



# Cleantech Becoming ‘Third Leg’ of VC Investing Stool—But Just How Big is That Leg?

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When Ira Ehrenpreis came through San Diego a couple of weeks ago, the cleantech investment partner at Palo Alto, CA-based Technology Partners said there was no such thing as a cleantech investment category when his firm began investing 25 years ago. At that time, Technology Partner’s investments in environmentally friendly technologies amounted to less than 1 percent of the firm’s portfolio.

In contrast, VCs invested \$100 million in cleantech deals during the first week of 2010, according to Ehrenpreis. Even during the credit crisis and nationwide recession, cleantech has shown over the past two years that it’s an enduring sector. Ehrenpreis told the San Diego Venture Group that cleantech is emerging as “the third leg of venture capital, along with IT and the life sciences”—which traditionally represent the two largest VC investment categories.

Other analysts emphatically agreed.

But it is difficult to quantify just how big cleantech has gotten, because it is measured by different investment monitoring organizations in fundamentally different ways.

For example, the National Venture Capital Association (NVCA) and PricewaterhouseCoopers count renewable energy and many energy deals as cleantech investments in their quarterly MoneyTree Report. Also included are VC investments in air filters, purification and monitoring equipment; water treatment and waste disposal systems, and a dozen other environmentally oriented categories. But Dow Jones VentureSource counts energy and utility deals separately from cleantech deals in its surveys—and uses its own list of nearly a dozen industries to define what cleantech is.

The San Francisco-based Cleantech Group says it coined the term “cleantech” when the firm was founded in 2002 and it began analyzing VC investments in energy efficiency, biofuels, transportation, and other clean and green technologies as a distinct sector. The group specializes in cleantech market research and business intelligence, and its cleantech data has been screened

and honed to perfection. But you can't compare it with the NVCA or Dow Jones data, because the group combines its cleantech investment data for the U.S. with the countries of Central America, Mexico, Canada as part of the North America Region.

In North America, cleantech startups raised \$3.5 billion in 298 VC investments last year, a 42 percent decline from 2008, when there were 314 deals, according to the Cleantech Group.

The MoneyTree Report, which counts only venture investments in the U.S., found that \$1.9 billion was invested in 186 cleantech deals in 2009. That's less than half the \$4 billion that was invested in 270 deals in 2008, according to the MoneyTree Report.

Dow Jones VentureSource analyst Jessica Canning said venture investments in cleantech last year totaled almost \$3 billion and 223 deals. That was down about 45 percent from Dow Jones' 2008 figure of \$5.4 billion invested in 256 cleantech deals.

Despite the wide variations in data from different sources, however, it's clear that venture funding for cleantech deals has become enormous. It's safe to say that VC investing in cleantech is close to par with the billions of venture investments made each year in the life sciences and information technology, which typically rank as the biggest and second-biggest industries for VC investments—depending on the source.

The life sciences typically rank as the largest industry category in the MoneyTree Report, which said \$3.5 billion was invested in 417 biotech startups in 2009. Dow Jones VentureSource, which usually ranks IT as the biggest venture category, said VCs put \$6.6 billion into 849 information technology companies last year.

“I would say cleantech is the hot new investment area,” said John Taylor, the vice president of research at the National Venture Capital Association. “Not every company will be successful, but folks like Ira believe that if you are careful in picking out the real gems you can do very well.”

On a worldwide basis, the Cleantech Group says venture capital investments in cleantech totaled almost \$5.7 billion in 2009. As big as that might seem, it represented a one-third plunge from the \$8.49 billion that VCs put into cleantechs in 2008, according to Greg Neichin, a vice president in the Cleantech Group's advisory practice. The sector has grown enormously in the eight years since the Cleantech Group was founded, said Greg Neichin, a vice president in the firm's advisory practice.

“When the firm was founded, the team was very much focused on evangelizing the sector and explaining why investors, entrepreneurs, and corporations should care about cleantech,” Neichin said. “The real shift now is that the executives coming to us for research support are not asking ‘Should we be involved in cleantech?’ but rather, ‘We need to be active in cleantech; how do we succeed in the market?’”