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VENTURE CAPITAL POURS INTO NANOTECH, BUT EXITS ARE UNCERTAIN

Nanotech venture capital totaled \$480 million in 2005, bringing total investment to \$2.0 billion

New York, NY – January 9, 2006 – Venture capital (VC) funding for nanotechnology start-ups has been more notable by its absence than its presence to date. But investment is steadily rising: Institutional venture capitalists put \$480 million into nanotechnology start-ups in 2005 – bringing total investment since 1995 to \$2.0 billion – according to a new report from Lux Research entitled “Making Sense of Nanotech Venture Capital.”

“Venture capital investment for nanotechnology rose strongly in 2005 due to large, late-stage funding rounds for firms like Aspen Aerogels, Nanomix, and Nanosys,” said Lux Research Vice President of Research Matthew M. Nordan, lead author of the report. “But venture capital still remains a drop in the bucket of total nanotech investment, outstripped by corporate R&D spending and government funding by a factor of 19x. The reason is that the success of nanotech venture investing is still too early to call: Only 9% of venture-backed nanotech start-ups to date have achieved exits.”

To assess nanotech venture capital, Lux Research built a comprehensive database of all institutional venture capital investments in nanotech start-ups since 1995, covering 258 investments into 143 start-up companies spanning 13 countries. The deals include both publicly announced transactions as well as undisclosed investments sourced through Lux Research’s proprietary network. In addition, the report team spoke with partners at a representative sample of 28 top-tier venture capital firms to understand their experiences and expectations with nanotech start-up investments. Among the report’s highlights:

- Venture capitalists are schizophrenic when it comes to nanotech. On one hand, most VC partners see nanotech as a more attractive field for investment than other domains like biotech and enterprise software. On the other hand, many VC partners that have made significant nanotech investments see their deals as high-risk placements with little visibility to an exit.
- The success or failure of venture capital investments in nanotech is too early to call. Of the 143 start-up companies assessed, only 9% have been acquired or gone public; 83% continue to operate; and 8% are dead or in danger.
- Nanotech venture capital investment to date has been highly concentrated: The top 10% venture-backed start-ups account for 43% of total investment.

According to the report, nanotech deals differ significantly from investments in other domains, owing to diverse applications, multidisciplinary staffing requirements, pricing-power uncertainty, dependence on scientific innovation that can’t be reliably timed, and the absence of valuation metrics that could make interim exits possible. The report prescribes actions for VC investors to mitigate these challenges and provides metrics and indicators for risk.

“With four nanotech IPOs since the beginning of 2004 and multiple start-ups primed for public offerings or acquisitions, venture capital investments in nanotech will continue to rise,” said Nordan. “At the same time, investors in second-tier start-ups will be pushing their portfolio companies more aggressively towards exits. This will drive a round of consolidation between nanotech start-ups this year – and present opportunities for inexpensive acquisitions on the part of large corporations.”

“Making Sense of Nanotech Venture Capital” contains analysis of all nanotech institutional venture capital transactions to date by country, sector, funding round, deal size, and company status. It also presents data from interviews with 28 venture capital partners as well as five-year forecasts for nanotech VC funding in three scenarios. The report and its underlying data set are available immediately to clients of Lux Research’s Nanotechnology Strategies advisory service. For information on how to become a client, contact Rob Burns, Vice President of Sales, at (646) 723-0708.

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