

Climate Tech Investments: Paving the Road to a Sustainable Future

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Introduction

In the face of the complexities posed by climate change, the imperative to address this worldwide crisis has reached an unprecedented level of urgency.

Climate tech, also known as cleantech, is a rapidly expanding sector of the tech industry that focuses on developing innovative solutions to reduce greenhouse gas emissions, conserve resources, and promote sustainable practices. To accelerate the transition to a low-carbon economy, climate tech investments have emerged as a critical driver in financing ground-breaking technologies and projects, thereby also addressing the economic and social challenges posed by climate change.

Within this blog, we shall delve into the blueprint guiding investments in climate technology and the crucial role it assumes in shaping a future that is sustainable.

Understanding Climate Tech Investments

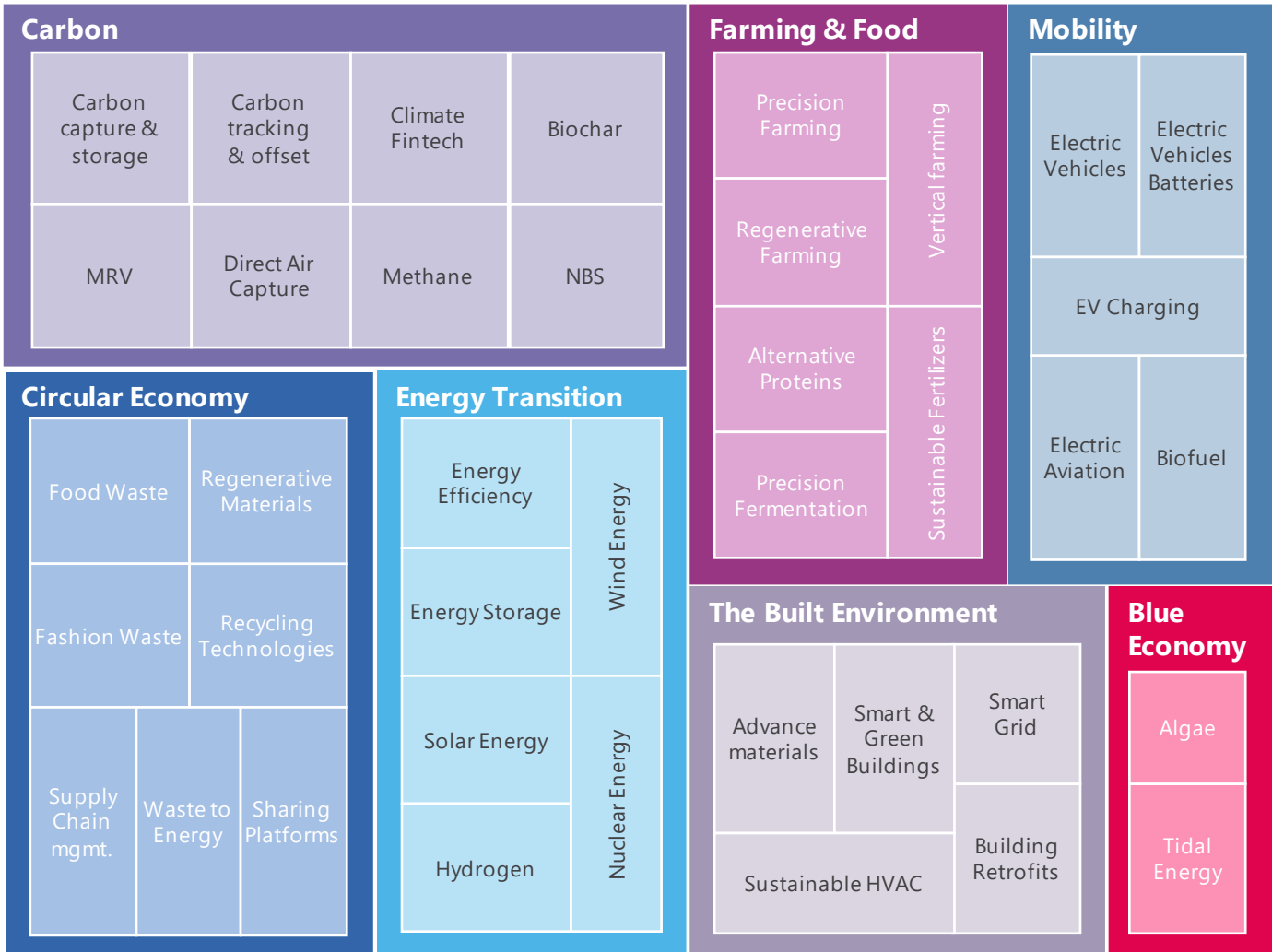
Climate tech investments encompass a wide range of technologies and projects that aim to combat climate change and address its impacts. These include renewable energy sources such as solar, wind, hydropower, energy storage systems, electric vehicles, carbon capture and storage, sustainable agriculture, circular economy initiatives, and more. These investments not only promise significant environmental benefits but also present lucrative opportunities for investors seeking to align their portfolios with sustainability goals.

