# *Battery + Storage Podcast*: Financing Future Trends in Storage With George Koutsonicolis, SOLIC Capital
## Host: Bill Derasmo
## Guest: George Koutsonicolis
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**Bill Derasmo:**

Hello and welcome back to the Troutman Pepper *Battery and Storage Podcast*. And today our guest is George Koutsonicolis. George is with SOLIC Capital Advisors LLC. Welcome to the program George.

**George Koutsonicolis:**

Thank you for having me, Bill. Looking forward to a great discussion.

**Bill Derasmo:**

Absolutely. Well, without further ado, I'm going to let you give yourself an introduction. I know you're a Chicago guy and you've got your MBA from the University of Chicago and you were telling us off mic that you started out your career at ComEd. So why don't I let you introduce yourself to our audience and then we can have a conversation.

**George Koutsonicolis:**

Sure. Hello audience, George Koutsonicolis with SOLIC Capital Advisors. It's a pleasure to be here. Started my career out of undergrad at ComEd in their environmental chemistry group. My background at the time was the bachelors of chemistry. And right around the time that I had joined the wholesale power market became deregulated, so ComEd built a wholesale marketing and power trading group that brought individuals in-house within the company as well as externally and built up this group. So that was my entree into the electricity power market trading side of the house. Left there when I went to business school at the University of Chicago and ended up at the Energy Utilities Group of Scotiabank, which is the Canadian based bank and their corporate and investment banking department. And that ultimately led me to the role that I'm in as managing director with SOLIC Capital Advisor covering the energy as well as other sectors.

**Bill Derasmo:**

Fantastic. Our podcast has dealt with a variety of aspects in the storage space and storage development. So obviously we're going to have more of a finance focus today, which I think is very timely. Let me ask you, what's driving your particular interest in storage? And in addition to that, which part of the storage picture are you or your firm most interested in? Is it on the grid scale side, the stationary side, EVs, utility scale? Maybe you could talk for a minute about that and the answer maybe all the above. Sure.

**George Koutsonicolis:**

That's a great question. The focus on the storage side is really getting a lot more attention in the global energy narrative. You've got the net zero targets, you've got this whole energy transition to renewables and battery storage is going to be a significant component of that going forward. Most of the iron in the ground from a battery storage perspective is utility scale projects and it makes sense because you've got intermittent renewable energy resources in the form of wind and solar that can't run a 100% of the time. So you're able to, and you know this better than I, then battery storage provides an opportunity to produce power, store it when it's cheap and then put it to the grid during peak times when power is most expensive. Then being said, given the significant increase in utilization of electric vehicles, you're also seeing in tandem the growth in EV battery storage technology. Not to mention the inflation reduction act, which is providing 300 plus billion of incentives to the renewable sector, providing further tailwinds to the storage sector. And as far as what we cover, we cover everything across the chain.

**Bill Derasmo:**

The IRA is one of the elephants in the room so to speak, and we'll talk about that maybe a little later. But for now, where have you been in recent weeks and months? Have you been working more with companies you'd consider startups, early stage or more established companies that are seeking to enter the storage space?

**George Koutsonicolis:**

SOLIC Capital Advisors generally we work with more established companies both having equity backed or larger middle market companies as well as public trade companies. So that's really our client base. We focus both on healthy as well as distressed special situations companies.

**Bill Derasmo:**

Speak for a second about the difference in, and maybe it's a difference in personality, but maybe there are some sort of hard and fast differences in dealing with a company that's backed by private equity versus say a publicly traded company. What are the sensitivities and what's the personalities involved, that sort of thing.

**George Koutsonicolis:**

That's a great question. Dealing with private equity sponsored companies or private companies generally, there's obviously a different focus. They don't have the quarterly public reporting constraints. They're able to focus not in a close setting, but actually focus more on driving business and growing the business. Not that publicly traded companies aren't focused on that, but they have this added layer of complexity and reporting and also resource utilization from an administrator's perspective.

