What Happened to the Traditional IPO?

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May 2012

Originally published in Top Capital www.topcapital.com.cn. Republished with permission

Global Cleantech IPO Market

At a time when pressure is building in the Cleantech IPO pipeline, now more than ever the sector needs the traditional capital market IPO mechanism to provide a pathway to access capital for growth ready, innovative companies.

Our Applied Finance lectures told us that an IPO is a tool by which a young company can access capital on a broad and large scale, to facilitate the expansion of that business. In fact, many of the world's oldest exchanges came into existence during the early part of the Industrial Revolution as a means for enabling small manual businesses access to capital to purchase machinery and upscale their operations. One example of this is Asia's new Cleantech & Innovative stock exchange, SIM Venture Securities Exchange (SIMVSE). Based in Australia and formerly known as the Bendigo Stock Exchange, it was formed in the 1800's as a solution for the miners in the Australian gold fields to raise large amounts of capital to take them from manual forms of fossicking to mechanised forms of mining. This traditional model of capital market creates a long term interest between the company and its shareholders through the prosperous development of the business.

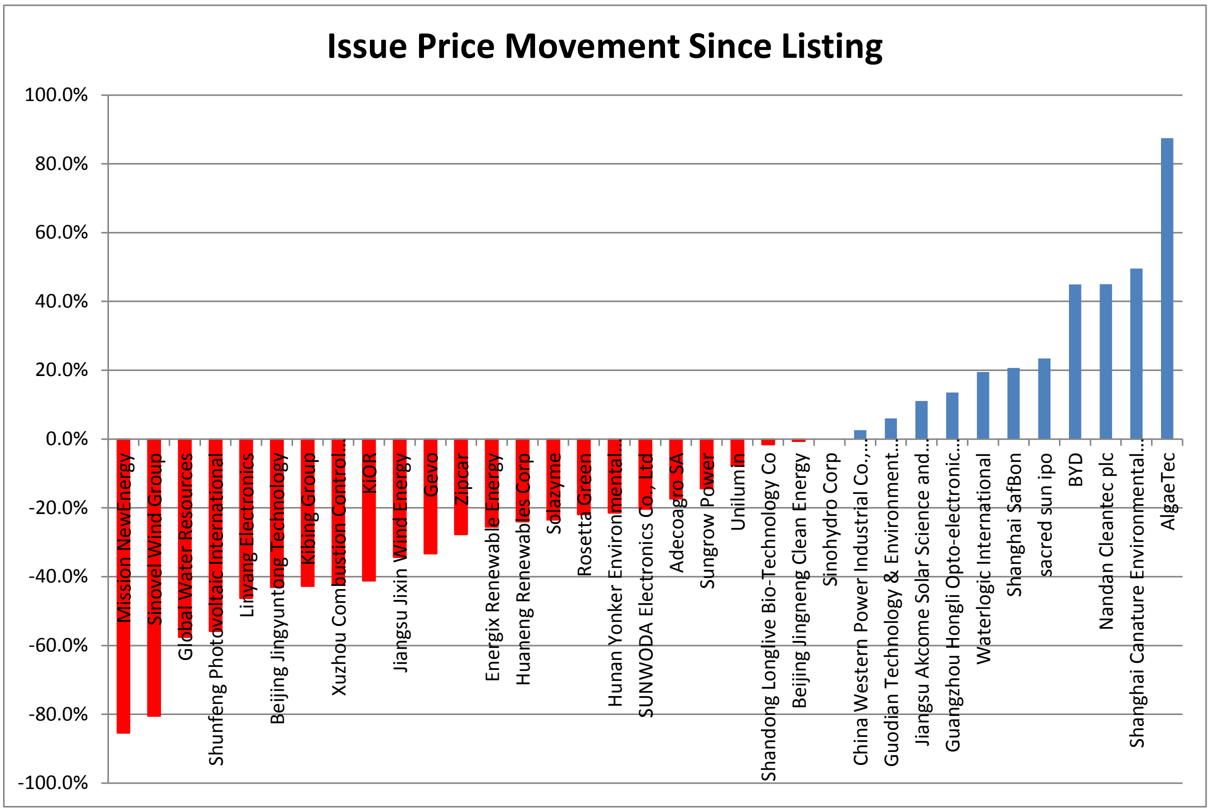
In recent times however, equity markets across the world are showing signs that this model is failing for small to medium sized growth companies; the very companies that form the future of our economies. Our traditional capital markets are being used as an 'exit strategy' for short term investors and not as a growth market for accessing capital. Newly listed companies are seeing dramatic drops in their share price at the commencement of trading; only the largest of companies are being taken to IPO; and sophisticated investors are focussed on securing the investments in pre-IPO second or third rounds. Due to the competition for capital, investors are setting their investment criteria much higher, causing many companies around the world ***to look for new avenues to access capital for growth***.

