INVESTORS TALK

ENHANCING FINANCIAL CLOSURE

Accessing capital is the ultimate goal of any clean energy project developers and entrepreneurs. However, the possibility of financial closure for projects on renewable energy and energy efficiency is surprisingly low. A panel of three investors was set up during the 5th CIT PFAN Asia Forum for Clean Energy Financing to offer valuable insights on shortcomings of clean energy project proposals as well as practical advices for developers looking to raise capital. The panelists were M K Balaji, Director of FE Clean Energy PTE LTD, Gary Zieff, SVP for Business Development, Annex Power, and Ivan Topalov, Accelerator Manager, LGT Venture Philanthropy. The moderator was David Spira, Deputy Chief of Party for PFAN-Asia.

PFAN-Asia: In your experience, what are the most common shortcomings or mistakes that you see in a business plan or investment documentation you review for the first time?

Mr. Balaji: Investors usually evaluate deals with a particular mindset shaped by their past experiences, which then influences what they are looking for. As I listened to the pitches earlier this afternoon from Myanmar (microgrid solar provider) and Bangladesh (clean cook stoves), the key element missing in my mind was the connection between retail and (money) collection. So, we approach every investment with our own mindset of risk which we want to see addressed in the plan, and if we don't see it, we might just trash it and move on.

Mr. Gary Zieff: I look at it more from a developer perspective, so most of the people I deal with don't usually have a business plan. The people I deal with are often developers that know somebody that knows somebody, especially in the Philippines and Indonesia. There is an underlying concept that somebody they know needs to buy power, and they look at solar as an option because buying power with fossil fuels can be very expensive. The problems that I see from these developers are the lack of basic understanding on the fundamental financials of the project. They don't understand the costs that I am trying to recapture or the hurdle rates I am trying to meet, and they definitely don't understand what the value is of what they're bringing to the project. 90% of the time I deal with unsophisticated developers that do not bring me a fully-formed project that I can review quickly and assess whether the financials make sense. What they are bringing me is an opportunity, and often times I have to walk them down the path to help them understand what the opportunity is. And most of the time it isn't an attractive opportunity, or one that I can pursue, because it is just too early in the stage. When I do find a developer who understands the value of what they have – that is, a fully-formed project with a service contract in place, a lease in place, some of the early stage permitting in place, a supply agreement, a term sheet from a debt-provider, or any of those elements that make a good project – they often ask too much and/or their carried interest is too high. They don't understand the goals I am trying to meet or the boxes I am trying to fill with that particular project, and so, often times they have unrealistic expectations of what the project is worth.

*"Developers lack of basic understanding on the fundamental financials of the project"-**Mr Gary Zieff, Annex Power***

PFAN-Asia: How does size matter in the investment decision making process?

Mr. Balaji: We are a project type investor and each deal has a relatively fixed-cost. So if we invest in a very small deal, then the fixed costs become proportionally too high for us. That is why we look at projects that are slightly larger. In other cases, perhaps the project may only need $2M now, but it might need follow-up funding if there are multiple stacks of solar projects that are being developed. If there are multiple stages, we can commit all the capital up-front into the project. Generally speaking, our threshold for doing a deal is in the range of at least US$5M.

Mr. Gary Zeiff: I agree. From our perspective, the due diligence costs are fairly fixed, so if you can spread that out over a larger investment or project then it helps to disburse that cost. I tend to also look favorably at scale, and if I have the opportunity to look at a package or portfolio of projects, or one project that can strategically lead to other projects, then that is definitely a plus and something to keep in mind when you are trying to pitch to a particular investor.

PFAN-Asia: Do you have any practical advice or suggestion to developers who are struggling with early-stage financing?

Mr. Gary Zeiff: It is really difficult because everyone is trying to push their project as far down the path as they can, spending the least amount of money possible while simultaneously trying to get the most money out of it. Then, at the same time, you are trying to do something with your development, whether that is flipping it back into the project or flipping it into the next project. There are a lot of opportunities to get soft capital from donors such as the ADB and organizations like that. You could also bring in other developers if you have no money, which can really get your project going. This means you are spreading the upside around, but at least you are pushing your project further down the path than you could on your own. That gets you a track record, which leads to credibility that helps get the next project done. There is no silver bullet. It takes a lot of work, a lot of effort and a lot of convincing people. Bridge financing and convertible notes are another option, but those are high risk options for you as a developer because, if it all falls apart, you are stuck with them. There are a lot of different interesting approaches if you think outside the box.

*"There are a lot of opportunities to get soft capital from donors such as the ADB and organizations like that"- **Mr. Gary Zeiff***

PFAN-Asia: What are one or two pieces of advice that you can give to the energy project developers here based on your experiences as investors?

Mr. Balaji: I would focus on the business plan and the presentation. It is pretty much like the CV game you play when applying for a new job. Before you pitch your business plan, always take a look at the background of the company you are pitching it to and make sure your pitch is tailored to their interests. That will help you gain their attention and draw them in. Once you draw them in, then you will have more time to discuss your project. This is very important and something I wouldn't overlook if I was developing my own business plan.

Mr. Ivan Topalov: Try to focus your pitch more on answering the question "Why?" as opposed to "What are you doing?" and "How are you doing it?" Most people talk in detail about how they are going to execute the plan, the strategy, etc, but I think what it is often missing is "why will the product or service sell?" "Why will the customer buy from you rather than from someone else?" If you put yourself in the shoes of the customer, think about what is the trade-off, because there is always a trade-off when a customer purchases your service or product over another. So "what are they giving up?" "What is the next best thing they can buy with that money?" So think about the trade-off and try to articulate that in your pitch. Think about "what is the incremental value that the product/service brings to the customer?" And the other 'why' important question as mentioned earlier today is also from the perspective of the investors' "why should the investors consider you as opposed to an alternative company?" In the impact investing space, you also need to demonstrate how you are creating more significant impact than your competitors.

*“Try to focus your pitch more on answering the question “Why?” as opposed to “What are you doing?” and “How are you doing it?”- **Mr. Ivan Topalov LGT Venture Philanthrophy***

Mr. Gary Zieff: Those are both excellent comments. Matching your projects to the right investors is critical. You do not want to waste everybody’s time, especially including your own. I think the “Why”, is an excellent question as well, because we often do get caught up in the “I have got to transact”, “I have got to develop this project”. But the “Why” question to yourself helps to answer the rationale behind it, and all of the effort you’re going to put into it. I think all of that refers to what you were speaking about before with respect to meeting the community’s need and the non-financial return. The only thing I would add is when you do find the project that you believe in, you have a responsibility to come up with a comprehensive plan that answers all the questions that an investor will ask you. If you do not have the answers, that’s ok too, but be honest about that, and be honest about the value that you do have. A good investor will be able to see that and quickly discern what is valuable even without all of the questions answered. They will still be able to help you “kick the can” down the road further or maybe develop the project further themselves.

PFAN-Asia: What are your thoughts on the value of mentorship for project developers? Where do developers stand to gain the most through a quality mentorship?

Mr. Ivan Topalov: I think the value of mentors is pretty much universal for most start-up companies. Personally, I think the greatest value of mentors is connecting companies to investors, financing partners, or even clients, and helping them build relationships. By providing access to our network around the globe, we bring much more value than simply providing advice.

Mr. Balaji: In my view, many developers are so passionate about their projects that they let their emotions unduly influence them while drafting their business plans. A mentor helps in providing an unbiased opinion and doing a reality check from time to time. I think that is a very important role that mentors must fill, playing the devil’s advocate whenever required. Most developers believe that they always know best and it helps to have another neutral pair of eyes looking over their shoulder.