

Venture Capitalist Hunts Cash for Energy's Next Big Thing

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SAN DIEGO -- David Titus gets paid to see what's next in the energy world.

Head of [San Diego Venture Group](#), an organization that nurtures young businesses in this coastal city, Titus helps connect startup companies with investors. That gives him a peek at what is on the horizon.

"I get to live a few years in the future," Titus said. "I get to know a little bit about a whole lot of things."

Titus, 54, started this spring as San Diego Venture Group's first president, winning the job over 150 others. The organization is accelerating its efforts to garner money for young companies. A venture capitalist by background, Titus was viewed as someone able to bring more private investment into the region.

As part of his new role, Titus wants to grow investment in the energy sector. He sees the field as full of possibility.

"There will be new breakthroughs in renewable fuels," Titus said. "And the world will demand that we figure out cleaner ways to burn coal. If not, China will choke us all."

Titus' push to win money for energy innovations is part of a larger effort in the region. The city's mayor, Jerry Sanders, helped spur the launch of a cluster called [CleanTECH San Diego](#). Within the city there are about 200 young energy companies that are creating a new technology or innovation, said Jacques Chirazi, San Diego's clean-tech program manager.

Connecting fledgling energy companies with money is key in a region that has seen major growth in the number of clean power businesses. The city has attracted innovators with the large number of research institutions, while its sunny weather has

attracted some of the most qualified workers, Chirazi said. But that on its own won't bring about energy transformation, he said, unless money is available.

"A lot of these ideas could not get off the ground without investors that are willing to invest in early stage companies," Chirazi said. "Usually these are breakthrough ideas but they need to be nurtured early on."

And the region has to work to pull money in, especially with the economy still wobbling.

"We're not Silicon Valley." said Lisa Bicker, president of the CleanTECH San Diego group. "It's very constrained capital markets worldwide. We have a lot of funds that are focused on life sciences and bio-sciences. The capital's not flowing necessarily to transition these funds to be clean-tech funds."

CleanTECH San Diego works to buttress startups through a capital formation committee. A few times a year the group invites early-stage businesses to meet with other members, including some financiers as well as larger companies. Some of the small companies have found capital while others have garnered partnerships that help with growth.

The smallest companies also have been boosted by San Diego Venture Group, a nonprofit that started 25 years ago. It has been mostly a volunteer-run organization focused on providing networking opportunities for the city's companies, holding monthly events to connect businesses and an annual summit that brought in venture capital investors.

But over the past few years the group has seen locally based venture capital investment fall, due to both the economic downturn and the cyclical nature of entrepreneurial investment, said Steve Stuckey, chairman of the San Diego Venture Group board of directors for 2011. Late last year, the group decided it needed to expand its activity in the venture capital community and picked Titus to lead that project.

"He had credibility," Stuckey said of Titus. "He knew what the industry was all about. He saw the passion of all the things we were trying to do."

Titus several years ago co-founded a business called Windward Ventures, which has invested in 24 Southern California startup technology companies. Five of those remain active. He is still involved with the company, while also working at San Diego Venture Group.

His background, Titus said, taught him how to get people connected to those who can help their company. "That's important in the energy world. Because clean technology encompasses a wide variety of players," Titus said, it's not always clear "how do you deploy capital, how do you get connected to capital."

But clean technology companies, Titus said, are interesting for investors because they include so many areas. Biofuels attract those drawn to biological sciences, he said, while wind power involves mechanics and solar includes semiconductor technology.

Titus wants to bring venture capitalists into the area more often, he said. Upcoming events include a July 14 summit hosted by Peter Diamandis, chairman and CEO of the X Prize Foundation. More than 100 venture capitalists are expected, Titus said, and will attend a baseball game the night before with people from startup companies.

Titus also wants to grab those venture capitalists when they are in town for corporate board meetings.

"Our goal is to get them to town, the VC," Titus said. "It's then up to the trade organizations and companies to get them to write the checks."

Less money available

Some of the biggest turning points in energy could emerge from San Diego, Titus said. Although San Francisco and the Silicon Valley also have energy startups, they lack the attribute that makes San Diego famous: its weather.

"You can't do solar farms or algae production in San Francisco," Titus said. "And they just don't have as much research focused on it. No one has as much fundamental research as San Diego has."

