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Cleantech with a difference

Israeli venture capital funds are now turning their attentions to the cleantech industry, and setting up designated funds to invest in it. One such fund is AquAgro. "Globes" heard more from its managers, Nir Belzer and Hillel Milo.

Merav Ankori — 21 Feb 08 23:37

Leading Israeli venture capital funds, those which have always invested exclusively in technology, are now beginning to invest in cleantech companies. One might say that for the time being, they are just testing the water, but have not yet got themselves wet. This is a complex field and funds like these don't always have much to contribute to cleantech companies aside from money. At the same time, Israel has also seen the launch of designated funds focusing on cleantech, which invest principally in service companies, or products designed to offer water solutions, or reduce energy consumption and pollution.

The main difficulty is that the typical business model of materials and cleantech companies differs from the accepted high-tech model, and is very long. Companies have to go through a process of laboratory technological feasibility assessment, which can come after many years of research. Then there is the prototype stage, followed by a non-commercial pilot, and then a commercial one - meaning that the customer pays for the product - and then commercial production. The testing covers both technology and business potential, and the resulting product is a high-tech-biomedical hybrid.

One such designated fund is AquAgro, which specializes in investment in water technologies and agro-biotechnology. The fund, which is controlled by Gaon Agro Industries Ltd. (TASE: GAT), itself controlled by Benny Gaon, is managed by Nir Belzer and Hillel Milo. In recent weeks it invested \$4 million in stages in a start-up called Advanced Desalination Technologies Ltd. The fund invests chiefly in mid-to-late stage companies, but it has also decided that it cannot afford to miss embryonic ones either. To this end, it is now launching Aqua Lab, which will operate in a format similar to that of a technology incubator, making seed and early-stage investments.

\$250,000 - 750,000 per company

"We decided to set it up together with two overseas funds, and it will be managed by Oded Sagee," says Nir Belzer in an exclusive interview with "Globes." "The important thing here is that Aqua Lab is not a fund, and so there are no limitations on the time one can spend raising money for it. Venture capital funds, by contrast, have a deadline set out in the prospectus, by which time you have to have secured the maximum commitment out of the designated target sum. We will decide whether to float or merge Aqua Lab depending on how profitable and successful it is. In other words, its unique structure (in contrast with that of venture capital. M.A.) gives us flexibility in various matters," Belzer adds. Milo will be company chairman.

According to Belzer, each company under the Aqua Lab umbrella will receive between \$250,000 and \$750,000 in investment, with an option of follow-on investment under the auspices of AquAgro. Belzer and Milo prefer not to disclose the names of the funds that have joined the investment so far but say that one is from the US and the other European, with all three entities owning the company in equal shares.

"We want Aqua Lab to have an international character with the partners sharing responsibility," explains Milo. At the same time as the tying up of the procedural ends entailed in the formation of the company, which has already been registered, Aqua Lab is seriously considering investments in two companies, and hopes to finalize these by the end of the current quarter. Also under consideration are early stage investments in four more companies.

AquAgro itself has secured \$40 million in commitments so far - \$10 million from the Stanford Group, a privately family owned group which manages assets totaling \$45 billion; \$10 million from Factor Investments; \$10 million from Ainsbury Properties owned by Sami Shamoan, and a further \$10 million from a number of private investors. Milo and Belzer believe that the \$100 million target they set for the fund will be reached by the end of the current year, in accordance with the terms set out in the fund's prospectus.

"We're now trying to increase the amounts we're raising," says Belzer, "and we're targeting two types of investors. One is Israeli, US, and European financial institutions; entities such as funds of funds, and state funds. The other is strategic investors, corporations such as Siemens, and BISF, especially those which invested in the Millenium Fund." Belzer was one of the founders of the Millenium funds. "Entities like these are also important when it comes to screening the companies and bringing them onto the market, and then at the exit stage," adds Milo.

Investment in agriculture and food

Globes: How will the fund operate?

Milo: "It will last for 8-10 years. We will not invest more than 10% of the fund in one company and we intend to reach 12-13 investments in all, provided that we manage to raise \$100 million. The idea is to create an adequate spread of the risks on the one hand, while maintaining a critical mass in each company on the other."

Belzer and Milo have known each other for 10 years, and both have gained knowledge and investment experience in other funds. They teamed up with Gaon, who wanted to set up a cleantech fund, and gave it shape and focus. He

brought the money. The fund focuses principally on water, alternative energy, smart agriculture and food, "and we don't go in for trends," says Belzer. "We will stick to things that really are essential. Such as, for instance, cost reduction, which is a critical factor when selecting a technology - reducing the price of a cubic meter of desalinated water, a kilowatt hour of solar energy, and the consumption of water per hectare for a specific crop," Milo explains.

The fund employs a utility model when investing in technologies designed to cut costs. This means that if the company has significantly reduced its price per unit, the fund shares in the profits and not just the technology. "This is the sole incentive to buy technologies like these. Ultimately, it's a commodity, so costs are a critical element," says Belzer.

What differentiates your fund from others?

Milo: "We have several unique characteristics, one of which is the fact that we will also invest in agriculture and food, fields which other cleantech funds (worldwide as well) avoid. Because of the changes in regulation and requirements in the food industry, there are now a lot of investment opportunities for venture capital in these two fields."

Belzer: "There is now rivalry between products that serve as food ingredients and fuel applications. Smart agriculture focuses on the growing of inedible crops, on residual land and in saline water. One option is the growing of seaweed. There is no shortage of saline water in the Negev, the Jordan Valley and the Arava region. Israel will be an excellent trial site for this, and the big money will be in the growing of raw materials for producing biomass fuel. We're well ahead of the rest of the world in smart agriculture and water and we are poised to build a strong strategic presence in them."

Hillel Milo (56) is a mechanical engineer and holds a MBA from the University of Alabama. He previously worked at US steel company Dixie Steel Erectors LLC, where he set up the company's energy division which focused on the production of biodiesel, corn ethanol, and solar energy. He co-founded Walden Israel, Clal Venture Capital, and Israel Infinity Venture Capital, and was also managing partner of Alice Ventures, which made more than 40 investments and 12 exits. The most notable of these were BreezeCom (which later became Alvarion (Nasdaq: ALVR; TASE: ALVR), Radvision (Nasdaq: RVSN; TASE: RVSN), and PowerDsine, which was sold in 2007 to Microsemi Corp. (Nasdaq: MSCC). He also founded and managed the Israeli branch of Zoran Corp. (Nasdaq: ZRAN).

Nir Belzer (45) is a computer and avionics engineer and co-founder of the Millenium funds. He holds an MBA from the School of Business Administration at Tel-Aviv University, a bachelor's degree in Mathematics and Computers from Tel-Aviv University and a certificate of the Israel Engineers Association in Aviation Electronics Systems Engineering. He began his career as a development and systems engineer on the Lavi combat aircraft project. He later switched to marketing, and was also marketing manager at "Globes." He worked as a freelance consultant to start-ups at the beginning of the 1990s, following which he managed the IDB Holding Corp. Ltd. (TASE: IDBH) fund of funds, which invested in 15-20 funds as well the IDB subsidiaries Elron Electronic Industries (Nasdaq: ELRN; TASE: ELRN) and Discount Investment Corporation (TASE: DISI).

Published by Globes [online], Israel business news - www.globes.co.il - on February 21, 2008

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