



# CORPORATE VENTURE FINANCING - A CASE STUDY ON MERCOM CAPITAL GROUP

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ABSTRACT

The use of corporate venture financing potentially allows Corporates to influence the degree of complementarity between its own product and the final product of the venture. For instance, when product of a corporate is used as input by the venture, the use of it allows the corporate to secure demand from other companies when its product can be substituted with other inputs. More clearly, let us consider the case of an innovative venture that produces an electronic final good. Suppose that in producing the good she faces a choice between using a specialized and a standardized processor as an input in the production. Assume that even if the price of a specialized processor is higher than the price of a standardized one, utilizing the former may enable the venture to produce the final good at lower marginal costs than using the latter one. The corporate venture financing enhances the flexibility of the price-undercutting strategy by increasing the complementarities between the venture final product and specialized processor of the corporate. This paper includes a case study on Mercom Capital Group, a global communications and consulting firm.

KEYWORDS

Venture Capital, Mercom Capital Group, Financial Market, Corporate Finance.

INTRODUCTION

Corporate venture financing can be used as a strategic vehicle to generate demand. There are some real examples of this kind of motive. For instance, Oracle Corporation, a leading IT company, invested in Red Hat Inc. (a company providing Linux operating system) in order to seize the opportunity to sell version of its programs to run on Linux (Wall Street Journal Europe, 2000). In that way, Oracle Corporation can generate demand for its own products. Another example is Intel Corporation which nurtures new start-ups, which Intel Corporation hopes will grow and become customers for their microprocessors (Wall Street Journal Europe, 2000). Still another example is Cisco Systems, a leading IT company, which constantly finances start-ups (see The Economist, 2000, and Paulson, 2001).

In order to enable reduction in marginal costs, the venture has to adapt its product to the corporate. We can think of it as effort that the venture has to exert in order to realize the complementarity benefits from using the specialized processor. Evidently, there is a trade off as to which type of processor to be utilized here. If the total costs of obtaining the specialized processor and exerting effort are lower than the benefits accrued in terms of reduction in marginal costs, then the venture will utilize the specialized processor.

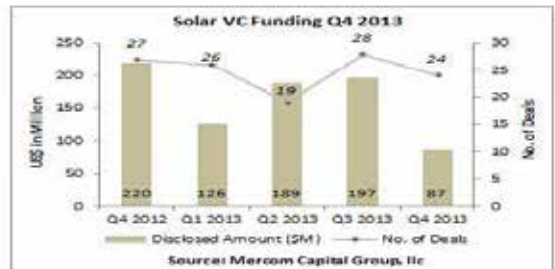
A CASE STUDY ON MERCOM CAPITAL GROUP

About Mercom Capital Group

Mercom Capital Group is a global communications and consulting firm focused exclusively on clean energy and financial communications. Mercom's consulting division advises clean tech companies on new market entry, custom market intelligence and overall strategic decision making. Mercom's consulting division also delivers highly respected industry market intelligence reports covering Solar Energy, Wind Energy and Smart Grid. Our reports provide timely industry happenings and ahead-of-the-curve analysis specifically for C-level decision making. Global clean energy communications and consulting firm released its report on funding and merger and acquisition (M&A) activity for the solar sector in 2013.

Global venture capital (VC) investments dropped 40% to \$600 million in 97 deals in 2013 compared to \$992 million in 106 deals in 2012. Total corporate funding into the solar sector, encompassing VC, debt and public market financings was up 25% in 2013 to almost \$10 billion, compared to about \$8 billion in 2012.

VC funding in Q4 2013 totaled \$87 million in 24 deals compared to \$197 million in 28 deals in Q3 2013.



Solar downstream companies saw the largest amount of VC funding in 2013 with \$262 million in 34 deals, accounting for 45 percent of venture funding. Investments in CSP reached \$109 million in 12 deals .Large-scale project funding announced in 2013 amounted to \$13.6 billion in 152 deals, compared with \$8.7 billion in 84 deals in 2012. Announced large-scale project funding in Q4 2013 jumped as well, with \$6 billion in 46 deals. The largest project funding deal announced in 2013 was the \$1 billion bond financing completed by Solar Star Funding for its Solar Star 1 and Solar Star 2 projects.

Company/Projects	Country	Funding Type	Amount (\$M)	Investors
Solar Star Funding (Solar Star 1 and Solar Star 2 Projects)	USA	Bond Issue	1,000	Undisclosed
Samsung Renewable Energy (Grand Renewable Solar Project)	Canada	Term Loan	498	RBC, Natixis, CIBC, BTMU, Desjardins, Nord/LB, Rabobank, National Bank Financial, Key Bank
Moroccan Solar Energy Agency (MASEN) (No or II CSP Project)	Morocco	Loan	454	KfW
Moroccan Solar Energy Agency (MASEN) (No or III CSP Project)	Morocco	Loan	446	KfW
Recurrent Energy (California (5) and Arizona (1) PV Projects)	USA	Equity Investment	400	Google, KKR
Sempre Energy (Copper Mountain 3 Solar Project)	USA	Debt	400	BTMU, SMBC

Source: Mercom Capital Group, Inc

Residential and commercial lease funds showed strong growth in 2013, with 22 announced funds totaling \$3.34 billion, a 69% increase over 2012. Almost \$1 billion was raised in Q4 2013 alone. Vivint Solar, Solar City, Sun run, Sun Power, and Sun Edison were top fundraisers in 2013. The fourth quarter of 2013 was a very active quarter for large-scale project development around the globe. Mercom tracked about 220 project announcements totaling almost 9 GW in the quarter.

