

VIEW FROM THE FRONTLINE

Mitra Ardron shares his view of this year's AustralAsian Cleantech Forum and the ample opportunities available to both institutional and retail investors.

By MITRA ARDRON



Victorian Premier Hon. John Brumby addresses the Fourth AustralAsian Cleantech Forum, Melbourne

I've just returned from the fourth annual AustralAsian Cleantech Investment Forum in Melbourne. I've managed to get to three so far, and as usual Peter and Jeff Castellas and their team did an excellent job of putting on a focused and informative event. There is no longer any question of the viability of cleantech as an investment vehicle, so a significant part of the conference focused on the gaps that need to be filled to ensure a functional market.

Brian Price, chief executive of the Financial and Energy Exchange (FEX) – a new platform for trading sustainability and cleantech stocks – gave a challenging talk on the need for a market to bridge the gap between the large numbers of investors wanting an exposure to

cleantech, and the companies and projects that are finding it hard to raise money. It is one of the ways cleantech resembles the early days of the internet: the institutions are lagging the retail investors by a long way.

Aaron Fyke of Starfish Ventures described his firm's own experience raising funds for cleantech investment. They found that their investors' interest in the sector was primarily through a diversified fund that includes IT and life sciences, rather than exclusive cleantech exposure. There is almost a "chicken-and-egg" situation here, where the lack of funds that are purely cleantech means that institutional investors are not building experience with the sector and can only be exposed through ASX-listed companies, which limits the investments to those larger ventures with adequate volumes.

However, the reason for this is due, to some extent, to the relative lack of experience that institutional investors have with venture capital and private equity generally in Australia. In more mature markets such

as the US and Europe, it is only the bigger institutional funds and only in the last decade that they have chosen their sector allocations (as opposed to leaving the decisions up to the VC managers).

Starfish, like most other players in this sector, caters only to institutional investors, which also limits the possibilities for the many retail investors who would like some exposure to the sector and in particular some diversification into the earlier stage, (higher risk, higher return) companies. One of the panels discussed the funding gap that Australian start-ups, in any sector, face. Companies in the early stage, or early expansion stage, trying to raise \$1-20m find it very hard in Australia. Many companies are turning overseas for their funding – and several US VCs were at the conference. While it might be a gross generalisation, it is noticeable that when presented with an opportunity, US investors always ask about the potential upside, while Australian investors usually focus on the risk. This of

course makes a sector with massive potential, but also significant risks, more attractive to offshore investors, than Australians.

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However, as one forum participant observed, most VC's want to fund within a few kilometres of their base, and so the likely result of US funding is a move of the company across the Pacific – Silicon Valley is starting to echo with the voices of ex-pat Australian cleantech entrepreneurs. This limits the deal-flow in Australia of companies at a post-revenue stage of growth that makes them attractive to the funds.

In my own experience commercialising technologies we have seen these dilemmas several times, **Papyrus Australia (ASX: PPY)**, a company pioneering paper from banana waste where I was acting CEO, was

faced with the choice of taking US money, or doing a very early ASX listing. The listing was successful, however the time and effort involved in a listing at that stage ate most of the company's resources for at least six months, which is not really acceptable in a market moving as fast as cleantech.

At Beyond Building Systems, which is bringing affordability to renewable energy and green building, to avoid either having to focus most of our attention on finance-raising, or moving offshore, we have decided to forgo equity investment in favour of internal bootstrapping, debt financing and joint ventures with lower risks.

So where are the opportunities?

For funds, I would suggest increasing exposure to cleantech; for retail investors, look for companies that did that early listing, and be willing to hold them through the inevitable fluctuations that have nothing at all to do with what is happening at the company. I would be looking for companies doing real work in zero, or close to zero, carbon technologies, as these will benefit from any potential trading scheme. I would not be looking at companies in sectors that are dependent solely on politically motivated subsidies (e.g. so called "clean coal", or natural gas) as neither of these are going to be cost-



Green Diesel at the Cleantech Forum

competitive in the long run with a reasonable price on carbon, and subsidies might not last once the government realises there are more jobs in installing photovoltaic systems one house at a time, than in digging coal with big machines.

I sincerely hope, for the sake of the planet, that the bigger investment funds don't ignore the expansion of the cleantech sector as most of them ignored the start of the internet. However, since most of the really big money in the internet boom was made prior to listing, I fully expect that to be the case with cleantech. **ei**

Mitra Ardron is CFO of Beyond Building and a consultant developing businesses through sustainability.

Banking industry briefing: Thursday May 1st, Sydney

GREEN BANKING 2008



SUSTAINABLE PRODUCTS, PROCESSES AND POLICIES

Confirmed speakers include:

Darren Clarke, NAB

How NAB is progressing in its journey to become carbon neutral

Sandra Hanchard, Hitwise

Gauging consumer confidence in sustainable financial services

Tony Innes, Savings & Loans Credit Union

Simple solutions for embracing sustainability

Matthew Reddy, Landcare CarbonSMART

New ways to offset emissions

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