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## Seeking the Cisco of cleantech

By Guy Griml

Nobody had ever heard of it. "When I started raising money for my fund, I'd spend half an hour out of every meeting just trying to explain the concept of cleantech. Today with oil costing almost \$100 per barrel we don't have to explain why investing in a venture capital fund that specializes in cleantech makes sense. People have become aware," says Astorre Modena, general partner in Terra Venture Partners, inadvertently providing the perfect summation to the Ernst & Young conference on cleantech last week.

Ernst & Young's analysis of the cleantech industry in Israel is heartening, especially for all those entrepreneurs leaping into the field. It isn't exactly good news for green energy companies, which hardly attracted any venture capital at all, according to the bare figures. But waste disposal is the in thing this year. Recycling is red-hot and "green agriculture" - growing crops in a sustainable manner, without ruining Mother Earth - is starting to sprout.

This year so far cleantech startups have raised a startling \$98 million, up from \$88 million in all of 2006. In 2005 the sector scored about \$63 million in venture backing and in 2004 the startups brought in \$34 million. The growth curve is a handsome one. (Though it's true that in 2003 the startups brought in \$51 million).

From the start of 2007, the cleantech industry in Israel can boast 20 investments, and the year isn't over. Most were follow-on investments, but 12 percent were new ones. In 16 percent of the cases, the investments were first-round.

From another viewpoint, 2007 was the year of Materials. Some 70 percent of the investments this year have been in that area, up from 21 percent the year before. A quarter of the investments went to recycling and waste management, and 5 percent targeted "green agriculture". A mere 1 percent went to "clean energy" companies.

Another statistic Ernst & Young wrested from their data indicates that the venture capital world is starting to recognize the potential of cleantech. Of the money that cleantech startups raised in 2006, 41 percent came from venture capital funds and 59 percent came from private investors. This year, the funds account for 68 percent.

These figures and the \$100 million relate only to Israel. Around the increasingly inhospitable, frighteningly begrimed world, investment

in cleantech soared to a stunning \$50 billion in 2006.

"This year we looked closely at the number of companies engaged in cleantech in Israel, and found hundreds," says Yoram Tietz of Ernst & Young Israel. The accounting firm also found that venture capital funds, which famously invest in traditional technology areas such as semiconductors, the Internet and software, are increasingly amenable to technologies designed to save us from ourselves.

Tietz sees a change in the dialogue. In the past, he says, the entrepreneurs didn't understand the investors' language, and the investors didn't understand the market. "Now a basis has been formed for business," he says.

Another change is in the origin of the talent. Many of the young geniuses populating Israel's traditional high-tech scene came from the army, academia, or even big business. But the cleantech entrepreneurs are popping up out of nowhere (and from the army, academia and big business, to be sure).

"Take Orni Petruschka and Rafi Gidron," says Tietz, mentioning two of the best-known names in Israeli tech circles. With their fortunes intact, they're now investing in not one but two cleantech startups. Petruschka and Gidron, by the way, were the men behind Chromatis - an optical systems startup that Lucent Technologies bought for \$4.5 billion in 2000 and quietly closed down a year later. But that's another story.

And one mustn't forget Shai Agassi, the young Israeli who took SAP by storm, rose to become the German giant's chief technology officer, and who had been shortlisted to replace the CEO. He left SAP to help save the planet through green technologies. Just last month he revealed what he's up to, together with none other than Idan Ofer of The Israel Corporation, which had been more associated with fossil fuels than clean water. Agassi wants to develop a worldwide grid to charge the electric cars that will replace the gas guzzlers.

"Something has happened this year," says Itay Zetelny, manager of the Ernst & Young Israel cleantech department. Venture capital noticed cleantech in a big way. In the past cleantech entrepreneurs couldn't find backing, but green is in. Naturally all the venture capital funds are looking for the Cisco of cleantech, and nobody has a clue which startup it might be. But then that's the whole point of venture investing: You take the high risk with the hope of enormous reward.

Among the participants in the Ernst & Young conference were representatives of venture capital funds that haven't gone near cleantech, at least yet. They came to listen and learn. These funds include Platinum Neurone Ventures - the result of a merger in 2002 between Platinum Ventures and Neurone Ventures and Giza.

Then there are funds that have started to gingerly dip a toe into the

cleanwater: Genesis Partners decided to put \$10 million into SolarEdge Technologies, which is working on energy-harvesting solutions for solar photovoltaic systems. In short, power from the sun. Lacking a "cleantech" or "green" section in its portfolio, Genesis filed SolarEdge under "semiconductors". Gemini has also clambered onto the bandwagon with a \$9 million investment in Metrolight, which is working on low-energy illumination systems.

The private equity fund Markstone Capital Group, which is better known for building a financial group through acquisitions and investing in more traditional companies, has also started looking at cleantech. And then there are the doers.

Gaon Agro, controlled by businessman Benny Gaon, has long since targeted water technology, where it operates through the Aqua-Agro Fund, a \$100 million vehicle for investments. Another water technologies investment fund is H2Tech, which invests in companies in Israel and beyond. Founded in 2006, H2Tech is run by Spark Enterprise.

Greylock Israel and Israel Cleantech Ventures collaborated on creating a platform for investment in cleantech, which they call CleanStart. Another investment group, Tene, is also targeting cleantech, but it wants mature companies, not startups.

Note that although cleantech may be taking off, that doesn't mean the venture capital funds will earn a penny on their investments. They could lose money hand over fist, as happened with many an Internet venture, despite the unarguable success of the genre. This is a young, growing industry that has yet to prove its mettle. There aren't enough experienced managers, for one thing.

Israel's cleantech business today is around where Israel's information technology sector was 10 years ago, says Tietz. Big money is taking notice.

There are also significant catalysts encouraging urgent development in the area, one big one being the price of oil. On November 1, oil hit a record \$96.24 a barrel. In the United States, where people do love their cars, the price of gasoline passed \$3 per gallon for the first time. A second catalyst is regulation. After years of largely ignoring the problem, the world's political echelon is taking note and is forcing big industry to change.

Yet Jason Matlof of Battery Ventures thinks that government policy is to blame for slowing the development of cleantech. While he finds the development of the industry here impressive, he's underwhelmed by the government's support. "I expect to see great things from Israel," he says. The company has the technological talent. Some goodwill in Jerusalem wouldn't hurt.

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