

Real Deals

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Clean sweep

Clean technology is scorching hot. Loved by LPs and vaunted by venture firms, this is an asset class that – apparently – can do no wrong. A flood of new vehicles entered the market in 2008, and generalist VCs are increasingly targeting the sector. Cleantech, it would seem, is rapidly becoming the third pillar of the venture world.

UK-based Environmental Technologies Fund held a €110m final close on its debut vehicle at the start of March – the first successful new entrant in the European venture capital space for years. Other specialist cleantech funds to have reached a first or final close over the past 12 months include Belgian-based Capricorn, Italian green vehicle Ambianta and UK-based WHEB Ventures.

The most recent initiative to be announced is a tie-up between the Carbon Trust and the Qatar Investment Authority, which will lead to the launch of a £250m (€315m) Qatar-UK Clean Technology Investment Fund, primarily for investments in early-stage companies in the UK.

Some of those involved in cleantech have been concerned by the potential impact of the downturn on governmental proposals to meet climate change targets, and the knock-on effect for subsidies and regulation. The recent appointments of prominent environmentalists to president-elect Barack Obama's administration, however, signify how environmental concerns have become an increasingly important part of national policy-making across the globe.

And as cleantech has gathered importance as an investment sector in its own right, venture firms have begun to look at increasing their expertise in the space. Wellington Partners has brought Apax's Christian Reitberger on board as a venture partner, as well as recruiting former SI Capital employee Arun Renuka Jayadev at associate level. Balderton, meanwhile, lost widely respected VC doyen George Coelho to cleantech monolith Good Energies in the summer. The Cofra Group investment arm, which is active in both venture and infrastructure deals, is a relative veteran with almost eight years' experience investing in the space.

"You need to have great people and a real focus on the sector to successfully invest in cleantech," says Patrick Sheehan, founder of the Environmental Technologies Fund. "It is a large and complex range of areas. To get it right takes a lot of effort. Only those that really apply themselves will succeed."

Sun gods

The fast-maturing solar industry has continued to attract investments across the value chain, from new developments in solar cell design to the installation of traditional silicon panels and the link-up to the grid. Around 40 per cent of venture cleantech investing globally went into solar deals in 2008, according to the Cleantech Group.

Doughty Hanson Technology Ventures and AGF Private Equity participated in a €40m round of funding for German solar company Odersun, together with additional investors, in February. The business is developing flexible thin-film solar cells, modules and applications for power plants and building systems. Its solar cells can be assembled into solar modules of virtually any size or power, in flexible or glass packaging. Odersun also plans to cut out the electrical energy that gets wasted in transmission from generator to home.

“Odersun’s philosophy is that putting solar panels in a field to generate electricity in the same way as generation stations do today is noble, but if you could integrate it into the fabric of a building then you wouldn’t need to transmit the energy over a huge distribution network,” says Nigel Greirson, managing director at Doughty.

Additional venture deals to catch the eye include the Intel Capital-led €85m funding round for German thin-film solar cell developer Sulpharcell in March – the corporate venturer’s first cleantech deal in Europe – and November’s €20m funding round for French company Solairedirect, a developer of large-scale solar installations, involving Demeter Partners, Schneider Electric Ventures and TechFund.

Along with the attractions of investing in subsidised markets such as Germany and Spain, venture firms were also shown how lucrative returns can be when Ventizz successfully exited its stake in solar cell manufacturer Ersol to Bosch in a deal valuing the business at €546m in June. Ventizz generated a return of eight times the size of its entire fund as a result of the sale. But although the prospects for businesses such as Odersun, Good Energies-backed Q-Cells and Sulfurcell still look promising, the Cleantech Group’s managing director for Europe, Richard Youngman, has predicted a slowdown in the solar industry. “Expect pain and a shake-out in thin-film solar,” he says. “The demand for capital is certainly there from the solar companies, but I think people will be far more cautious about investing in the area,” agrees Sheehan.

Wind and water

With a relatively mature market, wind power does not offer the same level of venture investment opportunity as the earlier stages of the solar value chain, and wind power deals in 2008 were dominated by project finance providers such as Platina Partners. The sector even attracted the attention of the battered and bruised mega buyout fraternity, with Blackstone making a €1.1bn investment in German offshore wind project Meerwind in August. There are, however, pockets of the wind industry that could still offer opportunities to venture investors.

Wave power is still in its earliest stages of development, but 2008 was a big year for venture-backed companies in the sector. Pelamis Wave Power, which has the support of 3i, Impax and Emerald Ventures, among others, took most of the headlines when it launched three of its wave power turbines off the coast of Portugal in September. The UK business has taken on €50m in funding so far, highlighting the capital-intensive nature of the fledgling industry.