Whilst sometimes out performing many other sectors, the Cleantech sector is no exception to this trend. The most recent data metrics on investment in the global Cleantech sector produced by the Cleantech Group, and Ernst & Young, show an overall strong sector performance in 2011 with respect to investment attraction. There were a small number of large IPOs, most of which have struggled to hold their debut price, a strong focus on second and third round funding by the VCs, and a preference for investment in revenue generating companies.

Analysis of the 2011 Cleantech IPOs to the end of the September quarter shows that 66% of the companies listed during that period are below their listing price today, by an average of 33%. Analysis reported by The Cleantech Group stated that of the 14 Cleantech companies listed in the

September quarter of 2011, all but one, UK based Waterlogic International, experienced declines in the share price since debut.

Sinovel Wind Group, one of 2011's biggest Cleantech IPOs, raised USD$1.43 billion at a price of USD$90.00 per share. Their current share price is around USD$18.00 per share; a fall of 80%. Beijing Jingyuntong Technology, listed at a price of USD$40.00 after raising nearly USD$400 million. Its share price is currently around USD$24.00 per share. Gevo, Zipcar and Solazyme, three of the USA listings during 2011, all experienced similar declines in the months after listing.



Companies that have fared better in the secondary markets have admittedly done so from a lower capital base, for example Algae Tec. However, this smaller capital base has meant that they have relied on the more traditional approach of accessing retail investors rather than large institutional investors to fill their IPO.

As what is considered a sign of both the maturing of the sector and an indication of the squeezing out of smaller companies from the IPO space, 80% or $105 billion of the funds raised from the 35 cleantech IPOs between January and September 2011 was raised by just ten companies. Interestingly 92% of these funds were raised for Chinese cleantech companies. All of the USA IPO raisings to the end of Q311 were greater than USD$100 million and less than half of the IPOs raised less than USD$50 million. This last fact is inconsistent with the profile for an emerging sector such as Cleantech, particularly where there are clear signals of a backlog in the IPO pipeline. There are clearly many other global cleantech companies that would be seeking to list if the market was behaving as it was a few years ago.

2012 - Another Year of Growth for Cleantech Investments

Global capital markets continue to be challenged by the on-going impacts of the 2008 Financial Crisis and the issues faced by many European nations concerning sovereign debt. Despite this, the Cleantech sector emerged with a solid finish to 2011, with promising signs for even higher levels of activity in the coming years. Many sector commentators such as Vinod Khosla (Khosla Ventures), have been forecasting the arrival of the 'Netscape moment' in Cleantech since early 2010. Sheeraz Haji, CEO of Cleantech Group, was recently quoted as saying, *"Despite some well publicized headwinds, venture capitalists continue to invest in Cleantech. Based on our historical data, we believe 2012 will be an all-time record year for global Cleantech investments.*

Growing evidence suggests that time may be near as a number of key drivers of the Cleantech industry.

- Increased Venture and Corporate Investment - Data released in February by the Cleantech Group, revealed clean technology venture and corporate investments around the world for 2011 had increased 13% to US$8.99 billion, over the previous period.
- 2011 also saw record high levels of Cleantech M&A activity with 391 deals for a total of US$41.2 billion, a 153% increase on 2010. The significance of these statistics is brought home when compared to the growth in global M&A which grew by a mere 2.5%.
- According to Jacob Securities, the 2011 Cleantech deals completed at a premium of around 40%, in comparison with the global M&A premium average which was in the high 20%. Energy infrastructure, energy efficiency, solar and biofuels were the most active targets.

