

"Perfect storm" puts clean tech in investor sights

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By Deborah L. Cohen

As the tide from Washington flows toward clean technology, investors increasingly are tipping their toes in the sector, making it the fastest growing area for venture capital investment last year.

The Venture Capital Association, a trade group, says venture capital money in clean technology rose 54 percent to \$4.1 billion. That compares to just \$444 million in 2004 and is music to the ears of start-up ventures ranging from makers of solar panels to electric cars and technology that cleans the air at traditional coal-fired electric plants.

"You have kind of a perfect storm where you see technology at the point where it can actually be commercialized and the government recognizing the need," says Emily Mendell, the group's vice president of strategic affairs. "You have consumers who are ready to embrace the technology. All these things are contributing to an interest in investment."

Fueled by a \$787-billion U.S. economic stimulus plan with significant incentives for green initiatives, the race to secure start-up funds dedicated to sustainable ventures is heating up as a multitude of companies try to capitalize on the heightened awareness toward the environment and social responsibility.

"What's happened is the idea of global warming and carbon footprint all the way to recycling and the War on Iraq has been a paradigm shift; it's part of everybody's consciousness now," says Schuyler Lance, whose Patient Capital Collaborative funds invest in green and socially responsible ventures. "The whole category is attracting a good amount of interest, people and talent."

Concord, Massachusetts-based Patient Capital selects investments not just for earnings potential but also for the less easily measurable impact on society. It has put money into companies such as Oceans Renewable Power, which uses the ocean to generate emissions-free electricity, and Rivertop Renewables, a maker of non-toxic chemicals.

Another beneficiary of the clean interest has been Bikestation.

The Long Beach California-based company was created 13 years ago as a nonprofit dedicated to building urban bike-transit centers for cyclists looking to store their bikes and gear in a secure environment when they commute to work.

Last year, with urging from private investors who saw increased market demand for its services, Bikestation changed its corporate structure, creating a for-profit parent known as Mobis Transportation Alternatives. The company, which to date has designed and built 11 facilities in cities such as Seattle and Santa Barbara, California, is on a mission to operate some 200 sites by 2014, when it expects to generate \$30 million in annual revenue.

"Bike Station was profitable when we invested, its model was proven," says Raulee Marcus, lead investor and member of Tech Coast Angels, the largest angel group in southern California. She spotted the company's potential when CEO Andrea White-Kjoss was presenting at a fund-raising conference for sustainable ventures.

"It's on trend from an environmental, energy and fitness point of view," says Marcus. "It has market demand and it's trying to scale faster."

Bikestation used roughly \$500,000 in funding secured late last year to hire additional staff to identify new markets and oversee the build-out of facilities, including a new \$4.2 million, 1,700-square-foot structure in Washington, D.C.'s Union Station. The company gleans the bulk of its revenues, which are currently less than \$5 million, from design and consulting fees; cities put up the capital to build the sites.

PREVAILING WINDS

Investors remain cautious, looking for proven concepts such as Bikestation with the mettle to withstand recessionary pressures. In addition, fund managers say sustainable ventures are often susceptible to a host of unpredictable factors, including risk associated with the changing regulatory environment at the state and federal levels.

"I think it'll be a much tougher environment," says Steven Parry, a managing director for NGEN Partners, a clean tech investment firm that has invested in concepts ranging from a maker of software to reduce corporate greenhouse gas emissions to a company that arranges for the trade in of used mobile phones.

Parry's firm recently began assisting its portfolio companies in wading through the hurdles required to qualify for federal incentives.

And there are fewer dollars available, as the recession and declining capital markets have stymied the pace of investing. In 2008, angel investments overall declined 26.2 percent from 2007 to \$19.2 billion, according to a late-March report from the Center for Venture Research at the University of New Hampshire. While there was little change in the number of deals, average deal size shrank 24 percent.

The San Francisco-based Investors' Circle, which is dedicated to identifying early-stage sustainable ventures on behalf of a nationwide pool of investors, has seen evidence of the increased competition. The organization has been deluged with applicants for about 20 coveted spots it reserves for ventures to present at each of its semi-annual conferences.

"This past January what we found really interesting was that we had the largest amount of applications," says Deb Parsons, Investor Circle's director. She attributes the stepped up

activity in part to the tightening of the credit markets, noting more activity from established players in the sector.

"It could be an indication of the maturity of the businesses, the types of companies that are joining the sector," she says. "I think it's also an indication of the debt markets being locked up."