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Out-of-state venture investments for clean-tech companies soar

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Despite its reputation as a leader in all things green, the Puget Sound area has relied heavily on outside investments to fuel its clean-tech sector.

The good news for clean tech is that the number of investments is increasing rapidly across the nation and Washington state is attracting its share of money regardless of geographic origin.

The \$5.18 billion invested in North American and European clean tech companies in 2007 was up by more than half from the previous year, according to The Cleantech Group LLC, based in San Francisco. It marked the sixth straight year of growth. Fourth-quarter investment doubled from the same period in 2006.

In North America, the year-end totals were up 38 percent to \$3.95 billion, and the number of deals grew by 15 percent to 268.

The top five sectors were energy generation, energy storage, transportation, energy efficiency, and recycling and waste.

Washington ranks third nationally for clean-tech investment in number of deals and fourth in total investment dollars, as measured by the National Venture Capital Association. Using data from the first three quarters of 2007, the association put Washington third in the number of deals behind California and Massachusetts. It ranked fourth in dollars behind the California, Massachusetts and Texas.

That Washington isn't at the very top of the list may say less about clean tech than it says about the region's ability to attract venture capital in general.

"If you are talking about dollars invested it might be the case, and one of the factors there is that Seattle ranks third or fourth in overall VC investing," said Martin Tobias, former CEO of biodiesel company **Imperium Renewables**, and a member of the investor group **Northwest Energy Angels**.

Indeed, when it comes to venture capital deals of all stripes, Dow Jones VentureSource pegs Washington fourth both in deals and dollars for 2007, coming in behind California, Massachusetts and New York, and ahead of Texas.

Large local venture capital firms often have their eyes set on different types of investments rather than clean tech or other green businesses. Spokane-based Northwest Venture Associates' portfolio shows consumer products, business services and equipment companies. **Maveron LLC** of Seattle also is

oriented heavily toward consumer products companies. **Polaris Venture Partners'** Seattle office favors companies that deal in software and digital media.

One Seattle VC firm that has taken an interest in clean tech is **Buerk Dale Victor**. Several years ago it invested in **ReliOn Inc.**, a Spokane firm that makes fuel cells.

"We obviously were making a big bet that clean tech would happen. The sector has become exciting in the last 24 months, but when we went out there we felt a little bit lonely," said Andy Dale, managing partner.

In general the clean-tech sector looks exciting, especially given the rising price of oil, he said. But clean-tech companies often involve long development timelines, and venture capital is all about creating good returns for investors.

There also is a built-in bias among venture capital firms to play to their own expertise in such areas as software, wireless or biotech, said Kirk Van Alstyne, managing partner of **Evolution Capital Advisors** in Seattle.

"When a venture firm is really well-versed in a core area, the process is a lot more efficient. So what that has done is force a lot of Northwest startups to look outside of the region for their lead investors," he said. "But I think where you have a clean-tech deal that crosses into the traditional strengths of the VC community, they are interested in those types of deals."

As the rising number of deals indicates, more VCs are seeing a good potential payoff in clean tech.

"Environmental consciousness has taken a real step up in the last couple of years," said Gerry Langelier, managing director of **OVP Venture Partners** in Kirkland. "You couple that with the historic strength of the Pacific Northwest in its environmental attitudes, and I think there is a built-in favorable bias in the area."

Tobias said he sees more investment migration toward clean tech.

"I see quite a bit of activity on that early stage stuff," he said. "These are the companies that are going to be funded by VCs two years from now."

Tobias cited three drivers for sharpening the Seattle focus on clean tech.

"You've got a lot of people here who made money in tech that are also generally green people. When they think of investing in something, a large majority are looking to start something green or do a green investment," he said. "Two, you have a pretty strong and supportive policy environment."

His third factor is the region's universities. He cited research in fuel cells at the University of Washington and work on converting biomass into fuels at Washington State University.

"I would say fully a third of the companies that I have seen come through Northwest Energy Angels come through the university system," Tobias said.

As clean tech matures, there will be pieces of the sector that make a natural fit with the expertise of local VC firms, said OVP's Langelier. For some, that may be hardware and software to enhance a basic clean-tech process.

"Once you have systems, you have to control systems, and the Northwest is very good at that," he said.

Then too, "clean tech" can mean different things to different people.

"I think it is a fuzzy definition and, frankly, should be," Langelier said. Any product or service that helps a company operate in a more environmentally conscious way might count as a clean-tech application.

"But it doesn't wave the flag that it's a clean-tech deal," he said. "There are pockets like that all over the Pacific Northwest and the greater Seattle area."

Contact: seattle@bizjournals.com • 206-876-5500

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