**Bill Derasmo:**

Sure. That all makes sense. And in terms of what you're looking for in terms of investment opportunities and a perspective company, is there a specific technology, a market niche? Do you look at things, well, this would be a long duration product versus short duration. Obviously I would think offtake contracts are really attractive. In other words, if the company has contracts lined up or opportunities that are clear for offtake contracts, I would assume that would be an important game changer, but maybe you could speak to some of those items.

**George Koutsonicolis:**

Sure, I'd be happy to. Just to clarify, SOLIC Capital Advisors is not an investment firm, so we're not a private equity firm or VC that actually invests. We're financial advisors focused on providing financial advisory, corporate finance, investment banking services to our clients. With that being said, you're seeing a lot of investment dollars both from corporate strategics to venture capital, private equity focused on these both emerging battery technologies versus solid state battery technologies, as well as traditional lithium-ion technologies. And you're seeing a lot of more institutional financing going into these large grid scale projects. So to put into the context, just the utility scale battery storage capacity has grown from up to about eight gigawatts in 2022. I think it's 12 or 15 gigawatts through midyear this year and is expected to double by 2025 to almost 30 gigawatts, in the market for battery energy storage systems, which are utility scale type of systems is expected to grow to over 120 billion by 2030.

So you've got a lot of focus is becoming a bigger part of the renewables narrative and the dollars are being invested accordingly. You've got venture capital that's I think for the first half of this year, there's about $6 billion of venture capital. Financing that awareness into the sector and you've got private equity. They're looking for companies that are generating free cashflow to service private equity capital structure. You've got tens of billions of dollars from private equity sponsors that have been investing in the sector. And not to mention corporates, which are looking to either expand a footprint or get into the sector. For instance, you had Equinor, which is a large Norwegian based energy company, they made a significant acquisition for a US battery storage developer called East Point Energy. So you're seeing a lot of both national and cross-border M&A activity in the sector with established players.

**Bill Derasmo:**

Equinor is a big player and that's an interesting point and thank you for clarifying what it is that SOLIC actually does, because I didn't want to suggest to our audience otherwise. Well, let me ask you a question. What do you think of the statement that oftentimes the people who found a company are not the best people to run the company once it is up and running?

**George Koutsonicolis:**

That's the $64 question. I'm not an expert in this field and obviously there isn't any trends that I've been focused on, but you do have situations where the founder, entrepreneur, owner operator, they're able to grow a company to a certain size, but they just don't have the desire or the capability to take it beyond a certain point. And that's where maybe an institutional investor and more structured C-suite professionals makes sense. But you also have the clear examples of Elon Musk that's been able to grow Tesla as well as many other companies beyond terminal growth and building multi, a $100 billion-dollar, trillion dollar businesses.

**Bill Derasmo:**

Oh, sure.

**George Koutsonicolis:**

So clearly there's founders and the entrepreneurs that have both the vision from a grand vision perspective as well as the execution capabilities to create these very profitable growing businesses.

**Bill Derasmo:**

It was just a statement that I had heard relatively recently from a new board of directors that were coming in and I just found it to be a provocative statement, so I figured I would get your take on that. And probably like a lot of things in life, it's one of those things that's a little hazy because as you point out, there are certainly many examples of founders who have gone on to lead companies for a long time quite successfully and build them. Anyway, I just thought I would get your take on that. What are you seeing in the market today in terms of the challenges of raising debt versus equity or maybe there's challenges with both at this point? I have some thoughts on it, but I'll let you go first.

**George Koutsonicolis:**

Just generally given the interest rate environment where rates are at currently where the certain related to that and resulting from that both from institutional investors as well as large corporations, it's become a bit more challenging to raise debt and or equity. That being said, the battery storage segment within the energy sector, there's still a big investment opportunity there. And just energy in general, there was over $190 billion of M and A activity last year in the United States within the energy sector, and a big portion of that was in the renewable sector, which battery storage is part of that. So, I think just given the heightened focus on net zero, the energy transition story coupled with the IRA tailwinds, you're going to see continued investment in the sector. And the metrics are such that there's continued private equity and VC dollars going into the sector.

You've also got debt financing entering the battery storage sector for these large utility scale projects that are being developed or have been developed by operators that have been successful in the past. They've got the brand recognition within marketplace so to speak, or they have offtake contracts, which is providing the economics to support a debt financing for that type of facility.

