

# NOVAK BIDDLE VENTURE PARTNERS



McLean , VA

# NBVP STRATEGY

- Information Technology Only
- 85/15 Seed, Early Stage/Special Situation
- Lead Investor
- Value Orientation
- Active Investor
- Average 2 deals per year per professional
- Serve on no more than 6-8 boards
- Geographic Preference

# NBVP Differentiation

- Technology Centric
- Large Network of Successful Entrepreneurs as Investors/Advisors to provide Deal Flow, leverage us and assist Companies
- Will back bright but “Unproven” Individuals
- Actively Involved Investors, only sit on 6-8 boards per professional.
- Team has operational experience
- Will write small checks \$100,000

# Information Technology Themes

- Pervasive Computing - Everything Smart and Networked
- Open Modular Adaptive Systems - Interoperability based on Internet
- Large Parts of Infrastructure Outsourced - Product Companies embracing Service Centric Models, Ubiquitous Thin Clients
- High Bandwidth Communication and Data Centric Networks - Increasingly Smart Networks

# Information Technology Themes

- E - Business Revolution
- Knowledge Based Competition: Knowledge Management, Data Mining , ERP Refinement

# NBVP Investment Process

- Identify Emerging Themes
- Share Interests within our Network
- Proactively Seek Opportunities
- One Professional Sponsors
- Perform Own Due Diligence
- Seconded By Another
- Unanimously Must Love the Deal

# University/Gov't. Lab

10 out of 22 Companies

Fractal/NextWave - ARL

Paratek - ARL

Optinel - NRL

Para - Protect – DIA

Princeton Optronics, DiamondBack – Darpa

XtremeSpectrum – Air Force

Zagros - U of MD

Luna - VA Tech

BlackBoard – Cornell

# The Founder

- Investors often read the resume section first
- Relevant domain experience and knowledge
- Many VCs believe that only execution skills count
- We believe in Passion & Engineering Excellence
- Reality reigns and candor is refreshing

# The Founder

- IDEAS ARE PLENTIFUL BUT VISIONS ARE POWERFUL

# The Technology

- I FEEL YOUR PAIN – compelling large problems it solves
- The law of Ten X or creating shock and awe
- Description of the technology
- Barriers to entry
- Follow the Yellow Brick Road

# The Market

- Oceans are better than Islands
- Maturity is less desirable than young and hot
- Carriers although difficult to turn, pack a lot of firepower; but subs can cause a lot of damage
- Communism does not work !

# Customer Acquisition

- TIME EQUALS MONEY
- Old Friends are the best friends but new friends are exciting (Resources and Care)
- When is large..... large enough

# Business Model

- The best laid plans will always go awry
- If you drink the Kool - Aid you will never hear the jungle drums announcing your demise.
- Pondering multiple alternatives during a crisis can lead to death
- The Universe is continually expanding so must your business and product

# Competition

- Do they pack a pistol or a Neutron bomb
- How do you create Shock and Awe
- Strategy for survival
- Who will you date

# Financial Projections

- Novak's Law – 2x the money and take 1.5x the projected time to cash flow neutral; if it takes longer – you have a problem
- Market dictates REALITY
- Financing Rounds – The Golden Rule
- Drivers of success need to be understood and Planned Accordingly
- CASH IS KING

# Endgame

- Path to liquidity/return on investment
- Multiple ways to win
- When to declare victory
- Will an elephant ever marry a mouse

# **Improving the Odds**

## **Top 10 Reasons You Know you Have the Right Venture Capitalist**

- Has driven the Plane into the Ground and Lived to Fly again or Lost the Pre-Requisite \$20,000,000
- Understands What You Are Talking About
- Shares the Vision and Realizes It is Not Due to a “flashback”
- Is Candid & Grounded in Reality
- Attends the Right Cocktail Parties
- Management Who has been Rationalized Believes They were Fairly Treated

# Improving the Odds

- Management who has been wildly successful believes the VC was more than a voyeur or liked to hear himself speak
- Understands it is about more than the money
- Probably has at Least a “Hint of Grey” and survived the “the Summer of Love”

# NOVAK BIDDLE VENTURE PARTNERS



# Blackboard (DC)



- Software suite that allows learning and e-commerce over the Internet/Intranet; Education E-learning Platform - initially university oriented
- Matt Pittinsky, Michael Chasen - ex-KPMG education consultants, mid 20's
- Rejected because of very narrow IMS focus
- Revisited 6 months later - significant progress
- Course Info, Campus in Development

# Trends

- THE WEB!
- Lifelong Learning
- E-Learning \$46 Billion by 2005
- E-Commerce \$1 Trillion by 2003
- Knowledge Based Economy
- Human Capital Management
- Political Hot Potato

