CLEANTECH FATE TURNS ON POLICY

Ambitious government policy in the US, China and Europe is aiding the cleantech sector as private funding flatlines. Australian companies aren't so lucky.

By MITRA ARDRON

Times of crisis bring both greater risks and greater opportunities. Many of those opportunities and risks come about because as systems change, knowledge becomes incomplete and out-of-date. This year's Cleantech Forum was the first Australian conference in the cleantech arena since the start of the global financial crisis. It was an opportunity to hear what others at all industry levels were noticing, and to fill in the gaps and update our own knowledge.

Depending on your perspective, the cleantech sector is either significantly impacted by the financial crisis or it is full of opportunities created by the combination of the crisis and a heightened awareness of climate change. In any time of rapid change there will be winners and losers - within Australia and in the global market. That is why our government's response is so critical in deciding if Australia can build an industry that ensures it adapts early to climate change, or it adapts later using technologies and industries developed overseas.

A global view

New Energy Finance (NEF) data show the 60 per cent compound annual growth in clean energy investment has slumped to 5 per cent and in 2008 was US$155 billion or 10 per cent of global energy spending.

However, this top-line growth hides a recent drop in activity in which the NEX index of global clean-energy companies has fallen 70 per cent from its 2007 high, though is still ahead of the S&P 500 or Nasdaq over six years.

Christian Jensen, formerly of CVC and Macquarie Bank and now independent, says investors are cooling on companies that need to tap the market for funds near-term, given the global public market is essentially closed.

Venture capital and private equity investment is happening but at lower levels that bridge just some of the gaps left by the public market. Since the VCs are not able to exit via initial public offerings, they need to put in follow-on money or find other private equity so they are curbing new investment. Jensen expects many IPOs when markets reopen.

Asset finance is still high (US$25 billion in 2008) but is set to come off and total $10 billion in 2009. Project developers must either accept less favourable terms or await market recovery.

Most activity is in the markets with gross feed-in tariffs (FIT) so it is unlikely any of this will be attracted to Australia. While not having a FIT, the US has a substantial cleantech stimulus package (US$66 billion by the NEX figures) as does China (US$59 billion).

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Data for Australia show there was about $210 million in VC and PE finance for clean energy in 2008, a substantial rise from prior years, with the exception of 2005's Pacific Hydro buyout.

However, activity on the ASX has tumbled and is likely to be zero for the first quarter of the year. Asset finance also has waned and is mainly going to wind energy.

Despite the drop, institutional investors are still bullish on clean energy, according to a NEF survey of over 100 institutional investors with a total of $1 trillion assets under management. Seventy-five per cent expected an increase in clean energy investments by 2012. The other key prediction included a shift from a world that is supply-constrained, in particular in turbines and silicon, to one where finance is the constraint and is focused on quality and cost.

The VC space, here and overseas

Focusing in on the VC and early-stage space, one of the panels examined how the changed picture has impacted both investors and new and existing investees.

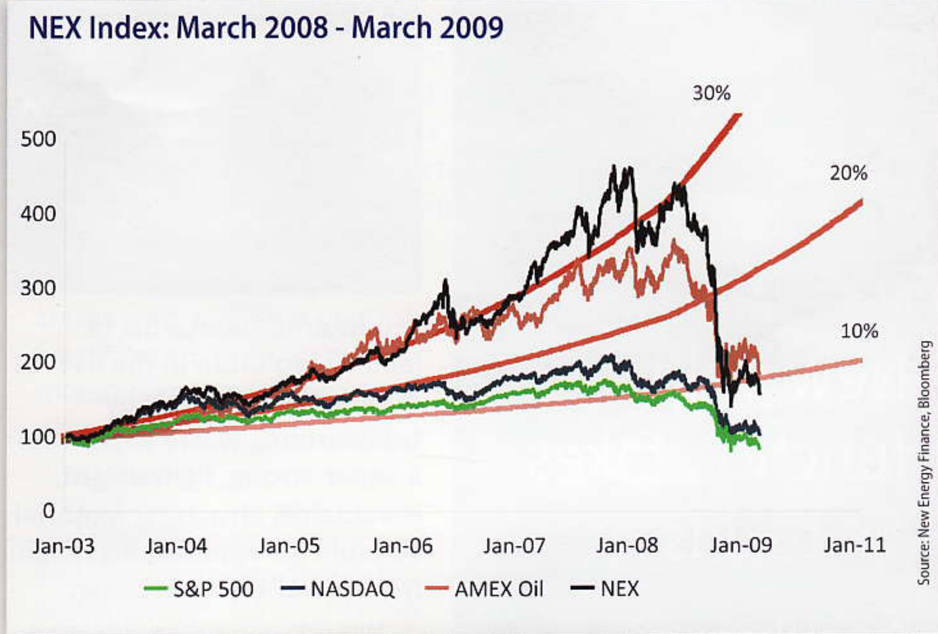
For companies that had received finance, there were two issues. Slower orders and slower growth mean companies must run leaner to ensure they don't run out of money before securing follow-on funding that is harder to source.

