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Battelle Putting Up Big Bucks

ORNL co-manager launches \$150 million venture-capital fund to back lab technologies

Battelle, co-manager of the Oak Ridge National Laboratory, is launching a \$150 million venture-capital fund today aimed at turning technologies at its labs nationwide into profitable private companies.

Battelle Ventures will focus on seed and early-stage investments and expects to attract \$4 to \$5 from other investors for every \$1 it commits to a start-up, putting the fund's potential impact at around \$900 million.

The fund hopes to finance 20 to 25 companies during its 12-year lifespan. "We will be doing some early-stage deals that just wouldn't get done if Battelle Ventures wasn't up and running," said Jim Millar, a veteran venture capitalist and general partner with the fund. "Other venture funds will ... invest because of our involvement."

Turning cutting-edge technology into marketable products requires relatively risky investments, and seed funding can be difficult, if not impossible, to secure through traditional means, Battelle officials said.

Most venture capitalists want to work with companies that have some track record and are expanding, not with scientists who have a technology they merely hope to make saleable. "There aren't that many large VC funds out there that strictly invest in seed," said Amity Wall, manager of research operations for VentureOne, a San Francisco firm that researches the venture capital industry.

"Venture capital funds have been way down, so just having a new fund in this economy is certainly a milestone in and of itself," Wall said. The number of total venture financing rounds fell 46 percent from 1999 to 2002, Wall said, but seed investments plummeted 74 percent, from 307 to only 80 in 2002. Jesse Reyes, managing director of Thomson Venture Economics, a New York-based, venture-capital research firm, said there are only 96 seed funds in the United States managing about \$6 billion.

The Battelle fund aims to carry technologies through that "valley of death" between the laboratory and the marketplace, said Bill Madia, the former Oak Ridge lab director who's now executive vice president of lab operations at Battelle headquarters.

"That's the hole in the system. We've tried to patch it different ways," Madia said, and Battelle Ventures offers a big patch.

Battelle turned to nationally recognized venture capitalist, Morton Collins, to run the fund with three other veterans of the venture capital and technology fields: Millar, Kef Kasdin and Ron Hahn. Millar ran Early Stage Enterprises in Princeton, N.J., where Battelle Ventures will be headquartered. The fund also will have an office in Columbus, Ohio, where Battelle is based, Millar said. "And (we may) even have an office down here," Millar said on a visit to Knoxville this week.

At least 80 percent of the fund is slated for investments from properties associated with Battelle, which manages or co-manages four national labs for the federal government -- Oak Ridge, Brookhaven in New York, Pacific Northwest in Washington state, and the National Renewable Energy Laboratory in Colorado. "Oak Ridge National Laboratory has so much promising technology that we hope can be matured and create economic opportunity here," Madia said on a visit to Knoxville this week, but "the technology you work with is very early stage. ... That's the hardest part of the venture market to find money for." Current ORNL Director, Jeff Wadsworth, said Oak Ridge has broad potential in biotechnology, nanotechnology and information technology, with some of the most powerful research tools in the world.

Millar said the fund expects to make its first investment within a year and hopes for returns of 20 to 25 percent. Returns will be split between the fund and Battelle, but officials declined to detail how profits will be divided. Oak Ridge officials said the fund holds promise after other failed attempts at generating significant start-up capital from angel investors or local venture funds.

The Oak Ridge lab has a 60- year history and cutting-edge technology, said Alex Fischer, director of ORNL's technology transfer and economic development operations. "We've never, though, had a robust venture capital capability," Fischer said. "I view this as an opportunity to begin to aggressively break out of that. ... This offers a tremendous opportunity to learn how to partner with other venture capitalists."

Fund partners have been meeting for months with officials involved in existing Oak Ridge efforts to take technology to market. "I'm real excited about the prospects," said Tom Rogers, president and CEO of Technology 2020, which operates the Center for Entrepreneurial Growth and has overseen local venture capital funds. "We've got a lot of promising young companies that desperately need capital to develop a proved concept and get started," Rogers said. "Unfortunately in this area, a lot of companies starve and go out of business every year because they don't have access to early-stage capital. "If they'll come in and fund even a few of our very best companies, it'll offer encouragement to the entrepreneurial community here and be a really good thing." Rogers said it's "critically important" that Battelle Ventures plans to follow companies from early-stage investment through later-stage expansions.

"The initial investments will typically be in the hundreds of thousands," Millar said, with perhaps \$5 million to \$10 million invested over the course of a company's evolution, not counting investments from other sources.

Said Rogers: "It's a significant new opportunity for us. What the region has to offer is a lot of world-class technology, and what we have to demonstrate to the venture-capital industry is not only do we have good technology, we're capable of growing good companies." Millar estimated 10-20 percent of investments are big winners 30-40 percent do well but aren't huge and 25-50 percent don't work out.

Reyes, the New York researcher, called the Battelle fund a "smart play" if its overseers can stomach the risks and have patience with early-stage companies. "Basically, this is the best time to be investing in the industry," Reyes said. "Just like the public markets, the time to have gotten out of this industry wasn't this year, when things are bad. It was three years ago when we were at the top of the market."

He said it will be essential for Battelle to supplement its \$150 million with outside investment if it hopes to bring companies to independent profitability, however. "I think any institution that has the money, the guts and the foresight to do this long-term is probably in the right space. The real trick to success here will be the ability to attract downstream capital because they will not be able to carry these companies to exit themselves with that little money." But, he said, "I think it's at the right time in the right place with the right people, from what I can tell."

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