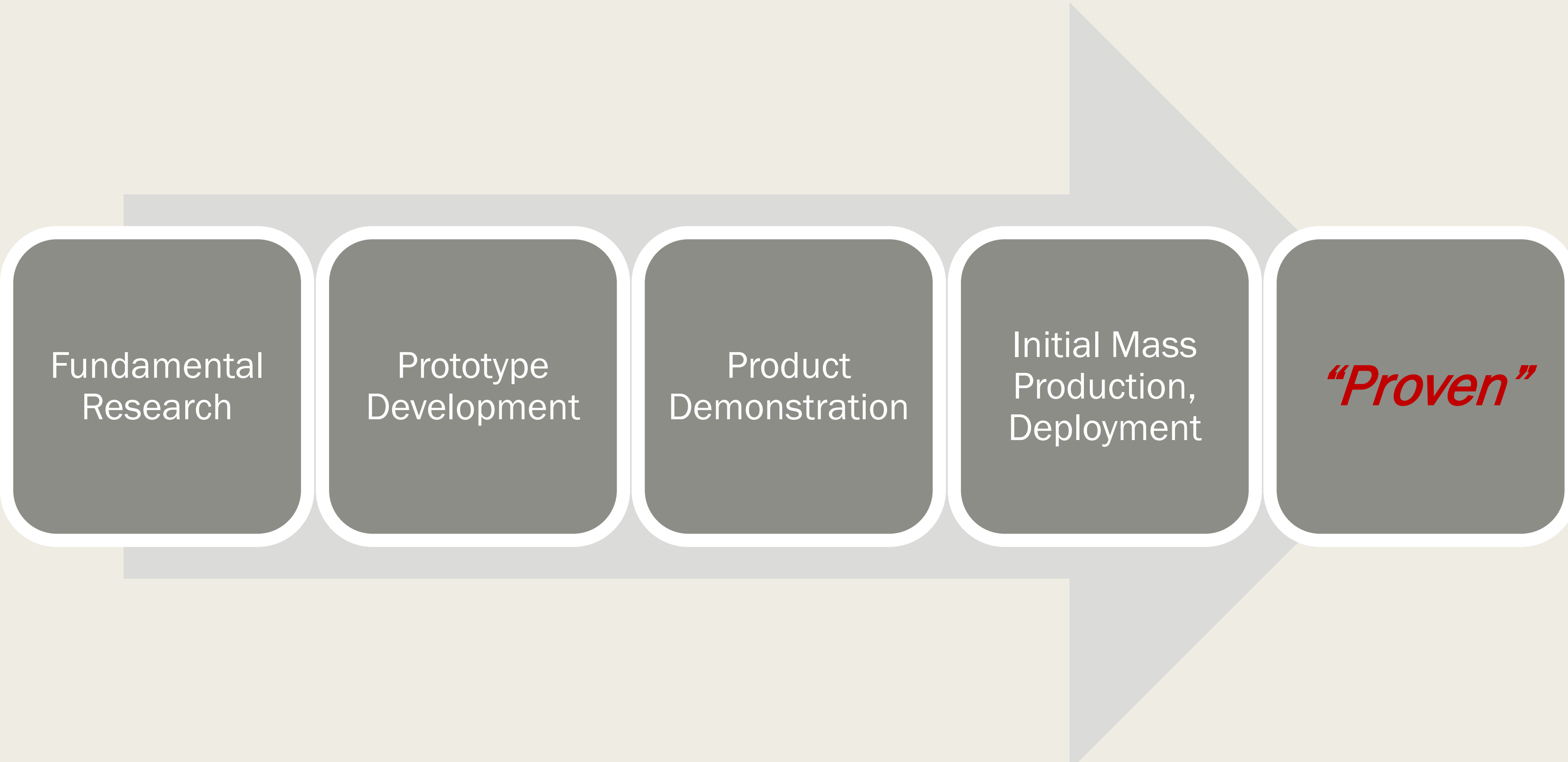
Moving On From Start-up

- Stages of Project Finance
- Finance Components
- Reducing “Risk”
- Leverage
- Structures

Stages of Project Finance

"The Chasm of Death"

“Crossing over” into project finance requires reductions in risk and large capital outlays



Typical Funding Sources

Fundamental Research → Prototype Development → Product Demonstration → Initial Mass Production, Deployment → *"Proven"*

