



## Podcast: A Blueprint for Funding Billion-Dollar Companies in Energy

*Do venture capitalists get it wrong when investing in disruptive technologies?*

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**By Stephen Lacey: February 28, 2013**

Sean Parker, the founder of Napster, said it best when describing the potential of Facebook: "A million dollars isn't cool. You know what's cool? A billion dollars."

But investing in an internet company like Facebook is a lot different than investing in an energy company that needs massive amounts of capital to scale. So what's the best way to get an energy company to a billion-dollar valuation?

Christopher Marlett, CEO of MDB Capital Group, doesn't think it's through traditional venture capital. Rather, he believes the best strategy to scale breakthrough energy companies is to take them public early and raise follow-on funds after. In this week's show, we'll talk with Marlett about MDB's unique public venture approach to funding disruptive technology companies.

**The following is an interview Steven Lacey conducted with Chris Marlett.**

Stephen Lacey: And as we know along it was dominating our online lives, Facebook did eventually become a multibillion dollar company and when it went public last year, and Facebook's total value topped \$100 billion, so what does it take to reach that scale in energy?



Chris Marlett: Well, we found is that there is a blueprint to companies that go from an idea to a billion dollars a market value.

Stephen Lacey: Okay, so it might not be quite as exciting as Sean Parker's take, but Chris Marlett, the CEO and Co-Founder of MDB Capital Group thinks his company has the secret sauce, public venture financing and IP investment MDB looks for companies with disruptive technologies; preferably those that haven't been touched by other investors and helps them develop a strategy around intellectual property MDB then takes them public early and raises follow-on funds based on the public valuation. It's taken six companies through this public venture banking model and four of them have traded at market values over a billion dollars I sat down with Marlett at the ARPA-E Energy Summit to talk about how this model differs from traditional Venture Capital.

Chris Marlett: Well, in several ways. First we use the public markets as a funding source for the capital, and so the funding that we're doing is really sort of much more democratized if you will in the sense that we all have the same class of stock, we are helping these companies to develop a market value that enables them to be sustainable, and so, big difference is that we actually are try and maximize the evaluation early as opposed to looking the public markets as a monetization or a exit and that has profound implications as far as we believe the development of the company. We believe we fundamentally improve the probability of success of these companies, but also the founders end up doing better because of the structure and our approach to doing it.

Stephen Lacey: Can you give me an example of any successful companies that you funded in the energy space that you've been able to grow?

Chris Marlett: Well, we've recently taken a company public called ClearSign Combustion. They've developed a unique approach to enhancing or improving combustion. They have discovered that if you pulse electricity in a very precise way into a flame that you can dramatically impact the combustion environment. So we took this company, which was effectively an idea; they had a small scale prototype that had demonstrated the basics of the technology, and we invested \$3 million in the company, we helped them to develop their IP strategy, we help them develop their management team and board and we recently took them public through an IPO last April and raised an additional \$14 million for them. They are currently trading on NASDAQ and developing the technology and so that's our most recent Cleantech success story.

Stephen Lacey: And what is your strategy for helping a company manage their intellectual property, helping them look at how they can take what they already have and find new opportunities with their IP and how does that strategy work within how you work with these companies?

Chris Marlett: Our approach is to really develop a leadership position. So we look for companies that not only have disruptive technology, but also there is white space from an IP perspective meaning that it's a unique technology where through our efforts and our assistance, we can



become the dominant player in that particular technology vertical, so we have a team of engineers that write patents for these companies or help write patents for these companies and we have a team of IP strategy folks that help develop that strategy, and so what we do is we look at the existing IP landscape, we look at the business strategy, we look at the financing strategy and we develop really a unified strategy to help this company become the dominant player in the space. So effectively what we're doing is we're taking what's already a disruptive technology and making it the leader within that particular vertical such that we're effectively teeing up a corporate opportunity for a large company or a channel partner and the implications are significant as far as the values that's driven to that small company versus the traditional approach.

Stephen Lacey: Do many of these companies have a hard time with their IP strategy?

