

The Wall Street revolutionary

Jeff McDermott used to run investment banking at UBS – but now he’s turning his 25 years of deal-making experience to the clean technology sector. He talks to **Gloria Gonzalez**



Back in early 2008, Jeff McDermott’s teenage son came to him for some advice about following his dad into a career on Wall Street. McDermott’s suggestion? That his best option might be to orientate a career in finance towards the clean technology sector given its importance to America’s future. Suddenly, McDermott had a thought: what if the clean-tech industry was right for him too?

McDermott had made a name for himself in investment banking after graduating from the University of California at Berkeley with a dual degree in economics and political science in 1981. He worked for some of the biggest players in the industry, starting at Drexel Burnham Lambert, later joining Salomon Brothers (which eventually became a unit of Citigroup) before moving to UBS Investment Bank. At UBS, he directed the global investment banking department, which posted revenues in 2006 of more than \$4.5 billion.

But after spending close to 25 years working for large, global financial institutions, McDermott felt he had reached the peak of his chosen profession. “It was time to look for a new mountain,” he says.

That mountain proved to be the clean-tech sector. UBS had been involved in a few solar transactions, so he was broadly familiar with the industry. But he began talking in earnest with CEOs and venture capitalists in the sector about their issues and problems. In the autumn of 2008, he decided to start his firm, Greentech Capital Advisors, offering financial advisory services with a 100% focus on the alternative energy and clean-tech sectors.

“I believe that’s the megatrend that’s going to change my kids’ generation,” McDermott says. “I just fell into the right industry at the right time.”

In building his New York-based firm, he has drawn many of his staff from major financial institutions like the companies he has spent his career working for. But these banks, and global corporations such as Siemens and GE, are not set up to innovate in this sector because they are locked into certain behaviours and mindsets, he says. “These are enormously capable and powerful companies, but they’re not innovators,” McDermott says.

Greentech Capital advises on mergers and

acquisitions, restructurings, private placements and project financings. For example, the firm aids companies with market-ready technologies that have perhaps raised \$50 million–100 million from venture capitalists or corporate investors, and are looking to expand their investor base. The company also helps project developers deploying renewable or alternative technologies access debt and tax equity to build facilities.

“We’re empowering the green industrial and energy revolution,” McDermott says. “We’re helping the most promising companies cross the chasm to full-scale deployment of their technologies.”

Many of these renewable energy developers survived a tough 2009 due to policy help from the US government. A change in the tax code passed by Congress in February 2009 allowed biomass, wind and other renewable energy projects that could claim tax credits against energy production to choose temporarily to receive an up-front investment tax credit (ITC) normally reserved for solar projects. In the economic stimulus package, the US government also allowed project developers that wish to receive cash payments in lieu of the tax credits to apply for a federal government grant programme that has paid out more than \$2 billion to project sponsors. Since the grant programme only funds projects that are up and running, it’s been most effective in financing photovoltaic solar and wind facilities, he says.

The programme has been a “resounding success”, McDermott believes. Last year, developers would have struggled to replace the tax equity investors that had bankrolled development in the US over the preceding years, and tax equity investment is still not back to levels seen in 2007 and 2008. Greentech is therefore

hoping for an extension to the grant programme, which under current plans will stop accepting applications on 1 October 2011.

“Thank goodness for the ITC cash grant programme because that’s really been a well executed, well thought-out programme,” McDermott says. “I think that’s the one that had the biggest impact in 2009 because it’s been very straightforward.”

The Department of Energy’s (DOE) loan guarantee programme has been less helpful, but that is not the department’s fault, McDermott says. DOE staffers are working around the clock to give developers insight into the process and programme requirements and get loan guarantees out, he says. But these technologies are difficult to analyse and the agency has to work with the Office of Management and Budget to stay within its financial means.

“We’re very sympathetic to the DOE,” McDermott says, adding that he thinks the loan guarantee programme will eventually make a difference to a number of technology companies.

But Congress remains “politically paralysed”, creating enormous challenges for the clean-tech sector. McDermott expresses frustration that the best clean-tech research is conducted in the US, but the jobs are created mostly in Asia because of the absence of a supportive policy framework.

“I just think that’s a pity for my children and my children’s children,” McDermott says. “Without a clear policy framework and with a fractious US Congress, our best technology will create jobs outside the US.”

Another challenge is the need to go head-to-head with entrenched fossil fuel interests. “The hydrocarbon lobby is spending a lot of money to preserve their privileged position,” McDermott says. “We’re hopeful at some point this polarisation will end and we get some kind of policy framework that’s going to enable green jobs.”

Ideally, whatever policy the government adopts would be technology agnostic, as several renewable technologies show great promise, McDermott says. He cites BrightSource Energy and SolarReserve, which are making tremendous progress in demonstrating that utility-scale solar will be an effective technology and deliver electricity in a cost competitive way. Ram Power has encouraging projects to effectively deliver geothermal electricity in the developing world, he adds.

Whether Congress passes comprehensive energy and climate legislation remains to be seen, but adoption of a US federal renewable electricity standard would be a step forward, he says. “I don’t think anyone in Washington can foresee what’s going to happen in Washington,” McDermott adds. E