

Water, the fundamental molecule that allows society to exist, a profile of Burnt Island Ventures

With #QVCS, Maddyness profiles different funds to give founders and entrepreneurs the information they need to choose the right investor. Today we interview Tom Ferguson, Founder and Managing Partner of Burnt Island Ventures.

My introduction to water came when I was working for Environmental Resources Management as the principal author of the 1st water disclosure report for the CDP. Fast forward 5 years, in 2015 I was hired to run programming for Imagine H2O, a specialist accelerator for the water sector. After five and a half years of working with 130 of the best founders in water, it was clear that the caliber of those founders warranted the creation of a top-tier seed fund that could support the early progress of the most promising companies. I figured I was in a reasonably differentiated position to be able to go and make the argument out in the LP market. So in October 2020, that's what we did. 15 months later we did our final close on our \$30M Fund I.

In the last 2 years, we've invested in 18 exceptional companies, and all of them are still very much in business. They made an aggregate of 8 million in revenue in Q4 2022 and will exceed that comfortably in Q1 2023. It's such a privilege for me and our small team to be able to work alongside these phenomenal

entrepreneurs, and they give me huge confidence that we can prepare ourselves for the emerging impacts of climate change because climate change is really water change.

Which industries are you working in?

Burnt Island Ventures invests in the people building companies that ensure water and wastewater services are provided globally at the right quality, quantity, price, place, and time. But because water touches literally every industry on earth in some manner or another, we're looking at a wide range of industries from consumer-facing products to heavy industrial technologies to utility software. There is an awful lot of ground to cover in water. It's the fundamental molecule that allows society to exist.

What do you look for in a founder?

Water is a tricky business because it has a way of biting people who don't understand it. Our founders bring a tremendous depth of expertise in the pain points they're trying to solve. We have an explicit preference for founder/market fit – those entrepreneurs that have lived and breathed their problem and industry for years. It means there is no gap between their perception of the reality of their market and the actual reality of that market. They couldn't build something their customers didn't want even if they tried. We also look for people who understand probabilistic decision-making, and we look closely at how that guides their entrepreneurial process. We also think communication, often called charisma not in the pejorative sense, is vital. Good communicators have an unfair advantage in hiring, selling, and fundraising. It's not something you can reliably teach.

Can you talk about your current portfolio?

Our most recent investment was in Irrigreen, a company that brings the logic of the inkjet printer to the lawn sprinkler system, solving the problem that circles can't cover squares. They cut water use from sprinkler systems by 50%. Not long before that, we invested in 2S Water which is delivering real-time metal detection for the mining industry through non-thermal plasma. Our largest positions are Daupler, ZwitterCo, and NLine Energy. Daupler is pager-duty for the real world – they automatically interpret triage and conduct dispatch against incoming reports of issues in real assets, everything from sewers to water main breaks to real estate leaks. ZwitterCo are next-generation industrial

filtration that has the potential to power an enormous volume of reuse, which is a huge part of the answer to the overall water scarcity question. Their performance is pretty nuts. NLine Energy has a retrofit unit that generates energy from excess steam pressure in industrial boilers. They have a multi-billion market more or less to themselves and have the potential to offset a gigaton of carbon emissions.

How has COVID-19 changed the way you operate?

We were founded in October 2020 at the height of the pandemic, but what we've seen in the market is that the pandemic brought a heightened sense to public health and climate change. The news images of floods, droughts, and sanctuary measures have made the importance of water visceral and the need for solutions urgent. Water is starting to get a lot more attention. In the past couple years alone, the US government has allocated \$90b to water via the IRA (2022), Bipartisan Infrastructure Law (2021) and the Drinking Water and Wastewater Infrastructure Act (2021). That's a big relief in many ways but given the \$434b investment gap for water and wastewater infrastructure, there's still quite a bit of work ahead of us.

What does the future look like? New trends/technologies, changes in the global/local economic landscape?

None of the argument we made in raising our first fund is any less true. The quality of founders in water continues to rise. The diversity of problems and solutions continues to surprise us, even as specialists in the sector. Recently we've looked at companies as diverse as real-time machine monitoring to hydrology software to groundwater monitoring to next generation pumps. In terms of trends, the fact that climate change is water change is just going to get more obvious. We hope this will turn more and more attention both economically and politically to the necessity but also the opportunity of solving our water issues. We really don't have a choice. Sooner or later we're going to have to give water the time, energy, and resources that we have given the renewables market in the last decade or so.

What makes Burnt Island different?

The key is our Focus. Even climate tech investors who have a water drop on slide 7 of their prospectus, all too often put water companies on the too hard pile because they don't have the expertise to underwrite them quickly and accurately. We know what we're looking for, we know how the sector works, and we have an incredibly deep network of experienced professionals across water, wastewater, sanitation, consumer, and so on. This allows us to hopefully make better decisions on the way in, but also to deliver against our promise – that we won't be just a check, we're one of the only funds in the world that can actually make a tangible difference in the trajectory of any given water company because we understand and are deeply connected in the market. We think that gives us an edge in convincing the best water entrepreneurs in the world to take our check versus anyone else's.

This is also about our Platform. In many ways, venture capital is a pretty silly business because what we're providing (cash) is the essential commodity. When you look at what allows venture funds to create a moat, a sustainable market position, really all you have is brand. And brand in VC is what smart knowledgeable people say about you behind closed doors. Do you follow through on your promises? Do you deliver on your value proposition? Are you meaningfully useful in supporting the trajectory of a young company in the sector? It's early days, but judging from the feedback from our founders we're doing a reasonable job of delivering against our promises.

What one piece of advice would you give founders?

Never give anyone any reason to doubt your brilliance. We see an awful lot of examples from silly financial projections to poorly thought-through decks, where it's really difficult not to think "if you can't do this well, what else can't you do." The bar is high, so it's important not to needlessly hinder your own chances by not really thinking about what excellence looks like and making sure you get as close as possible to it in everything from pitch meetings to two pagers to data rooms to your website. The best founders understand that how you do one thing is how you do everything, and it's crucial for hiring and selling, and least importantly getting investors to "Yes."

Tom Ferguson is the founder and Managing Partner of *Burnt Island Ventures*.