# The Importance of the Plan

- No Winning Formula
- Define the Pain & The Size of the Opportunity
- How Much it Will Take
- Why it is Worth Backing this Person, Team
- Get rid of Complexity, Puffery & Buzz Words

# Blackboard – Vision



- Education was in turmoil
- The Schools/Universities were wired (port per pillow) and saw technology as differentiator
- A new standard IMS was being developed;
- Blackboard won the contract and had developed products that were the first ones to be IMS compliant

# Blackboard

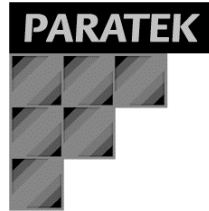
- Lead initial round with ICG and Aurora
- Recruited management team and helped position
- Launched BlackBoard.Com, BlackBoard Scholar
- 3000 plus Universities using products, more than 2,000,000 Users
- BlackBoard.Com has metrics that would place it close to top 10 of online rankings
- Major Strategic Relationships; AOL, Pearson, Dell, Kaplan etc.; multiple revenue streams

# Blackboard



- Acquired two companies; now largest student card provider; e-commerce opportunity
- Investment Bankers named BB #1 in e-learning space

# Paratek Microwave

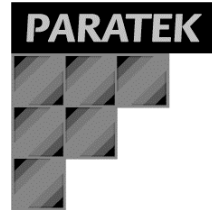


- Leading women scientist in Government (ARL)
- Had done research on a new class of ceramic materials which required very low power to activate
- Wanted to start a company and pursue her vision

# Marketing Strategy

- How to make the “dogs eat the dog food”
- What breed of dog?
- Always try Pit Bulls first – more aggressive
- Promise more than you can deliver and engineer the rest over time and never underestimate the power of smoke and mirrors particularly if you are second

# Paratek Microwave



- Build new generation of phased satellite array antennas (2 years away)
- Licensed Government work and then proceed refining processes
- Discovered had technology that was potentially revolutionary across various devices at many frequencies.

# TIPS

- Don't Pitch Yesterdays Story- We Invest in Tommorrow
- Demonstrate Commanding Knowledge of the Market Space
- Show Us Your Plan B, C, and D
- Show Us that You Will Succeed With or Without our Money

# TIPS

- More Money Available Than Ever Before- Including Early Stage
- Early Stage is More About Partners Who Can Help Position for Success than Valuation
- Look for VCs with Specialization and Experience
- Take the Minimum \$ (with a Buffer) to reach next Milestone.

# TIPS

- Build Companies Not IPOs
- Spend More Time Quantifying Markets and The Pain than Financials - If the First Two are Significant the Numbers will Follow
- Ignore the Hype and Focus on Reality
- Have FUN

# NBVP CRITERIA

- Unique Proprietary Advantage
- Large Market Opportunity
- Management - Change the World
- Scalability/Defensibility
- Creativity - Where Do We Go From Here
- Liquidity - Can It Go Public or Be Acquired
- FUN

# **Novak Biddle Venture Partners**

- Founded 1997 - \$23,400,000; Fund II- May 1999 \$60,000,000, Fund III - \$125,000,000
- Information Technology Only
- Primarily Early Stage - Seed/Start-up
- Lead Investor
- Active Investor
- Value Orientation
- Geographic Preference

# **Novak Biddle Venture Partners'**

## **Advisors**

- Frank Bonsal - Co-Founder NEA
- Stu Greenfield - Co-Founder Oak
- Neil Brownstein - Co-Founder Bessemer
- Gideon Gartner - Founder Gartner Group, GIGA
- Al Peyser - CEO Cable & Wireless
- Mike Faherty - Co-Founder Business Development Partners
- Dendy Young - CEO GTSI, Falcon Microsystems
- Mike Galvin - CEO Galvin Enterprises

# Novak Biddle Venture Partners Structure

- 3 GP's - Roger Novak, Jack Biddle, Steve Frederick
- 2 Principals - Andrea Kaufman, Phil Bronner
- 1 CFO - Joy Binford & Melanie Hunnell
- 3 Admin – Tina Rebeiz, Kelly Oakly, Liz Gibson
- Active Advisory Board
- Large Network

# **Novak Biddle Venture Partners'**

## **Investors**

- 70 Successful IT Entrepreneurs
- Value Added Institutions - Silicon Valley Bank, Alex Brown, PNC, St. Paul Ventures, Banc Boston Capital, Tredegar
- Institutions - Common Fund, Flag, Bessemer, HLM, Verizon, UBS Capital, Univ. of Richmond.











