

Renewable Business Restructuring – “Making it through to the other side”

The business press is awash in news of plant closures, layoffs and business failures. No industry seems immune from the pressures imposed by reduced sales, credit tightening and less available growth capital. In response, leading governments are developing and implementing unprecedented stimulus packages to set an effective course for recovery.

The renewable energy industry at large has also been impacted, but in certain instances has felt the brunt more severely due to the steep decline in energy prices, dramatic regulatory changes and constrained early stage capital. On the positive side, there are strong indications from these same governments that renewable energy is a major priority and will receive support. For professionals looking to enter into this field and traditional companies planning to expand horizontally, the future looks bright.

Despite a promising renewable energy future, there are many companies feeling the pressure of time. For these earlier stage companies, “making it through to the other side,” is a major challenge. These new companies run the gamut from R&D shops with tangible intellectual property, but low or non-existent sales to others that have existing industrial facilities, significant deployed capital and negative margins. In either instance and regardless of the basis for their current situation, the reality is a need to manage cash in an environment where debt and equity capital are not as readily available as in the past.

Early stage startups

Over the past several years there has been a substantial flow of private equity capital to companies for further research and development of alternative energy methods and processes. The reality today, is that if you haven't reached the stage of self sustaining cash flows or do not have a means to reduce operating costs to achieve this balance, then disciplined cash management should be a priority for at least the next 6 to 12 months. Otherwise, running out of cash becomes a higher probability event.

For management, employees and investors, this outlook can be very discouraging particularly if there are sufficient signals that the company has valuable intellectual property and products. But without a clear and detailed plan, less burdened competitors including those at earlier stages (and using less cash) may be the ultimate winners.

Large scale facilities

The biofuels sector is not the first industry to feel the pains of rampant expansion to the point of over capacity. The merchant generation industry expanded rapidly during the late 1990s and early 2000s to the point where new plants never ran. The early stage entrants ensured themselves an attractive margin (spark spread) and for many that followed, it seemed a foregone conclusion that the economics

would be sustainable. Developers and bankers pushed many marginal plants with aggressive financing without giving proper consideration to overcapacity risks and commodity price volatility. The mantra was, “if we don’t build this, then someone else will.” Ultimately, plants were sold to new owners at a fraction of what it cost to build. There are plenty of instances where these new owners with lower and more realistic capital structures profited handsomely.

This decade-old story has many parallels to the current state of the biofuels industry (ethanol and biodiesel) and unfortunately we are now witnessing the failure of producers and distressed sales. For the biodiesel players, they also had the compounding effects of changes to governmental incentives (e.g. Germany) and unintended inter-regional tax arbitrage (e.g. “splash and dash”). In addition, both the ethanol and biodiesel players felt the blowback and backlash of higher agriculture prices that were disproportionately attributed to biofuels.

For these stakeholders, the challenges can be more complicated and costly from the simple standpoint that more capital, processes and people are in play. While a cash management plan is as critical as for the early stage startups, there can be more liquidity levers to pull regarding the renegotiation of lending arrangements and commodity contracts, monetization of in-the-money assets and contracts and non-traditional uses of existing resources.

What to do?

For those companies that have already reached a stage where your lenders and investors are taking more control and/or looking for an exit, then the near term options may be limited or out of your hands.

However, if you have not yet reached this point, but see a challenging future, then you should ask yourself a number of questions.

- Can I continue with the same cash burn rate over the next 12 months without making significant changes to operations?
- Are you realistic in your sales projections for the next 12 months? If you are just starting or expanding, expect that the current economic environment will make this more challenging.
- Are you receiving more calls from your banker to explain your current business state?
- Are your investors more involved in the business, but seem to be non-committal on providing more capital?
- Are there increased tensions at the board level?
- Is there increased workplace anxiety and the resultant lack of productivity?

Depending on how you answer the above questions, you may need assistance in developing an executable plan to weather the current stormy environment. Regardless of your answers, understand that early and decisive action can make all the difference and provide you with the most options.

Agilis Advisory Group has extensive hands-on experience in the startup and management of early stage traditional and renewable energy businesses in the United States, Europe and Asia Pacific. The company has experience working with investors at all stages of startup to sustaining operations. Agilis also has worked closely with investors and management to restructure businesses and in certain instances to wind up operations.

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