Climate Verticals: Beyond just contributing to climate impact, companies are seeking to align with a minimum of one of the seven comprehensive climate categories outlined below. These categories encompass over 60 specific sectors and more than 250 technologies that aid in addressing, adapting to, monitoring, mitigating, and rejuvenating within increasingly warmer and more unpredictable world.



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Global VC Investment into Climate Tech (By Category)



Source: Dealroom

Venture Capital, Private Equity, and Climate Tech

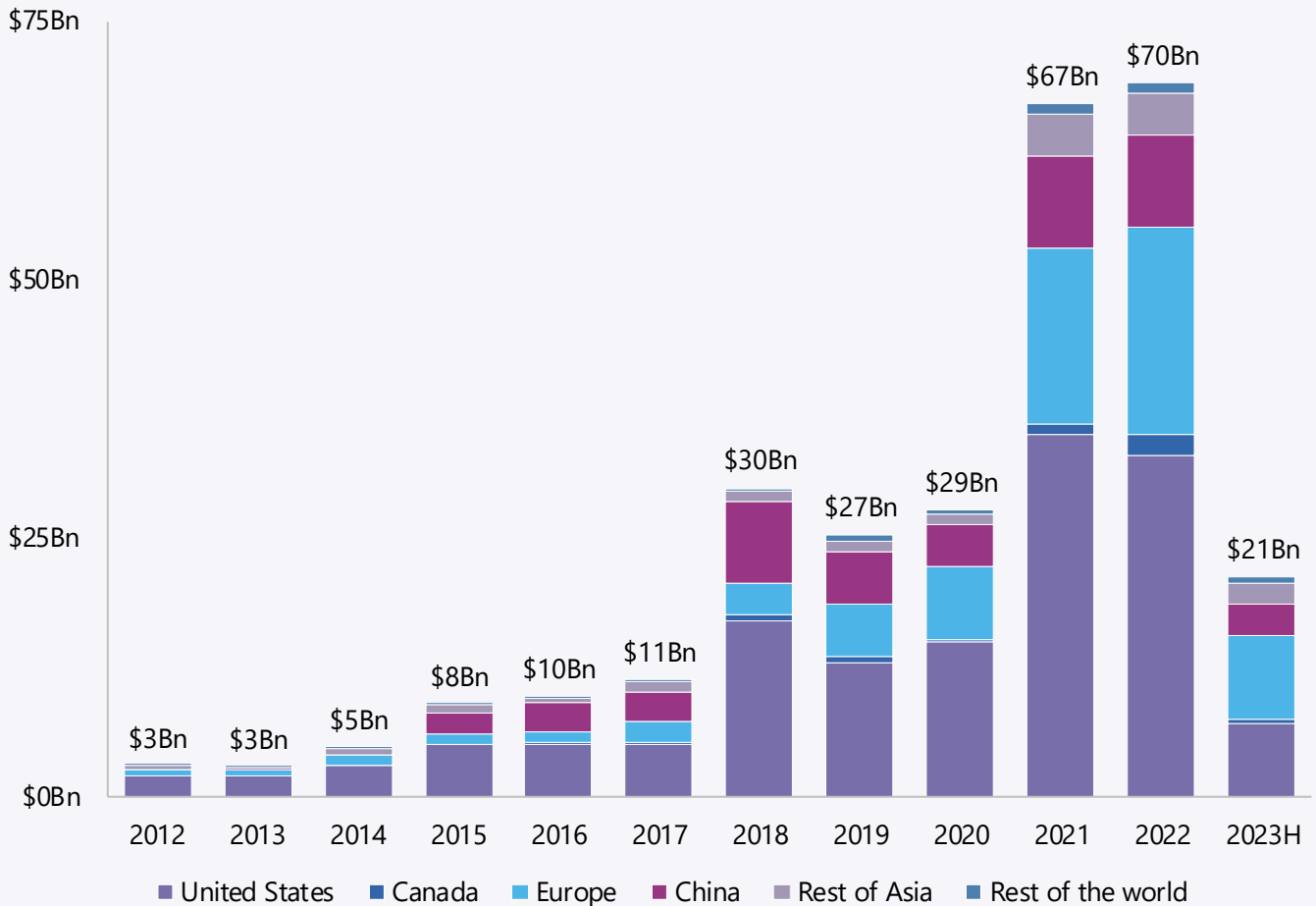
Venture capital plays a crucial role in funding early-stage climate tech start-ups. Starting from 2021, the climate technology sector emerged as a bright spot amidst the otherwise gloomy landscape of venture capital, experiencing acquisitions while other industries slowed down. A recent study conducted by Climate Innovation VC (CTVC) in June 2023, which monitors venture capital funding for climate innovation, reveals a decline in climate venture funding during the H1'2023. The total funding for this period amounted to \$13.1 billion. This figure indicates a 40% year-on-year decrease. This adjustment reflects a broader deceleration in venture capital investment activity, influenced by overarching macroeconomic factors such as rising interest rates and specific challenges within certain sectors.



