



Private Equity Sound Bite

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Renewable Energy and the Industry Outlook

Not too long ago, investing in renewable energy projects was regarded a no-go for private equity as well as institutional investors: the returns were considered too low to be of interest, the sizes of the projects too small, and there were plenty of other competing opportunities in which to invest. This has changed significantly if not dramatically, over the last few years. While it is true that many individual renewable energy projects may not be of a size that a larger PE house would normally look at, the returns they offer, coupled with the lack of alternative investments, have led to substantial amounts earmarked for renewable energy investment via bespoke dedicated PE funds. The interest is not surprising: what these projects offer are low risk technology, mostly wind and solar, a stable and predictable cash-flow which comes from large and rated offtakers, such as big utilities, and predictable profits. Predictable because where traditional power projects need to buy feed-stock, such as oil, gas or coal, the source for wind and solar projects will stay free and cannot go up. So while today it may be cheaper to generate a kWh of electricity in a coal or oil fired plant, it can be expected that these costs will increase, and increase significantly, while the costs for wind and solar will stay the same throughout the lifetime of the project—so that the profit margin of these projects can be increased as market prices for electricity go up.

The IRRs that can be expected from renewable energy projects vary greatly and depend on a number of factors, especially the tariff or compensation system in a country as well as wind speeds/solar irradiance. Projects in Germany, one of the most attractive markets in terms of security, off take and legal regime, today offer low returns—often only around 5% (sometimes a lot less). Projects in the UK market should be in the low double digits, whereas new markets, such as South Africa and some Latin American countries, often offer more than 20% for wind and solar projects. The new markets might also be of increasing interest to investors because they allow for the construction of very large projects: the traditional European markets, countries with little space, tend to allow only smaller projects which are often of limited interest for PE or pension funds. Some of these traditional markets do, however, offer opportunities for large investments in offshore wind projects. Germany and the UK (and soon also France and some Scandinavian countries) have a long pipeline of large offshore wind projects which are looking for investments, and several require total investments of more than £1B. There are reportedly several pension funds looking at both the UK and Germany for investment in offshore wind. The returns for these projects can be expected to be in the lower double digit region but provide stable and long-term income—in Germany a 20-year feed-in tariff is set by law.

In the current market, debt for renewable energy projects is probably more readily available than for other sectors. Even though many of the German landesbanks, who until the financial crisis, provided the bulk of debt for these projects worldwide have either departed or reduced their involvement, there are still quite a few looking to invest and new banks are trying to gain exposure to the market. Refinancing through Germany's KfW bank, which provides very cheap loans, is also available to projects which have some kind of German nexus and similar opportunities exist with a number of export banks. If you would like to learn more of our experience in energy and natural resources, please contact Stefan Schmitz at sschmitz@reedsmith.com, or at +44 (0)20 3116 3760.

Transaction Highlights

Recent Deals Across Our Global Platform



Advised **WHEB Partners** on a growth financing round in Resysta International GmbH. WHEB were already significant shareholders in Resysta. WHEB is one of Europe’s leading energy and resource efficiency investment firms, with offices in London and Munich. This transaction was led by Munich partner, Dr. Justus Binder.



Advised **Gimv France SAS** in connection with the participation of Gimv France FCPR 2010 in an MBI for the acquisition of ProxiAD Croissance, lead company of ProxiAD Group, via ProxiAD Participation. ProxiAD Group is a provider of software engineering services structured as a network of regional subsidiaries in France and Bulgaria. Stéphane Letranchant advised on taxation aspects and Séverine Martel on labour and employment aspects of this complex transaction. Paris private equity lawyer Marc Fredj led this transaction.

Global Capabilities

Reed Smith Houston



Houston is Reed Smith’s first office in the Texas legal market. “The energy capital of the world” is an appropriate reflection of the enthusiasm of our office’s lawyers. Houston is a key operational location for a majority of Reed Smith’s top clients. It is also a linchpin in Reed Smith’s global network, as our lawyers in Houston add their experience to the firm’s acknowledged strengths in sectors including energy and natural resources, finance and life sciences. For these clients, Houston is more than just home; it is also particularly complementary to their business holdings and interests in other Reed Smith locations in important global markets throughout the United States, Europe, Asia and the Middle East.



With an aggressive growth plan spanning all areas of Reed Smith’s transactional, regulatory and disputes practice, our Houston lawyers assist our clients with their toughest legal problems, while keeping an eye on the horizon for looming challenges and opportunities.

Should you need any business and legal advice in the Houston, Texas market, please contact Perry Yam at pyam@reedsmith.com, who will direct you to our full-service team.

Houston Facts



- Houston is the fourth most populous city in the United States of America
- If Houston were an independent nation, it would rank as the world’s 30th largest economy
- Houston is home to the Texas Medical Center—the largest medical center in the world—with a local economic impact of \$10 billion
- Houston is home to and more than 5,000 energy-related firms, and is considered by many as the Energy Capital of the world
- The port of Houston ranks first in the United States in international waterborne tonnage handled and second in total cargo tonnage handled as well as being the tenth largest port in the world



<http://www.houstontx.gov/about/houston/houstonfacts.html>

