The Fallout From the Demise of Silicon Valley Bank for Climate Tech

Climate Transformed has always been about practically implementing a $100 trillion investment narrative. Allocating capital efficiently will be one of the key determinants of whether we can achieve the Paris goals. There needs to be a harsh level of realism. We are not in the business of dreams but in rolling up our sleeves and attacking head-on the greatest societal challenge we as a species have ever faced.

For the past 12 months, I have been increasingly concerned with an apparent disconnect between the valuation adjustment in traditional venture capital technology investments and what we see in climate technology. There is an unrealistic perception that because something is related to climate technology, it is somehow immune from the challenges of higher interest rates and declining valuations in other areas of venture capital. It is naïve to believe that the liquidity challenges facing traditional venture capital will not leak into the climate realm despite the remarkable tailwinds for climate technology and infrastructure. The demise of Silicon Valley Bank will glaringly shine a light that even climate tech investing is not immune from financial disruption.

The collapse of SVB was a combination of horrible risk management, a poorly communicated capital raise, and a series of high-profile VCs amplifying a panic. The reason why SVB is now under the stewardship of regulators is only important in the context of whether or not this leads to some form of contagion amongst other regional banks or whether the flow-on effects are limited to the hundreds of startup companies that have lost their primary source of liquidity. The Federal Reserve can prevent contagion to other regional banks. Only an orderly sale over the weekend can prevent the insolvency of hundreds of tech startups, including many climate companies, that cannot make payroll in the weeks ahead.

There is a strong chance that SVB will be acquired this weekend. The uniqueness of the SVB business model has led many, including myself, to believe that there will be numerous suitors for the firm now that the banking regulators have stepped in and stopped the panic. The acquisition of SVB will mean that hundreds of companies can access liquidity, pay employees and get on with life.

That said, the demise of SVB, even if acquired by a more stable hand, will give pause to many allocators who will be spending this weekend utterly shocked by the potential consequences to private technology portfolios that had become nothing but a headache in the last 12 months. The Fed going on hold will be initially met with a "risk-on" mindset, but long-term capital flows into tech must be questioned. Strong climate companies providing scalable solutions with a profitability pathway will always raise capital. However, valuations will be more realistic, investor diligence will be much more robust, and those companies with a dubious pathway toward cash flow generation will struggle to get to first base. Climate tech founders and entrepreneurs need to appreciate that investors will require much greater certainty and that new funding rounds will be exponentially more difficult than in the era of zero interest rates.

The demise of Silicon Valley Bank is a wake-up call for all climate entrepreneurs and venture capital investors. You play by the same rules as every other startup firm, and while there may be a social good in what you are doing, if the numbers don't work, you will struggle to raise capital. LPs will demand more.

The game has now changed.