

## VC PROFILE: North Atlantic's Long Journey From Oyster Crackers To Tech

By **SCOTT DENNE**

Although many regional venture capital firms withered and died following the bursting of the dot-com bubble, one small Maine-based firm has survived and thrived by borrowing the tactics of some of the biggest technology investment firms.

North Atlantic Capital spent the last eight years transforming itself from a regional investor in oyster crackers and wooden crutches to a technology-focused shop that competes with some of the largest funds in the business. That change is paying dividends as five of its 12 portfolio companies in its most recent fund have produced exits over the last year.

The investment strategy that drove that recent success is a far cry from the firm's earlier incarnation. Investments in its first three funds, which took place before its strategy shift, included some technology companies, like Idexx Laboratories Inc., but also a more eclectic mix of companies, including yacht company Hinckley Co. and organic baby food maker Earth's Best.

As billions of new dollars rushed into the venture capital market in the months leading up to the dot-com crash, North Atlantic's model of waiting for interesting but random deals to come by became tougher to execute. Eventually the firm, like the venture industry as a whole, saw its returns declining.

"No question that some of the returns we were seeing in Funds II and III weren't very exciting. They were fine, but nothing that suggested that North Atlantic needed to be raising funds for the next 15 years," said Mark Morrissette, one of the firm's two managing directors.

One day in fall 2003, the entire firm gathered at the home of David Coit, the firm's other managing director, to brainstorm about the future and how it could survive.

The answer, they decided, was that North Atlantic definitely needed a new direction, and that technology would be at the heart of it.

It took another year to implement its new focus and new culture, but that meeting was definitely the catalyst, Morrissette said. "It takes a while to turn even a small ship like ours."

For the centerpiece of its new focus on business technology and technology services, the firm took a page from some of the biggest technology-focused private equity firms. It set up a cold-calling operation, where associates would locate interesting companies and try to build a relationship with their executives in order to be at the top of the list when the company needed capital to grow.

This enabled it to identify companies in cities often ignored by venture capital firms, including Buffalo, N.Y., Pittsburgh and Orange, Conn. Of the 12 investments made from the first fund dedicated to the new strategy, its \$100 million fourth vehicle, 10 came from the cold-calling program.

Its investment in Synacor Inc., an online content aggregation services company that went public in February, came from one of its associates reaching out to the company after seeing a notice in Buffalo Business First, a weekly business publication, that Synacor had leased a new office.

Cold-calling was not the only change it made. The company now invests equity in about half its deals. In the other half, it invests subordinated debt with warrants. Its bite-size investments, typically between \$4 million and \$8 million initially, and its option for debt investments, help it compete with other growth-equity investors that can offer more capital but come with more dilution.

With the liquidity that it's brought investors from its recent fund, the firm plans to begin talking to limited partners about a fifth fund, said Morrissette.

### North Atlantic Capital

#### The Firm

North Atlantic Capital's roots go back almost 25 years to the creation of Maine Capital Corp., a \$2 million vehicle raised with the help of tax breaks from the state for its investors. It re-emerged in the mid-1980s as North Atlantic, raising \$17 million for its first fund and expanding its focus to also include New Hampshire, Vermont and Massachusetts.

#### The Shift

Relying on deal flow from local sources - mostly accountants, lawyers and bankers - by the late 1990s, the firm had fallen into investing in a host of eclectic local companies, many of which were not the traditional early-stage technology companies other venture capitalists sought out. Amid declining returns in the wake of the dot-com bust, the firm re-imagined itself as a technology investor and ditched its regional focus.

#### The Results

Since its strategy shift, the firm has five recent successes from Fund IV, which it began investing in 2006. Its stake in Synacor Inc., which went public in February, is worth more than \$15 million. The firm also has a stake worth \$26 million in communications software company Tangoe Inc., even after cashing out \$19.2 million since the company's July 2011 IPO. The firm also sold three Fund IV investments over the last year.