

# Venture capital in nano rises

January 10 2006

---

Venture capital investment for nanotechnology rose strongly in 2005, with institutional venture capitalists devoting \$480 million into nanotechnology startups last year, up from roughly \$410 million spent in 2004, experts told UPI's Nano World.

However, "venture capital still remains a drop in the bucket of total nanotech investment," said Matthew Nordan, vice president of research at nanotechnology analyst firm Lux Research in New York. "The reason is that the success of nanotech venture investing is still too early to call."

Venture capital from firms such as Harris & Harris Group in New York and corporate venture capital arms at companies such as Intel play a critical role in taking nanotechnology from the lab to the market. While venture capital funding of nanotech has steadily grown since 1995, it remains "outstripped by corporate R&D spending and government funding by a factor of 19 times," Nordan said.

To chart how venture capital in nanotechnology has developed and where it might head in future, Lux Research assembled a database of all institutional venture capital investments in nanotech startups since 1995, covering 258 investments into 143 companies spanning 13 countries, gathering data from publicly announced transactions as well as unannounced deals from the firm's network of sources. They also spoke with partners at 28 top venture capital firms regarding their experiences and expectations.

In findings announced on Monday, of the 143 companies Lux Research

examined, 118 continue to operate and 12 are in danger or dead. Only 13 venture-backed startups achieved "exits" -- that is, have gone public, merged or been acquired. Some of these exits were successes, such as Huntingdon Valley, Pa.-based Immunicon, which employs magnetic nanoparticles to help isolate cancer and other rare cells. Immunicon went public in April 2004 with a market cap of \$182 million after raising \$86 million in venture capital. On the other hand, some exits were not successful -- life sciences giant Invitrogen of Carlsbad, Calif., bought Quantum Dot Corporation for \$26 million in 2005 after the startup burned through \$40 million in venture funding.

Given only 9 percent of nanotech startups have so far achieved exits, venture capitalists have proven reluctant to invest into nanotech. "Venture capitalists are in charge of managing risk on behalf of those who put money into their fund. The best way to minimize risk is to do something that has succeeded before," Nordan said. "With too few exits to go on, there are not enough for venture capitalists to use as a guide."

The venture capitalists investing in nanotech that Lux Research interviewed predicted the average time from investment to exit was roughly six years. Since most nanotech investments have occurred in the past three years, it remains too early to call the success or failure of nanotech venture capital, Nordan added.

How well nanotech startups exit in the next three years will determine whether venture funding of nanotech rises or falls. Early stage venture capitalism "in general deals with a world of uncertainty as opposed to a world of risk. Risk you can quantify, uncertainty you can't," said Charles Harris, chairman of the board and Chief Executive Officer of venture capital firm Harris & Harris Group in New York. Since early stage venture capitalism often sees a very few large winners among startups that make up for all the ones that lose money, any large winner that appears "will have an awful lot of effect on what money people want to

invest."

Lux Research predicts one or more companies, each in late stages of funding and making double-digit millions in revenue, could achieve exits this year. "If these do all right, that bodes well for nanotech commercialization. If those exits do not happen this year, or if they are small ones, or overseas or dubious ones, nanotech venture capital could dry up," he said.

*Copyright 2006 by United Press International*

Citation: Venture capital in nano rises (2006, January 10) retrieved 24 April 2024 from <https://phys.org/news/2006-01-venture-capital-nano.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.