

# PEHUB

## Why Backing Old Companies Is Suddenly Cool

Posted on: September 30th, 2010

Have you noticed how many “old timer” companies are raising their first round of funding lately? In researching *Venture Capital Journal's* November cover story, “Growth Spurt,” I came across 16 companies aged 4 to 14 that raised Series A rounds in the past 12 months.

Edison Ventures participated in three of those deals — and another three in the previous 12 months. Less than two weeks ago, it invested \$4 million in Bedminster, N.J.-based Premier Healthcare Exchange (PHX), a 7-year-old company that offers cost management services to health care plans.

In July, Edison put \$5 million into Nashua, N.H.-based DiagnosisOne, an 11-year-old company that makes tools to integrate patient data for use in clinical decision making. And two months earlier, Edison invested \$7.5 million in Dover, N.H.-based RewardsNow, a 7-year-old company provides reward programs for bank-issued credit and debit cards.

Edison, based in New Jersey, is well positioned to do growth deals because East Coast companies are more habituated to going without funding in their initial years, says Chris Sugden, a managing partner with Edison.

It's not terribly surprising that more VCs are making growth investments in bootstrapped companies, Sugden says. “There's certainly less risk of capital loss and a lot more to evaluate when you can actually see a completed product or service,” he says.

And it's hard to ignore the fact that late stage and growth deals have performed better than early stage deals in the past five years. Late stage VC posted a five-year return of 11.5 percent, with growth equity coming in at 7.4 percent and early stage VC at just 3.1 percent, according to the most recent performance data from Cambridge Associates and the National Venture Capital Association.

Case in point: Edison was the sole institutional investor in a \$3.2 million round for CambridgeSoft in 2002. At the time, the maker of desktop software and chemical databases for the life sciences and chemical industries was 16 years old. Edison put another \$2 million into CambridgeSoft in 2006.

It was a good bet. On Wednesday, Edison announced that it has resold all of its holdings in CambridgeSoft back to the company. The sale netted Edison \$40 million, or 11x its initial

investment and 3x its follow-on investment in the company.

That outcome will likely help Edison's cause when it starts reaching out to LPs. It recently filed notice that it plans to raise \$300 million for its Fund VII.

When looking for a late stage investment, Edison typically looks for companies that have between 25 and 100 customers at the time of funding, and are, on average, close to four years old. While many aren't actively looking for funding, the firm makes a practice of tracking down companies it sees as promising and cultivating relationships over years until the time is ripe for an investment.

Currently, Sugden says, the firm has an eight-person business development team devoted largely to the task of identifying and following such companies. Once it decides to make an investment, the firm tries to obtain a minimum 20 percent stake, though the average ownership position for Fund VI was much higher — just below 40 percent, Sugden says.