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BANKING ON SUSTAINABILITY

Cowen bankers Larry Wieseneck and Chris McCabe discuss electric vehicles, synthetic leather and stewarding capital in the ESG boom.

BY CHRIS NOLTER

The booming interest in all things ESG — the practice of weighing environmental, social, and governance values alongside shareholder value — presents an opportunity and a quandary for the markets.

"ESG covers a lot of spaces, right?" Larry Wieseneck, managing director and co-president of Cowen & Co., told The Deal in an interview.

"In terms of an investible theme, it's hard to actually say what investing in ESG means at the corporate level," Wieseneck said.

"Sustainability means things that are serving to use fewer resources to produce goods and services or move people around. That's very tangible," he said. "It gets much harder when we move from the 'E,' environmental, to 'S' and 'G' to define that at the corporate level."

In its approach to ESG, Cowen developed a sustainable banking group to complement its efforts in technology, consumer, industrials and life sciences and to help clients that are often at an early stage in development raise capital and build their business. Frequently, the ESG efforts intersect with another booming market segment — SPACs.

In the sustainability effort, technology bankers collaborate with colleagues in industrials or consumer banking. "We have to be great at helping someone think through the industrial application. If it's in semiconductors, we better have a great banker in semiconductors," Wieseneck said. "To just say we're sustainability bankers is not going to win that mandate or add value to the client."

Cowen's Chris McCabe and Larry Wieseneck

Banking the Whole Supply Chain

"We start out looking for opportunities where there will be disruption of existing industries with a sustainability theme, and then we bank that entire supply chain," Chris McCabe, who is managing director and co-head of technology, media and telecom and head of sustainability banking, said in an interview.

When Cowen bankers put together a working group in late 2018 and early 2019, they decided to approach sustainability as a horizontal practice area that crosses over fields rather treat it as a new industry vertical. The bank has more than six MDs in three or four different banking units, all principally working across sustainability. Cowen works with joint venture partner Intrepid Partners LLC in alternative energy.

"That has given us real market share," McCabe said.

"We've done about 40 transactions in the last two years, all with a key thematic around sustainability."

Electric vehicles provide an example of a sustainable supply chain.

Cowen advised electric car makers Arrival Ltd. (ARVL) on its $5.6 billion sale to special purpose acquisition company CIIG Merger Corp. and Fisker Inc. (FSR) on its $2.9 billion sale to Apollo Global Management Inc. (APO) affiliated SPAC Spartan Energy Acquisition Corp.

"When you take the next step down, those electric vehicles all need batteries so you start doing some work in the battery space," McCabe said. Electric vehicles also require charging stations, rare earth metals and lithium for batteries and other components.

"You then end up with a business strategy across EV that touches the entire supply chain — semiconductors, power electronics, software sensors and carbide, which is a semiconductor material used for high power semiconductors in EV and solar inverters," he said.

Cowen advised Li-Cycle Corp., which recovers lithium-ion used in batteries, on its nearly $1.7 billion sale to Peridot Acquisition Corp.; worked on offerings for Plug Power Inc. (PLUG), which develops hydrogen fuel cell systems for electric vehicles; and advised GT Advanced Technologies Inc., which develops carbide components, on its $415 million sale to to On Semiconductor Corp. (ON).

Funding Sustainability

As some of the transactions above reflect, SPACs play a prominent role.

Unlike an IPO, a company going public through a merger with a special purpose acquisition company can use projections to pitch the deal to investors. While Securities and Exchange Commission Chairman Gary Gensler has said he wants new rules to oversee special purpose acquisition companies, SPACs have brought public many companies that include sustainability in their mission.

"These are big ideas and oftentimes they need capital in place early on before they get to market with a product in a couple of years," Wieseneck said.

Some companies with active sustainability efforts are established businesses that have a history of producing Ebitda and need to pivot to new opportunities. Others may be starting from scratch.

"In the food supply space a lot of businesses are already very cash flow positive," Wieseneck said. "If it's electric vehicles, let's say, the vehicles may not be really being produced in mass until 2025 or 2026. Under a SPAC process those companies are able to share their forward projections."

While large sponsors such as KKR & Co. Inc. (KKR) and Thoma Bravo LLC promote ESG investments and publish annual reports on the subject, family offices also have a growing interest.

"There's no question that particularly in second generation and third generation larger, ultra net-worth families, they care about the fact that their money is both creating profits and doing good," Wieseneck said. "Five years ago, they would say it and they didn't know where to invest. Now there are lots of opportunities and a growing number of intermediaries in terms of funds, both in venture and private equity."

Synthetic Biology Is Coming

Synthetic biology has emerged as a kind of petri dish for sustainable businesses and investments.

"In the same way you might create a drug synthetically based on the molecular structure, they can create leather products that become wallets but never actually utilize a cow. The same thing is true with the ability to create milk products."

The field has attracted Hollywood A-listers.

Natalie Portman and John Legend participated in a $45 million Series B round for MycoWorks Inc., which makes leather from fungi, in November 2020. Walt Disney Co. (DIS) Chairman Bob Iger, Temasek Holdings Ltd. and Canada Pension Plan Investment Board invested in a $350 million Series D round in Perfect Day Inc., which developed animal-free milk protein, in September.

"Almost like electric vehicles five years ago, we see it

coming," Wieseneck said of synthetic biology. "It's clear, but it's not yet something that is broadly understood or appreciated outside some of the healthcare investors are very focused on that space."

Meanwhile, Wieseneck added, technology developed for electric cars — such as LIDAR, sensors, and combining artificial intelligence with a machine — is driving developments in robotics is in manufacturing and the supply chain.

Generally Accepted ESG Principles

Whereas previous iterations of sustainability — call it Cleantech 1.0 — were driven by regulation, McCabe says today's sustainable efforts are driven more by consumers.

As consumers and investors seek out sustainable alternatives, companies are looking to tap the demand.

"A lot of companies are reporting that they are going to be net zero carbon by a certain date," McCabe said. "Well, how are we measuring net zero carbon? How are you measuring carbon offsets?

"Companies want to go to market as an ESG-driven stock or a green bond. Capital then wants to flow into those companies because they have their own criteria for investors," he added. "Well, what are the actual rules and regulations qualified for that and how do you qualify for that?"

The buy side will like push for rules or methods to differentiate sustainable businesses.

The market may need something akin to the GAAP accounting rules for investments marketed as green, sustainable or carbon neutral.

Every company is a steward of capital and the litmus test is changing, Wieseneck noted.

"A company that is raising money has to talk about what their footprint is, what they're doing to actually deliver goods in a way that is sustainable," he said, noting that part of a bank's job is to advise companies on navigating that effort.

"I do not believe corporates will have a license to operate in the future if they aren't contributing to sustainability of their communities," Wieseneck said.

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