



SOMETHING VENTURED: Applied Materials Reinforces VC Fund

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At a time when some corporations are abandoning their in-house venture capital efforts, Applied Materials Inc. (AMAT) is going against the grain.

The Santa Clara, Calif.-based semiconductor equipment maker, which launched a standalone VC fund back in August 2001, has brought it back in house.

"This time, we wanted the fund to be more aligned with Applied's strategic direction," said J. Christopher Moran, general manager at Applied Ventures.

In the past, Applied Materials venture investing efforts were handled as a separate entity with little collaboration from the company's technologists. Now as part of Applied Materials, the fund will hear more from the company's engineers and scientists, ensuring investments jibe with the corporate strategy.

"It's all about Applied Materials long-term growth," he said.

Applied Materials' new approach to venture investing comes when separating VC arms from their corporate brethren is in vogue.

"It's a never-ending battle as to whether to keep it within the corporation," said Mark Heesen, president of the National Venture Capital Association. "There's pros and cons on both sides."

Heesen noted that corporate interest in venture capital is on the rise. He attributed that to less of a focus by Wall Street on companies quarterly earnings and more interest in long-term opportunities.

"Wall Street is giving companies breathing room," Heesen said. What's more, some companies' research and development pipelines are thin, making VC investing all the more attractive, he said.

The fund, which has \$25 million to invest annually - tiny compared to Intel Corp.'s (INTC) venture capital arm that in 2004 invested more than \$130 million - looks for companies in the early stage of the life cycle and will aid in the growth of Applied Materials business. The fund is also looking for those startups that will stimulate the growth for

uses of semiconductors.

"What really gets our attention is if they are close to what we do," Moran said, citing Applied Materials' investment in Takumi Technology, the Sunnyvale, Calif. startup with operations in Tokyo, Japan and Eindhoven, The Netherlands. Takumi, which is an investment from the original fund, makes a tool that cuts the time and cost for semiconductor manufacturing.

"Takumi is well-positioned as a leader in this space, with an expanding customer base," Moran said.

Another investment - Grandis, a Milpitas, Calif.-based startup that makes memory chips using proprietary technologies - gives Applied Materials an opportunity to work with new technology.

"Both Grandis and Takumi are excellent examples of what we will be looking for in the future in terms of opportunity," Moran said.

According to Moran, the fund will close a new deal in a month or so.

In the past, Applied Materials focused on about 15 areas of investment, but Moran said that's been whittled down, at least for the first year of the new fund. Areas of interest include energy storage and conversion, solar energy, metrology, solid-state lighting, semiconductor packaging and advanced processes and technologies for the semiconductor and display markets.

Moran noted that in the past Applied Materials hasn't participated in the semiconductor packaging market; however, chip packaging is growing and is directly related to Applied Materials business.

Energy also is a hot area for venture capital investing these days as rising oil and gas prices have resulted in a slew of start-ups focusing on the alternative energy market. According to VentureOne, a unit of Dow Jones & Co. (DJ), the publisher of this newswire, for the first three quarters of 2005, 10 such deals were done, raising \$104.8 million. In all of 2004, there were 11 deals, raising \$71 million.

"There's a tremendous number [of opportunities] in the energy area right now," Moran said. "The energy ones we are looking at could potentially use the equipment very similar or slightly modified that we make today."

Although the venture fund is based in California, Moran said his team

of VCs will also focus on investments in China and India, hotbeds of technology and entrepreneurs. Moran said he wants to get the domestic aspects of the fund up and running before heading East.

But looking for startups in China and India isn't the only thing Moran will have on his mind in those regions. He said there's a potential to run research and development activities and develop those regions' future employees for Applied Materials.

"For us, it's starting to get on the ground there," said Moran.

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