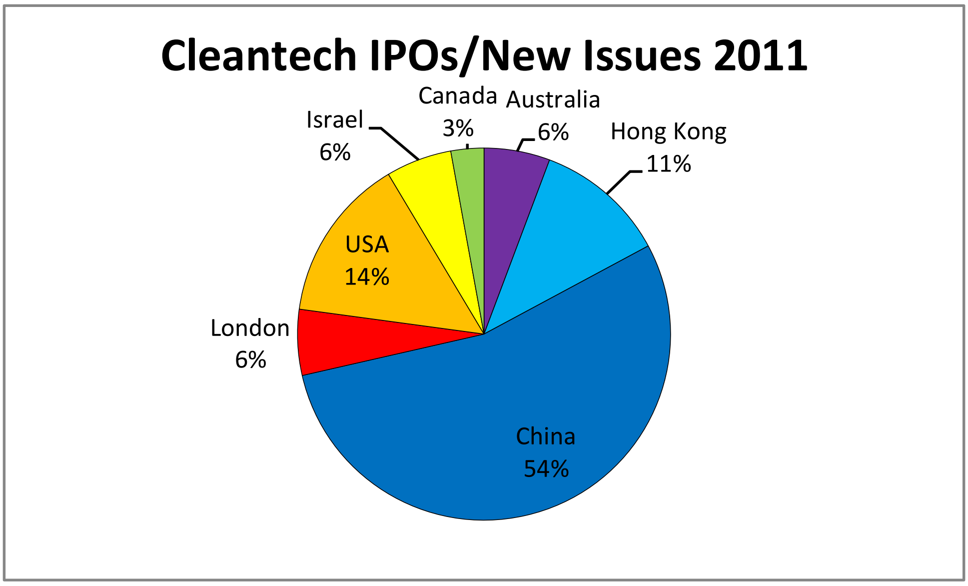
Equally as interesting was the activity in the sector from multi-national conglomerates such as Coca Cola, Siemens, Google, ABB, GE, Toshiba, Ikea Group and Schneider, all of whom made plays for Cleantech businesses such as plastics recycling, bioplastics, renewable energy technologies, marine energy and smart grid management.

Cautious after the massive selloff of stocks across markets in August 2011, many Cleantech companies elected to postpone any plans for an IPO until the markets regained some of their former confidence. One such company was Frontier Solar Limited, a Shanghai-based solar mounting technology company that planned to IPO on SIMVSE. The approach of delaying fund raising cannot last for a long time as growing companies will still need to access capital to fund their growth. With IPOs still in doubt, these companies are looking for alternative ways to raise funds and enter the public markets.

Innovation in Cleantech continues to be driven by fundamental human demands for secure clean air, water, food and energy. The universal lever which can impact the speed at which society transitions to a more sustainable existence is dependent upon progressive, coherent, bipartisan government policy. Governments around the world acknowledge this, and their subsequent policies are one of the fundamental drivers of the growth in cleantech markets. Policies that have seen wide-spread adoption include capital subsidies and feed-in tariffs for renewable energy, carbon pricing, tax offsets for environmental technologies and increasing water and air quality standards. These policies coupled with increasing prices for energy, water and waste disposal have caused the cleantech industry to grow quickly over the last 10 years and are often one of the key factors in which companies are seeking to IPO.

The positive solar policies in Germany, for instance, have seen the growth of strong solar companies in the same way that Denmark became dominant in the first years of the wind industry. The US biofuels push and subsidies led to the growth of many biofuels companies there and the subsequent investment into many second generation biofuels companies such as Solazyme.

In China, Government policies for this sector have been extremely favourable and have seen the emergence of the Chinese solar and wind industries in recent years. Environmental companies receive many benefits depending on their location. Companies can secure tax offsets, subsidised energy and favourable land acquisition terms if they are establishing a certified environmental business. In addition, Chinese domestic schemes such as feed-in tariffs, carbon pricing and recycling standards are seeing the growth of domestic demand for these industries. This has seen many Chinese Cleantech companies grow quickly and then look to IPO to further this growth. Solar companies such as Suntech, wind companies such as Sinovel and even recycling companies such as Novarise Renewable Resources have all benefitted from these policies and eventually gone to an IPO.



Note: As at the end of the September Quarter 2011
Source: Cleantech Group

China Becoming the Centre of Cleantech

It is no surprise to see China taking a commanding position at the helm of the Cleantech race, determined to lead the rest of the world to a green economy. Over half of the Cleantech IPOs in 2011 were in China and Hong Kong. Shenzen and Shanghai are dominating the exchange space in 2011, accounting for more than two thirds (65%) of the cleantech IPOs.

China has now made the fundamental shift from just a supplier of renewable materials, such as solar panels and wind turbines to the rest of the world, to now become a large scale consumer of renewable energy. Government support through policy, regulation and subsidies has played a critical role in stimulating the demand. China committed $1.5 trillion into Cleantech in the current five year plan. In that document, the government also outlines seven industries that it wishes to take from representing 2% of the national GDP, to 15% by 2020. Four of the seven industries are Cleantech related.

According to the Cleantech Group, during 2011, 28 of the 51 global cleantech IPOs came out of China, led by several massive offerings by large renewable energy corporations such as Sinohydro, Sinovel Wind Group and Huaneng Renewable Energy.

