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Investing Wisely in the Green Rush

Venture capitalists are flocking to clean energy startups. Here's a look at the promise and perils

by Paul R. Holland

Green is everywhere—including on the Supreme Court, which on Apr. 2 handed down a landmark decision on the regulation of carbon dioxide from vehicle emissions (see BusinessWeek.com, 4/2/07, "Court Turns Up the Heat on Global Warming"). Former Vice-President Al Gore just made an impassioned plea to Congress about global warming. We had our first "green" Oscars. And companies by the droves are seeking to go carbon-neutral.

None of this is lost on investors. Last year, venture capitalists pumped more than $2 billion into clean energy startups. As green tech continues to top the news, the bulk of the headlines seem mostly related to companies developing new ways to produce ethanol, or startups seeking to provide cheaper solar power.

Today this makes sense, given the size of the U.S. oil and energy markets. So many investors are talking about green investing that some industry watchers are already rolling their eyes and predicting a clean-tech bubble.

UP AND COMERS

In coming years the green energy movement will expand even further and touch many more multibillion-dollar industries, many of them overlooked today. In fact, the expansion is already underway. Here are three industries that from an investor's perspective are certain to be touched by the greening of business.

Let's begin with construction. CH2M Hill, the engineering powerhouse in Englewood. Colo., is breaking new ground when it comes to striking a balance between environmental stewardship and economic progress through new construction. To many, CH2M is perhaps best known as the mastermind behind the repair of the levees in New Orleans after Hurricane Katrina devastated the city, and for being selected as Program Manager for the 2012 London Olympics and Paralympics.

But CH2M is also leading the explosive growth in green building infrastructure. For the last 10 years it has been a world leader in protecting the environment through smarter management of environmental impacts of its own operations as well as those of clients. In 2006, CH2M's North American operations implemented a broad effort for reducing waste, institutionalizing environmental practices, greening the supply chain, reducing carbon emissions, and measuring impacts.

The program evolved from a pilot effort in 2005 to a wide range of programs last year. It has become more focused this year. The company continued to offer clients sustainable services, from high-performance green building design and the use of renewable energy to smarter management of greenhouse gases and wastewater. Watch for many more companies to follow suit.

BUYERS WITH "HIGH EXPECTATIONS"

Then there's food and water. Novazone, in Livermore, Calif., purifies 90% of the world's bottled water via ozone purification. The company, in which my firm was an early investor, is experiencing exponential growth in the market for using ozone to treat food and produce, because it can erase outbreaks of *E.coli* and salmonella without the use of harmful chemicals. It also helps produce growers and retailers keep up with increasing consumer demand for organic produce.

"Today's consumer has high expectations," says Novazone President and CEO Dave Cope. "They want food and water that is fresh and safe but that has not been subjected to any potentially harmful chemicals. If used appropriately, ozone may be the answer."

A third notable area of investment is recycling—and this means much more than office paper or putting bottles and cans at the curbside each week. It's a growth industry. For example, Lehigh Technologies in Naples, Fla., recently struck a deal with a major collector in the Southeast to turn as many as 15 million tires annually into high-quality crumb rubber feedstock that can be used in such products as floor mats and speed bumps or on surfaces like playgrounds and sports courts.

CONSIDER THE RISKS

Never heard of these markets? You will. In coming years they will generate new companies and attract billions of dollars of venture capital investment. Here's a quick data point: Foundation Capital looks at hundreds of companies a year. We are now seeing three to five times more clean tech investment prospects than we were just three years ago.

I'm not saying all is golden with green tech. There are some risks, as with any emerging market, for venture investors and the public markets. Given that, I'll balance my three predictions with three potential risks.

• The government doesn't come through. Today many of these new markets are propped up by subsidies from the United States government. If those subsidies go away, some of those markets will crater.

• Oil gets cheap again. If oil drops below $40 a barrel, some of these markets could stall. It seems hard to remember that at the end of the Clinton Administration, oil was $24 a barrel, and it was probably a lot harder for alterative fuels boosters to get any traction.

• Companies price themselves too high. Many of these technologies are new twists on well-established markets like energy services or building materials. Typically, such businesses trade at very low multiples. If the bubble bursts in certain clean tech markets, some of the current valuations will be unsupportable.

Only time will tell which green technologies make the jump and prove to be long lasting alternatives to today's solutions—and good investments to boot. But there is no question in my mind that some will change the world as we know it.

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