HV CAPITAL

TO SPV

—

OR NOT TO SPV?

TO SPV OR NOT TO SPV: SHOULD I CONSIDER SETTING UP A FINANCING SPV FOR MY STARTUP?

HV

- Many climate tech startups deploy assets to businesses or consumers.
- SPVs aid in debt financing these assets.
- They are by no means a must-have for any startup, but but consider if three key criteria apply:

1 **You have to pre-finance a lot of assets**

- Companies with physical products often need prefinancing. But prefinancing assets/capex boosts this need beyond typical working capital.
- Rule of thumb – if you need longer than a year to recoup the asset on a cashflow basis, you probably need some sort of financing for your assets.

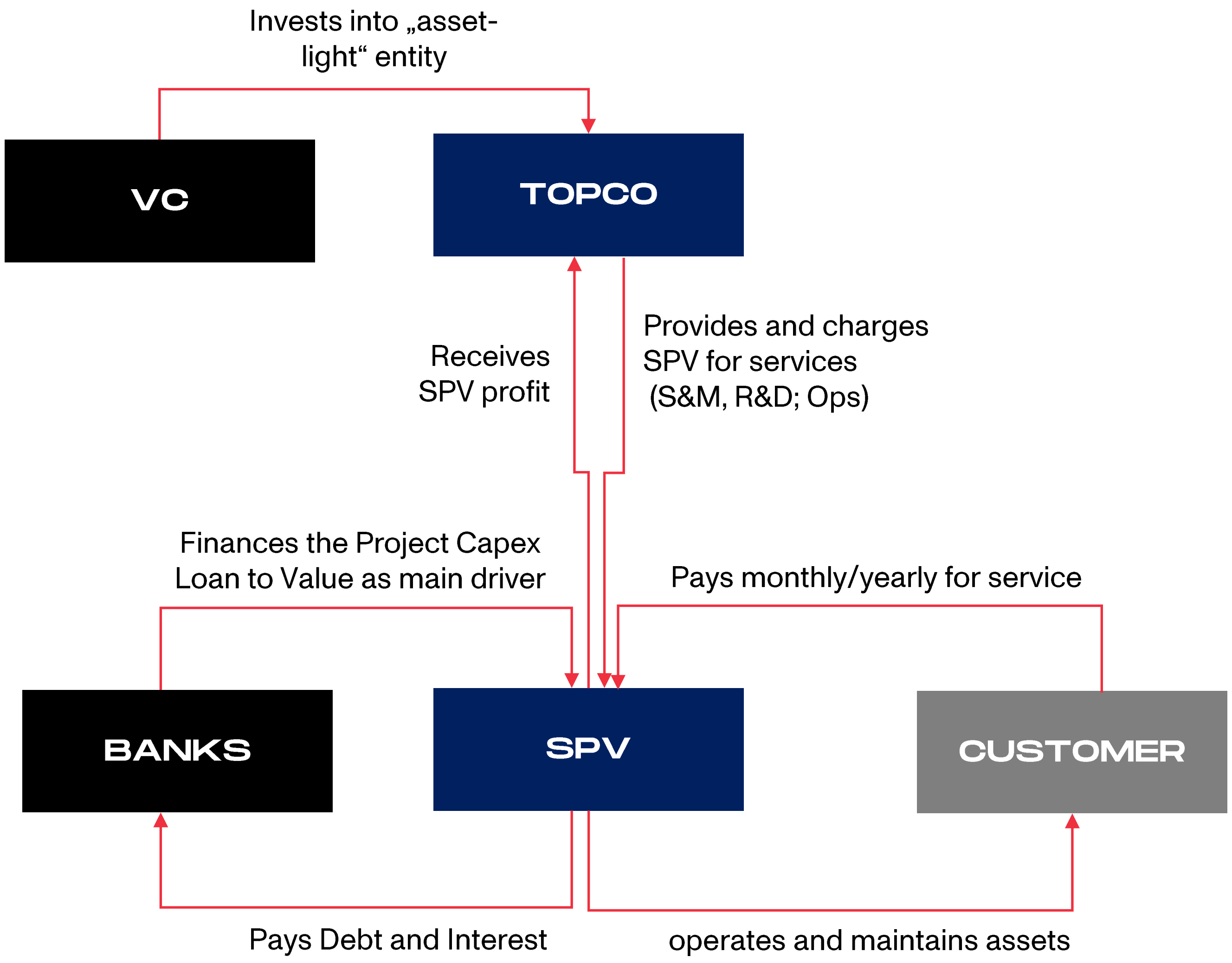
2 **You do not qualify for corporate or venture debt in amount you need**

- Banks are open to asset-backed loans, especially with known resale values.
- Venture debt is sometimes possible, but often not in desired amounts.

