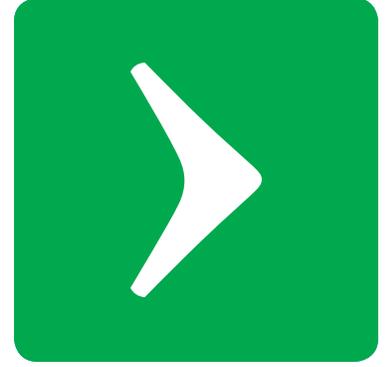


Cleantech Highlights 2010: A Year in Review

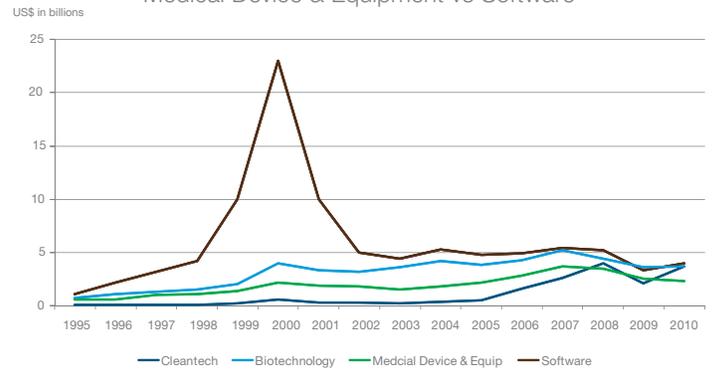


Cleantech investing in the U.S. increased by 45% from \$3.65B in 2009 to \$5.28B in 2010,¹ despite sluggish credit markets and a challenging, fragmented regulatory environment. Investing activity increased across early, mid and late-stage companies, although the type of investors at each stage shifted based on capital intensity. Early-stage cleantech angel and venture investors avoided seeding large-scale, capital intensive energy production companies and focused instead on capital efficient plays. Some of the more fortunate mid-stage companies raised funds from strategic corporate investors interested in developing partnerships or gathering information in advance of potential “buy vs. build” decisions. Select late-stage companies benefited from federal and state governments unlocking frozen project finance markets and providing loan guarantees, grants and other key incentives. Although private markets were initially wary of the government’s role, many companies — some of which are now public and others which are slated to IPO in 2011 and 2012 — simply would not have survived without government assistance.

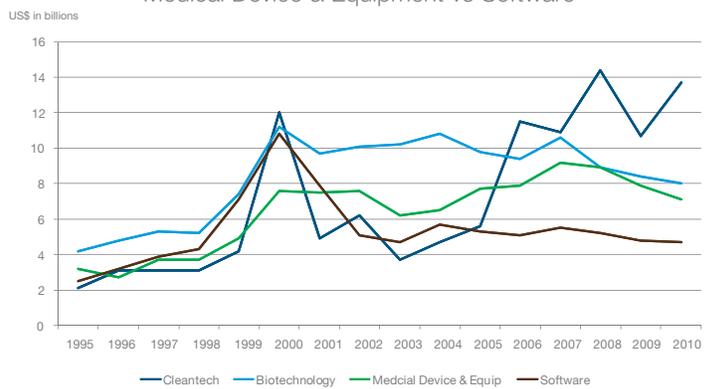
Key Drivers

Each cleantech subsector (solar, wind, biofuels, water, etc.) has an intricate and often distinct set of economic and supply chain dynamics. Despite its breadth and complexity, the cleantech sector is still very much in its infancy, much like the semiconductor industry in the 1960s. The sector’s key drivers — which include

Q4 2010 Funding: Cleantech vs Biotechnology vs Medical Device & Equipment vs Software



Average Deal Size: Cleantech vs Biotechnology vs Medical Device & Equipment vs Software



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Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report based on data from Thomson Reuters

substantial private and public funding, the creation of environmental legislative and regulatory frameworks, and heightened consumer awareness and demand — are only beginning to align. In the last five years, cleantech investment has overtaken technology, medical device, drug development and other traditional venture segments in terms of average deal size and aggregate dollars invested.

Exit Potential

Interest in the cleantech sector has increased, in part, due to an improving exit environment. The fourth quarter of 2010 was the best quarter for U.S. venture-backed IPOs (across all sectors) in nearly 10 years, and cleantech IPO proceeds during the fourth quarter eclipsed all three previous quarters combined.² One high-profile exit is Tesla Motors (NASDAQ:TSLA), a maker of high performance, all-electric vehicles which listed on the NASDAQ exchange last summer. The stock has done well despite continued losses and concerns about ramping production and meeting consumer demand. Another example is Amyris (NASDAQ:AMRS), which produces synthetic fuels and specialty chemicals. Its stock price has nearly doubled since its September IPO. Gevo (NASDAQ:GEVO), another biofuel firm, recently filed to raise \$170M in its public offering.

