INNOVATIVE VENTURE FINANCING OF RENEWABLES

RENEWABLES FINANCE 2005

September 9, 2005

Robert W. Shaw, Jr.
President, Aretê Corporation

VENTURE CAPITALISTS ...

- Invest in equity
- Accept technical <u>and</u> market risk
- Seek exceptional returns on every deal, but
- Accept frequent disaster

A BASIC RULE …

Realizing return on renewable energy investment always

– Takes longer, and

– Costs more

than you expect / hope

AS A RESULT ...

- Early stage investors often get crushed in later rounds
- If the path to exit looks
  - Too long, and
  - Too expensive,

  many venture funds will find the risk too high
- So raising capital to finish technology development and get to market may prove difficult -- or impossible

EXAMPLE -- EVERGREEN SOLAR

- We led the company through the first six rounds
- It nearly crashed twice
- The company
  - » Started with a proven technology: String Ribbon
  - » Had to refine, and bring to scale, the production process
- After 11 years, Evergreen is still not profitable -- but it is now clearly on the way

EVERGREEN SOLAR ...

FINANCING	SECURITY	AMOUNT (millions)		YEAR	PRICE / SHARE $
Series A	Convertible Preferred	$	2.1	1995	2.16 (1.00)
Series B	Convertible Preferred	$	4.2	1996	3.24 (1.50)
Series C	Convertible Preferred	$	6.8	1998	4.32 (2.00)
Series D	Convertible Preferred	$	18.4	1999	5.41 (2.50)
IPO	Common	$	42.0	2000	14.00
PIPE	Convertible Preferred	$	29.5	2003	1.12
PIPE	Common	$	20.0	2004	2.90
Follow-on	Common	$	62.5	2005	5.00
PIPE	Convertible Subordinated	$	90.0	2005	<7.39>
TOTAL		**$**	**275.5**		

( ) Pre-split price
< > Convert price

It takes longer and costs more …

INNOVATIVE FINANCING STRUCTURES

- Must protect early investors, if possible
  - Floors on ownership
  - Innovative ratchets
  - Step-in thresholds
- While attracting later stage, deep-pocket investors
  - Preferences
  - Springing rights
- *"A good deal is good for all"* is not always attainable