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Venture Capital, Private Equity, and Climate Tech (cont'd)

Global VC investment into Climate Tech (By Global Region Destination)



Source: Dealroom

Of the stated regions, the EMEA is the only region registering a growth in investment, specifically of 13%, attracting \$17bn in 2022. The drop was most significant in Asia & Oceania, at 33%. The Americas declined by 13% last year, yet it remains the top region globally for overall climate tech VC investment.

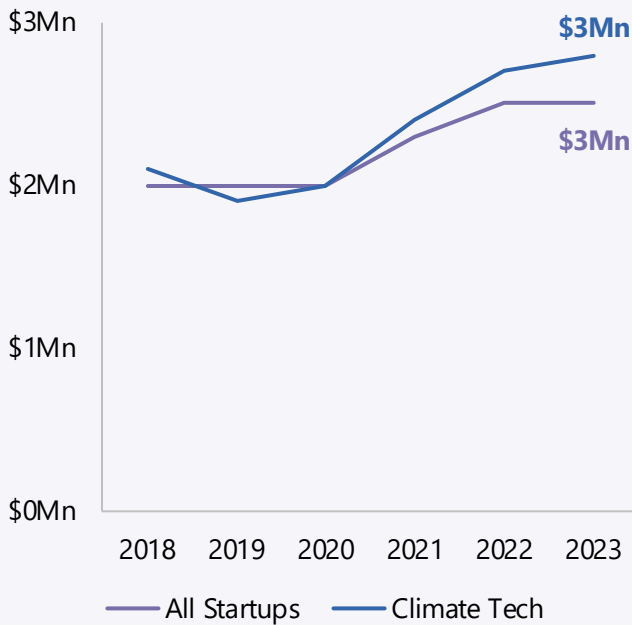
Examining the shifts that occurred in 2022-23 amidst the market's decline, it becomes evident that early-stage funding rounds remained steady and even expanded for both categories. However, at later stages, there was a noticeable divergence in performance. Climate technology continued its upward trajectory even during Series B and Series C+ rounds, in contrast to the significant decline observed in the rest of the ecosystem.



