

VC investment in security industry up a third

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Venture capital funding for the US and European homeland security industry has jumped a third in 2007 as investors seek to profit from increased government spending on counter-terrorism and emergency response services provided by the private sector.

Security and defence companies have attracted \$4.5bn (£2.3bn) in venture capital and private equity investment this year, a rise of 34 per cent on the same period last year. Activities funded include information technology security, bio-identification, perimeter surveillance and weapons detection.

The data, compiled by Venture Business Research, a London boutique that tracks venture capital investments, demonstrate how high-tech security businesses now rival the fashionable clean energy sector for investment capital.

Venture capital and private equity funding for clean energy stands at \$5.2bn globally this year, according to VBR.

"Before 9/11, the broader security industry was not widely focused on issues such as port and cargo security, critical infrastructure protection and WMD [weapons of mass destruction] screening as global market opportunities," said Bill Polk, head of security finance at Capital Source, the US financial services and asset management group. "But governments' focus on these new mission areas has led to legislation and spending that is creating and driving markets."

Douglas Lloyd, director of VBR, said growth in venture capital investment in security was outpacing clean energy partly because the risk of failure was lower. "We've seen significant growth [in homeland security funding] in 2007, not only in the US, but also in Europe," he said.

"A lot of the investors who were attracted to clean-tech have recognised that the big gains from a venture capital perspective have now gone."

VBR said about 30 per cent of venture capital investment in homeland security was for IT security, with another 30 per cent directed to so-called enabling technologies that have both a civilian and military use. Emergency response attracted 13 per cent.