Governments/Foundations/Industry

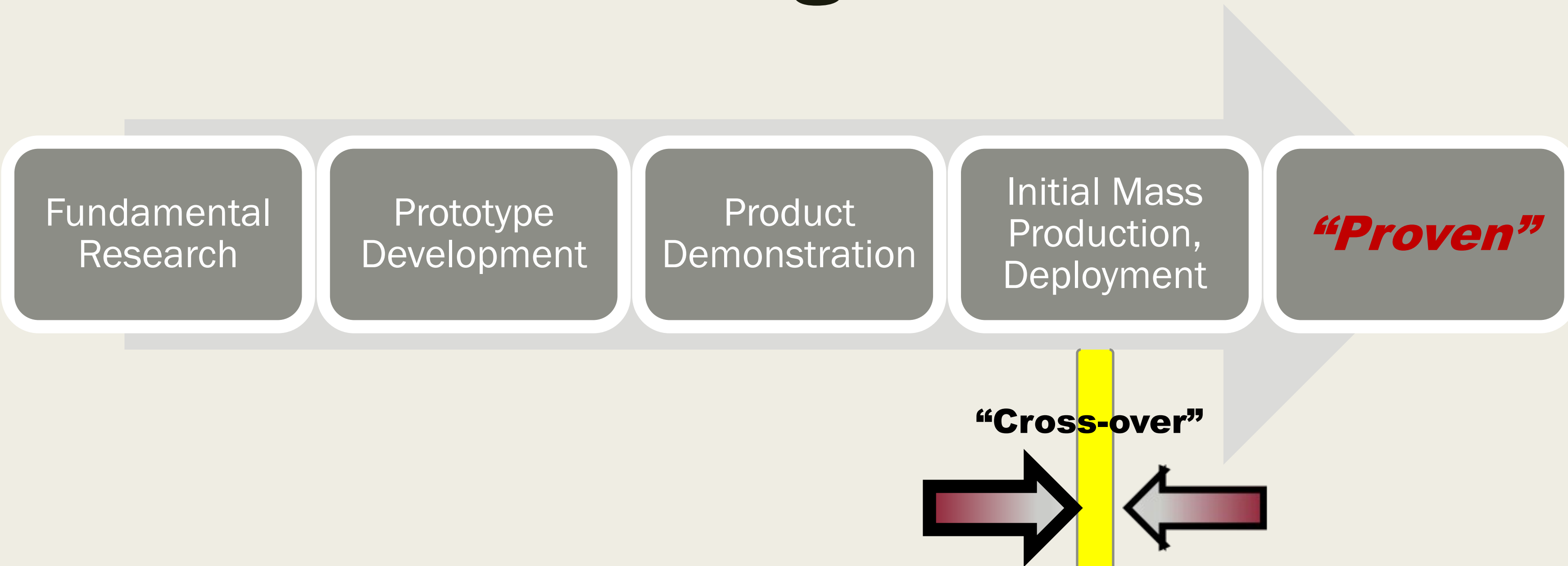
Angel Investors

Venture Capital

Traditional Project Finance
(Debt & Equity)

"De-Risk"

Funding Sources



Returns	20%+	Equity 12-20%; Debt 5-11%
Risk	High	Moderate/Low
Capital	Tens of Millions	Hundreds of millions to billions

Project Finance

- Industry Needs
- Project Scope
- Tax Attributes
- Choice of Transactions
- Documentation
- Funding Requirements
- Three C's of Credit

Big Question:

Is your product/service part of another solution or does it stand on its own????

Does it have a serial number?

XY 124854000000112 0834 08/08/18

<u>Your</u> Industry/Technology Needs

- Large Capital Costs
- Extended Payment Terms to Buyers
  - ✓ Vendor
  - ✓ End User (consumer vs business)
- Low Payments to End User's—3 types of buyers . . .
  - ✓ Lower principal
  - ✓ Low interest rates
  - ✓ Long term (payment)—residual/purchase options
- Monetize tax and "green" credits
- Large Business vs Small Business
- Down Payments
- Funding Sources

Industry Needs cont'd

- Soft costs
- Technology understanding
- Repayment sources—revenue vs savings
- Timing of funding
- Mixed collateral

Myths

Project "Scope" Myths

- Myth 1: A single technology will solve all problems
- Myth 2: All energy & building technologies are equal
- Myth 3: All technologies require same type of financing
- Myth 4: All job sites are equal
- Myth 5: All permitting agencies have the same permitting requirements