# COMPETITIVE ENVIRONMENT

- 75 Members of MAVA
- Very Few Funds consistently investing in Seed/ Early stage with incomplete teams
- Most Second Round On Investors
- Three Top Funds – NEA, NBVP, FBR
- Others Coming from Boston, Silicon Valley

# **NBVP Differentiation**

- Our Companies and Our Peers Speak for Us
- Awarded Financier of 2000 by Maryland, Virginia, and DC High Tech Councils

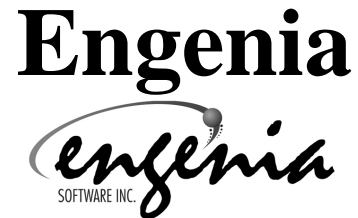
# Infrastructure

- BlackBoard – E-Learning Hub/Exchange
- Engenia – The Next Generation Internet Desktop Based on User Defined Context and Collaboration
- LifeMinders – Permission Based Database Marketer and Reminder Service Based on User Defined Interests/Topics
- DiamondBack – Technology to Drastically Improve Video over the Web

# Engenia (VA)



- Provides software that creates true “digital dashboard” based on user defined context and collaboration.
- Jeff Crigler - sold first co. to Lexis/Nexis; VP IBM’s Internet Information Technologies business unit; VP Knowledge Management tools for Lotus
- **BIG VISION/BIG DOLLARS/BIG LOSSES**
- Narrowed Focus, Modular Approach



- Seed round in 1998
- Hired Jeff Kay from IBM - pioneered development of several of IBM'S internet technologies.
- Hired Nigel Elkan - Dir. Knowledge Management Strategy for Lotus
- Product based at junction of Knowledge Management, Collaboration, and ERP.

# Engenia



- Company is in Several Large Strategic Relationships
- Rolling out this year

# DiamondBack



- Potentially Revolutionary Technology for Improving Video over the Net
- 4 PhDs from DARPA who owned Vision and Imaging space
- Seed round bringing in CMGI, ABS Ventures
- Goal- SIGNIFICANTLY enhanced video even at 56k

# LifeMinders.com (VA)



- Permission Based Internet Reminder Service and Database Marketer Built around User Defined Interests/Topics
- Steve Chapin - Naval Academy(2nd in class EE), HBS (top 10%), McKinsey, First USA - Database Marketing
- Rejected due to Valuation
- 9 months later funded at \$1,000,000 putting together syndicate of 3 firms
- Raised 3 subsequent rounds, IPO and Secondary

# LifeMinders



- December 1998 - 15,000 profiles
- December 1999-7,000,000 profiles
- April 2000- 13 million plus profiles
- Monetizing User and Licensing Technology to others

# Entevo ( VA)



- NT Directory Management Software that allows seamless migration to 5.0 (Win 2000) from all flavors of NT and NDS. Also, provides active directory to earlier versions of NT.
- 2 individuals - Amir Hudda, Prashanth Viswanath
- Company was providing contract development, via developers located in India, to Microsoft, and had several security products. Directory Management Suite a vision.



- July 1997 invested \$2.5 Million with Bill Draper who has representative in India
- Refocused strategy to concentrate on DM
- Recruited VP Sales, VP Marketing, CFO
- Raised \$7.2 Million second round 9 months later at 2x step-up
- Company launches DM product suite at end of 1998 - 4 major product awards in 6 months

# Entevo



- Private Placement at 2-3x last round
- Acquired by Bindview

# VC as Economic Development

- 1<sup>st</sup> Ten Companies Had 21 Employees
- Three Years Later These Companies Employ over 1000 people and are worth Several Billion \$ in Valuation
- Governments are Sources of Deals Flow
- Find Managers Who are Specialized and Have Contacts
- Cycle Investments- Infrastructure, Services, APPs

# Trends

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- E-Learning \$46 Billion by 2005
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- Knowledge Based Economy
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- Political Hot Potato

# Trends

- Nascent Market – Major Opportunity
- Who Wants to Be A Billionaire - Where to Invest?

# What We Are Seeing

- Portal Plays Based On Advertising, E-Commerce
- Assessment Engines
- Content/Community Plays
- Many K-12 Plays; some Business
- On Line Tutors/Testing
- General Knowledge Management Companies

# Venture Capital Statistics

	<u>1980</u>	<u>1998</u>
Number of firms in existence	95	547
Number of funds in existence	142	1,108
Number of Professionals	719	3,021
Number of First Time Funds	19	47
Capital Raised this year (\$Bs)	2.1	25.3
Capital Under Management	4.1	84.2
Average Firm Size (\$M)	42.9	153.9
Average Fund Size (\$M)	28.7	76.0
Average Fund Raised (\$M)	39.3	118.0

# Disbursement by Company Stage 1998

- Early Stage - 28%
- Expansion - 56%
- Later Stage - 6%
- Buyout/Acq. - 9%
- Other - 1%