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Nanosys Calls Off Initial Public Offering

By BARNABY J. FEDER

Nanosys, the leading symbol of nanotechnology's promise to generate lucrative innovations by manipulating atoms and molecules, yesterday called off a closely watched effort to go public long before it had any products to sell.

Nanosys and a banking team led by Merrill Lynch had hoped to sell 6.25 million shares at $15 to $17 a share, which would have given the public a 29 percent stake in the four-year-old company. Nanosys, based in Palo Alto, Calif., said that "market conditions" had led to its decision.

Conditions are tough, analysts said. Empi, a profitable medical device maker, also dropped its plans to go public yesterday. But analysts and competitors said that Nanosys's lack of products and its warning that it might not be profitable for several years, if ever, had made it a hard sell to investors.

"Clearly, it's a bellwether for technology I.P.O.'s that are going out more on a story than results," said Howard Berke, who has been involved in many start-up companies since the 1970's and is now chairman and chief executive of Konarka Technologies, a privately held company in Lowell, Mass., focused on applying nanotechnology to solar energy.

"Wall Street likes the promise, but it won't buy the promise alone," Mr. Berke said.

Analysts like Matthew Nordan, vice president for research at Lux Research in New York, said that Nanosys's problems might make potential offerings from nanotechnology companies like Nanofilm that have products and profits even more appealing.

But many nanotechnology companies that are already public seemed to suffer by association yesterday. Nanogen, which uses nanotechnology to make high-performance research tools, fell 99 cents, to $3.81. Nanophase Technologies, which makes tiny mineral particles that are used in sunscreen products, lost 31 cents, to $5.69. Harris & Harris, a publicly traded investment group that specializes in nanotechnology and owns 1.58 percent of Nanosys, fell 85 cents, to $8.53.

Nanosys announced in April that it wanted to raise as much as $115 million from its offering. Pioneering start-up companies in the field popped up on Wall Street in the late 1990's, and several others, including Lumera and Immunicon, sold shares recently.

But Nanosys grabbed the spotlight like no other nanotechnology company because of the scope of its ambition and its track record in attracting big-name partners. Nanosys has collected a formidable pool of patents from leading nanotechnology experts at research hot spots like Harvard University and the University of California at Berkeley. And it is being paid by companies like Intel, DuPont and Matsushita Electric Works to work with them to develop products. It has also obtained research contracts with the federal government.

Nanosys says its technology could form the basis for breakthrough products in fields like energy, electronics and medicine.

When President Bush signed a bill in December to direct billions of dollars in federal research money to nanotechnology, Nanosys was the one company invited to the ceremony to represent the dreams of the diverse array of big and small companies investing in such technology.

Nanotechnology derives its name from the nanometer, which is a billionth of a meter. That is a realm so small that dimensions can be measured in molecules. When familiar materials are fashioned at such a small scale, many develop traits like unusual strength or flexibility, while others become transparent to light waves or much more reactive.

The unifying theme in patents from Nanosys is their focus on silicon and other inorganic materials. Much of the excitement in the field has been directed at novel carbon compounds and other organic materials, in part because many experts think the resulting products will be more environmentally safe.

"Nanosys has cornered the market on the inorganic stuff," said Steve Crosby, president and publisher of Small Times Media, a company based in Ann Arbor, Mich., that follows nanotechnology. "If they can make it work, they own it."

Investors approached by Merrill and the other banks had two concerns. Could Nanosys actually make it to market with profitable products? And if Nanosys accomplished that goal, what were the chances that investing at the prices the company sought this week would pay off?

Nanosys's filings with the Securities and Exchange Commission warned that it might have to raise more money as early as next year, which would dilute investments made this year.

Lawrence A. Bock, the executive chairman of the company and the leader of the team of experienced entrepreneurs that put Nanosys together, has a strong track record of creating viable enterprises that pay off for the venture capitalists who back them. But long-term public shareholders have not necessarily fared so well. For instance, Caliper Technologies, a laboratory equipment company that Mr. Bock founded and led before moving on to create Nanosys, went public in late 1999 at $16 a share, soared to $195 in its first few months of trading and then plunged, along with other technology stocks, in 2000. Now trading as Caliper Life Sciences, it closed yesterday at $5.49.

Nanosys planned to go public at a time when early investors in publicly traded nanotechnology stocks are suffering from the enthusiasm they felt for the field earlier this year. Merrill Lynch's nanotech stock index, which tracks 25 companies, hit its peak of 290.72 on Jan. 28, the first day it was publicly listed. It closed yesterday at 182.48, down more than 37 percent.

A 15-company nanotechnology index maintained by Punk, Ziegel & Company, an investment bank, peaked on Jan. 20, just before Merrill began its competing index. It has fallen at roughly the same rate, said Dr. Juan F. Sanchez, the nanotechnology analyst at Punk, Ziegel.

The investor wariness is even more pronounced in the venture capital world, analysts said. Venture capital firms put just $79 million into nanotechnology companies in the first six months of this year, down from $325 million for all of 2003 and $386 million in 2002, Mr. Nordan, of Lux Research, said.

That retreat has been spurred by prominent venture capitalists like Vinod Khosla, who have been warning that investors eager to stake out a position in nanotechnology poured more money into the sector than entrepreneurs could wisely deploy. Whether Wall Street agreed or simply viewed Nanosys itself as too risky is not yet clear.

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