# Accessing Venture Capital
## for Clean-Tech Ventures

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Accessing venture capital to fund the development of clean-tech technologies and enterprises is a viable funding alternative to quickly capitalize on an opportunity for many inventors and founders. Not all technologies or enterprises, however, are candidates for venture capital funding, or are at a stage where they can access venture funding.

In recent years, returns on venture funds as an asset class have not been stellar. As a result, only the best performing funds are getting capital resulting in fewer players in the industry. As well, venture investments in certain verticals in the clean-tech space, most notably carbon trading, fuel cells and solar, have lost money. Consequently, existing venture funds are being very selective and focus on technologies and enterprises only where they see the potential for significant returns.

Companies with disruptive technologies or that dramatically reduce costs or increase efficiencies are most often good candidates for venture capital. Broadly applicable environmental or waste to energy technologies are also finding favour. Companies with high capital needs, an unclear path to revenues, or inadequate intellectual property protection, are generally not considered.

Connecting with venture firms is mostly by referral through other venture firms, finance professionals or advisors (lawyers or accountants) connected to venture firms. The community in Canada is small and most firms are known to each other and high quality technologies or enterprises usually attract quick attention and interest from more than one firm.

For seed or early stage investments ($1 to $5 million), secure technology with market validation and a cohesive and invested team are generally prerequisites. Investment at this level is often in convertible debt or preferred equity and made in stages upon the technology or enterprise meeting certain milestones. Restrictions on the business and use of funds and governance are imposed either under the loan instrument, if debt initially, or in the case of an equity investment, by way of a unanimous shareholder agreement or the terms of the equity securities themselves.

Following a seed or early stage investment a further round of venture financing ($3 to $5 million and up) will generally be needed to fully realize on the opportunity. At this stage other venture firms may become invested and stronger governance structure may be implemented. Independent board members providing strategic value and known to the venture firms are often added to assist the company achieve its objectives. As well, exit considerations come to the fore with the addition of put and call rights, drag along, co-sale and registration rights which allow the venture firms to force a sale of their interests or the company, or to participate in a public offering.

As the investment horizon for most venture firms is 3 to 5 years because of their own investor requirements, exit opportunities within this time frame become the focus. With limited opportunities to access the IPO markets, the effort currently is largely directed toward strategic buyers who have a need or higher growth opportunities for the technology. Most often it is a customer or competitor and initially the relationship is contractual as in, for example, a joint development agreement. Many larger strategics also have their own venture capital arms that initially invest in and then acquire venture-backed companies which are considered more nimble and cost effective to develop new technologies. Early on the strategic can impose contractual terms that make it difficult or expensive to consider other exit alternatives.

In short, if you have an enterprise or technology that presents a significant opportunity and can attract the attention of potential strategic buyer, you may be able to attract venture financing to realize on this opportunity. In doing so you should ensure you obtain proper and experienced advice that can cost effectively assist you through the process.

### About the Author

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