**Bill Derasmo:**

We hear a lot about private equity. More recently I'm starting to hear more about private debt. Because it's a challenge to go to banks right now to get debt sometimes, especially in this space. So, I wonder if you could share some thoughts on that piece.

**George Koutsonicolis:**

I'm happy to. You've got traditional lenders. I think what I've seen have become more risk averse, just given the interest rate environment. So there's this gap between term loan debt or additional debt and equity, and that's where private credit has been able to fill the void. And you're seeing a lot of large institutional investors raise private credit funds or have raised private credit funds. It's become a trillion dollar plus asset class. They have a lot more flexibility in terms of structuring debt instruments where they have some sort of stated coupon, but they may or may not have to take a cash pay and they have some sort of payment and kind component to provide the liquidity and flexibility for a borrower, especially in a developing space like battery stores to achieve their growth plans, get to expanded EBITDA margin, profitability and to ultimately pay off the debt or refinance that with lower cost, that private credit funds are in business to make money and they're obviously charging the appropriate risk adjusted returns to provide that financing.

**Bill Derasmo:**

One of the things that we've been seeing in the tax equity space is traditional utilities or companies that may not have been able to consume the tax credits. With the changes in the law to the inflation reduction act are now I think finally starting to realize, "We don't need to bring in tax equity. We can just do this ourselves." So, I was wondering if you could speak for a minute about the future of tax equity financing, some of the opportunities or flexibility that the Inflation Reduction Act may have opened up?

**George Koutsonicolis:**

That's a great question, but I don't have a great answer for that. There's a lot of opportunity. There's obviously the Inflation Reduction Act and the tax equity financing structures that have historically been used in solar and wind, may or may not be applicable to the battery storage. I think you'll see it play out here in the near term.

**Bill Derasmo:**

And in terms of changing from debt and then tax equity to just plain old equity, what are you seeing in terms of the various investor types maybe if you will? What are they looking for? What are their concerns? What are you hearing in the market? Because obviously there's still a tremendous need for that type of investment in this sector. But it seems like along with the debt side there are challenges.

**George Koutsonicolis:**

Every institutional investor has certain return profiles and depending on their mandate, whether it's a venture capital fund, a venture debt fund, a private equity fund, they have certain return thresholds and they have to operate within mandate. They have flexibility within that mandate, but you're not going to expect to see a private equity sponsor make a series A investment in a start on battery storage company commensurate with that. You're not going to see a venture capital fund do some sort of leverage buyout transaction for a battery storage company. So each asset class has its own return thresholds or return profiles from a risk adjusted basis, so they'll invest accordingly. The ideal world is high return, risk free, but there's no free lunches they say.

**Bill Derasmo:**

Right, right. And do you see a difference when players are looking to make an investment in hybrid resources, solar plus storage versus pure play storage? What are the differences or different considerations that might come into play?

**George Koutsonicolis:**

That's a great question. This co-location of storage with renewables or this hybrid umbrella, it makes sense from an industrial logic perspective that you're gaining a lot of economies of scale from a development perspective and co-locating these two types of assets provide these economies of scales and efficiencies, but you have a lot more higher capital intensity. And you're coupling the risk if you think about it. You don't have two individual parties that are sponsoring or backing a battery storage facility versus a renewable power generation facility. So, both strategies have their place in the market and you're going to see the investments both from a private equity and debt perspective. They'll pick and choose their investment opportunities or where they're going to put their capital.

**Bill Derasmo:**

Interesting. So, I would think with the solar plus storage, if there's a PPA, that's going to be a game changer because at that point you've got the renewable resource. Okay. Those were a lot of the major questions that I had. I was wondering if you could take out your crystal ball and make some predictions on where you think we're going. Obviously storage is going to continue to grow tremendously, but if you could sort of make some crystal ball type predictions on where you see the financing space going, where you see, like I said, the challenges in the debt market and otherwise, and then we'll check back in two years from now to see if your prediction is right.