Zeb Rice of Angeleno Group contrasted the US with Australia. The US government delivered a stimulus package that seriously supported cleantech growth and made substantial grants available. Unfortunately in Australia the grant programs that do exist – such as Climate Ready – are small and expensive to apply for.

Ivor Frishknecht of Starfish Ventures says the investment gap between $5 million and $20 million for the first production unit is, if anything, deeper and wider than before, mainly as debt markets have stalled.

In Natural Innovation's work with finance-raising, we have noticed a number of European and Asian investors taking an interest in this gap and being more willing to invest in Australia than US investors. But one participant said US investors, and Europeans, were now coming to Australia, lured partly by a weak Australian dollar. He said offshore investors were snapping up deals while Australian investors - more focused on minimising risk - waded through due diligence.

Larger scale offshore institutional funds are starting to see the benefit in building an earlier stage investment pipeline, in particular as the lack of alternative finance means Australian companies are often undervalued relative to potential future value once the first installation or pilot plant has been built and concept proven. Australian institutions seem relatively uninterested in this sector, although it was pointed out that for the next year or two later-stage companies no longer present the opportunity of a quick exit. This means earlier stage companies may have as short a time to exit, with greater upside, than later stage companies.



Index Values as of 23 February 2009; AMEX Oil, NASDAQ and S&P 500 rebased to 100 on 1 Jan 2003.

Natural Innovations is seeing that the drying up of VC finance is leading to more interest from smaller early-stage companies in raising finance via the ASSOB pathway which focuses on turning a company's own contacts – suppliers, customers, professionals and other stakeholders – into investors.

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Emissions and economic stimuli

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Federal environment minister Peter Garrett, opposition spokesman Greg Hunt, and Tom Soto, part of US President Barack Obama's transition team in the US, all addressed the forum. The contrast between the US and Australian approaches to the twin crises of the economy and climate were very interesting.

The new US administration seems to have realised that an economic stimulus is an opportunity to boost the economy, create jobs and tackle the climate at the same time. The US package includes US$120 billion for cleantech, of which less than 3 per cent is about cleaning up fossil fuels. This is about 18 per cent of the whole stimulus package.

This bodes well for the US creating jobs and for industry development in a sector that already employs more people in the US than coal.

Garrett talked of Australia's $150 million innovation fund. He didn't mention that the bulk of the stimulus and of funds from the CPRS will go toward so-called 'clean coal', which – even by industry numbers – is unlikely to compete with wind or other renewables by the time it comes on stream. Many are beginning to wonder why any utility is likely to spend money to clean up a coal power station when it will be cheaper to install and operate wind turbines. While the US is investing heavily in making sure it has an industry that will meet future needs, the Australian government keeps repeating the myth of baseload, while propping up a dying industry.

Hunt presented the Opposition's view but it felt like the Coalition's real problem with the CPRS – its impact on their supporters, including big polluters – is being masked by minor and easily addressed objections.

Winners and losers

The global cleantech sector is in a good position overall to ride out the storm. The US and China are likely to emerge as comparative winners because of the big cleantech focus of government spending. Europe, also, because of its decent feed-in tariffs.

But Australian cleantech companies will have to tighten their belts and hunt for money in non-traditional sources, including overseas. The biggest opportunity seems to be for those investors willing to jump into the gap and pick up the bargains in companies with more realistic valuations. Also, for those that can focus on the medium-term upside, rather than the short-term risks. ei

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