



Meet
The Manager

Early stage financing in the Mid-Atlantic

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*When one thinks of early stage financing, one doesn't often think of the Mid-Atlantic region. A new firm is trying to change that. Nobska Ventures is in the market, raising its debut fund that will focus on seed and early stage opportunities around Washington, D.C. The firm focuses on advanced technology companies in the enterprise, healthcare, homeland security, defense and intelligence sectors. Charles Moore, managing director of [Nobska Venture Partners I, LP](#), spoke with PrivateEquityCentral.net *about the firm's history, its opportunities and how he works with his six partners, one of whom also happens to be his wife.**

PrivateEquityCentral.net: Your firm is doing deals at the same time as it is raising a fund. Is that to show potential investors your strategy?

Charles Moore: Exactly. As a first-time fund, we feel that the best way to demonstrate the opportunities in the market and our ability to execute on those opportunities is to successfully invest in exceptional companies in parallel to our fund raising process. We've made a terrific first investment in NSC, which clearly demonstrates our strategy of identifying high potential companies on the cusp of market changing success, negotiating strong deal terms, both in valuation and corporate governance, and providing intensive value-added management involvement in building the business. That company has now met its second of five sets of milestones and is well on its way, with more than \$3 million in sales and several high profile customers. We're now very close to pulling the trigger

on several next investments which we have been tracking for the past six to 12 months, ranging from secure mobile communications, to bio-terror defense, to healthcare informatics.

PEC: What led to the decision to start a fund? You were formerly a merchant bank.

CM: We started our firm eight years ago as a strategy consulting and merchant banking firm. The three founders all had strong corporate strategy, as well as investment banking and entrepreneurship backgrounds, with former stints at Bain & Company, CSC Index, and Alex. Brown & Sons, among others. In addition to corporate strategy assignments with big firms like IBM, we did a combination of MBO and early stage financing and business development counsel. In the last three years, we've added several partners who have brought very strong technology backgrounds. One of our partners was a director of strategy at IBM and ran marketing for IBM Research worldwide. Another partner is a PhD in physics and successful entrepreneur, while another created and built an \$850mm software business. As we've done various transactions, we found there's a growing shortage of seed and early stage capital in the Mid-Atlantic. When we started the firm in 1998, that wasn't the case. During the 1999 to 2000 years, there was increasingly too much capital being thrown at the market. While it probably would have been easy to do so, we decided not to raise a fund at that time. The quality of the business plans we were seeing lacked both clear strategy and, in many cases, any semblance of rigor. They simply didn't make sense to us. In hindsight, we were right.

PEC: Is the quality better now?

CM: Hugely better. The Mid-Atlantic region is a tremendous beneficiary of advanced research at the federal labs and agencies like NIH, NSA, DOD, etc and at institutions like Hopkins, the University of MD, Battelle and others, plus all of

the aerospace and defense companies in the region. So, there's an enormous amount of intellectual property generated, perhaps more than in any other area of the country. On the other hand, there's truly an acute shortage of seed and early stage capital. There's arguably plenty of overall later-stage venture capital and private equity, but at the earliest start-up stages, there's been a precipitous decline in available money year over year each of the last five years. The result is way less is being invested today than in the normalized years pre-1999-2000. For instance, in the last two years, there's only been about 25% of the amount of capital that was previously being invested in seed and early stage deals. That's 25% of when it was normal and healthy! And this is less than a third of the proportion that markets like Silicon Valley and Boston devote to this early stage at present.

PEC: Does that translate to less competition?

CM: We think there's a choke point now occurring in the Mid-Atlantic because there just isn't enough capital at that earliest level. The few angels are disorganized generally speaking and there are almost no other venture funds currently targeting the seed stage. So, there's almost no competition for the high quality deals that we're seeing. Obviously, that's great for us, but frankly, we can only serve a fraction of the quality demand, so we welcome the opportunity to syndicate as our companies meet their milestones.

PEC: Is this shortage what gave you the impetus to start now?

