

Big bet on clean water

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HaloSource Inc., a small Bothell company that is building a water-purification business in the developing world, has scored \$15 million in new venture capital as it prepares to expand into China and the Middle East.

The Masdar Clean Tech Fund, a \$250 million investment fund established last year by the government of Abu Dhabi, Zurich-based financial services giant Credit Suisse Group, Consensus Business Group of London, and German engineering firm Siemens AG, made the new investment in HaloSource. These organizations join two other high-powered investors that have already placed bets on the company: candy maker Mars Inc. and consumer products giant Unilever N.V., maker of such well-known brands as Lipton tea and Dove soap.

Big investors like these see a huge potential market for clean water technologies in the developing world, where more than a million people die each year from diseases associated with dirty water and poor sanitation. India and China, with their booming economies and growing middle class populations, represent a particularly attractive market for home water filters and purifiers.

"For consumers in these emerging markets where job growth and income levels are rising, you have an emerging consumer class. The first thing they're concerned about is their health and the health of their children," said John Kaestle, CEO of HaloSource. A home water purifier is "right in the sweet spot of what people aspire to. If you can make it affordable and reliable, we think it's a recipe for a pretty significant business."

HaloSource, which develops germ-killing technologies, started out selling a line of pool and spa-water cleaners. But the company quickly saw the potential for a global clean water business. Last year, HaloSource opened a small office in Bangalore, India, and partnered with an Indian firm called Eureka Forbes Ltd. to produce a line of home water purifiers.

The HaloSource purifiers -- there are two on the market in India today -- are shaped like canisters that can sit on a table or countertop. They filter water, then use bromine to kill viruses and bacteria. The chemical is fused to tiny beads, which are contained in a cartridge inside the canister. After a period of time, the chemical gets used up, and the cartridge must be replaced.

The larger of the two purifiers is designed to go through 3,000 liters of water before requiring a new cartridge. For a typical family of four in India, that's about half a year's worth of water, according to HaloSource.

So far, Eureka Forbes has sold "several hundred thousand" of the purifiers in India, through door-to-door and retail sales, in major urban centers like Mumbai, Bangalore, Chennai and Delhi, Kaestle said.

Now HaloSource is seeking to replicate that business model in China, the Middle East and other markets. The company plans to open another office near Shanghai, China, before the end of the year, and establish a presence in the Middle East in early 2008. HaloSource would not be more specific about its Middle East plans, but company Chief Financial Officer James Thompson said countries like Egypt represent big potential markets.

HaloSource's bromine-based water purification technology is not currently approved for use in the U.S., but the company is seeking approval from the Environmental Protection Agency, according to Kaestle.

The company's new investor, the Masdar Clean Tech Fund, has a strong Middle East bent. It was spearheaded by the government of Abu Dhabi, which is part of the oil-rich United Arab Emirates, and Consensus Business Group, the investment vehicle of Vincent Tchenguiz, an Iranian-born real estate entrepreneur in the U.K. The \$250-million Masdar fund was set up to invest in a range of "clean technologies," including renewable energy, energy efficiency, carbon management, clean water and desalination.

HaloSource "needs additional capital to tackle the very large and growing market for drinking water purification technologies," said Jennifer Wick, chief investment officer of Consensus Business Group, in a statement. "We are excited to have found such an innovative company with game-changing technologies at this stage of expansion."

Each year, 1.6 million people die from diarrhea related to unsafe water, sanitation and hygiene, according to the Geneva-based World Health Organization. The vast majority of these deaths are children under the age of 5. Overall, more than 1 billion people lack access to an improved water source, according to the WHO.



Photo: Matt Hagen
HaloSource CEO John Kaestle plans to expand his company's water-purification business in the developing world.

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Parts of the developing world are awash in various kinds of water filters and purifiers. HaloSource says its technology fills a gap between low-end water filters, which take out some particles but don't protect against viruses and bacteria, and high-end water purifiers, which are more effective but require electricity and water pressure, services that are not available, or available only sporadically, in many regions. The HaloSource system does not require power or running water.

The two HaloSource purifiers in India cost roughly \$39 and \$68. That's more expensive than low-end filters, which sell for as little as \$10, but less than some of the more sophisticated purifiers, which use ultraviolet light or reverse osmosis to clean water and can run into the hundreds of dollars, Kaestle said.

Replacement cartridges for the HaloSource system cost about \$10. The company has also developed tablets that can chemically "recharge" the bromine in the water purifier, though these are not available in India yet.

HaloSource was founded in 2001 and today has 70 employees, most of them in Bothell and a handful in Bangalore. The company's CEO, Kaestle, spent 20 years at timber giant Weyerhaeuser Co. in a variety of executive positions, including chief financial officer, and was also an executive at Bellevue-based Borden Chemical Inc.

The new investment from the Masdar Clean Tech Fund puts HaloSource's total venture capital at nearly \$40 million. Seattle firms Alexander Hutton Venture Partners, WRF Capital and Buerk Dale Victor were among the early investors in the company.

HaloSource is competing with some huge companies in the global clean water business. Consumer products giant Procter & Gamble Co. and Royal Philips Electronics N.V. are active in the market. HaloSource is also competing against one of its own investors, Unilever, in India. Unilever is selling its own water purifier through an Indian subsidiary.

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