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A SHORT GUIDE TO SELLING A RENEWABLE ENERGY COMPANY

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Many owners of all varieties of renewable energy and greentech companies -- from solar PV module manufacturers to smart grid technology companies to everything in between – are starting to realize that now may be an opportune time to sell their companies. Timing is especially critical for private-equity backed companies that need to show a return for their investors and for entrepreneurs looking to bring in strategic investors to take their companies to the next stage. All negotiations turn on the leverage of the parties and their relative information advantage. As explained below, a confluence of financial market and industry factors are motivating large corporations to seek companies within this space. Understanding the buyer's motivations and wherewithal further gives the seller an advantage. This article elaborates on the current M&A environment within the renewable energy space, and provides practical advice to sellers to help them navigate towards successful deals.

To many, it is inevitable that renewable-energy generation will continue to gain market share. In President Obama's 2011 State of the Union Address, he called for 80% of America's electricity to come from clean sources by 2035. This is motivated by many factors, including the fact that clean energy production and energy efficiency are seen as ways to produce good, domestic jobs. Accomplishing this goal will necessitate significant public and private investment. It also will require, at least in the near term, continued and further governmental support in terms of direct subsidies and renewable energy standards. All of these factors suggest that the renewable energy and greentech spaces will grow in the coming years, and growth in any industry is a positive factor in M&A.

Large, multi-national corporations have become important buyers. Many S&P 500 corporate giants have balance sheets full of cash. Recent numbers show S&P 500 companies (excluding financials) have approximately $1 trillion in cash on their balance sheets, which equates to about 11% of assets. These cash levels are at a 60 year high. A normalized level of cash (about 7%) would result in about $428 billion of cash expenditures. With stockpiles of cash and access to cheap add-on debt capital secured by robust balance sheets, large corporate players are well positioned to make strategic acquisitions through which they can capitalize upon economies of scale and efficient marketing, development, and distribution networks.

Such large companies are trying to secure not only independent growing subsidiaries, but also stable supply chains for power delivery for their core businesses and other divisions. Strategic fit issues are typically less of a problem in that renewable energy and greentech companies are not generally in competition with existing lines of businesses. Post-closing problems are mitigated because the core business is a stable customer of the newly acquired energy company. Buying an active business, in lieu of building such a business from scratch, is the only way to build an immediate revenue stream and deploy quickly excess corporate resources, both financial and human.

Utilities remain potential buyers given the renewable portfolio standards that require them to purchase power generated from clean resources and to implement energy efficiency technologies (or pay a cost for non-compliance). Regardless of whether a federally-mandated RPS is put into place in the next few years, there currently are 29 states (plus Washington, D.C. and Puerto Rico) that have an RPS and there are 7 others that have renewable energy goals. M&A (including minority investments) allows utilities to get toehold positions in companies with technologies that could benefit them in the future. As such, as over the next 10 years or so (most states RPS' have deadlines around 2020), utilities should continue to be active buyers.

The numbers speak for themselves—despite the recent "discovery" of shale gas and relative inaccessibility of debt financing in this market, renewable energy companies accounted for 181 deals ($12.9 billion volume) during 2010 in the U.S. alone, up 71% and 43% from 2009, respectively.[1] The trend will continue.

So the deals are coming, and without a need to rely on significant debt financing, many of these deals will get done quickly. Are you and your renewable energy or greentech company ready to be sold? Your answer to this question will determine the extent to which you are able to capitalize upon this confluence of M&A drivers.

Highly motivated buyers will penalize or simply ignore sellers who haven't done their corporate housekeeping ahead of time. In this event, prospective sellers should consult advisors like lawyers, investment bankers and accountants early on. Such advisors can both help position the company for sale as well as help execute the process. Interested sellers can do a number of things before the suitors arrive to ensure value maximization.

Sellers should conduct internal due diligence investigations so that any potentially unattractive issues can be identified and dealt with ahead of time – "reverse due diligence." This might involve a comprehensive review of material contracts, permits, and impending regulatory issues that could affect the applicable business. For example, an inordinately successful prospective seller may have key contracts with unbalanced provisions that have been overlooked previously because of the mutually beneficial relationship that has been established with the applicable counterparty (i.e. no one is enforcing the provisions of the contract because both parties are making money). Nevertheless, a large buyer will have droves of lawyers and bankers perusing such contracts and will recalculate EBITDA based on the written terms of the contract. If a sale is likely within a year or two, the prospective seller should consider using its leverage with its contractual counterparty to improve the contract terms in the meantime.

Once ready to begin the sale process, sellers should enlist assistance in implementing an orderly diligence process—a professionally structured (generally electronic) data room and bidding process will augment the attractiveness of a fundamentally successful business (and vice versa). You want the ability to close quickly as soon as you select the right buyer.

Companies considering M&A as a possible exit also should consider what types of deal structures are acceptable. Large buyers seeking to diversify by establishing a new business line or vertically integrate with a supplier may want to purchase all or a majority/controlling interest in the target. On the other hand, greentech companies that are driven by intellectual property particularly may see large buyers interested in minority investments coupled with call options. It is important to not only know the structures that are possible but to also understand the key negotiation points and value levers in order to unlock value for the company.

Parties on each side of the table should be ready for traditional M&A issues that are exacerbated in the renewable energy and greentech spaces. For example, many such companies have "cause-minded" individuals as stockholders who may not share the current company's philosophy about earning a profit. These pose tricky issues – including legal ones – a seller must work through before going to market.

[1] According to PricewaterhouseCoopers's *Renewables Deals*: 2010 Analysis and 2011 Foresight.

Despite typical and industry-specific challenges, there is significant opportunity within the alternative energy M&A space for informed sellers to get liquidity or strategic growth capital to grow their businesses and for private equity funds to flip their positions. Understanding the buyer universe, assessing structure possibilities and being prepared and informed are the keys to maximizing the price and the likelihood of closure.

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