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Veteran cleantech investor and founder of Nth Power builds on experience

San Francisco Business Times - by [Lindsay Riddell](#)

Nancy Floyd remembers the first investment her before-its-time clean technology venture capital firm ever made.

It was in an advanced lighting company whose Internet-enabled technology controlled lights in commercial and industrial buildings and could save 80 percent in energy costs at peak times during the day.

“It failed,” said Floyd, who cofounded San Francisco-based **Nth Power** in the early 1990s. “In 1997, electricity was just too cheap in the U.S. for anybody to want to save it. There was just complete customer apathy.”

The world has certainly changed.

Not only have the economic drivers of clean technology innovation become more compelling, experience investing in the sector has become more valuable.

Floyd’s name has appeared on political watchers’ lists as a potential candidate for an energy-related position in the President-elect Obama administration. She was a major fundraiser for Obama and spoke at the Democratic National Convention in favor of the then-candidate’s energy policies. Her colleagues say a long history in alternative energy investing — Floyd ran and then sold one of the country’s first wind energy companies in the early 1980s — has propelled Floyd into the national spotlight and bolstered the firm’s credibility.

“Nancy is unique because she’s a pioneer in this industry,” said Nth Power Managing Director Bryant Tong. “In cleantech, that’s relatively rare.”

When Floyd and then-partner Maurice Gunderson started Nth Power in the early 1990s, the motivation was to take advantage of market opportunities that would stem from deregulation of the electricity market. There were only a few firms — **Aretê Corp.** in New Hampshire and Enertech Capital, based in Philadelphia and Toronto — attempting to do what Nth Power was doing.

The idea was that deregulation would lead to independent power producers, faster innovation, a fully networked electric grid and lots of opportunity to sell new products and technologies to utility companies, business owners and homeowners. Few institutional investors understood deregulation and were wary of investing.

But Nth Power’s focus quickly evolved — and its potential grew — as climate change, energy security, price volatility and resource shortages made alternative energy and energy efficiency investing increasingly more compelling, partners said. It took 3½ years and 197 presentations to raise the firm’s first \$65 million fund that would invest in the first wave of venture capital-sponsored clean technologies.

What Nth Power pioneered in the late 1990s is today the fastest-growing investment sector in venture capital. Clean technology investing jumped to \$2.1 billion in 2007 up from \$263 million in 2003, according to PriceWaterhouseCoopers MoneyTree report. Even amid an economic downturn, venture capitalists so far this year have pumped \$1.6 billion into clean technology, which covers as varied technologies as alternative energies, batteries, alternative fuels and energy efficiency.

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“We worked hard to establish the value of the franchise, and I think it’s stood the test of time,” said Gunderson, now a partner at **CMEA Ventures** in San Francisco.

The firm had some early successes with Massachusetts-based **Evergreen Solar**, one of the first solar companies to go public in the United States, in 2000. And another post IPO-financing round with Woodland Hills-based Capstone Turbine, whose industrial engines could turn gas from oil drilling into usable electricity was another success, she said.

Nth Power learned from early mistakes.

While the company focused on reduced energy costs in its early investments, the cost and environmental impact of electricity wasn’t compelling enough at the time to inspire customers to make costly technology investments.

The lesson, Floyd said, was to sell the products’ other benefits. Showing that better lighting improved worker productivity was a better sell, but at the time, Nth Power didn’t have that information.

“When you have that kind of data, you’ve really hit a pain point for customers,” Floyd said.

As more and more venture capital firms have begun investing in clean technology, Nth Power is one of the few with a longtime investment perspective.

“One of our early challenges was to find firms to co-invest with us,” Floyd said. It’s much easier to both raise money and to find co-investors, she said.

Today, the company’s portfolio includes investments in clean-coal technologies, biocrude processing and smart-grid technology.

Tong said knowing how utilities operate helps in analyzing companies that count utilities as their primary customers. Shortchanging how long it takes for utilities to adopt and install new technologies is a common mistake among cleantech venture capitalists and entrepreneurs, he said.

“We always say double the time to market and double the money involved if that is your primary market,” said Tong, who ran **PG&E**’s venture capital arm before coming to Nth Power in 2001.

Tim Woodward, who joined Nth Power in 1998, said the firm has looked at nearly every energy or alternative energy deal so far this decade, and that means it has missed some lucrative opportunities. The firm declined to invest in **First Solar and SunPower Corp.** — companies that have done investors proud by beating the slew of other solar companies to a public offering. But Woodward stands by the firm’s rationale.

“We’ve tried to avoid business plans that could require hundreds of millions of dollars to get to a viable sustainable business,” he said.

That will be more important moving into 2009 as a bleak economy has slowed investment, and some are worried that the decline in the cost of oil will dim desire to invest in alternative energy. Floyd admits the near-term outlook for the whole economy looks grim, but she said she believes the Obama administration understands that investing in clean technology will create much-needed jobs.

“If there’s going to be one bright spot in the world’s troubled economy, it’s going to be this,” Floyd said. “This is not a nice-to-have, this is a must-have.”

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