Tax Attribute Myths

- Myth 1: Tax credits are received in a cash payment like rebates
- Myth 2: Everyone can use the tax credits
- Myth 3: Tax credits are received immediately
- Myth 4: All consultants analyze tax attributes on equipment or for buyers equally
- Myth 5: Depreciation deductions help pay for the equipment
- Myth 6: No one pays the AMT

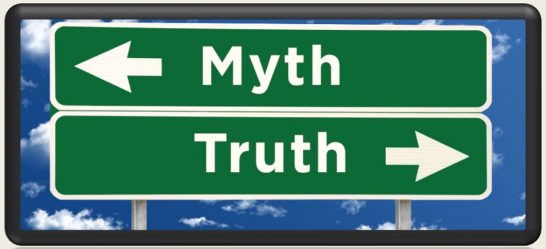
Financing Myths

- Myth 1: All types of financing structures have similar terms
- Myth 2: All lenders offer the same structures to all borrowers
- Myth 3: All lenders require the same collateral
- Myth 4: All lenders charge the same rates and take the same risks
- Myth 5: Qualifying is simple
- Myth 6: Documentation is simple

Financing Myths cont'd.

- Myth 7: No personal guaranties are needed
- Myth 8: Borrower gets to choose terms and conditions of the contract
- Myth 9: Lender will share your risks
- Myth 10: Vendor doesn't need funding as project is built
- Myth 11: Vendor will wait to get paid while other vendors complete their jobs
- Myth 12: Vendor will help with financing

Other Myths



- Utility rates will increase 7%+ per year
- Systems can be sold without financing
- Small business get same deals as big business
- Consumer & business financing are equal
- Most lenders finance renewable energy & sustainable buildings
- Your distributors/suppliers will finance the product/service you sell
- Funding sources will be comfortable with the sources of repayments
- Funding sources like mixed collateral

Three "C's" of Credit

- *Credit*
- *Collateral*
- *Capacity*

$\Big\}$ = Risk

Myth: ***<u>Risk for all credits are equal</u>***

Ultimate Challenges:

1. Your customer doesn't want to pay cash for the product/service—or at the least, not now
2. You want to sell **LARGE** quantities . . .
3. You need to finance the sales of your product/service
4. You don't have the cash to "carry" the sale for any length of time
5. Banks, distributors and traditional lending sources are not willing to finance the sales

What do you do???

Find a Partner!

- Strategic partner from industry
- Financial partner
- Tax partner
- Don’t forget possible distributors and wholesalers
- Include individuals or VCs

What Do You Offer?

- Access to IP
- Exclusive distribution rights or licensing agreement
- Exclusive financing rights
- Share in revenue or net profits
- Deferred income from sale of products
- Create a special purpose entity and offer the above plus tax attributes inherent in the product

Define Each Parties Needs

Yours:

- *Need for money*
- *Access to markets*
- *Knowledge of industry markets*

Theirs:

- *New products for customers*
- *Revenue—both now & deferred*
- *Beat the competition*
- *Set new product/service standards*

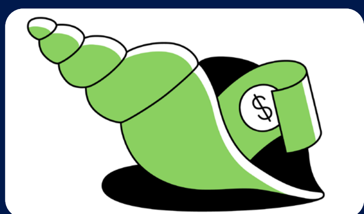
SPAC Overview

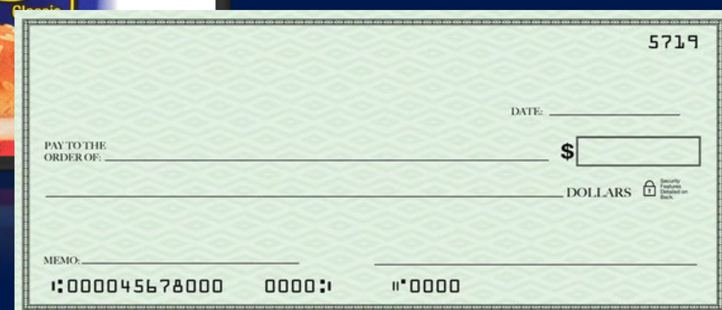
IS A SPAC IN YOUR FUTURE?

Agenda

- What they are
- How they work
- Facts
- The “Good” & the “Bad”

What Are They?





