

NewNet Investor Profile: Nino Tronchetti Provera, Ambiente

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The financial crisis may have negatively affected virtually every sector but European environmental investor Ambiente sees its portfolio companies as more significant than ever.

Nino Tronchetti Provera, CEO of Ambiente, says its success will rest on the fact its strategy is largely unaffected by the wider economic climate.

With macroeconomics still discouraging the internal movement of money as well as investment from outside Europe, liquidity remains constrained. But Ambiente believes by identifying long term opportunities it can be shielded from

the current depression.

Tronchetti Provera explains, 'We invest on two macro trends, which are based on the fact that human beings are consuming too many natural resources and are producing too much pollution. These two big issues are really affected by another macro factor, which is population growth.

'If you look at the financial crisis both in 2008 and in 2011, both of the trends have not been affected and the reason is they are linked to population.

'This is one of the businesses that still makes sense after the crisis. One investor I spoke to recently said he did a very deep study on the depression of 1929 in the US and that after that downturn the GDP went down 30 per cent, which is an amazing number. Now Greece is seven per cent and we think it is dead.'

He adds, 'He was telling me that the fact that it went down 30 per cent means that more than two thirds of the economy stayed up and my job is to identify the section of the economy that will stay even if the Euro collapses. The environmental business, and especially the careful utilisation of natural resources as well as the controlling and the avoiding of pollution are part of that two thirds.'

Helping European SMEs globalise

A shortage of capital is generating opportunities for Ambiente as US reluctance to put money into Europe means there is more scope to find a bargain deal.

'From a macroeconomic point of view, most people are avoiding investing in Europe. But the underlining trends are actually perfectly in favour of the small- and medium-sized European companies. The fact most people are not looking at Europe enables people like us to buy those assets at a very nice discount, just because of lack of competition.'

When looking at a potential investment target, Tronchetti Provera makes a crucial distinction between where a company is based and where it operates. He said having a European location is desirable in terms of skills and knowledge, but for a company to succeed it must think globally.

He says, 'In terms of where these companies operate, you have to compete worldwide and the growth rate is linked to being exposed to near-economies. In other words, if your only market Europe then you have an issue because of its growth rate. You need to compete in Brazil, Turkey, Mexico, China, India, Vietnam, wherever.

'The most important thing we bring to companies is global support. The average SMEs has not got the dimension, the philosophy, the culture, or the people to access countries outside of Europe, so scaling up on a global basis is something very hard and something we can help with.'

He adds, 'We live in a very difficult and very uncertain, unprecedented moment. In such a moment, entrepreneurs struggle to understand the future and having a counterpart that is on the train with you, sharing the risk, which has put a lot of money on the table with you and with which you can challenge your ideas and share your doubts is very important.'

Economics drives efficiency

The global environmental business sector has been growing exponentially in recent years, but this has not been as a result of governments and corporations suddenly developing a conscience. Instead, external factors are making these investments a necessity.

'If the price of natural resources continues to increase – even if you don't care about the environment – you will be forced to save some of these natural resources, otherwise you will be killed in terms of the cost of your product. Every single business has been affected by the shift in the cost of natural resources.'

'So the theme of natural resources productivity is not at all driven by ethical reasons, it is very much driven by macroeconomic trends. The signal that people understand is money and in this case, the price of commodities.'

Tronchetti Provera says the need to protect business and profits is also driving investment in measures that fight pollution.

'Everywhere in the world European standards for pollution are being adopted. If you want to sell a car in most places in the world you will have to sell it with European standards. If you build a refinery in Turkey, Mexico, China or India today, you build it with the same pollution control device you would use in Germany or in Italy, people have to adapt to legislation.'

'Pollution control standards are much simpler than incentives because pollution control standards cannot be removed. On the contrary, incentives might be here today and gone tomorrow. We all know what has happened in Europe with solar.'

Steering clear of renewables

The renewables sector in Europe is entering uncertain times as feed-in tariffs and support for certain technologies wanes. But Tronchetti Provera sees this as an inevitable correction to support systems that were untenable.

'What is happening is nothing but the normalisation of a crazy sector. The incentives that we had in most countries in Europe were crazy with respect to solar and were allowing people to make returns that were not normal for infrastructure investments. The incentives are following the reduction in costs and are following the normalisation of returns.'

'I still think solar is in the R&D phase, if you look on the equipment supply chain we are seeing a strong shift to Asia, which I would have expected for solar because it is based on silicon and the industry has grown up in Asia. I also expect the shift to happen for other technologies, for example, wind.'

'The big problem with wind, apart from issues associated with offshore build-out, is that the big markets for wind in the future are not in Europe, as they will not be for solar as well.'

But you do not need to be in the renewables game to make money from environmental technologies.

Tronchetti Provera explains, 'In Europe we have so much to do in resource productivity and pollution control that we can live without a renewable energy supply chain.'

'Europe is the leader of the environmental business, it has been for 50 years and it will stay that way for a long time. 'We have never had natural resources, so we had to invest and to develop technology that made use of them very efficiently. If you want to have natural resource productivity technologies, you look at Europe.'

'Resource productivity and pollution control counts for trillions in terms of the worldwide GDP, renewables are a niche within the environmental business, it is not the other way around. This is a very important concept. Ambienta has eight companies and these eight companies have moved from six hundred employees to 1,100 employees in the last three years.'