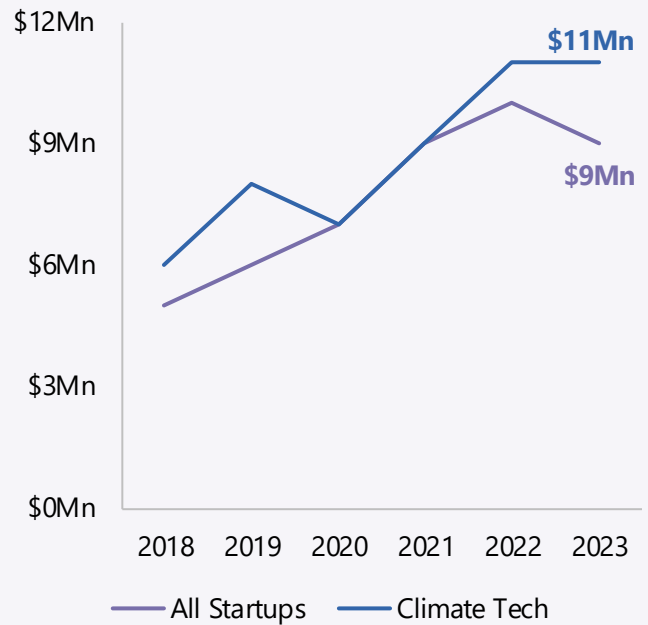
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Venture Capital, Private Equity, and Climate Tech (cont'd)

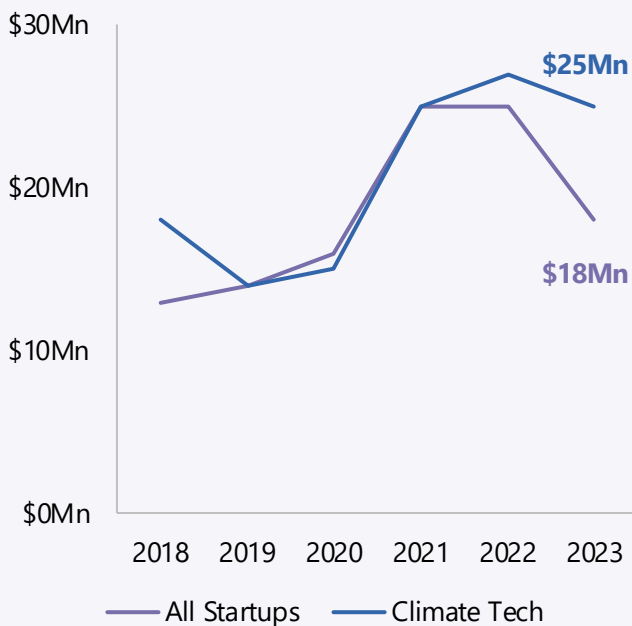
Median Rounds – Seed Stage



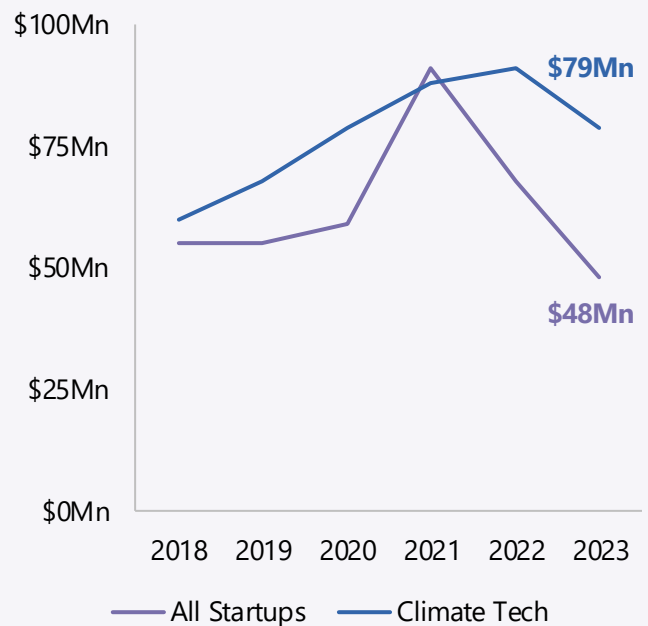
Median Rounds – Series A



Median Rounds – Series B



Median Rounds – Series C+



Source: Dealroom



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Global VC Investment into Climate Tech (By Segments)