Think: Getting a mortgage “pre-approved” before you buy a home

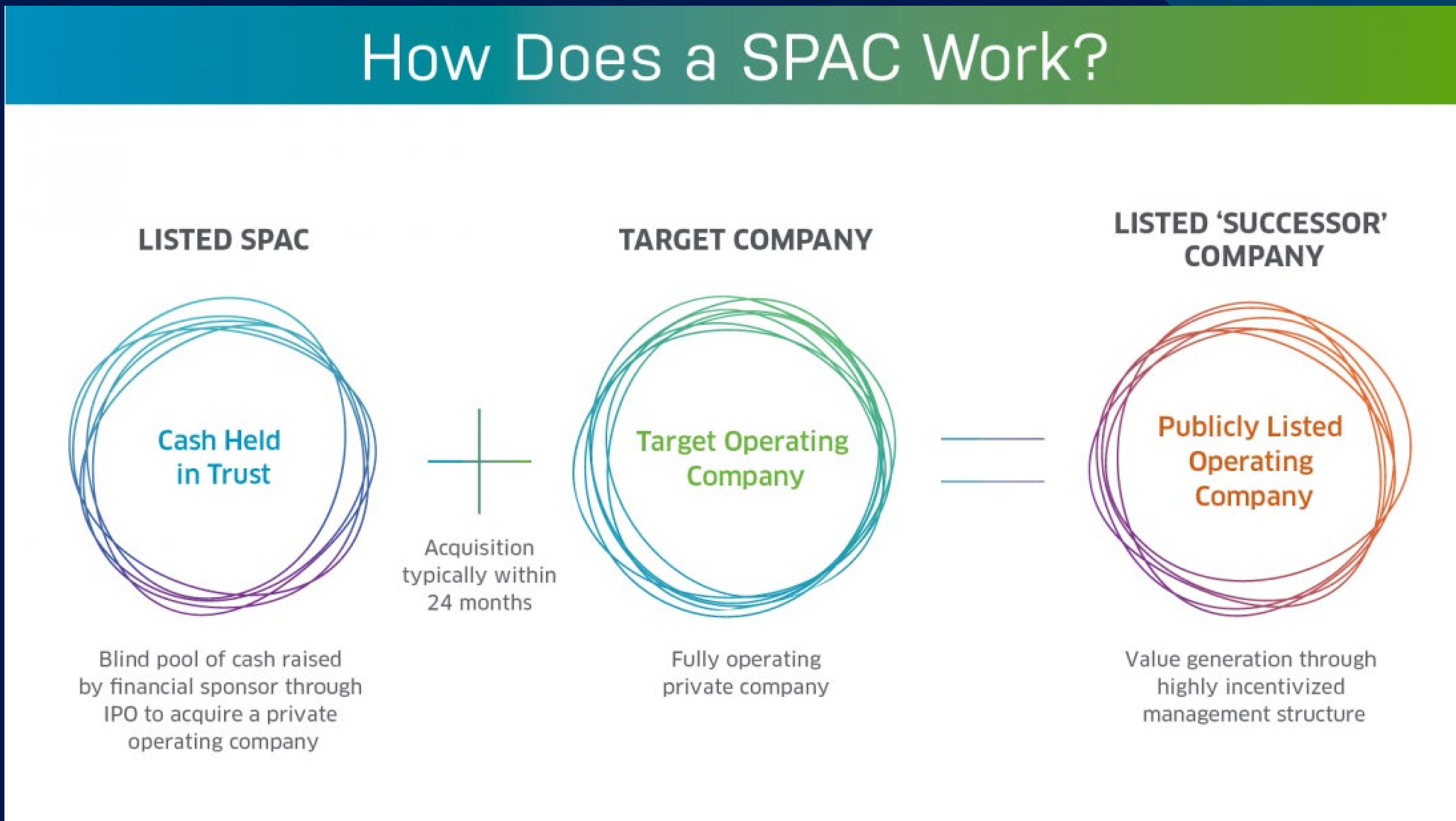
- They look for companies that are private, which they can acquire & take public
- Run by experienced management teams
- Focus on certain market segments

How Many are There?

- (2009 -2020) 380 companies
- 2021 – ***<u>over 300 already</u>***!

How Do They Work?

1. They register with SEC and raise capital that they use to acquire a target company
2. Do a roadshows to investors such as pension funds, mutual funds, hedge fund managers, etc.
3. Money raised is held in trust until *target company* is identified (you?)
4. Money goes into *target company*
5. Old IPO method, 3-7% of money goes to bankers—SPACs only charge 2% of capital raised.


