

Presentation to Biomass Collaborative

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Is there an advantage to being a small company in the market?

Key Questions

- What advantage is gained by being in a startup in the market?
- Does the product or service rely on existing infrastructure?
- Or does it create a new paradigm?

Examples of Paradigm Shifts

- Client / Server paradigm versus Mainframe
- Canon vs. Xerox
 - Xerox used to ship huge copier that didn't work
 - Canon came up with a copier that if it broke you simply removed key cartridge

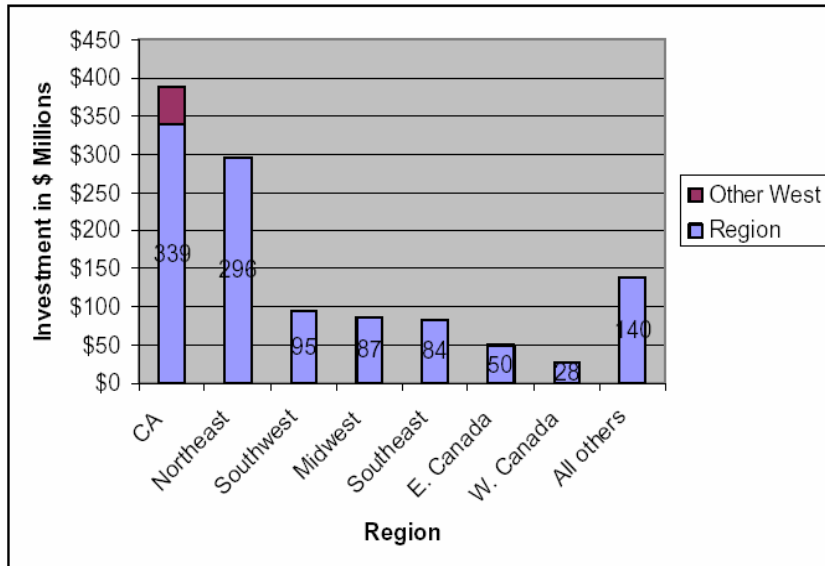
General Types of Financing and Purpose

Project Finance	Angel Investors	Venture Capital
<ul style="list-style-type: none"> • Implementing established technologies • Typical technologies: Biogas, wind farms, solar installations, ethanol plants • Type of finance: Mix of equity and debt • Typical amounts: \$10 – 100 million • Project finance firms <ul style="list-style-type: none"> – New Energy Capital – Renewable Ventures 	<ul style="list-style-type: none"> • Investing in very early stage companies • Typical technologies: Early stage or in development • Type of finance: Equity only • Typical amounts: 100,000 – 500,000 • Angel investor forums: <ul style="list-style-type: none"> – Your Friends & Family – Investor’s Circle – Band of Angels 	<ul style="list-style-type: none"> • Investing in multiple stages, depends on the VC • Typical technologies: Can be early, generally prefer productized • Type of finance: Equity / Convertible Debt • Typical amounts: \$1 – 10 million, depending on stage, Q4 2004, 86.2% of deals were latter stage • Venture Capital firms: <ul style="list-style-type: none"> – Draper Fisher Jurvetson – Nth Power

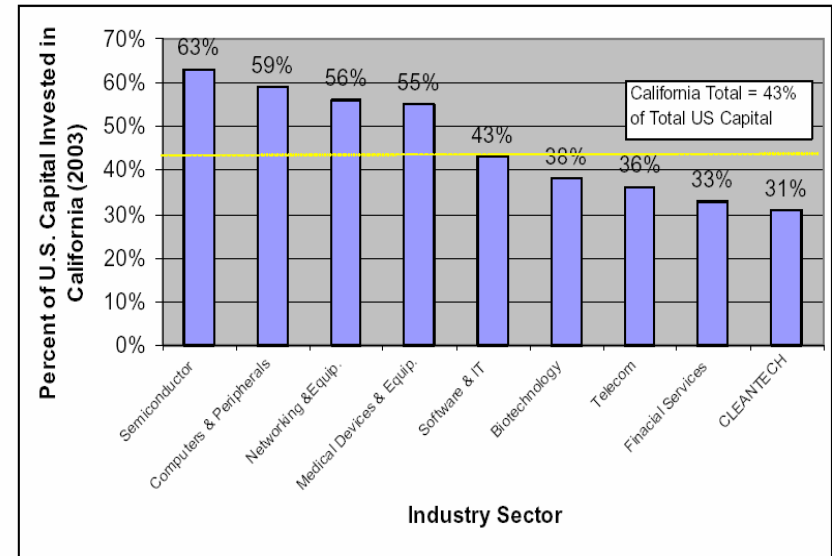
State and federal funding initiatives

Public Interest Energy Research program	SBIR and STTR	Other Programs
<ul style="list-style-type: none"> • Supports research and development in energy technologies through direct research grants ~\$62 million total per year • Companies must address a California energy problem and provide a potential benefit to California electric ratepayers • Due to long gestation periods for energy companies, bridges gap between lab and raising venture financing • Example: Powerlight 	<ul style="list-style-type: none"> • Small Businesses have 2.5 more innovations per employee than large ones • Yet large companies receive the bulk of government funding • SBIR (Small Business Innovation Research) and STTR (Small Business Technology Transfer) bridge this gap • Two parts: <ul style="list-style-type: none"> –Phase I: explores feasibility concepts with awards up to \$100,000 –Phase II, the principal R&D effort, with awards up to \$750,000 over 2yrs 	<p>CalPERS and CalSTRS private equity funds</p> <ul style="list-style-type: none"> • Have committed \$450 mm to “GreenWave Financing initiative • Capital to invested in private equity and venture capital firms for use in cleantech sector <p>California Clean Energy Fund</p> <ul style="list-style-type: none"> • \$30 mm to be used primarily for early stage investment through venture capitalists

