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Lehman's Fall to Create Greentech Woes

The global investment bank's bankruptcy filing will likely make it even tougher for greentech companies to raise capital.

by: Uclia Wang and Jeff St. John

September 16, 2008

Greentech startups will find it even harder to raise venture capital or go public in light of the financial market crisis triggered by the bankruptcy filing of [Lehman Brothers Holdings Inc.](#) Monday, said investors and company executives attending the AlwaysOn GoingGreen Conference near San Francisco Tuesday.

The impact of Lehman's fall, which caused the worst point drop for the Dow Jones Industrial average since Sept. 11, 2001, is still emerging for greentech players. The investment house is the latest in a series of U.S. financial and mortgage institutions to have fallen on hard times.

Lehman had been one of the main underwriters for solar and other companies raising money, including debt financing, to build factories and solar farms. Its bankruptcy filing is the largest in U.S. history.

"The scale and severity of the turmoil is what surprised everyone," said Graham Barnet, chief executive of Sigma Capital Group, an asset management firm in Edinburgh, Scotland, where Barnet has seen more U.S. companies looking to raise money from European investors. "You would be very brave to do an IPO right now."

Companies such as [Evergreen Solar](#) and [SunPower](#) already have issued press releases and spoke with investors to explain how their relationships with Lehman might affect their financial performance.

Evergreen Solar, a solar panel maker in Marlboro, Mass., could be hit particularly hard. The company loaned Lehman 30.9 million shares of its common stock as part of a recent deal with Lehman and its affiliates to raise more than \$375 million through an offering of senior convertible notes. Evergreen could have trouble recovering the shares from Lehman, leading to a dilution of Evergreen's shares by as much as 26 percent, wrote Jeff Osborne of Thomas Weisel Partners in a research note.

Osborne reduced his estimates on Evergreen's 2009 earnings per share to 36 cents from 49 cents, and its 2010 EPS estimate to 74 cents from \$1.02.

Lehman's bankruptcy filing came at a time when renewable energy companies were already finding it difficult to raise capital. The lackluster housing market and the resulting credit crunch have battered the economy for the past year, leading investors to take fewer risks.

Biofuel companies, in particular, have delayed or scrapped projects because they couldn't get the money to build processing plants (see [Plans for Two Cellulosic-Ethanol Plants Crapped](#) and [More Cellulosic Ethanol Will Soon be for Sale. But Who's Buying?](#)).

Convincing investors to fund large solar projects also could prove tough in the short term.

"I think it's a tough time to raise money now," said John Woolard, CEO of [BrightSource Energy](#) during a panel discussion Tuesday. BrightSource, based in Oakland, Calif., develops solar-thermal

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Although U.S. banks are faring poorly, solar companies could have better luck turning to European and Asian companies, Woolard added.

The appetite for IPOs is also likely to wane in the near-term, investors say.

"What IPOs? The liquidity markets are essentially shut down," said Ned Renzi, a founding partner of Birchmere Ventures in Pittsburgh.

Even before the Lehman debacle, the softened economy had drawn predictions of a prolonged slow-down of IPOs (see [KPMG: VCs Expect Slow IPOs Until 2010](#)). Meanwhile, some of the recent greentech debuts on the public markets haven't fared well (see [Angling for IPOs in Tough Times](#)).

Companies that have filed to go public might wait, while one of them has already thrown in the towel. [Codexis](#), a biofuel-catalyst developer in Redwood City, Calif., withdrew its IPO plans earlier this month (see [Codexis Says No to IPO](#)).

David Chen, a vice president at Morgan Stanley, said long-term opportunities in cleantech haven't disappeared as a result of the financial market crisis. But companies need to be more prepared for short-term challenges.

"Whether you are public or private, you need to make sure you're conservative with your financing strategy," Chen said.

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Daniel Englander

9/16/08 7:37 PM

It's also worth noting that Teddy Roosevelt IV, the a managing director at Lehman, has played a significant role in getting the business community on board with carbon accounting and carbon pricing, as well as in the development of the firm's sustainability and renewables practices. Roosevelt was largely responsible for making Lehman the leader in the space that many considered it to be. Too bad that leadership was subsumed this mess.

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UCILIA WANG

9/16/08 9:32 PM

Thanks for the good context about Lehman and its role in greentech, Daniel.

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