Funding and Business Opportunities Workshop

Scotland’s Hydrogen Future

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How can companies in the H2FC sector successfully traverse the “capital chasm”?

Support for early-stage product/technology development is reasonably good.

Securing first round of “transition” funding can be a challenge.

Capital availability less of an issue once business has taken off.
The conditions for commercial investment in new energy remain highly volatile

• Overall returns to the NEX over 5 years still look better than NASDAQ but
• Recently overall market volatility has been magnified in the sector
Despite periodic market exuberance, public H2FC companies have performed poorly

- With the exception of CWR, all the AIM-listed H2FC companies currently trade below their IPO price
Identifying suitable investors – all investor types have their “sweet-spot”

<table>
<thead>
<tr>
<th>Investment Size</th>
<th>Expected Returns</th>
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<tbody>
<tr>
<td>Bank Lending</td>
<td>VC</td>
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<tr>
<td>Public Markets</td>
<td>Bubble size proportional to amount of capital available</td>
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<tr>
<td>Angels</td>
<td>Private Equity</td>
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<td>VC</td>
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Bubble size proportional to amount of capital available.
Some key considerations when seeking commercial funding

• “Ideal” amount of funding
  – Trade-off between securing sufficient funds and limiting amount of dilution
• Arriving at a “reasonable” valuation
  – VCs will look to achieve 10x return over 5 years for successful investments
• Risk vs. returns
  – How can you help the investor to mitigate risk and increase the potential returns?
• Public or private markets
  – Public markets can be source of relatively cheaper money but what about ongoing public scrutiny?
• What other support can my investors offer?
  – e.g. strategic support, business relationships
Getting the business commercially ready

• Identify markets that might gain traction early on
  – Balance targeted market approach but be ready to act opportunistically if appropriate
• Cement channel relationships
  – Leverage existing value chains
• Securing pilot projects on commercial terms
  – Develop business systems
  – Test quality management systems
• Round out the management team
  – “Soft-circle” if necessary?

Need to recognise that progressing these key business issues will support the case for funding
<table>
<thead>
<tr>
<th>Activity</th>
<th>Time Allotted</th>
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<tbody>
<tr>
<td>Brainstorming Issues</td>
<td>15 minutes (3 x 5 mins)</td>
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<tr>
<td>Grouping Issues</td>
<td>5 minutes</td>
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<tr>
<td>Voting</td>
<td>5 minutes</td>
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<tr>
<td>Strategy Development</td>
<td>10 minutes</td>
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<tr>
<td>Report Back</td>
<td>5 minutes</td>
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Focus on 3 key questions – be specific

1. What are the principle externalities affecting the development of H2FC in Scotland?
   – e.g. inclusion in specific policy measures

2. What are the most important business issues to address when preparing a H2FC company for funding?
   – e.g. securing relevant expertise for management team

3. What are the main inhibitors to gaining commercial traction for H2FC businesses?
   – e.g. lack of appropriate sales channel
Group themes and vote on most important

• What main themes emerge from the analysis?
  – Try to identify 3 – 5 clusters of themes emerging from the complete list

• Use your stickers to vote which issues you think are most important across the 3 questions
  – Apply as many or as few stickers to each of the themes to indicate the importance you place on each theme
  – Remember, you only have 5 votes each!!
Suggest strategies to address key issues

• What strategies might we employ to address these key funding and commercial issues?
  – If you wish you can focus on those that have been identified by voting as most important but don’t feel constrained by this
  – e.g. if the issue is obtaining suitable government incentives then you may address this through lobbying
Report Back

• Offer a (very!) brief summary of your discussion