**George Koutsonicolis:**

I can give my crystal ball prediction, but I can't make any promises or hold myself to it or hold you to it. Obviously, there's going to be continued financing this space at least for the next five to 10 years, and there's going to be both winners and losers, just like any developing industry. Think of the railroad, the aviation, electric vehicle sectors. There's both winners and losers in each new developing industry. Definitely it's becoming an increasing part of the narrative from an energy investment perspective. You've got very savvy and smart individuals both on the corporate side as well as the institutional equity and venture capital side that are making investments and they're making the appropriate decisions to fund the sector growth. And it makes a lot of sense to have battery storage. You've also got these new technologies, right? You've got competing technologies, lithium ion, solid state batteries which haven't been commercialized yet, but they'll be interested to see that technology play out.

I think given the energy density possibility for solid state batteries, you're going to definitely see more investment dollars going into that sector, and that may be a game changer given the supply chain issues that we're currently experiencing.

**Bill Derasmo:**

Previous episodes of this podcast have gotten into some of those other technologies. We've talked about vanadium; we've talked about iron oxide. Form energy is out there. They're going to have their facility in Weirton, West Virginia and their iron related technology. So, there are going to be a lot of competing technologies that start coming into play, and I think Dominion just announced that they're looking at long duration batteries. So, it's certainly going to continue to be an evolving world. I know lithium ion has been, and maybe in the near term will continue to be the dominant technology, but there have been a lot of already exciting announcements and developments where you're going to see either tweaks to the lithium ion technology or just wholesale different battery chemistries that are going to compete for business. So technologically speaking and innovation wise, there's a lot of exciting stuff that's going to happen.

Let me give you a chance to talk about your company a little bit and some of the services, some of the things that you can do. You talked about distressed assets as an example, but let me give you a chance to give me your elevator speech for a few minutes here.

**George Koutsonicolis:**

SOLIC Capital Advisors is a middle market financial advisory firm. We provide both capital and operational restructuring services or special situations, distressed assets, as well as including recapitalization on behalf of our clients. We also work on healthy, non-distressed companies, so we don't just focus on distress, but that is a big portion of our business. In addition to energy, we cover several other sectors, healthcare, industrials, manufacturing, retail, consumer products, business services. So, it's a great group of professionals that have had the privilege to work with over the past couple of decades.

**Bill Derasmo:**

So for example, if someone came to you and said, "Well, I've got a capital formation here that I need to do", and say in the non-distressed space and we could describe the company, we're a relatively new company, whatever, and then you would come in and have a conversation about what their needs are and you would then fill in the blank.

**George Koutsonicolis:**

We would assuming that we were chosen as the advisor, we would assist that company raising the necessary capital to fund whatever was needed, whether it's an acquisition, whether it's a development of a project, we definitely have that skillset and expertise inhouse.

**Bill Derasmo:**

Oh, fantastic. Well, I may be referring some business to you because we deal with a lot of newer companies, and so I know that it's a challenging environment right now. Not impossible, but certainly challenging and in the distress space. I don't know if... See, I have a personal interest in this because we just reached an agreement in principle and it's a matter of public record, so I could say that I don't know how familiar you're with the winter storm Elliot and generators getting hit with penalties and then that caused financial distress to some of those generating companies. And there're special purpose entities, so the individual entity is the one that may or may not have been bankrupted. But in those situations where you've got an existing asset, what are some of the things that you can do to help out, establish company and existing asset, but it runs into sort of a black swan event, for example?

**George Koutsonicolis:**

There's several alternatives and routes both in court and out of court, and we would provide the appropriate expertise and advisory services to that company with that specific asset. Whether it's short transactional solution or balance sheet restructuring may be required. It's obviously situational specific.

**Bill Derasmo:**

Sure, sure. Well, we really appreciate you coming on the program today. I think we covered a lot of ground and it's good having a finance focus. We haven't done a finance focus episode in a long time, so we certainly appreciate it.

**George Koutsonicolis:**

Well, Bill, thank you for having me. It's great that you're covered this sector just given all the opportunity that we'll come down the pipeline here over the next five to 10 years. And it's definitely something to keep our eye on and it's a growing sector, so more to come.

**Bill Derasmo:**

All right, excellent. Well, we'll leave it there. Thanks so much, George, we appreciate it.

**George Koutsonicolis:**

Thank you.