Another business, Orecon, received \$24m from a syndicate of investors including Advent, Wellington, Northzone and Venrock in March.

Companies developing applications that lead to the more economic use of energy both at home and in the office was another hot area for venture capital in 2008. Notable deals included a £4.5m fourth round of funding from Wellington, Siemens and Emerald Ventures in EnOcean, a developer of wireless sensor products for use in buildings and industrial installations, and Climate Change Capital's €10m investment in Power Plus Communications in November.

"The demand for energy will not go down – we're more focused on electric energy than other sectors," says Greirson. "We've either got to find technology that allows us to fulfil that demand in a more acceptable way – solar or wind – or we've got to find a way of making what we use more efficient, and there we're focused on technologies that will increase the efficiencies of consumption."

Water, meanwhile, is a market that has hitherto been slow to get off the ground. The drivers for solutions to some of the water problems that the world faces are nevertheless long-term and are likely to create opportunities for venture firms in the future. "The value of water is underappreciated in so much of what we do," says Youngman. "An impending water/energy crisis is coming into view."

Believe the hype

With the growing amount of capital being raised for investments in cleantech, some have begun to draw comparisons to the hype that surrounded internet companies in 1999 and 2000. The third quarter of 2008 in particular saw a surge in the amount of money invested in venture-stage companies in the sector. In total, \$2.6bn was invested globally between July and September, according to the Cleantech Group. This easily eclipsed the previous high of \$2.2bn seen in the second quarter of the year.

"We're going through a hype curve at the moment," says Ashish Patel, managing director at Intel Capital. "Over the next two years we'll see some rationalisation of clean technology – a lot of froth will disappear over time."

Sheehan, meanwhile, would be surprised if investment levels hold up in 2009. "None of us can predict the future, but I'd be surprised if investment levels are as high next year as they were this year. The areas that will attract attention will shift. There will be more caution around themes of energy generation, in part because of the price of oil and in part because of the value of money, and there'll be more attention on companies engaged in areas of energy efficiency, new materials and water."

Cleantech investors have been reasonably successful in avoiding a bubble scenario, according to Taylor Wessing partner Simon Walker. "Many venture capitalists have been in the industry for a number of years and are aware of the errors of the dot.com bubble."

Others argue that the long-term drivers of clean technology, such as global warming and rising energy prices, are such that the sector will only continue to grow. "Maybe there is hype in the cleantech industry at the moment, but I still see a sustainable long-term trend over the next ten years at least," says Ralf Schnell, managing director of Siemens Corporate Venture, another large corporate with an active cleantech investment programme. The firm's corporate venturing unit looks to deploy 25 per

cent of its resources to opportunities in the space, mirroring the focus of its corporate parent.

“Capital can be matched to good deals but you’ve got to be careful,” Schnell adds. “Investors are trying to adopt a model that has been successful in other kinds of industries, but it’s still to be proven. Clean technology is not a space that’s existed for 15 years where you can analyse track records.”

Transatlantic temptation

In light of the rapid growth of Europe’s cleantech sector over the past few years, Grierson, like many of Europe’s VCs, is optimistic that the old continent will be to cleantech what Silicon Valley was to information technology in the 1990s.

“With so many new technologies being developed across Europe, the cleantech sector will remain a core area of expertise and focus for us.”

To Sheehan, the European market is also more attractive for early-stage cleantech companies than the US, a neat reversal of European tech businesses’ traditional desire to gain exposure to the large, homogeneous American market. “We’ve seen over the past year a continuous stream of US venture-backed companies trying to get into Europe because they’ve discovered that their early customers are here,” he says.

“The positioning of cleantech within Europe is strong, right down to public understanding of it,” adds Walker. “Look at what Germany’s been doing for years, wind and solar are now part of the infrastructure. It’s the same in Denmark.”

In addition to having a more environmentally aware population, regulation in the EU is also more advanced. Venture firms’ investment focus, too, is more diverse, in contrast to the US, where VCs tend to cluster around one or two areas or themes. Deal activity may struggle to break records against such a damaged financial backdrop, but the capital is ready and waiting, and with prices starting to fall, it is clear the sector is entering a buyers’ market.

Over the mid to long term, the drivers for cleantech should remain consistent and strong, regardless of localised bubbles. “If you view cleantech as a theme around resource scarcity, whether it’s oil and water or climate change and energy security, those themes are not going away,” says Sheehan. “I think there have been some bubbles within the theme, but I don’t think the whole theme’s been a bubble at all.”