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## **Cleantech funding rising, may overvalue sector-VCs**

By Anupreeta Das

SAN FRANCISCO, Jan 8 (Reuters) - Egged on by \$100-a-barrel oil and consumers going green, venture capitalists plan to pour ever more cash into environmentally friendly technology this year, prompting talk of a bubble reminiscent of the dot-com era.

Some 61 percent of 170 venture capitalists reached by one survey said they believe the inflow of venture dollars into "cleantech" would overvalue the sector, even though many remain convinced of its long-term potential.

Too many dollars chasing too few deals -- especially in areas most likely to catch the eye of investors -- has led to overvaluations, said Rodrigo Prudencio, a partner at Nth Power, an energy technology venture capital firm.

"We're certainly seeing some evidence of overheating in the market where the dollars got invested in solar and biofuels," he said. "But it's too early to tell whether or not that creates something pandemic across the cleantech sector."

Four out of five U.S. venture capitalists expect cleantech to attract higher levels of venture funding this year compared with 2007, according to an annual survey by the National Venture Capital Association (NVCA), a trade group.

Last year, cleantech received \$2.6 billion, or roughly one-tenth of all U.S. venture money invested, a whopping 341 percent increase from cleantech investments in 2000.

The upswing will continue this year amid hype around smart cars, green buildings and technologies that use the sun, wind, corn and water to generate power. Pricier oil and growing worries about global warming have spurred the search for alternative technologies, analysts say.

**Dan Pullman, a principal at boutique investment bank McNamee, Lawrence & Co,** said greater consumer awareness and the absence of marketable, affordable clean technologies that people can employ in their own lives creates the long-term opportunity

for VC funds. Currently, there are only about 42 U.S.-listed companies making a cleantech product.

"We haven't all traded in our cars for Priuses yet," Pullman said, referring to Toyota Corp's hybrid car.

Venture capitalists backing cleantech entrepreneurs have sensed that opportunity, which Morgan Stanley analyst Dave Edwards estimated at a conference last month will be a market worth \$1 trillion in the next 25 years.

"Some of the smartest people in the industry are betting huge amounts of money" on cleantech now, said Steve Bengston, director of emerging company services at PricewaterhouseCoopers. "And they expect to make a 10-to-1 return."

Yet venture capitalists predicted information technology would still be the biggest draw in 2008, after accounting for nearly half of U.S. venture capital investment last year. The tech sector remains sizzling hot, especially for interactive Web applications, amid rumors of top-dollar buyout talks for social networking sites like Facebook and LinkedIn.

"The turnaround time for tech deals is less, and it appears that many of these companies need less money, and can present ... a very handsome return," said NVCA President Mark Heesen.

Analysts likened venture investment in cleantech to the life sciences sector, because both have similar gestation periods and high failure rates. Life sciences, including biotechnology and medical devices, have a longer history in the VC world and get about one-third of venture dollars annually.

Half the venture capitalists surveyed expect investment in medical devices to be static or fall in 2008. But Alex Zisson, partner at life sciences VC firm Thomas, McNerney & Partners, said stem-cell therapy, the human genome project and an aging population will maintain VC interest in life sciences.

Of the \$30 billion or so of U.S. venture investment that analysts expect in 2008 -- roughly on par with 2007 levels -- China may get as much as 10 percent, some VC players suggest.

Chinese entrepreneurs received only \$206 million of the \$7.1 billion of venture capital invested in the third quarter, but PwC's Bengston said it would be a hot sector for 2008.