

Smart grid startups on M&A radar

June 10, 2010

SAN FRANCISCO (Reuters) — Technology giants and conglomerates looking to expand into new growth markets are hunting for expertise and technology in the smart grid area, as power utilities move to upgrade the massive but aging electricity supply system.

Venture-backed startups are being eyed by large players with deep pockets looking to bag lucrative contracts with utilities, the traditionally risk-averse group that operates the grid.

Regulatory measures in a number of states to incorporate renewable power and the near-\$4 billion infusion of federal stimulus funds is aiding the deployment of the smart grid, a loose term used for a more efficient electricity supply chain.

"We are seeing increasing and continued interest from large industrials, software companies, networking companies in smart grid," said Kyle Jones, principal at Greentech Capital Advisors, which helps alternative energy companies with mergers and acquisitions.

"Part of the reason for the increase is that it has become apparent in the past 12 months that the spending to upgrade the grid infrastructure in the U.S. and abroad is going to be more near-term than people thought," Jones said.

The companies that are racing to stake claims on the opportunities in smart grid range from Cisco Systems Inc and International Business Machines Corp to industrial conglomerates General Electric Co and Siemens AG.

The vision for a smart grid is an efficient power supply network that would aid the development of renewable energy and the introduction of "smart" appliances that turn themselves on and off and would support a fleet of electric cars.

Cisco, which is working with a number of utilities including Duke Energy Corp and FPL Group Inc's Florida Power and Light, has identified \$20 billion in opportunities in the next five years.

Laura Ipsen, senior vice president of Cisco's smart grid unit, said the company could use acquisitions to grow in the sector.

"We have a strategy to build ourselves and also to acquire," Ipsen said. "We are looking at all of those."

Cisco expanded its reach in the smart grid sector by buying a stake in March in GridNet, which makes software that sends data about electricity usage from meters to utilities.

Another giant technology company, Intel Corp, is also moving ahead very seriously to take advantage of the opportunities in building the smart grid.

It's one of the high growth areas for Intel, said Ryan Parker, director of marketing at the embedded and communications group at Intel.

Intel, through its venture arm Intel Capital, has invested in a few smart grid companies, including CPower.

Parker said the possibilities in the smart grid sector have prompted him to reorganize his unit so that he could focus more on the rapidly growing area.

COMMUNICATION TECHNOLOGIES, SOFTWARE IN FOCUS

The \$1 billion acquisition of smart grid software company Ventyx by Swiss engineering group ABB last month shows how companies are bolstering their position.

Other deals in the recent past include electric products manufacturer Cooper Industries Plc's purchase of wireless smart grid developer Eka Systems, diversified manufacturer Honeywell International Inc's buy of demand response firm Akuacom, and privately held Silver Spring Networks' acquisition of home energy management start-up Greenbox SRS.

While the deal volume is building this year, the first half of 2011 is likely when the pace of mergers and acquisitions will accelerate, analysts and bankers said.

Modernizing the electric supply chain is a market that is forecast to grow to \$200 billion over the next five years, according to Pike Research. The market was valued at \$21 billion last year.

The areas seen ripe for mergers and acquisitions are grid communications technologies, and the software and analytics component of the smart grid.

Some of the start-ups in the space that have specialized in technology or services that could be attractive to large companies looking to expand their portfolios include software firm GridPoint, home energy management system company Tendril Networks, communications network company Trilliant, demand response firm CPower, and software firm eMeter.

"On the software side, there is really nobody that has a top to bottom solution that's fully integrated to offer the utilities, and that is one of the huge bottlenecks right now for the implementation of any large scale smart grid-type applications," said Bob Gohn, analyst with Pike Research. Gohn added that he sees large companies like Cisco, GE, and Siemens as potential acquirers.

(Additional reporting by Ritsuko Ando in New York)