Clad in a blue and white striped shirt and gray slacks, Titus talked about the outlook for energy startups from the seventh floor of his downtown office that looks out over the city's landscape. From his chair he can see to Mexico.

A California native, Titus lives in the beach city of Coronado and sails for fun. But he is not often on the water, as his new job has him normally starting at 6:30 a.m. and sometimes working until after 9 p.m.

Titus concedes that he took this job at a difficult time for companies needing investment money. When the late 1990s dot-com bubble popped, it wiped out money for investments in new companies, Titus said. Then the financial meltdown starting in 2008 hurt the outlook even further.

Pension funds that had invested in new companies "are broke," Titus said, and large endowments "are illiquid." At the same time, the explosion of social media companies has sucked a lot of the available investment dollars.

There has been a surge in the number of new clean-tech companies, he said, but getting financial help has not been easy.

"It's been a pretty tough time," Titus said. "For those companies, attracting capital is more challenging now than it has been in the past decade."

About a quarter of the companies San Diego Venture Group nurtures are energy-related, with the rest of the organization's work focused on the Internet technology sector, telecommunications, medication breakthroughs, medical devices and health care services. Titus wants to increase the amount of money going to energy.

While other startup sectors have funds specifically dedicated to their cause, energy in San Diego so far does not. That type of specified fund for energy exists in nearby Orange County and also in Silicon Valley.

While San Diego Venture Group wouldn't start an energy investment fund, it is looking to assist any investors who do want to target energy. Titus' organization is working on a project to collect information on the city, energy companies and more to provide to anyone soliciting investment money from people, endowments or other groups.

San Diego for several years has attracted new companies in the life sciences business, Titus said, and there has been "a fairly steady state of dollars going into it. It's missed a lot of the boom and bust."

The region has seen large companies invest in startups, like Exxon Mobil Corp.'s million-dollar cash injection at Synthetic Geonomics, the bioengineering firm launched by Craig Venter, who first sequenced the human genome. Exxon Mobil could put as much as \$600 million into Venter's San Diego-based company, which is working to turn algae into biofuel.

Likewise, agribusiness behemoth Monsanto Co. in March said that it had invested in Sapphire Energy, another San Diego biofuel firm. Under the agreement, Monsanto and Sapphire will collaborate on algae-based research projects, Monsanto said.

CleanTECH San Diego sees opportunity to transition some of the biological sciences venture capital into clean technology startups.

"There is a concerted effort to help educate the traditional biotech investors, to help them see the linkage," Bicker said, adding "sometimes the market doesn't always know how to look at a clean-tech business."

Finding successes

Energy financing likely is headed for some changes, Titus said.

In the past there have been very large, costly projects like electric vehicle maker Fisker Automotive raising \$500 million in private money and then garnering \$529 million more from the Department of Energy's Advanced Technology Vehicle Manufacturing loan program.

Titus thinks there will be few projects of that size for the near future.

"We're on the down slope for the foreseeable future for the huge capital-intensive projects," Titus said. "The feds are going to be cutting back some."

The scope of venture capital is such that investors want to recapture at least five times what they invest, because only a few of the projects actually succeed. That means a \$600 million equity injection would need to produce a company worth \$3 billion to \$5 billion, Titus said. Betting on that is a substantial risk.

"A lot of clean-tech VCs, they would say that ideally they'd like to find some smaller projects that don't require that level of capital," Titus said, and that also do not need federal money for research and development. They are hunting for, he said, "more specialty or niche plays."

Those niche plays could come in areas like batteries and energy storage on a smaller scale, Titus said, adding that "solving the problem of large-capacity energy storage will be one that requires a lot of capital. You'll have to build a big test plant."

Asked which energy startups look most promising for the future, Titus demurred. But he said the category of the "end user" looks promising. For example, he said, entrepreneurs are making money in the smart energy space "after 25 years of losing money."

As there is more solar on rooftops and other forms of distributed power, Titus said, "you have to clean it, you have to manage it, you have to account for it, you have to transport it. That is an area that is still very early."

And there is great potential here for biofuels, he said, although success might be years away.

"We have a shot at being the next Houston," Titus said. "If you can crack that nut, you have a whole infrastructure that already exists that wants to use your product."

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