How Does a SPAC Work?
LISTED SPAC
Cash Held in Trust
Blind pool of cash raised by financial sponsor through IPO to acquire a private operating company
Acquisition typically within 24 months
TARGET COMPANY
Target Operating Company
Fully operating private company
LISTED 'SUCCESSOR' COMPANY
Publicly Listed Operating Company
Value generation through highly incentivized management structure

Pre-IPO

- SPAC registers with SEC
- Prepare for IPO, road show, & administrative details
- File final prospectus
- Detailed info on structure, price, fees, listing, trust account, warrant purchases by founders

IPO

- IPO proceeds are collected
- Trading with units starts immediately
- Proceeds are deposited in trust account
- Trading of stocks & warrants start
- Underwrites collect total or partial fee if a part of compensation is deferred.

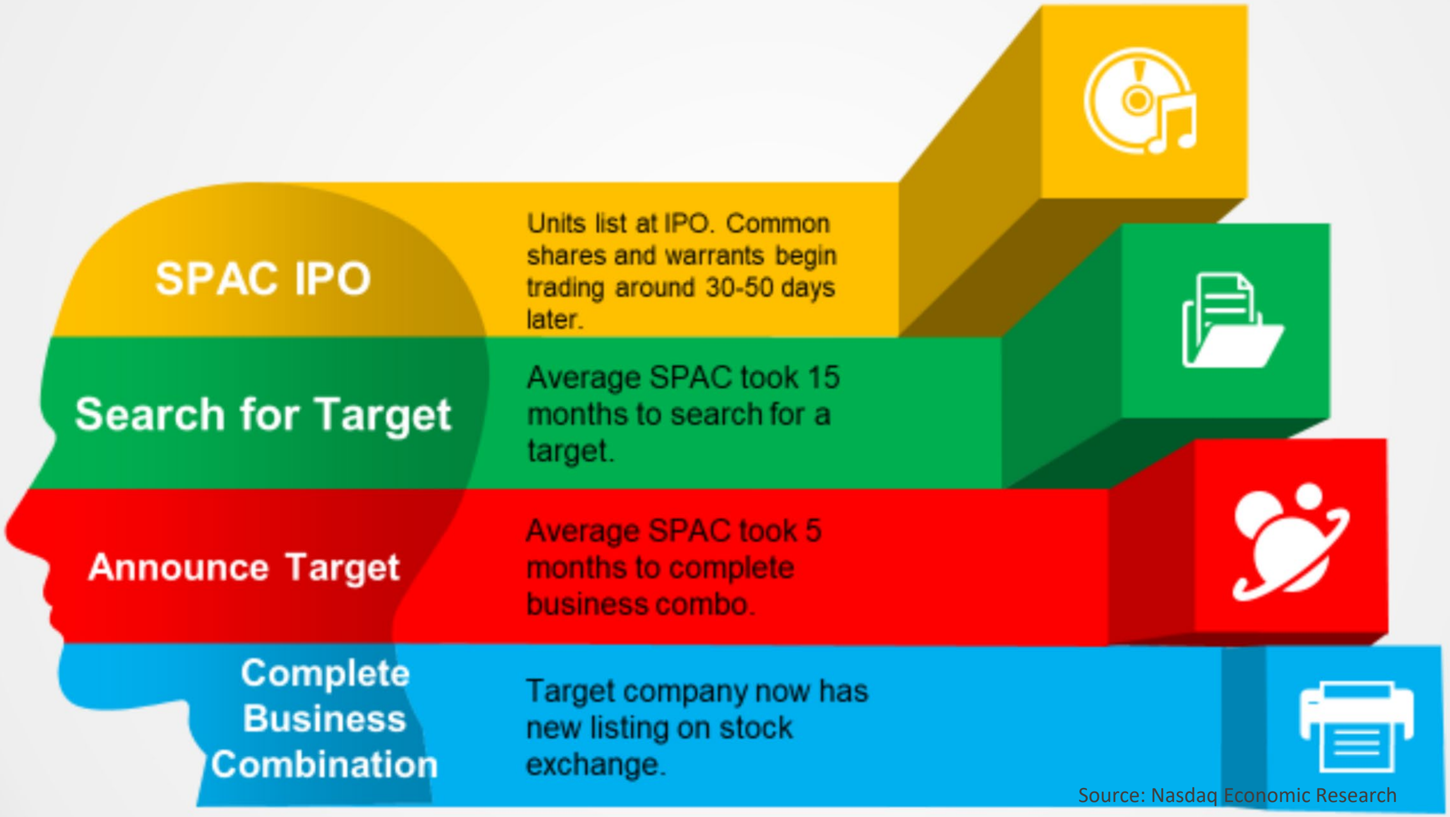
Pre-Merger

- Merger seeking process starts after the IPO
- Announcement of the merger intent
- Preparation for shareholders vote on merger outcome
- Legal procedure with SEC on approval
- Voting on the merger
- Merger or liquidation as an outcome
- If liquidation, cash is distributed back to shareholders

