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An Investment Bet: Going Small and Green

By DEALBOOK

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WHEN Jeffrey A. McDermott left the Swiss financial giant **UBS** two years ago, he was one of three co-heads of investment banking, overseeing deal makers across a range of industries.

Now, Mr. McDermott, 50, leads **Greentech Capital Advisors**, a boutique investment bank he founded that is a fraction of UBS's size, specializes in clean technology and has one $16.3 million deal under its belt.

Yet Mr. McDermott said he was confident he had made the right decision to leave the world of bulge-bracket firms.

Greentech is among several new start-up investment banks filling the vacuum created by the collapse and contraction of many major financial firms. As the credit crisis engulfed **Lehman Brothers**, **Merrill Lynch** and other major companies, many bankers found open arms at smaller shops.

Unlike other boutiques, Greentech is trying to set itself apart by being the first to focus solely on alternative-energy and clean-technology companies. Mr. McDermott acknowledged that his strategy had potential pitfalls, given the green industry's reputation for modest booms and spectacular busts.

"We know we are early, and our greatest risk is being too early," he said. "But we think it is ultimately going to be big."

Setting up a boutique investment bank wasn't Mr. McDermott's first choice after leaving UBS. He initially joined with Michael Heisley, the billionaire who controls the Memphis Grizzlies basketball team, to set up Stony Lane Partners, a private equity firm, to invest in distressed assets. But those plans were felled by the credit squeeze.

So Mr. McDermott began researching alternative energy last summer, handing blank sheets of paper to his contacts in the field and asking them what they would like to see in a green-focused advisory shop.

By the end of the summer, Greentech had taken shape. And Mr. McDermott faced the task of persuading seasoned professionals to join his start-up, often walking away from the outsize bonuses and perquisites that come with working at a big institution. Then came the fall of Lehman Brothers, and as shockwaves reverberated throughout Wall Street, Mr. McDermott suddenly had a host of candidates with the experience and contacts his fledgling firm needed.

An early pickup was Michael J. Molnar, a former alternative-energy and coal analyst for **Goldman Sachs** who was laid off in November. Mr. Molnar, 35, ranked in Goldman's top 5 percent of United States equity analysts in 2008, but he was let go, along with other equity analysts who had been covering companies in areas where business, and investor interest, were weak.

Other hires included R. Andrew de Pass, the founder and head of **Citigroup**'s sustainable development investment group, which closed early this year.

"I worked for 20 years at two firms, Morgan Stanley and Citi," said Mr. de Pass, 43. "At this point, I want to work somewhere that has a culture, ethics, less dysfunction and complication of a large financial institution, where I have more control of my destiny, working with good people."

Working at a start-up usually means a big change. Gone are the fancy corner offices: Greentech operates out of what is essentially one large room, where the firm's partners sit side by side with researchers and analysts.

Gone, too, for now are the raft of multibillion-dollar deals — and the big advisory fees. Companies in the "green economy," which ranges from manufacturers of wind turbine blades to companies that develop smart-grid power technologies, are worth at most a few million dollars. A company in this field seeking merger advice or financing help would have a tough time getting larger investment banks to take notice.

"Goldman wouldn't return your call," said Timothy F. Vincent, 40, a partner at Greentech who worked most recently as a Goldman managing director.

Adding to the challenge, the green industry is suffering. In the first quarter of 2009, new financial investment in the sustainable energy sector fell 53 percent, to $13.3 billion, from the comparable period in 2008, the lowest level of quarterly investment in three years, according to a report from the United Nations Environment Program and New Energy Finance, a research company.

The drought in financing, along with a collapse in fossil-fuel prices — which squeezed alternative-energy sources — has put a lot of pressure on many green companies, forcing several players' stocks into tailspins and pushing a few into bankruptcy.

So far, Greentech has sealed just one deal, the sale of **Solar Integrated Technologies** to **Energy Conversion Devices**. Last summer, Solar Integrated had a market value of $200 million; it sold for $16.3 million in June.

But executives at Greentech are optimistic about their firm's future. Since late spring, they have had more than 350 meetings with potential clients and advised a number of clients on acquiring green companies. The firm also has a geothermal deal scheduled to close in October, Mr. McDermott said, and has signed engagement letters with two more companies in the smart-grid sector.

One hope for Greentech is the Obama administration's commitment to clean energy. The industry recently received $31 billion in tax credits and other financial incentives, as well as $134 billion in loan guarantees for large green projects — well above the $30 billion the industry attracted in North America last year. But tax credits can be withdrawn, potentially leaving the industry again at a disadvantage to fossil-fuel competitors.

Greentech is betting that technology will eventually help make renewable energies competitive with fossil fuels. In the meantime, the firm is committed to staying lean and waiting for the day when business is expected to pick up.

"If at the end of two years we haven't been able to achieve revenue success, hey, you know, we were either wrong about the market opportunity or we stink," Mr. McDermott said. "And I don't think either will be the case."

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