

TIP SHEET: Clean Energy VC 'Not Looking For Space Age Tech'

By John M. Biers

September 17, 2007

SAN FRANCISCO (Dow Jones)--Many leading energy policy watchers expect the U.S. over the next two years or so to make some big decisions about global warming, likely setting some sort of value on carbon dioxide emissions - decisions that will alter the economic picture for most energy investments.

While Rob Day, a Wilmington, Mass.-based principal at venture capital firm @Ventures, keeps an eye on the climate policy debates now churning throughout Capitol Hill and many states, the day-to-day legislative movements don't affect his broad investment thesis, which holds that a supply-challenged market will lift energy prices for years to come.

Day, who helps manage @Ventures' clean technology fund, said he also isn't fazed by energy-price volatility. Any significant drop in oil prices would be an "aberration," he said.

Rather, the biggest issues in weighing investment decisions concern not the contours of U.S. energy policy nor annual commodity-price forecasts, but whether a company has strong management and is developing technology that could transform the industry, Day said.

"We're not looking for Space Age technology," Day said. "We're looking for well-executed technology that has an advantage in the marketplace and is addressing a big market need."

His firm's current fund - @Ventures V, the fifth incarnation in the venture capital operation's 12-year history - has six "publicly acknowledged" investments overall, said Day, who declined to say whether the firm has made additional investments beyond those already disclosed. @Ventures V is the venture capital affiliate of CMGI Inc. (CMGI), which has committed \$50 million to @Ventures V, about half of which has already been invested, a CMGI spokesman said.

CMGI doesn't publicly provide information on the @Ventures' rate-of-return or comment on its performance compared with other venture capital firms, a CMGI spokesman said.

The venture capital business is pretty "opaque," conceded Day, who sees his blog, Cleantech Investing, as a venue for explaining the business. The blog, which was praised in 2005 by Fast Company magazine as a valuable resource for green investors, started as a venue for Day to explain his work to friends. But the popularity of the blog (www.cleantechvc.com), which includes Day's opinions and news summaries, has helped @Ventures' deal flow, he said.

The @Ventures firm's performance is actually somewhat more transparent than that of many venture capital firms because it constitutes a sizable part of CMGI, a Waltham, Mass., technology company that specializes in supply chain management. CMGI started its venture capital wing in 1995 for Internet investments, but the enterprise expanded to clean technology in 2004.

While CMGI's financials don't provide easy apples-to-apples comparisons of the progress of all investments, they do illuminate the broad contours of @Ventures' performance. Those reports point to increasingly favorable returns on earlier investments amid growing investment by Day's firm.

The @Ventures firm's investments have grown from \$2.1 million in 2004, with distributions of \$400,000, to \$6.8 million in 2006, with distributions of \$36.5 million, according to CMGI's securities filings. Through the first nine months of fiscal 2007, @Ventures invested \$7.2 million and netted \$35 million in distributions, the securities filings show. CMGI will report earnings for its fiscal fourth quarter and full year Sept. 25.

Overall, CMGI reported \$55.6 million, or 11 cents a share, in net income on revenue of \$890.5 million for fiscal 2007's first nine months, which ended April 30. That's compared to net income of \$17.5 million, or 4 cents a share, on revenue of \$887 million a year earlier.

Returns for venture capital firms have improved in recent years since the Internet bubble burst, according to aggregated data provided by the National Venture Capital Association. Through March 31, the five-year return for all venture capital is 2.7%, the three-year return is 9.6%, and the 52-week return is 18.1%, as shown in the data, which account for more than 1,860 U.S. venture capital firms.

Day's firm typically invests \$2 million to \$3 million apiece in a diverse range of private alternative energy companies. These include Propel Biofuels, a Seattle company that builds biofuel fueling stations at conventional gasoline stations; Powerit Holdings Inc., another Seattle company, which provides proprietary software to improve energy efficiency at industrial sites; and Advent Solar Inc., an Albuquerque, N.M., company that develops proprietary technology to lower assembly costs in building solar panels.

Propel addresses "a screaming market need," Powerit boasts software that can be easily understood and employed by facilities, and Advent will begin garnering revenues early next year, Day said.

The @Ventures firm will continue to fund companies that demonstrate progress, even if revenue aren't expected any time soon, said Day, describing his approach as classic venture capitalism. While some investment vehicles ultimately go public, many are acquired before that stage.

"Revenue are an important part of a business, but it's an investment game," said Day, adding that he sometimes cashes out investments in the pre-revenue stage. "It's a game of finding an early company that seems really poised for a breakthrough."

(John M. Biers is the Houston bureau chief for Dow Jones Newswires, covering the energy industry.)