

Investments in Climate Tech

Good news: investments in Climate Tech have never been higher than in 2021. Investors are starting to embrace the fact that disruptive innovations are key to achieve net-zero by 2050 and that scaling-up these technologies will be as important as making the ideas emerge.

VC, the start-up enabler

When speaking about investments in the Climate Tech sector, it is impossible not to speak about **Venture Capital (VC)**. Indeed, finding the next unicorn implies focusing more on early stages, even if the risk of failure is high.

Venture Capital is actually a subset of Private Equity (PE), directed toward well managed nascent companies or small businesses with a great long-term growth potential. Most VC players are angel-investors, investment banks, and any other institutions with large financial means, often creating dedicated funds (Brookfield US\$7bn Global Transition Fund). They usually provide counsel, support and their technical expertise to the entrepreneurs and in exchange investors get equity in the company and can influence its decisions.

Booming investments

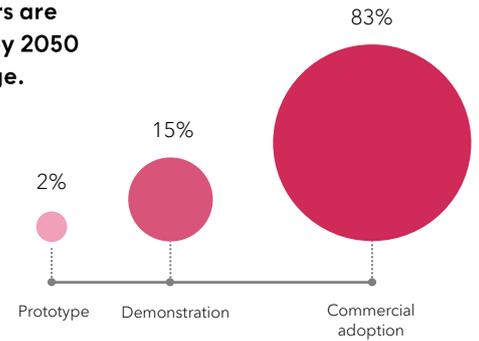
The first half of 2021 was a real stepping stone for the Climate Tech market. Start-ups received a **record US\$60bn of PE funding** during this period (200% Year-on-Year growth compared to H2-2020), while investment in the sector were showing an overall stagnating trend under 20 US\$bn since the second half of 2017. VC investments in 2021 also saw a strong growth and reached US\$37bn, following a 64% Year-on-Year growth.

One of the characteristics of VC is the size of the deals: very large amounts of money are invested, usually in the form of rounds. Recently, megadeals (deals worth more US\$100m) have risen in size and in number (from US\$130m in H1 2013 to over US\$430m in H1 2021) and the average ticket also reached record highs in 2021 (US\$96m). Climate Tech now accounts for **14 cents of every VC dollar**.

For the moment, VC investments are unevenly distributed across countries. 96 % of VC dollars went to Climate Tech start-ups in only 3 regions: North America, Europe and China. This money needs to be directed more towards start-ups in developing countries, since they are the ones that will be the most affected by the consequences of climate change. Yet, those currently **only represent 1%** of the funding dedicated to Climate Tech.

A North American supremacy ?

While North America currently dominates the Climate Tech VC ecosystem, each region has its own characteristics. Europe tends to invest a greater part of its VC dollars in pre-seed and seed stages than North America and China but lacks funding when it comes to late stages and growth equity. This translates into an ability to produce great start-ups with promising ideas, but in difficulties to scale-up to industrial capabilities. On the other hand, more money needs to be channeled into seed and early stages in North America, in order to drive the breakthrough innovations needed to reduce hard-to-abate emissions by 2050.

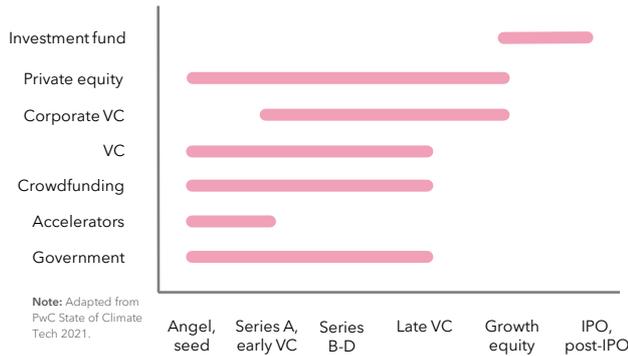
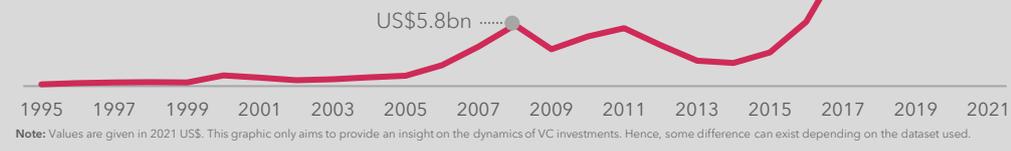


Cautious investors

Globally, investors are still reluctant to put their money in early stages (pre-seed and seed stages) because of the risk aversion and the fact that the talent pool is disseminated across multiple sectors, making it more difficult to find talents. Hence, only 2% of the funding goes to prototypes globally.

The second “cleantech” bubble

Starting around 2006 with the emergence of clean energy start-ups, cleantech became one of the most attractive area for VCs, and start-up financing rose by **50%+** annually for 3 years. But due to the 2008 subprime crisis, investments dropped by a third in 2009 and stagnated until 2013. Since then, Climate Tech took an ever increasing part in cleantech and became a major focus area for VC investors (cf explainer #1). The sector grew more rapidly than ever before, and investors are now confident that **the bubble won't be popping any time soon**, because of the global recognition that climate change will require innovative technologies to be developed and scaled-up as soon as possible.



Different investors profiles

Depending on the strategy of the investor, the investment stages vary from seed (development of an idea into a business of product) to IPO (Initial Public Offering on the stock market). Public entities and angel investors tend to invest more in early stages while investment funds and corporates focus on developing their portfolio and limiting the risk.

Investments fail to represent sectors relevance to climate action

Currently, the technologies with the greatest mitigation potential are not necessarily those that receive the most funding: only **25%** of the total investments are channelled into technologies that account for **81%** of the total emissions reduction potential. Yet, investing in currently underfunded technologies with a higher potential of decarbonisation will prove to be crucial if we want to reach our climate targets.