Post-Merger

- SPAC continues as a public company in U.S. market
- SPAC continues as a public company outside the U.S.
- SPAC continues as a private company
- Warrants exercise deadline five years after SPACs' IPO

Life Cycle of a SPAC



Source: Nasdaq Economic Research

More details . . .

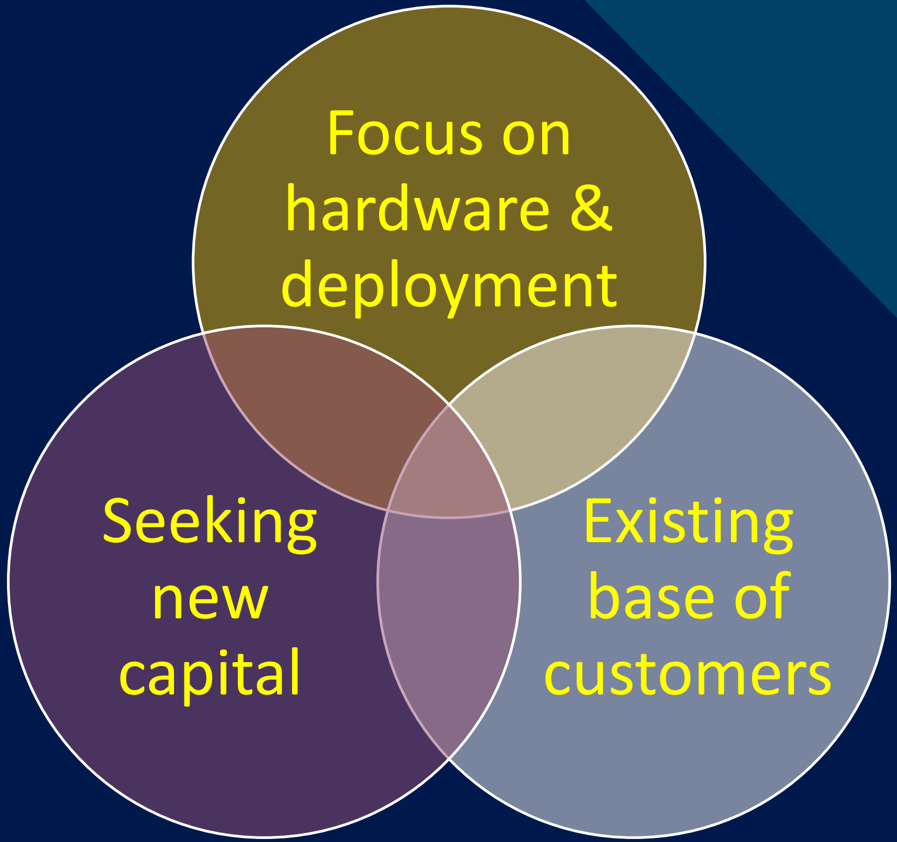
- IPO
- Search for Target Company's
- Negotiate Terms
- LOI Executed
- PIPE Commitments Secured
- Merger Agreement Executed
- Transaction Announced
- Shareholders Vote on Merger
- Shareholders Approve
- Merger Consummated
- Target Becomes Public


STARTUP
SPAC

- 250 SPAC IPOs in 2020
- Over 300 already in 2021
- Total over $97 billion
- 385% increase over 2019
- 28 SPAC-acquired entities involved in energy transition
  - Proterra—electric vehicles manufacturer
  - Eos Energy Storage—battery
  - Stem—behind-the-meter battery provider
  - ChargePoint—EV charging network
- $1.1 Billion median market capitalization

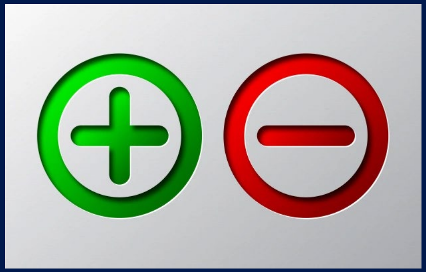
Commonality

Most activity has been in <u>clean technology</u>, not with renewable energy developers.



