POWER FOR ALL RESEARCH SUMMARY

Acumen's Accelerating Energy Access: The Role of Patient Capital

$210 million

ANNUAL EARLY-STAGE EQUITY NEEDED FOR UNIVERSAL ENERGY ACCESS BY 2030

93%

INTERVIEWED COMPANIES TRAPPED IN THE "PIONEER GAP"

36%

AVG. REVENUE GROWTH RATE OF ACUMEN'S DRE COMPANIES

Acumen recently released the *Accelerating Energy Access: The Role of Patient Capital* report[1] that examines 20 off-grid energy companies in their portfolio across 8 countries in Africa and South Asia, to identify energy finance needs.Their findings show a major gap in early stage equity, despite sixfold increase in patient capital over the last 5 years. We highlight their key findings here.

Investment in the decentralized renewable energy (DRE) sector sees an unprecedented growth over the last 5 years; pioneer gap, however, prevents companies to reach scale.

» Investment in the decentralized renewable energy sector has increased six-fold over the last 5 years, reaching over a total of $300 million in 2017. (6)
» Despite the increase in investment, analysis shows a significant gap between current annual early-stage capital commitment ($16.5 million) and what is needed to achieve universal energy access by 2030 ($210 million per year). (13)
» Since 2012 there has been $1.6 billion invested in DRE. Of this, 87% went to the largest 10 companies. 67% of equity investment in solar home systems (SHS) since 2012 has been concentrated on just 4 companies. Early-stage companies remain underserved. (32)
» 93% of the companies interviewed by Acumen are experiencing the "pioneer gap", where social enterprises struggle to access the right kind of capital to validate their business model. These companies are too big for seed capital and too small for commercial capital. (4, 6,13)
» Between seed funding and commercial capital, there is a need for patient capital to bridge from early-stage development to scale. (18,19)

Patient capital not only helps bridge the pioneer gap from pilot to scale, but also attracts more capital into the off-grid energy sector.

» Patient capital has a long-term investment horizon of 7 to 12 years, a high tolerance for risk and a goal of maximizing both social impact and financial return. (6)
» Over 90% of interviewed energy companies indicated that investors required earlier risk capital -- such as patient capital -- before committing to make an investment. (18)
» After Acumen's initial capital investment, the 20 off-grid energy companies on Acumen's portfolio raised $219.5 million in subsequent fundraising rounds, 10 times the initial investment. (21)
» 90% of follow-on capital for SHS and mini-grid companies was in the form of debt and equity; clean cooking companies, on the other hand, rely on grants (36%) in the subsequent round of fundings. (21)

The optimal mix of capital enables business model validation and prepares off-grid energy companies for scale.

» Currently, SHS companies have the right mix of capital, with more than 50% of its capital mix being debt-based that are used to finance inventory and expansion plans. (32)
» Mini-grid, on the other hand, requires much more grants capital (50%+) as the sub-sector typically doesn't earn enough revenue to cover its initial capital cost. (34)

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By the Numbers:

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- Subsidies are playing an important role in mini-grid business viability. However, less than $120 million of subsidies is available globally to mini-grid companies, as compared to $50 billion provided to traditional utilities. (34)'
- Clean cookstove companies are currently very dependent on grants to finance research and development (R&D) and piloting products in new markets. Their optimal capital mix should have a larger share of equity as they build distribution networks and remote customer bases. (36)

Investors providing patient capital generally seeks an annual revenue growth of 25%, continuous growth of impact and a positive exit outlook.

- Investors need to see an annual revenue growth of more than 25% and an early commitment of patient capital to be willing to make an investment. (17)
- The 20 off-grid energy companies in Acumen's portfolio are witnessing an average revenue growth rate of 36% and improving 86 million lives. (10,11)
- Lenders of debt capital need to see a debt to equity ratio (the proportion of shareholders' equity and debt) of between 1:1 to 5:1 to consider lending to off-grid energy companies. (21)
- Successful exits send positive market signals to potential investors. In the four cases of exit Acumen was involved in, the portfolio benefitted from a 1.3 times increase in return. (49)
- On the other hand, reluctance to buy secondary shares and the lack of later-stage capital lengthens the time horizon of patient capital and negatively impact the sector. (52)
- Among the exit methods available for the off-grid sector, successful acquisition and equity sales are more common than initial public offering (IPO) or management buyback. (51)

Share the Message

- Despite strong growth in DRE investment over the past 5 years, there is still a stark gap between the current commitment in annual early-stage equity and what is needed to reach SDG7 by 2030.
- Between seed funding and commercial capital, there is a need for patient capital to bridge off-grid energy companies from early-stage development to scale. In addition, successful exits also send strong positive signal to other investors.
- DRE companies in this study are witnessing strong average revenue growth rates and improving million lives.

Sources:

1. Labruto, Leslie and Mufti, Esha. Accelerating Energy Access: The Role of Patient Capital, Acumen. 2018.