

**Contact:**

Carole Jacques  
Lux Research, Inc.  
(646) 649-9585  
carole.jacques@luxresearchinc.com

## **NANOTECH VENTURE CAPITAL IS OUT OF SYNC WITH RETURNS**

Lux Research report finds nanomedical start-ups generate 77% of returns but get only 27% of investment.

New York, NY – May 8, 2008 – Venture capital (VC) firms invested \$702 million in nanotechnology start-ups last year across 61 deals, slightly down from \$738 million across 73 deals in 2006. But this VC spending is sharply out of sync with investment returns. Although application-oriented life-sciences companies have delivered the majority of VC returns in nanotech, VC firms consistently devote most of their funding to companies in other areas, according to a new report from Lux Research entitled “How Venture Capitalists Are Misplaying Nanotech.”

“Historical trends in nanotech exit returns are out of sync with VC spending,” said Jacob Grose, Analyst at Lux Research and lead author of the report. “While alternative energy is hot right now, healthcare and life sciences companies have accounted for a staggering \$1.68 billion of the \$2.57 billion total valuation of nanotech start-ups at IPO. Correspondingly, revenue multiples at IPO have been an order of magnitude higher for the healthcare segment (206.2x on average) than in the four other segments we track, yet last year more nanotech VC deals closed in manufacturing and materials (16) than in healthcare and life sciences (15).”

To uncover the latest trends in nanotech VC, Lux Research took a snapshot of its ongoing, comprehensive database of the field, which contains every round of institutional VC funding in companies that are commercializing nanoscale structures with size-dependent properties. The report concludes that:

- VC spending remains highly concentrated. The top 5% of venture-backed nanotech start-ups as measured by cumulative capital invested have received \$1.24 billion since 1991, equal to 32% of cumulative VC funding through 2007. The top three: 1) optical equipment manufacturer, NeoPhotonics, at \$205 million, 2) lithium-ion battery producer, A123Systems, at \$133.8 million, and 3) drug developer, Acusphere, at \$104.1 million.
- In 2007, the energy and environment segment attracted the most nanotech venture capital, with 17 deals (up from 13 in 2006) worth a total of \$227.2 million. Notable firms receiving funding included aforementioned battery specialist, A123Systems, with \$70 million in two rounds, nanocrystalline solar ink developer, Innovalight, with a \$28 million Series C, and organic photovoltaic developer, Konarka, with a \$45 million Series F.
- U.S. domination became even more pronounced in 2007, accounting for 90% of total VC activity by value. The tiny state of New Hampshire alone accounted for more funding in 2007 (\$76.5 million in two companies, Finetex Technology and Nanocomp Technologies) than all countries outside the U.S. combined (\$70 million).
- Many nanotech start-ups are showing their age. While VC firms have told Lux that they expect their nanotech VC deals to deliver returns in six years (longer than they expect in other investment domains), of the 66 nanotech start-ups which received their first institutional VC funding in 2001 or earlier, 58% continue to operate – implying that most nanotech start-ups are taking longer to exit than VCs had expected.

“Nanotech start-ups with technologies that are tailored to target one or two specific applications tend to be much more successful than companies who develop a broad technology platform with no clear purpose. However, the latter platform technology companies still generate valuable intellectual property,” noted Jurrion Bradley, Senior Analyst and head of Lux Research’s nanomaterials practice. “Large corporations should roll up materials and platform technology companies that have already had their R&D and pilot-stage manufacturing paid for by VC firms, buying into hard-built technologies on the cheap.”

“How Venture Capitalists Are Misplaying Nanotech” is part of the LR Nanomaterials Intelligence service. Clients receive: 1) State of the Market reports every six months; 2) ongoing technology scouting reports and proprietary data points in the weekly Lux Research Nanomaterials Journal; and 3) on-demand inquiry with Lux Research analysts. For information on how to become a client, contact John Schwartz at [john.schwartz@luxresearchinc.com](mailto:john.schwartz@luxresearchinc.com) or (646) 649-9582.

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