3 **There is no other, “easier” way of financing (i.e. factoring)**

- SPVs are complex. Consider alternatives like factoring, revenue-based financing, or grants.

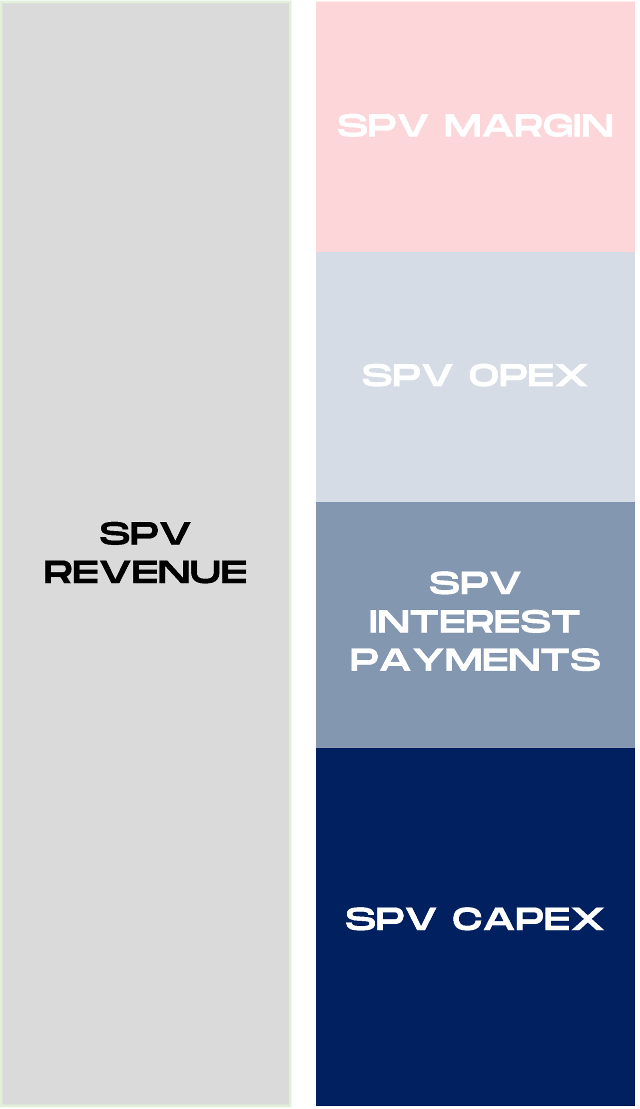
SPV STRUCTURES CAN BE A WAY OF COMBINING PROJECT AND VENTURE FINANCING



Comments

- Guiding principle for SPVs is separation of risks
- TopCos operate often at a loss in VC context.
- SPVs are typically profitable, holding assets and guaranteed cashflows.
- Banks seek secure returns as they miss out on potential upsides.
- Loan-to-Value is a vital KPI for banks: 90%+ for assets like Solar, <50% for newer tech. Factors include:
  - Known resale value of assets/collateral
  - Cash flow security and customer solvency
  - Historical data/track record
  - TopCo guarantees and solvency.

SPV EXPENSES ARE USUALLY WELL DEFINED BEFORE RECEIVING THE LOAN



- Resulting margin is the profit which either has to be kept in the SPV as security for the banks or can be transferred up to the mother company

- Ongoing operating expenses both for SPV itself (accounting etc) as well as ongoing support for operations/maintenance of the asset
- Usually done by 3rd parties, since SPV usually doesn‘t have many FTEs

- Interest payments for the capex financing are another major part
- With floating interest rates, this position can vary a lot depending on market conditions

- Principal Repayment of Capex is the main expense of SPVs
- The higher the LTV, the higher this position will be
- Time to pay off Capex should be similar to useful economic life of the asset