Sector	2022	2021	2020	2019
Electric Mobility	\$13Bn	\$26Bn	\$10Bn	\$12Bn
Circular Economy	\$5Bn	\$6Bn	\$3Bn	\$1Bn
Nuclear Energy	\$2Bn	\$3Bn	\$322Mn	\$298Mn
Urban Tech	\$5Bn	\$4Bn	\$2Bn	\$1Bn
Carbon Capture and Storage	\$3Bn	\$730Mn	\$489Mn	\$291Mn
Renewables	\$6Bn	\$5Bn	\$2Bn	\$989Mn
Alternative Protein	\$3Bn	\$5Bn	\$3Bn	\$1Bn
Climate Fintech	\$3Bn	\$1Bn	\$627Mn	\$279Mn
EV Battery	\$5Bn	\$15Bn	\$5Bn	\$5Bn
Biofuel	\$1Bn	\$471Mn	\$223Mn	\$289Mn
Hydrogen	\$3Bn	\$2Bn	\$138Mn	\$370Mn
Blue Economy	\$893Mn	\$783Mn	\$275Mn	\$179Mn
Food Waste	\$474Mn	\$2B	\$580Mn	\$168Mn
Precision Agriculture	\$184Mn	\$267Mn	\$61Mn	\$39Mn
Regenerative Agriculture	\$88Mn	\$485Mn	\$408Mn	\$12Mn
Vertical Farming	\$1Bn	\$974Mn	\$480Mn	\$478Mn
Methane	\$419Mn	\$409Mn	\$43Mn	\$37Mn

Source: Dealroom

Investment in Urban tech, carbon capture and storage, renewables, climate fintech, and biofuel increased in 2022, compared to the year before that.

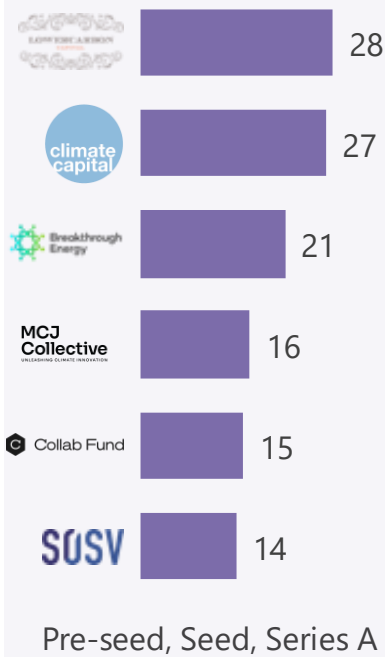
By March 2023, there had been a 40% surge in deal activity within the climate tech sphere, attracting over 60 fresh private equity and venture capital investors since the beginning of 2021, and marking the closure of around 1,000 climate-focused deals in 2022.



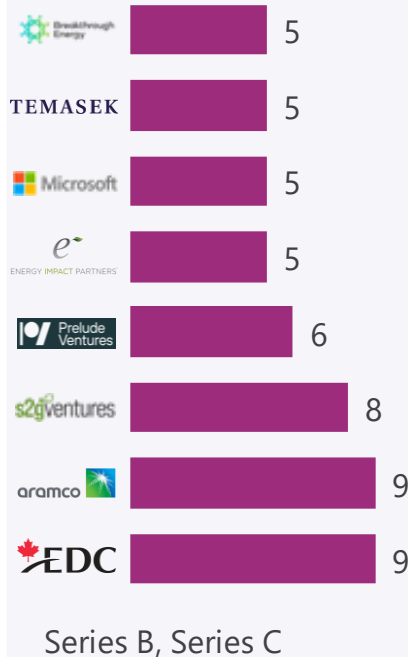
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Most Active climate tech investors (By stage)

