

Renewable Energy: The New El Dorado in a changing investment environment

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March 5, 2009*

The recent financial turmoil has certainly showed the limits of our actual economy. In this hectic market, the Renewable Energy Sector emerges as the new El Dorado for forward looking financial investors.

Indeed, companies in the wind power, solar or hydro powers and biomass energies are the current favourite targets of private equity funds while major Green Business players have satisfactory 2008 results and remain optimistic for 2009.

Insofar as French actors are concerned, major actors such as EDF Energies Nouvelles (a 50%-owned subsidiary of the EDF group, producing green electricity) or Suez Environnement have both recently released their 2008 results, which show significant increases in their financial and business performances and anticipate a sustained growth for 2009.

Besides, pursuant to an analysis led by Ernst & Young (in the United States, Europe, China and Israel, based on data from Dow Jones VentureSource), venture capital investment in cleantech companies reached a record US\$4.6 billion in the first three quarters of 2008. This is an increase of 82% compared with the same period last year and represents 13% of all venture capital investment in these areas.

Despite the current credit crunch, it seems that companies in the Renewable Energy sector might play their game well. According to a survey made by the National Venture Capital Association (NVCA) in December 2008, clean technology and life sciences are predicted to have the highest potential for stability/growth in 2009. Even well-known multimillionaires, such as Warren Buffet and Bill Gates, have decided to invest substantial amounts in the Renewable Energy Sector (wind power, biofuel).

This trend is reflected by the green-oriented measures adopted by several governments in their stimulus packages to fight the crisis. And they make no mistake: they are among those that can set a viable framework for this industry and consequently boost the investments and the related raising of funds.

For instance, the wide-range economic stimulus package signed by President Obama on 17 February 2009, gives a good place to the Renewable Energy Sector. Nearly 10% of the entire package provides funding and tax incentives for green energy related projects. For example, such stimulus package plans a temporary loan guarantee program for the development of renewable energy projects.

In the same way, the economic plan puts the smart grid initiatives under the spotlights. Indeed, President Obama includes the existing Smart Grid Regional Demonstration Initiative and Smart Grid Matching Grants Program in his economic plan. These programs are conceived to help the funding of smart grid projects.

To achieve President Obama's goal to double the use of renewable energy in three years and significantly improve energy efficiency would be a momentous feat. The skill and ingenuity of many companies will need to flourish. As economic conditions shift, the most successful companies will change with the times and help lead innovation.

In France, similar measures have also been adopted. The green loan (a no interest loan capped to € 30,000 which will be implemented as from 1 April 2009) is a flagship measure of the *Grenelle de l'Environnement* Plan. Such green loan shall be granted to individuals who want to perform thermal insulation and energy saving in their houses. The green loan should lead to an increase of individual investments in the sector of smart and ecological housing and therefore companies in these sectors will surely be impacted and benefit from this new tool.

In our new technologies era, companies of the Renewable Energy Sector seem to have a flourishing future. Private equity players which are rushing for such companies will definitely need to remain at the cutting edge of this sector to identify their investment targets. For this purpose, wise investors will have to seek the assistance and support of external counsels (lawyers, etc.), who are, themselves, aware of the specificities of the Renewable Energy Sector and are able to anticipate the related business and strategic key concerns (IP, production process, tax and financial available incentives, etc.).