KEYNOTE INTERVIEW

Powering the transition: The mid-market opportunity

Investors need to be well-positioned to invest in small or medium-sized enterprises and platforms in the European energy transition, and to realise the full potential of these opportunities, says RGREEN INVEST's Stéphanie Bégué

The colossal requirements of the energy transition typically conjure up images of great fleets of offshore wind farms, or vast landscapes carpeted with solar panels as far as the eye can see.

Yet most energy transition investments, especially in Europe, serve relatively localised needs and are correspondingly smaller in size, points out Stéphanie Bégué, a partner and head of business development and investor relations at Paris-based manager RGREEN INVEST.

She explains why firms that possess specialist skills in the energy transition and are structured to invest in mid-market opportunities are well-placed to succeed in this rapidly growing market.

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Q What is the best way for infrastructure managers to approach the energy transition in Europe?

In Europe, the energy transition is primarily driven by medium-sized players. The market is completely different compared to the US, and it is crucial for investors to understand that difference. The reason why medium-sized players are so important is simple – it comes down to geography. The European continent consists of different countries and medium-sized markets with the highest GDP density (geographic) in the world, and all the countries encounter land constraints.

The specificity of the European landscape requires investors and companies to think differently and unlike traditional infrastructure players. The European energy transition is considerably different in terms of approach to achieving scale compared to general infrastructure, such as airports or highways. Here in Europe, we are talking about a large number of mostly small and medium-sized assets that will drive the ongoing decarbonisation of grids and usages.

Q What are the advantages of investing in the mid-market when it comes to the European energy transition?

The key advantage is to be close to the entrepreneurs who are really driving the energy transition, helping them build businesses and platforms of scale. In order to be able to execute successfully in this environment, you have to specialise and be close to the ground. We do not take on technology risk. We only partner with entrepreneurs who have a strong, established track record in this space – and there are numerous examples of mid-sized entrepreneurs developing projects and building businesses of scale successfully.

When we partner with a company, the equity value of the business is usually in the range of €100 million and €200 million, and we aim to support our partners and accelerate their growth with a goal to increase the equity valuations to €1 billion-plus by the time we look to exit.

As soon as a platform is sizeable enough, it will naturally attract larger players, such as strategics, utilities or large infra funds. Not many platforms valued at around €1 billion come to market each year. As such, larger players are generally keen on seizing such opportunities, and they will come in and provide the liquidity for us to exit.

Although we are a financial investor, we operate with an entrepreneurial spirit and have members on our team coming directly from the industry. Our historical investments and partnerships, as well as the team composition, contribute to our image of being a partner of choice for entrepreneurs in the energy transition in Europe. Our role includes making the connection between the entrepreneurs and the classic financial tools. This requires long-term relationships based on trust with entrepreneurs in the energy transition space. They want to work with us – we are very close to them, and we speak the same language. Naturally, more than 85 percent of our deals are sourced internally on a proprietary basis.

Q How much appetite is there among investors to approach the energy transition through an impact lens?

Investors can maximise the positive impact of their invested capital by investing through specialist firms capable of supporting the real drivers of the European energy transition. I could not say that large buyouts within this space do not provide any positive impact, but I believe the growth stories we offer are simply more impactful. The medium-sized players we support are creating value from scratch, offer a better risk-return balance and the sector will continue to experience growth acceleration in the coming years. It is possible to achieve double-digit returns. That allows for a collective win-win – it is a win for the energy transition, and a win for investors.

If you think back to five years ago, for many, impact was seen as having a negative reputation in terms of returns. However, this perception is now outdated. Today you can be impactful by investing in Europe's energy transition and achieve a double-digit return on your capital. You do not have to go into emerging markets to be impactful.

"The specificity of the European landscape requires investors and companies to think differently"

Q Why do you believe specialist managers are better suited to investing in the transition in Europe?

In Europe, you have to achieve scale

by building small and medium assets. Taking this key factor into account, specialist firms that bring value beyond capital to their partners have strong potential to succeed.

When I joined RGREEN INVEST in 2017, I quickly realised that many LPs felt it safer to invest in a fund managed by a big-name GP, which are typically generalists. LPs wanted the big-name GPs because the market for renewable energy was very different compared to the one of today – it remained subsidy-dependent. But today, the energy transition market is competitive, liquid and viewed as an asset class with unique benefits to portfolios. Investors are starting to view the energy transition as an asset class which should be dedicated to specialists with a profound understanding of the specificities of the sector.

For example, a generalist fund might have €5 billion to invest in the energy transition, but it may not be able to put less than €200 million into any single deal due to size and resource constraints. We plug a gap in the mid-market as flexible partners with the ability to support mid-sized players with an initial investment ticket of as little as €50 million. This means we can make the connection between the entrepreneurs and the classic financial tools.

Q What does it take to build a team that can work successfully with entrepreneurs?

Very often, finance professionals have more or less similar profiles and focus. They think only about key performance indicators (KPIs). Of course, we have KPIs too, but our investment team is a mix of experienced professionals with different backgrounds and experiences, including coming from the industry. It boils down to real asset skills and knowhow. Our success comes from the way we talk with entrepreneurs and the values we bring to the table – we break the status quo.

> *"There are numerous examples of mid-sized entrepreneurs developing projects and building businesses of scale successfully"*

When our LPs conduct due diligence, they sometimes ask to speak with our partners, our entrepreneurs. The feedback that we receive from the entrepreneurs is nearly always the same: the entrepreneurs say that they do not want to work with funds that are just there to buy them out, manage them and achieve their KPIs. They want partners that understand them and are willing to remain close to them.

Good investment managers need to be good long-term partners. We believe that when entrepreneurs have a problem, it is important that the investment managers can use their specialist knowledge of the sector to support them. So, we are not just a financial partner, we are also an industrial partner. Needless to say, there is a massive human element to what we do.

Q How can diversity and inclusion help build successful investment teams?

We like entrepreneurs, and we particularly like their flexibility and ability to adapt to a constantly evolving landscape. In addition to all the standard qualities one would expect from investment professionals, we also look for qualities found in successful entrepreneurs in our employees. In addition, we like people who are non-linear and can think outside the box.

Personally, I believe that soft skills are as important as hard skills. We do not just look for people from the top universities. We want a mix of backgrounds and experiences – and we focus more on inclusion than diversity. Inclusion means that we have people from different social backgrounds working with us, along with more than 10 different nationalities.

In 2017, we were only 10 people at the firm and I was the only woman. Today, we are a team of 50 and 42 percent of our staff are women. More importantly, half of our department heads are women, which has had a positive impact on how the firm thinks and operates. The progression happened naturally, and focusing on being inclusive and open, we did not have to deliberately push for diversity.

Q How do you see the role of women evolving in the asset class?

I believe that ensuring executive committees are systematically including women is a good thing, because often the way we think, as women, is different to men. We can work towards the same goal by taking another path and offer different perspectives in the boardroom. Women doubtlessly bring value to executive teams.

When I started my career 20 years ago, working on the trading floor, one of my goals was to operate like a man. That is no longer the case. Now, finally, I feel like I am completely free to be a woman in business. In today's environment, as women, we can use our own unique skills in addition to the standard set of business skills, as opposed to trying to copy men's behaviour. ■