Company	Terms/ (\$M)	Amount	Acquirer	Country
Tokyo Electron	9,390		Applied Materials	USA
Power-One	1,028		ABB	Switzerland
Wuxi Sun tech Power	489		Shunfeng Photovoltaic International	China
China Merchants New Energy Holdings	273		Gold poly New Energy Holdings	China
Hemlock Semiconductor (12.25% Ownership Interest in Hemlock Semiconductor LLC, and Hemlock Semiconductor Corp.)	240		Dow Corning	USA

Source: Mercom Capital Group, LLC

Corporate M&A activity in solar amounted to \$12.7 billion in 81 transactions compared to \$6.7 billion in 51 transactions in 2012. M&A deal activity was up 59% in 2013 largely driven by strategic acquisitions and acquisitions of distressed assets.

The largest M&A transaction in 2013 was the \$9.4 billion acquisition of Tokyo Electron by Applied Materials, followed by ABB's acquisition of Power-One, for approximately \$1 billion. Shunfeng Photovoltaic International acquired Wuxi Suntech Power, the main Chinese unit of Suntech Power Holdings, for \$489 million, and Goldpoly New Energy Holdings acquired China Merchants New Energy Holdings in a non-cash transaction valued at \$273 million.

Dow Corning acquired Mitsubishi's 12.5% stake in Hemlock Semiconductor LLC, giving it 100 percent ownership, and 12.5% in Hemlock Semiconductor Corporation, giving it 80.5% ownership.

Mercom tracked 28 solar companies that filed for insolvency or bankruptcy protection over the course of 2013. More than 60% of these companies were manufacturers, accounting for 18 of the 28. European companies continued to struggle with bankruptcies and insolvencies. Labels: solar funding, venture capital, Mercom, finance, solar projects, mergers, acquisitions, investment financing.

#### Reason of Mercom Capital Group invested in India

Mercom capital group invested in solar sector in India because of some cause i.e. project margins, state policies has been delayed frequently, there is no real Renewable Purchase Obligation (RPO) enforcement in place, and national elections are fast approaching adding more uncertainty to India's solar market which could result in a slowdown in large-scale solar project installations.

The case for solar in India will remain strong as long as the relevant policy goals address power shortages that affect millions of Indians, businesses, industries, and agriculture and the rupees will be very strong as per current scenario so that is more beneficial to Mercom capital group that is why they invest for solar in India.

#### FINDINGS

Venture capital is a type of private equity capital which provides financial support for professional and new businesses or venture.

- A venture capital fund thus strive to provide entrepreneurs with the support to create up-scalable business with sustainable growth, while providing their contributors with outstanding returns on investment, for the higher risks they assume.
- From the study there are abundant benefits to economy, investors and entrepreneur which are provided by venture capital.
- Venture capital helps in an industrialization of the country as well as technological development of the country.
- Venture capital is beneficial for the investors as its invite investor only after the venture start earning profit, so the risk is less and healthy growth of capital market which is entrusted.
- Venture capital helps employer to employ their funds into productive avenues.
- The venture capitalist is a business partner, sharing the risks and rewards. Venture capitalists are rewarded by business success and the capital gain.
- The venture capitalist also has a network of contact in many areas that can add value to the company.

#### SUGGESTIONS

- From the concept of venture capital we understand that venture capital is a private equity capital which is provided by professional investors for the purpose of expand our business.
- From this study we understand that in a strong company the capital growth will be increase speedily as compare to weak companies due to growing global competition.
- The venture capitalist injects long term equity finance, which provides a solid capital base for future growth.
- Venture capitalist is able to provide strategies, operational and financial advice to the company based on past experience with other companies in similar situations so we analyze that the expected returns will be increase or decrease.
- Venture capital is a long and complex process that is why we need to require a detail business plan with the help of financial projections as well as professional.
- The venture capitalists are knowledgeable and sophisticated investors so they are very helpful for the study of venture capital industry because of much knowledge we invest the money in a safe area and we earns a higher gains with a higher risk when the project will be succeed.

#### CONCLUSION

This study is an attempt to bring out factors that are instrumental in the growth and development of a Venture Capital industry, with special focus on India. This study is significant, as no prior research has been conducted in the motives for syndication in the Indian sub-continent. India's venture capital industry is still at a nascent stage of development. While further regulatory changes are required, research on practices and behavior within the industry is pivotal for the growth and enhancement of the industry.

From this study we conclude that venture capital have a qualities such as innovative technology , potential for rapid growth, a well-developed business model and impressive management team , of these qualities funds are most interested in ventures with exceptionally high growth potential and capable of providing the financial returns that venture capitalists expect.

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