

They gamble on new technology

New Business Resources ventures its capital on electronic ideas, and puts in its managers to help make the bets pay off

Big companies, by their very nature, breed out risk management and breed in return-on-assets management. Or so contends Richard J. Hanschen, 46, formerly an assistant vice-president at big Texas Instruments, Inc., of Dallas. Hanschen is building a business to prove the theory.

Hanschen left TI to start a venture-capital and management concern in Dallas, New Business Resources. Since he started the company 15 months ago, he and his six partners, including several TI alumni, have made NBR a leading Southwest architect of new electronics companies. It backs engineers who gave up trying to push new product ideas past previous employers' profit-oriented managers, or who have been smitten by the age-old urge to make a bigger buck by going it alone.

Hanschen suggests that there is a lot of talent in big firms such as TI which would be willing to splinter off with smaller operations. In addition to the purely material considerations, such as repose in the wallet, there is always the basic urge to test one's own mettle alone. "It's relatively easy to get top guys to run a small company rather than the department of a big company," he says.

Earlier this year, Hanschen's company decided to get into an integrated circuit technology called MOS, for metal-oxide semiconductor. Hanschen's cofounding partner, Richard L. Petritz, 47, formerly director of technology in TI's components group, was convinced that MOS was about to catch fire. Two TI development managers, Louay E. Sharif and L. J. Sevin, had decided they could go further with a new MOS company than by staying at TI. NBR put up money and a president, Petritz, to form Mostek Corp. Mostek is gearing up for \$100-million sales within 10 years.

Great expectations. As a venture capitalist specializing in starting up new companies (the riskiest part of the business) in electronics (one of the most volatile of industries), NBR is unusually daring. Most independent venture experts and those at investment and commercial banks prefer companies with strong two-to-three-year track records.

But NBR thinks its approach can be richly rewarding. It looks for as much as 20 times its initial investment in five to seven years. Its investment packages to date have ranged from \$350,000 to \$3-million.

NBR softens the risk by spreading it around. It operates as a closed-end fund in which a limited number of outside investors participate. In most instances, an investment banker joins the new company

through private stock placement. The principals in a new company almost invariably invest a substantial amount themselves.

Checks and balances. Outside investors have the security of NBR's mode of operation, which stresses close controls after the companies have set out on their own. NBR considers its role analogous to that of

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the corporate staff of a decentralized company.

An NBR "venture manager" sits on the new company's board and its executive committee. He is in touch with operating management at least weekly, in person or by phone, and participates in all major management decisions. He holds close control of the investors' capital, setting a target date for an adequate cash flow, and programming investment to permit assessment at performance checkpoints. "In a small company," says Hanschen, "it's the cash flow that is important. If you run out of money, you're out of business."

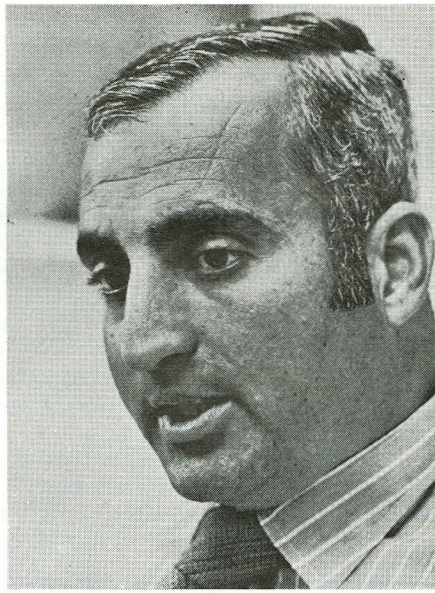
Other venture manager functions include approval of sales forecasts, departmental budgets, personnel hiring, in-



Calculating risks is the business of NBR founders Petritz and Hanschen (right).



Taking the plunge, L. J. Sevin quit Texas Instruments to set up Mostek.



Leaping in with him was TI alumnus L. E. Sharif, who helped form Mostek.



Lunched as head of new Telpar, Inc., Robert McClure is a former professor.

ventory levels and merger or acquisition plans.

If the company progresses as planned, the venture manager releases investment money at predetermined intervals. If not, he is likely to stall further commitments until a new plan is approved. If plans really go askew, he has the option of closing out the venture at any time.

Screening. So far, the concept has worked. Time, however, is the test, and time to date has not been much of a factor. None of the companies NBR has put together is more than eight months old.

Though Petritz and NBR initiated the formation of Mostek, this is not its usual way of operating. "We don't just go in and assemble a group," says Petritz, who remains a general partner in NBR. "They usually come to us. We want guys to come up with their own ideas." Adds Hanschen, "We have a pretty tight screen." He says

that NBR ends up backing only one in 10 companies it reviews.

Even though it calls itself a venture capital house, NBR sometimes does not put up any money. Sometimes it provides management only. In October, 1968, the Boston office of Glore Forgan, Wm. R. Staats, Inc., called Hanschen. Would he be willing to sign on as venture manager of Computek, Inc., a new Cambridge (Mass.) outfit? The company had what looked like a good product—a computerized graphic display system—and a brainy, MIT-groomed engineering team. What it needed, Glore Forgan told Hanschen, was strong financial management. NBR dispatched Hanschen as venture manager to Computek. For his services, NBR picked up 5% of Computek stock.

Idea men. Hanschen dropped out of TI ahead of Petritz, in January, 1968, and went to work for the investment banking

house of Burnham & Co. in Dallas. There he had a hand in helping to capitalize several electronics ventures.

Petritz, holder of a PhD in physics, from Northwestern, joined him in August of last year, when they formed NBR. Another partner is Robert M. McClure, who managed integrated circuit design automation at TI before leaving to teach computer sciences at Southern Methodist University in Dallas, and, ultimately, to NBR. Like Petritz, McClure wears two hats. He is also president of Telpar, Inc., an NBR creation in Dallas that specializes in circuit design automation.

Hanschen and his partners who put in time at TI consider their days there well spent. When they formed NBR, Hanschen says, "we felt we had been to the best school in the country. The only limitation we saw were many excellent businesses TI passed up due to its dedication to vertical integration of certain markets."