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INTERVIEW: US private equity firm targets low-risk green technology with $300 million fund

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New York-based private equity firm NewWorld Capital is targeting clean and sustainable investments that carry low technology risk with a new $300 million fund, Chairman and Managing Partner Carter Bales told Clean Energy pipeline.

The firm is initially approaching investors with which it has worked in the past before broadening its scope to dedicated fund-of-funds committed to the clean energy and sustainability sector, large limited partners, pension funds and segments of the family office market.

While the main fundraising activity will be restricted to the US, NewWorld Capital also aims to tap into the European investment market and will also opportunistically take on participants from other parts of the world if interest arises.

"We will be active in Europe perhaps as early as later this year, but we have to have demonstrated first of all that our home market is supportive," said Bales. "We are well along in first and second meetings."

The fund will target sectors where NewWorld can mitigate investment risk without being exposed to excessive technology risk.

"We are careful not to refer to it as a cleantech fund because that in many cases requires a bet on technology," said Bales.

The firm's Managing Partner Everett Smith said: "There are a lot of opportunities that have no technology risk but retain sufficient complexity that we can add value and still get a good entry price."

Growth equity is the main priority for the fund, which can structure investments through a variety of methods.

NewWorld Capital's five main investment segments are energy efficiency, clean energy, water resources and reclamation, waste-to-value and environmental services.

"We look to identify companies that have been selling products or services in the marketplace for a while and which have carried out repeat business," said Smith.

"When we come across entrepreneurs, we are able to be responsive to them in different ways that redefine what they are asking for and meet their needs. One of our advantages is that we are willing to study sectors and craft solutions."

"We are basically trying to mitigate what could be called business scaling risk," said Bales. "With technology risk, if you take it and are lucky enough to survive it, then you get business scaling risk. We acknowledge that picking technologies and knowing how to scale a business are not the same skill-sets."

This outlook on sustainable investment where technology risk is avoided is a reaction to the failures of early cleantech investors that suffered due to unexpected market developments, most notably in the solar sector, where innovative start-up manufacturing processes were rendered obsolete by the collapse of traditional silicon photovoltaic prices.

Businesses in which NewWorld invests will have robust predicted cash flows capable of absorbing economic, political or regulatory shocks.

According to Bales, fundraising is a little less difficult this year than last due to a return of liquidity to the market.

"There is more liquidity in 2012 than 2011," he said. "The trend is slow but favourable. In the first half of 2011, a lot of general partners were able to exit deals. They were able to re-upscale their funds and the debt markets came back to a degree. Liquidity was returned to limited partners and that tends to flow back out, producing money for investment in either existing or new funds."

While private equity firms have traditionally held assets for three to five year periods, economic difficulties have extended this to five to seven years in recent times. For NewWorld Capital, the holding period is based on the time it takes to build a portfolio company into a business that can be significantly valued by its next owner.

"We want to make sure we are buying sound companies with growth prospects at good prices," said Bales. "We are trying to build a balanced portfolio. Some companies will have very high target returns and higher execution risk. Some will have lower returns and significantly lower investment risk."

NewWorld Capital Partner Lou Schick said the firm will pursue multiple paths to exit portfolio companies.

"Our view is that we would like to have flexibility to sell when the market is stable. We want to have many different ways of exit," he said. "Although we're not typically looking at IPOs, there are trade sales, strategic sales and multiple licenses we can monetise outside of a liquidity event."

Tomorrow, Clean Energy pipeline will publish an overview of sub-sectors currently being evaluated by NewWorld Capital, including wastewater, energy efficiency, cogeneration and distributed energy.

Investors interested in NewWorld Capital's new fund should contact Carter Bales, Chairman and Managing Partner, at carter.bales@newworldcapital.net.

Contact the reporter about this article: *Ronan Murphy* at ronan.murphy@vbresearch.com.

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