SPAC Sponsors

- Specialized financial, operational or other capabilities
- Often former industry executives
- Institutional investors
- Private equity firms
- Industry corporations
- Even political figures, celebrities and NPO’s



- ✚ Access to capital, even when market volatility & other conditions limit liquidity
- \- Having to meet an accelerated public company readiness timeline
- ✚ Lower transaction fees & expedite timeline to become a public company
- \- Complex accounting & financial reporting/registration requirements
- ✚ SPAC focuses on a specific sector and geography
- \- Your company will need to focus on being ready to operate as a public company within three to five months of signing a letter of intent
- ✚ Management of SPAC provides huge support to find talent and perform administrative assistance to go public
- \- Costs the target company a large portion of equity, which could make the deal more expensive than a traditional IPO
- ✚ Investor has opportunity to get 100% of their money back ($ is in trust)

SPACs already have investors—no need to find investors with an IPO roadshow!

Requirements for the SPAC:

- They don’t have any operating assets—only cash
- Have only 24 months to acquire a “target company”
- Not allowed to know the target company in advance
- Acquired company must be worth at least 80% of the cash raised in the SPAC IPO

Advantages of a SPAC over Private Equity or an IPO	
Valuation	Public companies trade at higher multiples than private companies, so SPACs offer an opportunity for higher valuation
Control	While business owners lose some control when taking on private equity, SPACs allow you to maintain a significant state in the company
Liquidity	SPACs offer security in liquidity through the cash raised in the IPO
Time	Traditional IPOs can take up to 2-3 years to finalize, but SPACs are typically completed ion 2-3 months
Cost:	Unlike traditional IPOs that are very expensive to execute, SPACs typically pay for most of the costs, saving a significant amount of money for the company
Certainty	SPAC deals are identified ahead of time, and the valuation is agreed upon by both parties. Rather than "hoping the window is open," you can be certain that the transaction will occur and the it will be for a value you are on board with

Exciting & Disruptive !

Remember . . .

SPACs don’t promise investor dividends and instead deliver growth capital to target companies.
This difference is important: Going public via SPACs allows companies to heavily reinvest to fuel their growth.

ESG Drivers

Carbon & Emission Credits

Climate change strategy,
Biodiversity,
Water efficiency,
Energy efficiency,
Carbon intensity,
Enviromental
management system

Equal opportunities,
Freedom of association,
Health and safety,
Human rights,
Customer &
products resposibility,
Child labour

Business ethics,
Compliance,
Board independence,
Executive compensation,
Shareholder democracy

Drivers of ESG Around the World

SUSTAINABILITY ACCOUNTING STANDARDS BOARD
SASB

U.S. SECURITIES AND EXCHANGE COMMISSION
MCMXXXIV

Dow Jones
Sustainability Indexes

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

USDA

South Coast
AQMD

Hidden Gems

- The "E" in ESG . . .

ENVIRONMENTAL ATTRIBUTE ADVISORS = TREASURE HUNTERS

The Money in the Credits . . .

Carbon Credits

-CO_2-

Emission Credits

-NO_x, VOC-

Other

-REC, RPS-

All credits:

- Quantifiable—many are priced at /ton
- Verifiable by a 3rd party—“regional in nature”
- Tradeable (e.g., REC, NO_x RECLAIM, ERC)
- Set by government—required vs “excess”
- Must be fungible—might be “bankable”
- Usually created by “technology” acquisitions

There are two key types:

- Voluntary
- Mandatory

It is the “mandatory” credits that delivery ***<u>money</u>***!

