Glossary of Investment Terminology

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Glossary of terms

Investment and Renewables

If you're new to renewable energy or investment, then it can be minefield of new language and terminology. What seems totally normal to a finance expert can be entirely indecipherable if you haven't had this sort of investment before.

So to help you make sure you get the right type of investment for your project, we've got together a glossary of common terms from the world of investment and renewable energy. Hopefully, they'll help you make the right choice for your project.

Types of finance

Private equity is an injection of funds by specialised investors into private companies with the aim of achieving high rates of return. A private equity investment will generally be made by a private equity firm, a venture capital firm or an angel investor. Each of these categories of investor has its own set of goals, preferences and investment strategies; however all provide working capital to a target company for a range of reasons including investing in renewable energy.

What capital you are likely to source depends on what stage your business is at. Promising new businesses will get seed capital, whilst early-stage growth businesses will get venture capital. Later-stage growth businesses will take out debt and/or equity.

Venture capital is financial capital provided to early-stage, high-potential, high-risk, growth start-up companies. The venture capital fund makes money by owning equity in the companies it invests in. Venture capital is a subset of private equity. Therefore, all venture capital is private equity, but not all private equity is venture capital.

Private or Angel investors provide capital for a business start-up, usually in exchange for convertible debt or ownership equity. Angels typically invest their own funds, unlike venture capitalists, who manage the pooled money of others in a professionally-managed fund. Private or "angel" investors fund 20-30 times more businesses than the venture capitalists.

The term "**equity**" is used in many different circumstances, and meaning slightly different things. The best way to think of it is "equity" is as a share of ownership.

Community Share Offer A co-operative (typically an Industrial and Provident Society) may use a share offer to raise funds for a project. Shares will be non-transferable, but they may be withdrawable, meaning that investors can "cash-in" after a certain period of time. Shareholders will be repaid depending upon the successares of the co-operative. For more information visit www.communityshares.org.uk.

Crowd Funding is the raising of funds from a large number of people, typically through an internet platform, to fund a new project or venture. The returns paid to funders will vary depending on the stucture of the offer. Credit based crowdfunding (sometimes known as peer to peer lending) will provide a variable or fixed rate to an investor.

Other ways of financing renewables

Asset finance	is typically used to buy a specific asset, and the loan will be secured against it. For example, when financing AD projects, a CHP unit is often funded by asset finance.
Family office	is a private company that manages investments and trusts for a single wealthy family.
Mezzanine	is a form of debt that often includes the rights to covert to equity in the event of default. Mezzanine finance is often quite expensive compared to other forms of debt. The investor will usually look for a higher rate of return including interest and fees.
Retail bond issues	is an alternative means of raising capital, offering individuals the chance to invest in a bond that could realise a competitive annual return, while also engaging with customers, employees and members of the general public.
Shareholder Loan/Loan notes	is a debt-like form of financing provided by shareholders. This is usually treated as equity within the business.
Due diligence	is an investigation of a business, person or project prior to signing an investment contract, undertaken with a certain standard of care. Finance providers will typically undertake their own due diligence.
EBITDA (earnings before interest, taxes, depreciation, & amortization)	the EBITDA of a company gives an indication on the operational profitability of the business, i.e. how much profit does it make with its present assets and its operations on the products it produces and sells, taking into account possible provisions that need to be made.
Equity dividends	is the annual cash flow that an equity investor receives.
Fixed term return	is a guaranteed minimum return at the end of an agreed investment term.
Index-linked	is the coupling of payments with an index to allow for inflation, such as the Feed in Tariff and Renewable Heat Incentive where the retail price index is used.
Internal rate of return (IRR)	is used to measure and compare the profitability of investments.
Non recourse finance	(also known as unsecured debt) is a loan where the lender is only entitled to repayment from the profits of the project the loan is funding, not from other assets of the borrower.

Recourse finance (also known as secured debt) If a loan is with recourse, the lender has the ability to fall back to the guarantor of the loan if the borrower fails to pay.

Senior and Junior debt in the event the issuer goes bankrupt, "senior" debt theoretically must be repaid before other creditors receive any payment. "Junior" debt is of a lower priority.

Special Purpose Vehicle/Entity - SPV/SPE a corporation can use such a vehicle to finance a large project without putting the entire firm at financial risk.

Subordination is the process by which a creditor is placed in a lower priority for the collection of its debt from its debtor's assets.

Renewable energy terms

The Feed-in Tariff (FiT) gives index-linked payments for all the renewable electricity you generate for 20 years. It will also give you extra payments for any electricity you generate that is then exported to the grid. Tariffs differ depending on the type and size of technology.

The Renewable Heat Incentive (RHI) gives index-linked payments for useful heat generated from renewable sources for 20 years. Tariffs differ depending on the type and size of technology.

The Renewables Obligation (RO) is currently the main financial Government incentive for the development of large-scale renewable electricity generation. Support is guaranteed for 20 years, therefore balancing the need to provide investors with long-term certainty, whilst keeping costs to consumers at a minimum.

Energy Service Company (ESCo) is a commercial business providing a broad range of comprehensive energy solutions, including designs and implementation of energy savings projects, energy conservation, energy infrastructure outsourcing, power generation and energy supply, and risk management.

Renewable Energy Guarantees of Origin (REGOs) is an EU scheme to promote and increase the contribution of renewable energy to electricity production across the EU. REGOs provide a guarantee that the electricity is from a renewable energy source.

Levy Exemption Certificates (LECs) Electricity produced from renewable sources is exempt from the Climate Change Levy and is entitled to Levy Exemption Certificates (LECs), which can be bundled with the power when sold to a supplier.

Power Purchase Agreement (PPA) is a contract between two parties, one that generates electricity for the purpose of sale and one that is looking to purchase electricity. Negotiating a PPA can ensure you receive a higher payment for your renewable energy than from the FiT.