Industries

Coming clean

The number of clean technology investment deals increased 35 percent over last quarter, with energy and later-stage deals snagging most of the cash.

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As a venture capitalist, investing in an early-stage startup is a bit like getting married early in life, says Lauren Bigelow, director of programs for the Cleantech Venture Network, which monitors the sector. In order to keep your investment stable, you're going to have to put something into the company at every round.

It's this fear of commitment that keeps many VCs away from such early-stage investments, and perhaps the reason why seed investments in clean technology companies – covering everything from water purification technology to solar energy – saw a decline in the second quarter of this year.

Only two seed-stage deals were completed last quarter, compared to the typical eight to 11, according to a Cleantech Venture Network report released today. Investors poured a total of $278 million into cleantech companies of all stages, down from $308 million in the first quarter of 2004. But the number of deals increased from 46 to 62 over the first quarter, and from 40 in the second quarter of 2003.

Follow-on financings kept relatively stable as more than 77 percent of clean technology funding, or $216 million, went toward later-stage investments, exposing a tendency for VCs to shy away from riskier engagements.

In the second quarter, "investors were very focused on supporting existing portfolio companies through 'capital-lite' follow-on rounds at the expense of earlier stage deals," said Keith Raab, co-founder and president of Cleantech Venture Network, in a statement.

Clean technology spans a number of industries and includes materials and technologies designed to enhance resource efficiency and to increase productivity. "It means doing something in a way that is less environmentally damaging and developing the technology that makes that possible," said Jim LoGerfo, founder of Vortex Energy, an industry research firm based in New York City.

Energy-related technologies, which usually take the largest share of investments, bounced back after a significant dip in the first quarter to capture $150 million last quarter, or more than 40 percent of total investments.

Among regions, the West Coast maintained its spot as the cleantech investment capital of North America, but its margin of victory narrowed considerably. Companies on the West Coast garnered $95.4 million – down 38 percent from the $153.6 million invested in the first quarter.

As usual, the Northeast came in second among regions, showing a near 19 percent quarterly increase, from $56 million to $66.5 million. Canada more than doubled its share of investments since the second quarter of 2003, and Europe saw nearly $80 million in additional investments in the quarter.

The Cleantech Venture Network is aware that some investors may be put off by the obstensively leftist slant, which may imply political rather than profit concerns to some, and that is often attached to environmental and social responsibility.

“There are a lot of great technologies in this sector that will perform as well as the usual software-type investments,” said Lauren Bigelow, “For instance, today the price of oil popped over $50, which is huge news in the world of renewable energy.”

It’s not just an energy crisis that’s fueling investments in clean technology. “Particularly exciting at the moment are companies addressing salinity issues in agriculture and water problems in the South,” said Ms. Bigelow.

Intellon, a semiconductor company whose technology enables home networking over power lines, scored the largest investment of the quarter with $23.5 million. Intellon’s investors include Motorola, Compaq, Philips Electronics, and Fidelity Ventures. Andy Melder, Intellon’s senior vice-president of business development in Ocala, Florida, is sure that while public investors are still fairly stagnant, there is a general increase in interest from private VCs.

Institutional investors are also giving cleantech startups a reason to smile.

CalPERS (California Public Employees’ Retirement System) and CalSTRS (California State Teachers’ Retirement System), the largest and third-largest public pension funds in the U.S. with combined assets of more than $270 billion, have promised to invest $1.5 billion in clean technologies - $1 billion in public companies and another $450 million in private firms – and other funds are predicted to follow suit.

“We’re going to have significantly more money coming down the pipeline to venture funds that is ear-marked for cleantech," said Ms. Bigelow. "The CalPERS and CalSTRS announcement gives legitimacy to the sector.”

Just recently, the cleantech sector took a major step toward gaining recognition as a standalone investment category among financial analysts.

On August 18, the American Stock Exchange began publishing the WilderHill Clean Energy Index, comprised of publicly traded companies that focus on greener and generally renewable sources of energy and technologies that facilitate cleaner energy. It seems likely, then, that investors and cleantech startups can look forward to a long and stable marriage.

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