

Building a sustainable business out of clean tech

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Experts see no downside for sector regardless of economic volatility

The world's newest business sector is growing in leaps and bounds, and is showing little sign of abatement, experts who manage some of the largest clean technology investment funds in Canada say.

The outlook is so positive, in fact, that the sector is not only "recession proof," but it may thrive the tighter the economy gets, experts suggest, particularly if Canada and North America enter into the carbon credit-trading business.

"Clean tech is all about making things more efficient," said Rick Whittaker, vice-president of investments at Sustainable Development Technology Canada. "And that's a constant grind. It's a way of life more than it is anything else. Whether you're in a recession, or whether your productivity is really high, the name of the game is efficiency. That's the number one argument I've seen.

"In Canada . . . our energy consumption is so high that everything that we're going through, whether we're in a high-producing economy, or whether we're in a recession, is going to be about efficiency."

Mr. Whittaker and two other investment experts in the clean tech sphere addressed attendees at BioNorth 2007, the 14th annual biotechnology and life sciences conference which attracted an international audience of speakers and exhibitors to Ottawa last week.

The conference focused on many separate streams over two days: therapeutic medicine, medical devices and clean tech. A panel discussion titled "Investing in cleantech: market trends and opportunities" drew a large number of event goers.

"Efficiency is the most obvious (reason) why (the clean tech sector) is recession proof," echoed Claude Haw, managing partner with Ottawa's Venture Coaches, a Canadian clean tech fund. Even aspects of the clean tech sector not necessarily associated with energy conservation are bound for positive returns down the road, he said.

"Think water: everybody needs water to drink. You need water for industrial processes. That's becoming such a huge issue – therefore an opportunity globally – that it doesn't really matter what the economic climate is at the time.

"An economic downturn might flush out some things that are marginal, but for the most part, I think this sector is pretty robust," he added.

Robust it is. Just in the past year, more than \$149 million – "an awful lot" – was invested in the sector, split roughly equally between firms in western and eastern Canada, said Mr. Whittaker. Investment in the sector just five years ago was nearly zero.

His investment firm, spun off from the federal government, saw some 1,300 applications for financing from nearly 4,000 entities, totalling \$3 billion. SDTC focuses primarily on financing companies in the "valley of death," after inception – that period when primary government funding has stopped but angel investors have yet to step in.

Recently, six Ottawa firms - Ensyn Technologies Inc., Group IV Semiconductor Inc., Iogen Corp., Magenn Power Inc., Menova Inc. and Plasco Energy Group Inc. – were named in a list of 10 "emerging clean tech leaders of tomorrow" by a prominent business magazine.



Rick Whittaker of Sustainable Development Technology Canada. (Darren Brown, OBJ)

While most of the activity in the sector has been focused on research and development, merger and acquisition activity is beginning to pick up, said Mr. Whittaker.

"Now what we're starting to see is exits really starting to happen," he said. "M&A activity is really active and healthy and picking up, as these companies mature in the market. Companies like GE are buying them up like hotcakes."

As well, consumers, he said, are demanding a piece of the action, and more and more of the public sector is starting to appear on the public markets.

"And when you see those two things happen, you know the sector is hitting a stage of maturity."

With clean tech companies largely involved in creating or saving energy, they are starting to see the effects of high prices for carbon and other commodities, said Ian Tharp, a senior analyst in the alternative energy and power division of Dundee Securities in Toronto.

His firm helped finance Plasco Energy Group's waste gasification process. Efficiency, said Mr. Tharp, is "just a better way to do business."

"I think we are a lot more impervious to (economic volatility) than we were before. And if you look at things like the (U.S.) credit crunch, if I have a choice as a long-term investor between the returns from a power project . . . in an environment of increasing fuel costs, (versus a crisis) in the U.S., I'm going to think that's a fairly attractive asset class for me."

Carbon credits

Globally, an increasing focus on climate change as well as fears surrounding "energy security" are simply adding to the clean tech sector's desirability, said Mr. Haw.

"The good thing is, a lot of this is global," he said.

However, "confusion" pervades the sector over whether or not the federal government, either in Canada or the United States, will introduce a price on carbon, and how that will provide a jolt to the industry, the analysts said.

While they agreed it's likely inevitable, they aren't sure exactly when it will occur. It comes down to pricing, said Mr. Whittaker.

"I think it's very clear, that (the oil and gas sector) will not move until there is a government signal that 'this' is the price of carbon. As soon as you put a price on carbon – and pegging that price is the challenge right now – you're going to see a bunch of things happen. You're going to see clean tech companies enter into the oil and gas sector."

"The minute you regulate, the minute you implement a carbon tax, all that happens," he said.

"I think carbon trading is inevitable," added Mr. Haw. "I think we should see it as quickly as possible to get rid of this uncertainty that's hanging over the market. Industry is calling for clarity in this area, whether you're talking Canada or the U.S. or elsewhere."

Already, companies are taking innovative approaches when asking for financing from Mr. Tharp's firm.

"I've seen business plans that don't show revenues in terms of dollars. They'll just show the emissions credits that they'll create. I'd love for that to be a fact," he said.

"Five years ago, there were eight people in a room that were figuring out how to spell clean tech. But now what we're seeing is real companies, hitting the market, actually creating value for their shareholders," said Mr. Whittaker.