Assuming no major market downturn, several other U.S. biofuel, electric vehicle and solar IPOs are planned for the second half of 2011 and the first half of 2012. These long-awaited exits provide validation for emerging renewable energy technologies and much-needed returns to their venture investors. Lucrative exits will enable cleantech

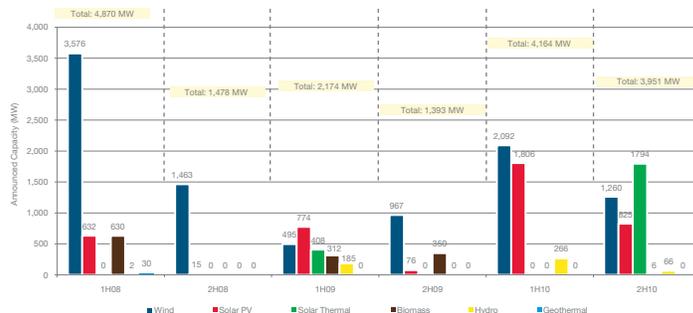
venture investors to raise new funds from LPs and help to perpetuate the innovation cycle.

Challenges Ahead

While the number of success stories has been on the rise, many less-fortunate companies continue to face a dilemma: institutional investors, bulge bracket banks, and hedge funds have very little appetite for technology risk, yet those who normally welcome technology risk (i.e., angels and VCs) either lack the funds or are wary of placing large bets on a single portfolio company -- even if they can syndicate the investment.

Government spending was supposed to break this cycle and “bridge the gap” between risk and investment spending. Unfortunately, government funding has been slow and laden with restrictions, such as requiring substantial equity alongside a loan guarantee. In many instances, this has resulted in a “who goes first?” scenario between investors and the government, leaving cash-starved startups caught in the gap.

Federal Incentives Drive Direct Investments in Solar and Wind



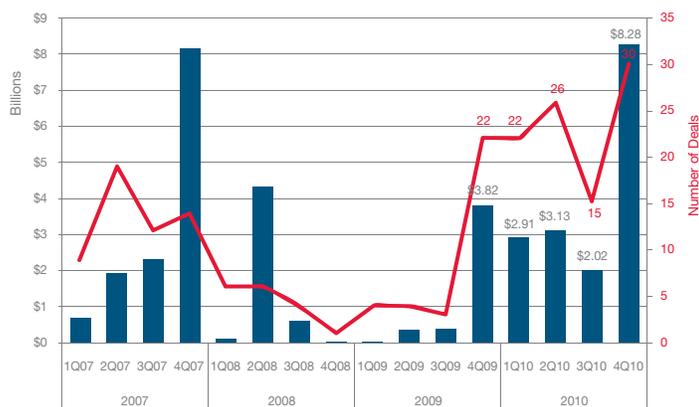
- NRG Energy and Exelon Corporation were the biggest investors in 2H10.
- Utilities added solar capacity prior to the deadline.
- Recent extension of one federal incentive program could encourage further solar energy spending in FY11.

Source: Cleantech Group

Global Implications

While 2010 was a positive year for the U.S. cleantech sector, China dominated in terms of exits. China accounted for more than two-thirds of all cleantech IPOs (63 out of 93) and almost 61% of total funds raised in public offerings (\$10.0B out of \$16.3B).³ In order to meet U.S. growth

Cleantech IPOs



Source: Cleantech Group

objectives, PwC estimates that \$150B needs to be invested in the U.S. over the next 10 years. During that same period, China is expected to spend between \$440B and \$660B.⁴ The Chinese government — prospering from the U.S. trade imbalance and largely unhindered by domestic political or environmental concerns — continues to leverage its ability to deploy its financial resources quickly.

An essential component of China's success and global rise has been the government's financial commitment for the full duration of large-scale infrastructure and renewable energy projects. This commitment reduces policy risk and allows private investors and state agents to make long-range investment decisions that align with lengthy construction and payback periods. Much to the dismay of U.S. and other western nations' manufacturing sectors, China has increased its efforts to provide lower-cost (yet highly qualified) labor, cheaper credit, and more enticing incentives — all of which help Chinese companies reach economies of scale more quickly than foreign competitors. For example, China now dominates crystalline silicon solar PV production and is gaining ground in terms of both production and deployment in wind and electric vehicles. Where China formerly relied on foreign consumers to purchase its products and fuel economic growth, it is now emerging as its own, self-sustaining industrialization engine.

Opportunity for U.S. Venture Centers

As we look ahead in 2011, it is important to remember why Silicon Valley has been successful in nurturing cleantech companies. The proximity to a highly-educated and experienced workforce, access to capital, and a pervasive entrepreneurial culture are historical and current factors for Silicon Valley's (and the cleantech industry's) success, but California also has the strictest renewable energy mandate in the country. California's regulations and incentives have helped incubate new technologies and firms until they can reach scale and become economically viable on their own. Once a technology reaches scale, the challenge is then to find the lowest cost of production possible. In the U.S., this has resulted in state-of-the-art, next generation automotive plants and bio-refineries in

states like Louisiana, Mississippi and Georgia. In other instances, the lowest cost production centers are offshore in countries like China and India.

Cleantech venture centers like Silicon Valley currently have a comparative advantage when it comes to innovation, R&D and technology development, while other regions or countries have an inherent advantage when it comes to low-cost production. Given this dynamic, cleantech venture centers would benefit from enhanced government assistance for seed stage ventures and expanded R&D tax credit programs. States looking to promote manufacturing job growth will benefit most if they can offer more generous incentives and financial assistance than other regions, both domestically and abroad.

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¹ Cleantech Group, Q4 Q410 / FY 2010 Investment Trends, January, 2011, slide 8.

² Ibid, slide 22.

³ Ibid, slide 24.

⁴ PwC, Clean Technology Investment Trends Q3 2010, slide 19.

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