

NEWS ANALYSIS

Money flows into IM startups after big players open up platforms

By Tim Devaney and Tom Stein

After a period in which venture capitalists believed Yahoo, AIM and MSN had locked up the space, a number of instant messaging startups have begun to attract the attention of users and reawakened VC interest in the IM market.

Meebo, which enables users to access any IM platform—Google, MSN, Yahoo or AOL's AIM—from a single site with one password, just raised \$3.5 million from Sequoia Capital. Another instant messaging service, IMVU, brought in \$8 million from Allegis Capital, Menlo Ventures and others. Meebo and IMVU join a host of startups targeting IM, including eBuddy, Meetro, RadiusIM, Tello, Triffian and Wablet.

Why all the interest? And why now?

"We saw limited VC investment in IM-related startups in the past because people thought the market was done," says Chamath Palihapitiya, who formerly ran the AIM division at AOL and is now a principal at Mayfield Fund in Menlo Park, Calif. "They thought it was Yahoo, AIM, MSN and that's all. There was a feeling that the market began and ended with the entrenched giants and that you could not build a lasting asset that is independent. People were very hard pressed to say there was a lot of opportunity in the IM space."

But a handful of entrepreneurs noticed the inaction in the IM market and saw room for new services.



"To me it looked like an opportunity," says Paul Bragiel, founder and CEO of Meetro, a Palo Alto, Calif.-based startup that combines messaging with location and social networking features. "Instant messaging hadn't really moved in five or 10 years. So it was ripe to be redone. We saw a chance to add a lot more data and information to conversations."

"We seen some video over IM, technologies that are really amazing. The quality is amazing—low latency, no jitter, perfect voice synchronization."

Chamath Palihapitiya
Principal
Mayfield Fund

VC Top 10

Company	Amount	Select Investors	Description
Adm Aircraft Inc.	\$93M	Acadia Partners, D.E. Shaw Technology Ventures, DCM - Doll Capital Management, Goldman, Sachs & Co., Hunt Capital Group, Mesrow Private Equity Investments, W Capital Partners	Makes high-performance business jets.
Epril Pharma Holding Co.	\$90.8M	Apax Partners Worldwide, Domain Associates, Montagu Newhall Associates, New Enterprise Associates, Oak Investment Partners	Makes drugs focused on urology and women's health.
Kingsoll Corp.	\$72M	GIC Special Investments Pte Ltd., Intel Capital, New Horizon Venture Capital	Develops online games and software.
Alto Inc.	\$68.6M	Advanced Equities Capital Partners, Thosla Ventures, Kleiner Perkins Coiffield & Byers, Orminal Capital	Makes renewable biofuels.
Boingo Wireless Inc.	\$65M	Evercore Partners, Mitsui & Co. Venture Partners, New Enterprise Associates, Sternhill Partners	Aggregates WiFi networks.
Zogenix Inc.	\$60M	BA Venture Partners, Clorus Ventures, Domain Associates, Thomas, McInerney & Partners	Makes drugs to treat CNS disorders and pain.
Renewable Energy Group Inc.	\$57.1M	Natural Gas Partners	Makes biodiesel fuel.
Ablynx NV	\$51.2M	Abingworth Management, Alta Partners, GIMV, GSK Ventures, Glide Investment Management, KBC Private Equity, Sofinnova Partners	Develops drugs based on antibodies derived from therapeutic proteins.
Wilmar International Ltd.	\$45.8M	Standard Chartered Private Equity	Produces biodiesel fuel based on palm oil.
ESBatech AG	\$41M	BioMedinvestor AG, Clorus Ventures, HBM Partners AG, SV Life Sciences Advisors, Venture Incubator AG	Develops drugs based on human antibody fragments.

SOURCE: MONEYFLOW TO VCS BY FIRM AND COMPANY CATEGORY, FROM ZENITH RESEARCH AND THE NATIONAL VENTURE CAPITAL ASSOCIATION; REPORTING BY LAWRENCE PUGH AND DAN HINDS.
DATA IS FOR 9/30/06-9/30/06.