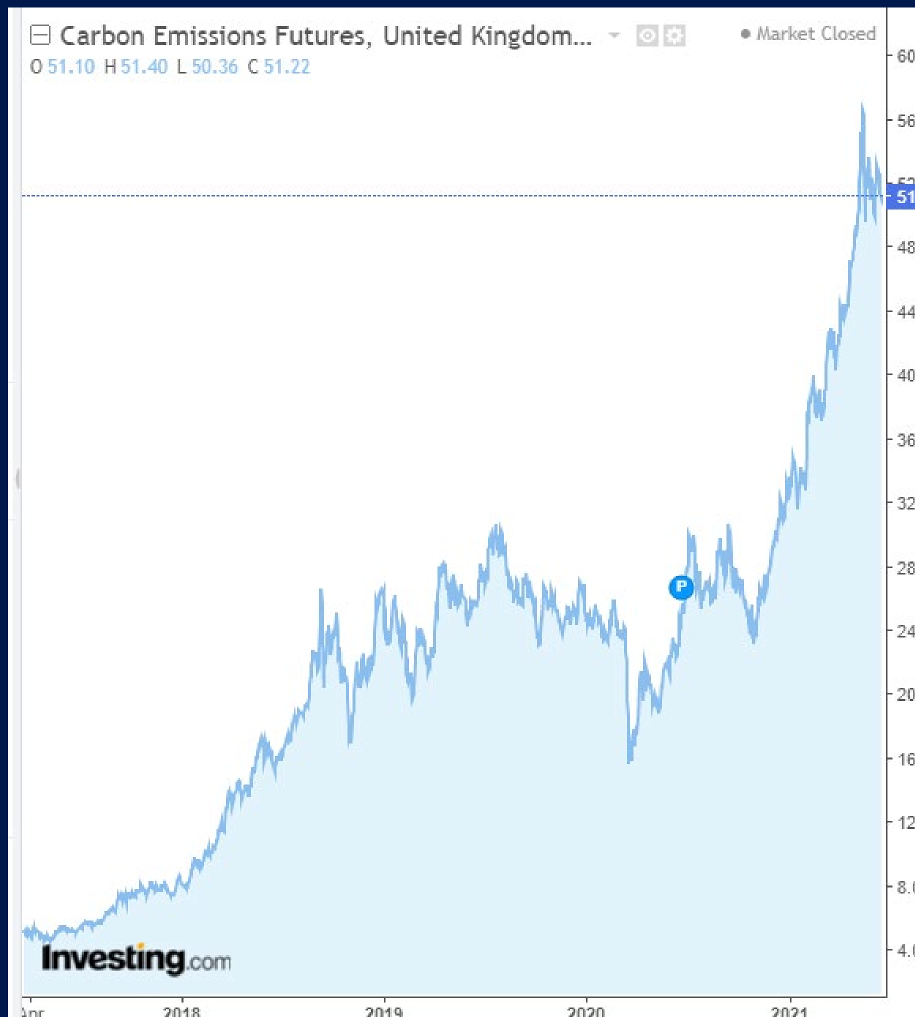
Examples of “mandatory” credits

- Air:
  - NO_x, SO_x, VOC, RGGI, ERC
- Water (reduction/rights)
- Solid waste reduction (methane, landfill, etc.)
- RPS (renewable portfolio standards)
- Usually created by a rule/regulation—”cap & trade”
  - “region” limit
  - Reductions beyond mandated limit is excess = tradeable
- AB32 in California—massive income to the state in auctions
- Pricing will vary—e.g. by length, when created, season
- Most measured in $ per ton of emission reductions
- Many are traded on public stock exchanges

Pricing Examples (regional solar values)

Credit Type	Current Price
CA-RPS	2.95
CT-Class I REC	44.38
DC-Solar REC	458.75
MA-Solar 1	399.25
MD-Solar	76.67
ME-Class 1	0.66
NJ-Solar REC	231.00
TX-REC	0.87

3 Years Carbon Futures Pricing in UK



$51

3
Yrs

$6

49 U.S. SPAC DEALS INVOLVING ESG FIRST HALF OF 2021

Handout: 109 SPACs Listing Spreadsheet

SPCX Holdings | SPCX ETF (www.spcxetf.com)

Ticker	Company Name	CUSIP	% of Fund	Constituent Market Value	Shares Held of Constituent
AAQC US	ACCELERATE ACQUISITION CO	00439D102	5%	5,046,862.08 $	520,832
SVAC	STARBOARD VALUE ACQUISITI	85521J109	3%	3,818,064.25 $	381,425
APSG	APOLLO STRATEGIC GROWTH C	G0411R106	3%	3,780,627.00 $	383,820
PRPB	CC NEUBERGER PRINCIPAL HO	G3166T103	3%	3,750,308.10 $	378,819
CRHC	COHN ROBBINS HOLDINGS COR	G23726105	3%	3,024,069.30 $	306,390
ETAC	E.MERGE TECHNOLOGY ACQUIS	26873Y104	2%	2,364,115.29 $	241,977
CCAC	CITIC CAPITAL ACQUISITION	G21513109	2%	2,268,645.96 $	228,234
AVAN	AVANTI ACQUISITION CORP	G0682V109	2%	2,144,851.94 $	219,086
KSMT	KISMET ACQUISITION ONE CO	G52753103	2%	2,074,149.00 $	209,510

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