WASHINGTON BUSINESS FORWARD
forward thinking

VCs on VC

RICK RICKERTSEN
THAYER CAPITAL PARTNERS

A veteran of the California venture capital scene, Rick Rickertsen is chief operating officer of Washington-based Thayer Capital Partners, which he joined in 1994. The firm focuses mainly on electronics manufacturing and services as it invests the final third of its fourth major venture capital fund.

ON THAYER CAPITAL'S NICHE IN THE VENTURE CAPITAL INDUSTRY

We're a late-stage private equity firm. We participate after the company already has meaningful revenue, revenues of at least $30 to $40 million. The company needs to be very close to profitability. We come in after the business model is pretty much fully tested. And we invest in somewhat larger sizes than a typical venture firm: $20 million is our minimum, and our average size is $40 to $50 million. We do late-stage growth equity and management buyouts as well. We have $1.2 billion under management.

ON VENTURE CAPITAL TODAY VERSUS THREE YEARS AGO

The changes have been very dramatic. You had a very interesting confluence of factors in late 1998 and early 1999. Three years ago, the NASDAQ started to move positively and the Internet started to become a major economic factor. There was a lot of capital available and a very bullish economic environment underlying the growth. Layered on top of that, you had the Y2K effect coming down the pike. That had a very big impact on purchases of hardware and software, causing a big one-time spike. It was one of the factors that led to the challenges we had in 2000. But three years ago we had heady times.

ON WHAT THAYER IS DOING DIFFERENTLY

Like all folks, we have some challenges in our portfolio. We're focusing very aggressively on trying to improve the operations of current portfolio companies, and that is taking a lot of time. We have a big investment in Iconixx in Northern Virginia that has turned around. But at the end of last year, we had to lay some people off.

No one knows how tough this economy is going to get this year. We could very well [find ourselves] in a recession. You have to be incredibly careful on valuation. There's no incentive for any investor to go out and be a hero. For most situations, particularly late-stage investments, there are a lot of comparable publicly traded companies. You can look at comparable public companies and apply a meaningful private market discount to those valuations. We usually apply a 30 to 40 percent "haircut" to the public valuation. There are still metrics you can use: careful multiples of near-term future profit. Three years ago, people were looking only at revenue multiples.

ON THE UPSIDE OF THE CURRENT CLIMATE

The one good note about being in the private equity world is that valuations are way down from where they were a year or two years ago. If you have capital to invest, you have great opportunities to buy into some good companies at lower levels. If you don't have the capital, then it's a tough time all around.

ON THAYER'S FUNDRAISING

We have invested about two-thirds of our $880-million fund IV. We are contemplating raising another fund this year. In the next month or so, we'll go out and talk to our largest limited partners about the prospect of another fund. It's a very tough fundraising market. People I have talked to predict that private equity fundraising will be down 50 percent. It's particularly tough for first-time funds. We have a six-year record, and this will be our fifth institutional fund, so having that kind of continuity is very helpful.

ON THE MOST INTERESTING SECTORS

Network security. We've just made two investments there, and we think it has great growth potential. The protection of networks is going to be a major issue. We're also taking a hard look at the e-services and systems integration world. If you look at 30 or 35 of the publicly traded e-services companies, those stocks on average are down 85 to 90 percent this year. We think the sell-off done there is overdone.

PHOTOGRAPH BY STEVE BARRETT