

Real Deals

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Green demand creates new breed of investor



In a year that will see more than \$1bn (€690m) of investment in clean technology in Europe and the launch of numerous dedicated funds, Foresight Group's environmental infrastructure fund, which is set to close at £20m (€29m), seems like a minnow.

Yet the Foresight Sustainable UK Investment Fund, structured as an Enterprise Investment Scheme, is just the tip of Foresight's clean tech ambitions. Investments from the fund will be highly leveraged – the firm's founder and managing partner Bernard Fairman says by 70 to 85 per cent – which means investments worth around £100m in total will be made.

Moreover, in the new year, Foresight is planning a successor vehicle, a £100m LP fund, which will also be dedicated to environmental infrastructure projects. Since this will also invest in leveraged deals, once it has raised both funds Foresight will have a total of more than £500m at its disposal for investments in this sector – no small achievement for a firm that currently manages just £120m in five VCTs.

Yet Foresight is by no means the only firm to expand its operations on the back of the spectacular growth in the environmental infrastructure market. While the US has undoubtedly overtaken Europe, the success of specialist investment bank and fund manager Climate Change Capital shows that similar growth can be achieved here.

In just four years, Climate Change Capital has grown into a clean tech powerhouse with \$1.5bn (€1.1bn) under management and a team of 125 based in offices in London, Beijing and Madrid. It has raised a clean tech private equity fund, three VCTs and several carbon markets funds set up to invest in emissions-reduction projects that capitalise on carbon credit trading.

A wide range of funds have been set up to invest in environmental infrastructure – among them HgCapital’s €300m Hg Renewable Power Partners Fund, Platina Finance’s €56m wind energy and €30m renewable energy funds, and EnerCap Capital Partners’s €100m fund that will initially focus on wind, biomass and biofuels investments in central and south-east Europe. But given the size of the opportunity, what is perhaps surprising is that there have not been more.

Within the environmental infrastructure sector, investors have witnessed soaring market and regulatory-driven demand, combined with relatively assured returns. It is this security that has enabled Foresight to achieve such a high degree of leverage on its deals, and despite speculation about a clean tech bubble, there are no real fears that demand will fall.

Boom has legs

“The energy technology booms caused by oil price rises in the 1970s and 1980s petered out, but we are confident this one has legs because it is based on market fundamentals,” said Todd Glass, chairman of law firm Heller Ehrman’s energy technology group.

“Prices for oil and gas are high. There are concerns over energy security. The US and China have dramatic needs, and consumption is growing rapidly in India and south-east Asia. We are also seeing load growth due to the growing number of electrical appliances.”

In addition, government regulation is giving rise to new markets, said Fairman. “We need much more infrastructure, and in recognition of this the government is unlevelling the landscape to provide incentives for companies addressing recycling, renewable energy and related areas.”

The firm’s first investment from its Sustainable UK Investment Fund is in the unglamorous yet lucrative area of waste management. It invested £3m as part of a £10m funding round for O-Gen, a company that generates renewable energy from waste wood that would otherwise go to landfill. The initial investment will fund O-Gen’s first plant in Stoke-on-Trent and Foresight plans to use it as a platform for further investments.

Foresight has previously backed another company in this area, participating in a £12m funding round for Closed Loop London that allowed the company to set up the UK’s first plant to recycle plastics into material for food packaging. The plant, which is due to open next month, will recycle 35,000 tonnes of plastic a year that would otherwise be exported or sent to landfill.

Fairman forecasts that more investors will enter this market, since it is both extremely attractive and virtually empty. “There are mountains of rubbish in the UK, and solutions must be found,” he said.

Sam Richardson, investment director of E-Synergy's sustainable technology fund, agrees. "This is a market opportunity that is driven a lot by regulation in the UK as rising landfill taxes erode margins for the waste management industry," he said. "We don't plan to invest just in blue sky technologies, but also in lower-risk trading businesses, where the returns are better and the investment period is shorter."

Other firms to have taken advantage of opportunities created by the UK Landfill Directive include Bridges Ventures, which recently invested £6m in tyre reprocessing business Credential Environment.

Similar drivers in other European markets have resulted in funding rounds including the €53m for SiC Processing, a recycler of slurry from the solar and conductor wafer industries, led by Zouk Ventures, and Penton Partners' investment in wood pellet company Pellet-Art.

New sources

Yet Europe's venture capital firms are targeting a different opportunity, one that offers equally rich, if less predictable, returns.

Investments in next-generation energy sources – such as Green Biologics' funding round from Carbon Trust Investments and Oxford Capital Partners, and Khosla Ventures' bio-oil joint venture with Bioecon – may be relatively sparse.

But the same drivers that are opening up environmental infrastructure are also increasing demand for innovative new ways to reduce the energy consumption and overall environmental impact of existing technologies. Many of this month's big venture capital deals have been in this space – among them CamSemi, whose circuits reduce the energy consumed by electrical appliances on standby; Atraverda, which allows more environmentally friendly batteries to be produced; and Perpetuum, the developer of the first viable vibration-harvesting device.

Laurence Garrett, a partner at CamSemi backer 3i, describes this type of deal as picking low-hanging fruit within a growing market. It is a strategy that venture capitalists and environmental infrastructure investors alike are adopting.