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NO FINANCIAL CLEANUP: A STUDY OF VENTURE CAPITAL RETURNS ON CLEANTECH IPOS (SUMMARY)

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NO FINANCIAL CLEANUP: A STUDY OF VENTURE CAPITAL RETURNS ON CLEANTECH IPOS

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Principal Topic

Cleantech investments have become a sizeable part of venture capital portfolios. We examined the returns on venture capital invested in cleantech companies that went public between 2000 and 2011. Our data set comprised alternative energy, power supply, conservation, pollution-reducing, and recycling companies, which are classified as cleantech.

Method

We compiled a data set of more than 1,000 U.S. cleantech companies that received venture capital between 1995 and 2010, with the majority of them receiving their first round of venture capital between 2005 and 2010. We examined 52 companies that had IPOs between 2000 and 2011. We computed the rate of return, IRR, for each round of venture capital 180 days post IPO, which is the end of the lockup period. We also computed the annual return on the publicly traded shares from the date of the IPO through the end of 2010.

Results and Discussion

The median IRR for the first round of venture capital was 26.1% with a range from -10.4% to 140.0%. The median IRR on the third round was 24.5% with a range from 8.1% to 184.6%. We found that returns on venture capital invested in cleantech companies were unsatisfactory because median returns in our study fell far short of the 80% that venture capitalists expect for successful early-stage investments and the 40% for successful later stage ones. A median annual return of around 25% on VC-backed IPOs is not high enough to sustain venture capital investment at its current level. To put it in perspective, the median venture capital return on first round investments in Internet companies that went public was 506.9%; in software companies 124.8%; and computer hardware companies 148.9%.

The post-IPO returns for our sample of cleantech companies have been dreadful, with a median annual return of -27.5% over the period from the IPO date through the end of 2010; it has dulled investor interest in cleantech IPOs. Unless there is a red-hot IPO market for cleantech stocks in the next year we believe that venture capital investments in cleantech will decline. We may already be glimpsing early evidence of this because the amount invested in cleantech declined 23% percent in the second quarter of 2011 compared with the first quarter.

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