5TH ETV STAKEHOLDER FORUM

Green Technology investment risks

What can be done to address them?

Michał Lasocki

Venture Partner at EEC Ventures

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Venture Capital was not meant to be risk free.

- High returns are usually correlated with high risk. High risk is not correlated with high returns.
- Risk is defined in financial terms as ***the chance that an outcome or investment's actual gains will differ from an expected outcome or return. Risk includes the possibility of losing some or all of an original investment. (Investopedia)***
- Risk is not necessarily bad as such, as long as is quantified, managed,
- Returns can be made by investing and taking calulated risks. Most likely you will not get rich by investing in AAA rated government bonds.

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Technology risk is just one out of many

- Investment process involves risk assessment and mitigation. There are many risks related to investment process:
  - commercial risks
  - IP risks
  - technological risks
  - personal risks
  - financial risks
  - regulatory risks
  - fraud risks
  - ….
  - RISK OF RISKS
- Technological risks and innovations considered alone are rarely key in investment decisions

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Technological risk is difficult to quantify and manage

- Therefore, taking calculated technological risk it is a science and an art. Either a technology will work as planned or not. Most will not, or will not work at first attempt.
- Expressing it like **„there is a 95% confidence interval that the probability of this thing working is between x and y%"** is not really useful in terms of investment.
- Think about „good seamanship". Seafarers collected a list of good practices, (do's and dont's) over centuries. Still, this list is not exhaustive and new items are added gradually as new types of accidents and mistakes are made.

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What can be done to mitigate technological risks from the investor standpoint?

- Technological due dilligence, involving:
  - Existing use cases (POC, Trials)
  - Client interviews
  - Indepenent expert interviews, assessments, audits
- Bet on the right team not on technology alone.
- You will not like that one: „Assure founders are investing amounts of money that are meaningul for them, so they have incentives to make it happen”
- You will not like that one either: VC money are so expensive (in terms of company % that need to be exchanged in return), that they should not be used just to verify technology.

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Who could finance technology risks ?

- There are many sources of funds that can be used to mitigate technological risk prior to VC investment:
  - grants and subsidies
  - accelerators
  - prizes
  - business angels
  - other types of non-dilutive seed stage capital

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Role of independent opinions on technology

- Venture Capital usually comes later than pre-seed and seed funding
- Venture Capital is looking for returns on investment (obvious one).
- Returns come from scaling and profits.
- Somebody must therefore sell products and services
- Independent certificates, audits, opinions are **very important** when entering the markets, building customer confidence, creating product perception and competitive advantage

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