Chris Marlett: IP is a very difficult thing. I would say less than 5% of the CEOs that we encounter have any significant working knowledge of intellectual property when in fact is their core asset. It's very difficult when you have a CEO that doesn't understand the IP strategy, and so what we really do is help to mentor these CEOs to marry, their business strategy and in some cases we even help transform the business strategy as a result of our knowledge of the IP landscape, but then unify that business strategy with their IP strategy and help them to execute on it. The problem with execution today is that it's a bit dysfunctional, because you have patent attorneys and you have scientists driving what is inherently a business strategy. So what we're doing is we're taking a business strategy and effectively making it an efficient process and by doing so, we can not only dramatically reduce the cost of the IP development, but we also are developing much better IP. Going to a patent attorney for IP strategy is like going to a car mechanic and asking him to design a new car. It's really, it's inappropriate, it's an inappropriate place to start when developing an IP strategy. So what we do is take a very rational approach by looking at that landscape and then design it so that we can be the leader and really, there are very few companies doing that today.

Stephen Lacey: A lot of early stage investors have run into problems with scale, they see a new technology, they like what they see and they try to help these companies scale and realize that in order to build out these manufacturing facilities and deploy at a commercial scale, it's extraordinarily capital intensive, so lot of VCs have pulled back, we've seen fewer rounds of funding, and I'm wondering how does your model differ from what they've done and does it allow the companies you've invested to scale better?

Chris Marlett: Indeed, we think that the Venture Capital model is flawed, because what we're seeing is, is that we're seeing technologies scaled with VC money that should be scaled with commercial partners. So when you have an appropriate IP strategy around your technology, you can then walk into some one that's already in that business vertical and partner with them the scale and the probability of success is going to be much higher because they know that market vertical, they know the channel, they know the customers, they understand all of the issues with scaling, and so the companies we're funding, we're not building big plants and raising hundreds of millions of dollars to fulfill our egos. We're effectively developing the IP around this novel and unique technologies and then, which enables these small companies to partner with people



that are already in those industries that know how to scale and/or at scale to then leverage them into the market, so it's a very, differentiated strategy and its capital efficient.

Stephen Lacey: What's your investment thesis when you look at energy companies, are you looking at a greater efficiency of fossil resources, are you looking at renewables because of their environmental value, what do you, what speaks to the company when you look at energy technologies?

Chris Marlett: Well, we believe economics drives everything, while, and ultimately economics is the most important aspect of it. So, from a macro perspective right now we're looking at the fact that we have virtually an inexhaustible supply of energy in this country, it just hasn't been converted to the transportation field yet. Our ability to convert these existing resources we have in the transportation field will effectively liberate us from being dependent upon foreign countries, but not only that, it in fact should be cheaper as well, so there is an economic incentive to do it. Unfortunately, cheap oil historically created an infrastructure that is not inline with the actual energy resources we have in this country, and so I think that's what we're looking at, so if we're looking at gas and liquid technologies or ways to effectively use natural gas to move vehicles, new battery technologies, which is heavily populated, a lot of people are looking at this space, but we're looking for novel things in that area or anything having to do with electrification of vehicles. It's become sort of a hot area, so it's more difficult for us, because there is a lot more competition. We're not too interested in the carbon capture technologies, there is too many of them. We really can't figure out, which ones are going to win, so we're looking at that's why we funded a company like ClearSign Combustion, which we believe dramatically alters the combustion environment and enables those fuels to be burned in a much cleaner and more effective way, so that's sort of what we're looking at, at this point.

Stephen Lacey: Are there any other firms doing with this similar investment approach?

Chris Marlett: There Really isn't. I think that we were fortunate we built the patent database starting in 2003, which we call PatentVest, which enabled us to validate our conclusions that IP was in fact the foundational asset of all these disruptive technologies and there wasn't a rational approach to actually developing it. And I think that we've unfortunately had to build our own patent database, because there wasn't one that was appropriate to give us the business intelligence we needed, and then we had to build our own engineering team to effectively make IP development efficient, and so I think that we're truly unique. There is nobody else like us either a venture capital firm or investment bank, and what we also recognize was that the public markets was a much more effective way to fund disruptive technology than using the traditional VC approach, and I think that when you look at the success stories that we've had historically, I think they were trying to prove up that model more and more each day.