CM: Yes, that and the success that we've had making small investments on our own account as part of our former strategy and merchant banking work. We took some of our fees in equity and made some small direct investments that have worked out well for us, so we have the beginnings of a successful track record. But, we are, nevertheless, still a first time fund, so our fund raising strategy is to show exactly what we're doing, by doing it. Fortunately, our early L.P.'s, mostly former successful entrepreneurs themselves, have allowed us to deploy capital right away.

PEC: How do you evaluate those very early stage companies? A lot of firms shy away from them because of the risk.

CM: That is absolutely true. The seed stage has a dramatically higher rate of total failure than later stages. But the returns on those that are successful are also dramatically higher, so a well-crafted portfolio of such investments provides the opportunity to generate truly outstanding returns with risk reasonably mediated. Historically, seed and early stage venture funds have outperformed all other stages of VC investing. But it's hard work and successful fund managers tend to attract so much money that they just naturally drift to later and larger deals where they can deploy the money over a rational number of companies. Their investment returns tend to decline a bit but the math makes it very attractive for them to do so, nevertheless. But if you look at the truly great venture investors, they built their success with small sums of capital invested in risky, very high potential, seed and early stage companies. Then they worked their tails off to help those companies attract management talent, customers, channel partners and ultimately a buyer or other liquidity event.

PEC: How do you find and vet quality deals?

CM: Most of our best opportunities are coming through our advisory board, which includes world-class experts in the fields that we are investing, successful entrepreneurs and several later stage venture capitalists who see Nobska Ventures as a potential "feeder fund." We use our advisers, who are typically also investors, for both sourcing as well as vetting technology and markets. Our advisers also have relationships with potential channel partners and customers. And, of course, each of our seven investment team members have been in the business of evaluating business ideas and technologies for close to 20 years, either as entrepreneurs or as strategists or as investors or as investment bankers. So, we have a pretty good sense of what may be a strong idea and then we vet it vigorously. In our view, people are ultimately even more important than technology, so we spend a significant portion of our effort evaluating the character and capabilities of the key individuals. At the seed and

early stage level, we assume that we need to build out the management team, but we also need to have confidence that our values and vision are consistent with those of the founders and that they will be supportive of the game plan that we set together. And they need to recognize and value what Nobska Ventures brings to the table above and beyond just capital.

PEC: Is there one particular sector you invest in that you're seeing a lot of good ideas come from?

CM: We're seeing tremendous opportunity across our target sectors. We're at the heart of the national intelligence and defense industries. There's a tremendous amount of security and communications technology and use-of-information technology that develops here for demanding government applications. We're also at the heart of an enormous amount of healthcare research that's done, both in genomics and healthcare informatics areas. We're well tied into these sectors through our Advisors and through our relationships with key government players. In this fund, we're staying away from companies that have a very long investment cycle and require a lot of capital, like biotech. That's because of the size of our fund. It's tough to do those things well if you don't have sufficient capital. The areas that we prefer involve the opportunity to create very high margin, high growth businesses with relatively smaller sums of capital.

PEC: What's the fund's target?

CM: Our target is \$40 million. We've had some really good news recently, so we may want to expand it a bit. But we definitely want to stay within our business model, which is very hands-on, active management. That's only possible if you have the right number of experienced people relative to the number of dollars and companies. We want to be very involved with these young companies as opposed to just being bettors.

We're not betting, we're building.

PEC: Your wife is another founding partner of the firm. How do you leave the work at work?

CM: I've been doing it for 15 years. It's been tremendous working with her. It is a 24-hour day, though. We met freshmen week at Dartmouth and got married right out of school 25 years ago. The first eight to 10 years of our professional lives, we weren't working together and we didn't like being on planes going opposite directions and not seeing each other. I talked her into leaving Bain & Co. to join me and it was just dynamite. She's one of the smartest and most creative strategy people I've ever met and I trust her judgment totally. It's worked for us. It doesn't work well for most people, but it's really worked well for us.

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