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Venture Capital/Private Equity investment in clean energy surges 167% in 2006

Venture capital and private equity investments in clean energy companies saw a huge leap in 2006, increasing by 167% from USD 2.7bn to USD 7.1bn. The increase was driven by a surge in money flowing into the US biofuels sector. Solar, wind and other low carbon sectors such as energy efficiency, smart distribution and carbon markets, also saw significant rises.

In terms of types of investment, there were signs that the clean energy sector is maturing as VC investments flowed into series C/third round fund-raisings, which focus on proven technologies and quite advanced commercialisation. Meanwhile, the most striking growth was in private equity inflows into asset/capacity investments, which were 301% up on the previous year. Capital-raising through OTC transactions and PIPEs, or Private Investment in Public Equity, also leapt, seeing gains of 215%.

Geographically, the biofuels surge helped the Americas to a 179% rise in fundings, far outstripping the 70% increase in the EMEA region. A big rise in awareness of clean energy was driven by President Bush's State of the Union speech, environmental reforms in California and the north eastern states, Al Gore's film An Inconvenient Truth and the efforts of the Clinton Global Initiative. >From a much smaller base, Asia and Oceania recorded an astonishing 383% jump in funds invested, driven by a surge in investment in China after the latest Five Year Plan called for a huge increase in investment in renewables. One side effect of this was Hong Kong's growth as a source of clean energy funds, while elsewhere in Asia, India's wind market saw strong gains.

A variety of factors came together to create a wave of interest in biofuels – President Bush touted cellulosic ethanol as one of the answers to the problem of the US's 'addiction to oil' in his State of the Union speech in January 2006, oil prices surged and fear increased over threats to supplies from conflict in the Middle East and nationalisation of resources in countries such as Russia and Venezuela. These factors combined to lift VC/PE investment in biofuels more than fourfold, from USD 647m in 2005 to USD 2.8bn in 2006. But the nature of the investments in the sector meant that the number of deals rose far less steeply, from 270 to 354, or about 31%, suggesting that the average deal size increased dramatically year on year.

Investment in solar was up 210%, from USD 451m to USD 1.4bn, driven by initiatives such as California's 'Million Solar Roofs' and attempts to overcome the shortage of silicon both by building more capacity and through investment in technologies that use less silicon. Wind investment more than doubled from

USD 307m to USD 821m, but most of the investment in the sector is directed towards asset finance because the technology is relatively mature and the business model is proven. Other low carbon technologies, including energy efficiency, smart distribution, carbon markets, fuel cells and hydrogen grew by 74% from USD 979m to USD 1.7bn but individually each sector remains relatively small.

First round venture capital raising increased from USD 217m to USD 339m, suggesting that the search for technological solutions still has some way to go, but second round financings actually dropped, from USD 359m to USD 324m, while there was a big jump in third round funding, from USD 261m to USD 675m. This jump signifies that many technologies in the sector are coming of age – series C funding generally goes to proven technologies at a relatively advanced stage of commercialisation. It is also the stage at which bigger players start to get involved in the sector, adding to the sense that clean energy took a big leap forward in terms of its interest to mainstream investors in 2006.

The drastic increase in asset/capacity investments by private equity investors, from USD 874m to USD 3.5bn, adds to this feeling – the financial community will not invest in capacity until a technology is proven and they can see a way to generate a return on their money. This sense of progress is reinforced by the USD 1.3bn increase in OTC and PIPE investments from USD 594m to USD 1.9bn, with the increase mainly coming from PIPEs. Traditionally, PIPEs were a fund-raising last resort for public companies, but increasingly small- and micro-cap companies use them to fund expansion without going to the effort of a full secondary offering. As an intermediate stage between private funding and public markets, they are helping companies in a range of sectors to continue their growth.

Michael Liebreich, Founder and CEO of New Energy Finance, said: “The level of Private Equity investment in clean energy in 2006 demonstrates the strength of the sector and the rapid progress it is making year on year. The growth from 2005 illustrates the commitment of existing investors who are developing their portfolios, and new investors who have identified attractive opportunities. It looks like New Energy Finance’s forecast of $100bn of private equity deals within 5-6 years, will be met by 2010. This is a positive sign, and the sector’s fundamentals are strong, but investors still need to apply good investment discipline. As with any other investment, risk management is key.”

About New Energy Finance:

New Energy Finance is a specialist provider of analysis to the world’s leading investors in renewable energy, biofuels, low-carbon technologies and the carbon markets. The company’s research staff of 45 (based in London, Washington, New York, Beijing, Shanghai, New Delhi and Perth) tracks deal flow in venture capital, private equity, M&A, public markets and asset finance around the world.

New Energy Finance covers all sectors of clean energy: renewables (wind, solar, marine, geothermal, mini-hydro); biomass & biofuels; energy architecture (supply- and demand-side efficiency, smart distribution, power storage, carbon capture & sequestration); hydrogen & fuel cells; carbon markets and services.

Services include the New Energy Finance Briefing, New Energy Finance Desktop, NewsWatch daily news service and Focus Reports on sectors and countries. New Energy Finance co-publishes the world's first global clean energy market index, the WilderHill New Energy Global Innovation Index (ticker symbol NEX, calculation agent the American Stock Exchange). New Energy Finance is currently launching subscription-based Insight Services providing deep market analysis to investors in Wind, Biofuels and China. The company also undertakes bespoke research and consultancy, and runs senior-level networking events.

New Carbon Finance, a division of the company, provides analysis and price forecasting for the European and global carbon markets.

Michael Liebreich, CEO & Founder New Energy Finance Limited 71 Gloucester Place London W1U 8JW England tel: +44 20 7467 2660 email: michael.liebreich@newenergyfinance.com

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