Stephen Lacey: So when you come to a conference like ARPA-E, you talk to potential partners, what are you looking for when they approach you or you approach them, what do you want to see in a company's technology or team in order to invest in that?



Chris Marlett: We're really looking for platform technologies that are unique that can, where there is multiple potential licensees, multiple potential business verticals that that technology could potentially disrupt. We're also looking for a technology that's disruptive enough to where there is a big bucket of margin, if you will, to disrupt. So we look at how much margin can be effectively generated through this disruption. I don't think there is a discipline with other people that look at it quite in the same way and by taking that approach we try and then focus on technologies that haven't been fully developed yet, haven't built out a management team yet, because the traditional sort of VC approach is let's pick one vertical, go after and try and generate revenue because that's the holy grail, ours is very different our approach is let's catch it early before they've potentially bifurcated the opportunity, maybe licensed off part of the technology, perhaps brought in the wrong management or inappropriate management on board to commercialize the technology.

Typically we like to get there before the VCs get to them, because typically the VCs screw up the capital structure, so ideally we're looking for things coming out of universities or government funded research labs that haven't been encumbered by a bunch of business transactions yet; where there is a prototype that can demonstrate that it could be scaled and developed into commercial technology.

We're looking for an inventor that's pragmatic, that understands that it is going to take a rational effort and a team to develop it. And then we work with that entrepreneur in a way that they understand to help build the company and I think we've had a lot of success in helping these entrepreneurs develop in a very rational way and take it to the next level. I think that if an entrepreneur believes he's going to do it on his own and he's going to build his own company and he's going to scale in the zone and not partner, typically we're not going to be that interested in an opportunity like that and we don't want to, just waiting for pursuing his dreams, it's just the probability of success is much lower in an opportunity like that.

Stephen Lacey: And finally, we have a major problem with the valley of death in this country particularly energy that massive gap between invention and commercialization and there are limits to what Venture Capital can do and there are also limits to what project finance players can do and what they're willing to finance when it comes to early stage companies. Do you think this approach is a good way to bridge that commercialization gap?

Chris Marlett: Indeed. We call it instead the valley of death, we call it the valley of disbelief. Where our investors make our, make their money is we take something that sounds too good to be true, put it into the public markets, typically trade somewhere between \$50 million to \$100 million evaluation and then once a large commercial partner validates it through some joint development agreement or some partnering agreement, we'll see the valuation increase dramatically, and when that valuation spike happens, the company has a lot more options about how to develop its technology, and so we think it's a much more value creating model. It's not dependent upon a bunch of VCs getting together and saying, hey, are we going to put \$50 million into this thing to go and build a plant or to go and do something. This is really pulled from the commercial market that says hey, we think we can develop this into a product for our business vertical and take it to market, and so it's very differentiated.



So, there is not effectively a valley of death for us, because we never bank technologies that end up experiencing that. It's really what we call the valley of disbelief, which is it's trading in the public markets, people believe it's too good to be true and then when a large company comes in and says gee, we want to partner with you, then it's no longer going to be true and usually the market, people go from saying it's too good to be true to saying, oh my god, it's true, I got to get in now. And so, the markets are willing to pay a significantly different valuation for that certainty of having a big company and then that's when the large fund investor start to come in and so when you look at a company like UniPixel, which was one of our recent successes, we took a public at a \$20 million valuation, it's now trading at about \$200 million valuation and really it's just one large commercial partnership that created that valuation differential and so that's what we're looking to accomplish.

Stephen Lacey: Again that was Christopher Marlett, the CEO of MDB Capital Group. For all our coverage on innovative companies from the ARPA-E Summit, head on over to [greentechmedia.com](http://greentechmedia.com) we've had team of reporters out there covering the conference this week, and don't forget to subscribe to this podcast in iTunes. It is really easy, just go in to your iTunes browser, head into the store and search for Greentech Media's Take Five. You'll get all our new episodes as they get released, and that is all for this week's podcast. Thanks a lot for being with us. We will of course catch you next time. For Take Five, I'm Stephen Lacey.

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