

Water Technology Ventures – the new opportunity for Venture Capitalists, Private Equity and Industry

Water technology development and application always encompasses financial needs - in terms of financing infrastructure and funding technology development (i.e. funding companies). In addition water related charity activities are looking for donators. This issue has been neglected in all the congresses, summits and fairs taking place all over the world. There are many start-ups and smes around looking for funding and "courageous" clients (i.e. first movers); on the other side there are many interested investors (Venture Capital, private equity, corporate investors, business angels) - they all need to match. Creating references is always difficult for start-ups as actual structure are very conservative. Many problems within fresh water can only be solved by a combination of new - and simple to apply - technology and a change in behaviour and attitudes - thus "inventors" are encouraged to cooperate with higher companies (as growing interest by corporate investors points out!)

From where we are sitting, technology investment seems to be one of the fastest growing areas of interest in the water sector at the moment. A host of conferences promising to introduce investors to new water technologies have sprung up around the world – many of them well attended. It looks like the sector has momentum – but from the evidence of the actual deals done, it seems that the spectators outnumber the participants twenty to one. This is nice news for conference organisers, but it does raise questions about the longevity of the sector.

What seems to have happened is that the venture capital sector had to reinvent itself in the wake of the dot.com bust of the early 2000s, and many funds took up the greentech theme. There was a rush to invest in renewable energy start-ups, which quickly became over-valued. Green tech funds then started to look at water, but few have actually invested. The most important investors in the sector remain the old hands: XPV Capital from Toronto, FourWinds Capital Management in London, Emerald Technology Ventures in Zurich (which recently invested in leakage software specialist TaKaDu (www.takadu.com)), Arison and Israel Cleantech Ventures based in Tel Aviv, and Kinrot Ventures based in northern Israel.

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There are two main reasons why there are a lot more greentech funds looking at the water sector than actually investing. The first is that the fragmentation of the water business means that the scope of individual technologies appears limited. For example the biggest water technology of the past 50 years is probably the reverse osmosis membrane – but RO membranes are not even a \$1 billion market. Compare that to renewable energy companies which have their eyes on a market currently valued in the trillions of dollars a year, and you can understand why water is less exciting close up.

The second problem is the long adoption cycle in the water sector: most water technology start ups take at least five years to go from proof-of-concept to first commercial reference. This is because the end-user customers – typically public water utilities – have no competitive or profit-seeking incentive to take risks on new technologies. Even if they want to take the risks, few of them have the money to spend. The established venture capital investors – the XPVs and the like – know their way around these problems, and can make good returns on smart investments. Most of the newcomers don't have the confidence to take up the challenge.

Fortunately there are some exceptions. Three of Silicon Valley's aristocrats have taken positions in water technology. Khosla Ventures has invested in NanoH2O (www.nanoh2o.com) and Calera; Kleiner Perkins has invested in APT (www.aptwater.com along with XPV and others), and Draper Fisher Jurvetson has invested in Oasys (www.oasyswater.com). They have a much bolder style of investment than the established water technology investors. They are prepared to take bigger risks up front in order to accelerate the rollout of new technologies. They need to succeed. If NanoH2O, Oasys and APT can force through a route to market in less than five years, they will have established a way through water's tortuous procurement process that others can follow.

Water is a \$500 billion a year industry but it is only attracting around \$120 million a year in venture capital funding. With the challenges we face, this cannot go on" (quote: Global Water Intelligence).

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As by now attractive investment sectors are considered as:

- ◆ decentral technologies (i.e. sewage)
- ◆ irrigation
- ◆ improvement of desal technologies (esp. energy saving)
- ◆ water treatment /saving for industrial purposes
- ◆ simple to apply filtration technologies

WaterVent strives for:

Pinpointing the relevance of funding in water technology in order to help new water technology to application i.e. new clients and sensibilizing especially potential corporate investors and "traditional" cleantech funds for funding smart technology start-ups and smes.

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Ulf Leonhard, born 1959, MBA with Munich University, 4 years with A.T. Kearney, CEO of a regional private equity company in Baden-Württemberg, founding own corporate finance consulting in 1993.

Moving to Berlin in 1996; initiator of the first ever matching events of investors and entrepreneurs – national and international. Since then more than 90 events with appr. 9,500 participants from all over Europe and Israel. Reviewing more than 1,500 entrepreneurs' presentations.

In 2009 creating a SME financing platform "Nicht ohne meine Bank?!" (not without may bank) and www.watervent.com