In 2003 California received the majority of CleanTech venture funding (31%) still below CA average venture (43%)



Source: Cleantech Venture Network



Source: Pricewaterhouse Coopers/Thomson Venture Economics/NVCA MoneyTree Survey; Cleantech Venture Network

Investors expect a decent return on invested capital

- Your company has to be worth 10X for each dollar you raise 5 years from product shipment
- Your company needs be in a high growth mode / industries
- Profitable and 2X Revenue
- 0 revenue until product ships, and 10* raised = 2X revenue

What entrepreneurs need to do

Should this be a business? Or is this a product best licensed to another company?

Must have tremendous personal conviction and willingness to take risk

Recruit a team that has done it before; credibility is in the management team FIRST

Identify the best source of funding for your project: what sort of project is it?

Identify the best venture capitalist / Angel Group

Prepare key marketing documents for company

2 page Executive Summary that covers:

- *Business description*
- *Markets and customers*
- *Products and Services*
- *Value Proposition*
- *Business and Distribution strategy*
- *High level financials*
- *How much money is need and how will it be used*
- *Outlook and Exit Strategy*
- *Management Team*

Investor presentation

Get introductions to appropriate investors

Educate, Educate, Educate

Go through deal process

- Due diligence
- Term Sheet
 - Negotiation
 - Valuation

Questions all investors will ask

- Is the management team capable of growing the business rapidly and successfully?
- Have they done it before?
- Is the technology fully developed?
- Is the product unique, and what value does it create so that buyers will want to purchase the product or service?
- Is the market potential large enough?
- Does the team understand how to penetrate the market?
- Do significant barriers to entry exist?
- How much money is required and how will it be utilized?
- Why would someone else buy this company?

E2 – Environmental Entrepreneurs

Who We Are

E2 Was Formed in June of 2000 to Build a Network of Entrepreneurs, Venture Capitalists and Other Professionals Who Care About Growing the Economy While Improving the Environment

500+ Members in 21 States

Members...

- Built 800+ Companies
- Created 400,000+ Jobs
- Manage \$20B in Venture Capital

Efficient Volunteer Organization Partnering with NRDC

E2 Success: Regulation of California Clean Cars

Passed in July 2002

- Limits Global Warming Pollution (GWP) from New Vehicles Beginning 2009

E2

- Only Pro-Business Organization to Counter Claims that This Was an Anti-Business Bill
- 100+ Members Participated
 - Used Network to Reach Legislators and Problem Solve
 - Meetings with Governor and Legislators
 - Op-Eds, Letters, Calls, Press



I don't think it would have happened without E2.



*Joe Nation
D-Marin
California Assembly*

E2 Success: Investment GreenWave

GreenWave — Initiative with CalPERS and CalSTRS to:

- Invest \$500M in CleanTech Companies
- Require Environmental Risk Reporting by Public Companies
- Invest \$1.5B in Environmentally-Secured Fund
- Evaluate Real Estate Holdings for Energy Efficiency

E2

- Accelerated Process from Concept to Vote in 10 Months
- Organized 5 Business Leader Round Tables
- Collaborated with Treasury Staff
- Added Public Visibility



E2's resources and expertise were invaluable in helping to shape the GreenWave concept, by bringing together a wide range of business and environmental interests and expertise.

*Phil Angelides
California State Treasurer*

Opportunities for California Alternative Fuels



Diverse fuel supply ensures availability and competitive pricing



California becomes biofuels leader, potential \$1 - 6 billion market within 5 years



Biotech: New markets
Biorefineries: New jobs
University of California: New research



Agriculture: New markets, greater productivity



Public benefits: Competition at pump, reduced greenhouse gases, cleaner air

Alternative Fuel Index

Fuel	Pathway	AFI	RFI
Compressed Natural Gas	NANG dedicated NG vehicles	57.1	8.6
Compressed Natural Gas	NANG bi-fuel vehicles	55.0	3.8
Methanol	M85 from NANG	38.3	-5.9
Hydrogen	From NANG no C sequestered	77.3	49.9
Hydrogen	From NANG all C sequestered	95.7	68.3
Ethanol E6	From Midwestern corn	4.1	8.9
Ethanol E10	From Midwestern corn	5.8	9.8
Ethanol E20	20% from cellulosic sources	11.1	13.8
Ethanol E40	40% from cellulosic sources	24.0	24.5
Ethanol E85	90% from cellulosic sources	70.7	71.0

Define an Alternative Fuels Index (AFI) as:

$$AFI = 0.5 * (-P - G)$$

Define a Renewable Fuels Index (RFI) as:

$$RFI = 0.5 * (-F - G)$$

Where

F = percentage change in fossil fuel usage

P = percentage change in petroleum usage

G = percentage change in greenhouse gas emission

All these percentage changes are compared versus conventional gasoline.

Here are some representative AFI and RFI values for various fuels. The values are calculated from outputs using the GREET model from Argonne National Labs.

Notes: NANG = North American Natural Gas

References

- <http://www.nrdc.org/air/energy/cleantech/cleantech.pdf>
- <http://www.ecosacapital.com/venture-capital-investment-in-/>
- www.e2.org

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