These listings have not necessarily translated to the return of solid performances by listed companies, reflected by underperforming indices. The Thompson Reuters Asia Pacific Renewable Energy Index dropped 50%, while the new China CleanTech Index has similarly seen a 43.2% fall over the past year, underpinned by the collapse of the solar sector. However, the willingness of the government to step in and support listed companies as a show of confidence in the sector has eased the concerns of some investors.

The Chinese market is also seeing an increased role of the private equity sector. According to Reuters, firms such as Bain Capital, Blackstone, Kohlberg Kravis Roberts and Permira have shown genuine interest in pre-IPO financing, providing capital to fast growing companies prior to IPO. For example, in 2011, KKR, MBK Partners and other committed around US$550 million as cornerstone investors in six IPOs in Hong Kong, some of which did not complete prior to years end.

USA Losing Momentum

The US is arguably the world's most sophisticated market place for the seeding and development of new and innovative technology companies, as reflected by the dollar value of investment going into the Cleantech sector over the last year (up 30% to US$6.81 billion). However, the market continues to be constrained by its struggling economy and the budget fights at the federal government level around policy in the lead up to the presidential elections in late 2012.

According to data from Dow Jones Venture Source, US Venture Capital investment in Cleantech companies reached US$4.9 billion in 2011, flat in terms of deals and down 4.5% in terms of capital investment compared to 2010. The largest sectors for investment were US$1.5 billion into Energy Efficiency, US$1.0 billion into Industry Products and Services, $0.9 billion in Energy Storage and US$0.6 billion in Energy Efficiency. Once renowned as the centre for global solar panel production, with more than 40% of the market in 1996, the US accounted for only 7% of the production in 2010.

Back to Basics for the Capital Markets

There currently appear to be limited fund raising options for early stage growth companies. 69% of all US Venture Capital dollars invested went to companies at the revenue generating stage of development, and 59% of the total global investment into Cleantech were for later-stage companies, leaving little room for earlier stage companies to secure funds. So how can the smaller Cleantech companies get access to capital to grow?

Many companies in recent times have discovered that some exchanges offer an alternative to an IPO as a method of listing; a Compliance Listing. This is where a company, who meets the listing requirements of an exchange, applies for listing without raising new capital at the time of listing. That is, they list their existing shares only. This approach requires the company to be adequately funded in the short term, and provides the following benefits:

1. The company has the profile of being listed on a securities exchange;
2. The company can set about establishing a 'good track record' in the public domain, communicating this news with investors using the continuous disclosure framework of the market place, before it then seeks to raise public funds;
3. The company will be able to reference a transparent market valuation of the company;
4. The company can raise capital through listed company mechanisms such as placements and rights issues, which are simpler than an IPO; and
5. Listing through a Compliance Listing removes the risk of failing to list because the minimum amount of capital is not raised in the IPO.

This approach enables a smaller, earlier stage company that has a solid base and strong business plan to access a capital market, to access investors, to access funding and to grow their business.

Two recent examples of the benefits of Compliance Listings are Telezon Limited and Greentech Flagship Limited, both of where able to leverage the benefits of this form of listing to join the official list of SIM VSE.

Telezon Limited (SIM:TLZ), saw an opportunity to list on the new Asian Cleantech Exchange, to gain access to a broader regional platform, specifically into the Chinese market, and to participate in the Cleantech sector focus hub. They listed using a Compliance Listing, which allowed them to quickly access the market, and within a matter of months, have executed a Private Placement to strategic investors to enable the company to take their revolutionary polymer draw up needle and syringe technology to the next stage of commercialisation.

Similarly, Greentech Flagship Limited (SIM:GTF), the owner of the worldwide rights to intellectual property related to the next generation of highly efficient solar cells known as "bundled technology", listed also on SIM VSE, using the Compliance Listing method. The key advantages for GTF of this listing method were the speed to market and positioning as a listed company when entering commercial discussions with counterparties.

So whilst 2012 will see cleantech IPOs continue globally, and especially in China, for the bigger companies with strong revenues, the smaller innovative companies may seek to use a Compliance Listing to enter the public markets and establish themselves as a credible and growing company. Whilst the markets remain volatile and many see an IPO as an exit for an investment rather than the next stage in growing a company, this situation is likely to remain in place. IPOs are proving to be increasingly risky for new investors, in time, many may become increasingly wary of the potential for IPOs to be over-priced. As this happens, we may see the option of Compliance Listings start to be used by larger cleantech companies as well.

There is no doubt that the cleantech sector is going to continue to grow and prosper and that investments into the sector will continue to set new highs over the next few years. The forms of investments however are changing and, in particular, the way in which cleantech companies interact and enter the public markets is an area that will continue to evolve over the next few years.