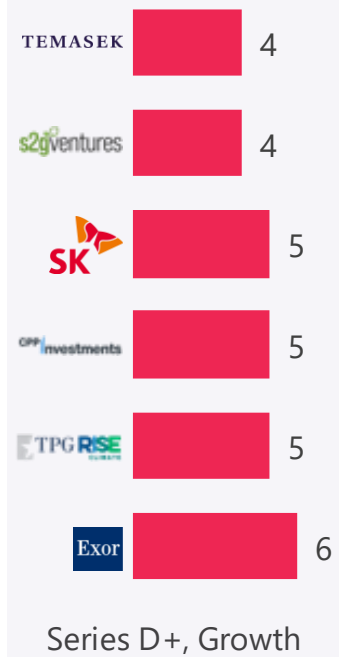
Early-stage



Late-stage



Growth



Source: CTVC

Prominent investors with the highest level of engagement in deal counts across early, late, and growth stages since the first half of 2022

The prospects for investments in enterprises dedicated to climate and sustainability are taking a favourable turn. A growing array of private equity (PE) and venture capital (VC) firms, alongside corporate venture divisions, are at last acknowledging this avenue for value creation. Consequently, they are formulating specialized funds focused on climate change and decarbonization. The outcome is an infusion of capital into a variety of sectors exhibiting substantial growth potential.

Simultaneously, an increasing number of private equity and institutional investors are engaging in early-stage deals, blurring the distinction between private equity and venture capital. With mainstream investors entering the climate tech domain, there is heightened competition for both limited partner investments and prospective deals

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Corporate Climate Tech and the rise of ESG investing

Large corporations are increasingly embracing sustainability as part of their core business strategy. Climate tech investments offer these companies opportunities to reduce their carbon footprint, enhance operational efficiency, and build a resilient supply chain. Additionally, strategic investments in climate tech start-ups enable corporations to tap into innovative technologies and maintain a competitive edge in the evolving market.

ESG investing has gained significant momentum in recent years. As climate change becomes a critical concern for investors and the public, ESG criteria are increasingly integrated into investment decisions. Climate tech investments are a natural fit within the ESG framework as they directly contribute to environmental objectives and positively impact society. Companies that prioritize sustainability and demonstrate strong ESG performance are more likely to attract investors and thrive in the long run.

Impact investing and green bonds

Investors who contribute to projects with a strong emphasis on sustainability and climate change mitigation often do so through impact investing funds and green bonds. Impact investing focuses on generating positive social and environmental impacts alongside financial returns and is closely tied to climate tech investments. Green bonds, a popular instrument within impact investing, are debt securities issued to raise funds for climate and environmental projects.

Government support and policy initiatives

Across the globe, governments are acknowledging the significance of climate technology and are intensifying their efforts to foster its advancement. By means of subsidies, tax benefits, grants, and regulatory structures, governments are establishing a conducive atmosphere that encourages private investors to direct capital into climate technology initiatives. These policy measures not only diminish financial uncertainties for investors but also establish a dependable and foreseeable market for innovations in climate technology.

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Way forward: Scaling up Climate Tech Solutions

Augmenting climate tech solutions is crucial to realizing their full potential and achieving meaningful impact. Investors should not only provide financial support but also offer expertise and guidance to navigate the challenges of scaling. Collaboration between investors, start-ups, and established companies can help accelerate the commercialization and adoption of climate tech solutions.

Climate tech investments are more than just financial transactions; they represent a commitment to creating a sustainable and resilient world. The road map for climate tech investments involves leveraging government support, embracing ESG principles, nurturing start-ups through venture capital, engaging corporate entities, and promoting impact investing. Through active participation in climate tech investments, innovative start-ups and venture capital / private equity firms can collectively drive innovation, accelerate the clean energy transition, and combat climate change. As the road to a sustainable future unfolds, such investors should be active participants in this transformative journey.

Conclusion

The current climate-focused investment landscape presents promising prospects alongside challenges. Growing interest, ESG alignment, and government support indicate a thriving market. Yet, economic uncertainties call for cautious navigation. Achieving net-zero emissions by 2050 requires substantial capital, emphasizing the need for resilient climate tech. Collaboration and knowledge sharing among investors, start-ups, and established firms are essential for success. The blending of private equity and venture capital heightens competition, demanding strategic investment approaches. In summary, climate-focused investing offers both financial & environmental benefits but demands a balanced and informed strategy to navigate uncertainties and capitalize on the opportunities presented by the evolving landscape.

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Thank You

