Excerpt from Red Herring, May 15, 2007
http://www.redherring.com/Article.aspx?a=22267&hed=Clean+Energy+Heats+Up&sector=Industries&subsector=Energy

Clean Energy Heats Up

Researcher raises bubble concerns over investments, valuations.

By Andrea Quong

A researcher on Monday cautioned venture capitalists against going hog wild over clean energy investments, citing concerns about rising valuations and intense demand as investors continue to pour money and high hopes into the sector.

Total global investment in clean energy companies nearly tripled in 2006 to $70.9 billion from $27.5 billion in 2005, including $12.3 billion in money raised on public markets in IPOs and secondary offerings, according the London-based research firm, New Energy Finance.

"Companies are seeing a bit of a windfall," said Chris Greenwood, operations director at New Energy Finance. "Not all of those companies will succeed and not all of those investors will get all of their money back."

Such exuberance isn't new. But it is raising the amount clean energy companies are able to score at later stages of the game. Also, private equity investment in the expansion of established companies more than tripled to $3.5 billion from $1 billion during the same period, Mr. Greenwood said.

On the world's stock exchanges, meanwhile, valuations show signs of "overheating," the research firm wrote. The NEX, an index of clean energy companies published by New Energy Finance and U.S.-based WilderHill, rose nearly 30 percent per year from 2003 to 2006; in 2007, alone, it has increased 23.6 percent, the group said.

Solar, biofuels, and smart power distribution saw the greatest growth in venture capital infusions with more than $11 billion in venture and private equity investment in clean energy worldwide. But less than $1.5 billion of that went to new technology companies; most went toward building infrastructure and capacity such as wind farms, biofuels plants, and factories, according to New Energy Finance.

That trend reflects investor confidence in more established companies, as clean energy companies move from developing their technology to commercializing it, Mr. Greenwood said. In addition to bigger later-stage funding rounds, private equity made up a far greater proportion of investment in 2006, particularly in companies that had proven out their technology, he said.

“There’s confidence on the part of investors and there’s more money to invest,” Mr. Greenwood said.

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Venture backing of companies to develop their technology, of course, hasn’t dried up, even if it makes up a smaller slice of the pie. VC investment in new technology companies still grew 25 percent to $1.5 billion in 2006 from $1.2 percent the year before, Mr. Greenwood said. Meanwhile, clean energy venture investment in Europe fell from its 2004 peak, outpaced by U.S. investment by a factor of five.