

BUSINESS

Founders of St. Cloud startup build tech portfolio on the prairie

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Entrepreneurs Ryan and Rob Weber got their start while studying at St. Cloud State University and never saw a reason to leave Stearns County.

When they sold their company NativeX two years ago it was still based in Sartell, and their Great North Labs venture-capital company has a St. Cloud address along with one in Minneapolis.

They don't suggest it's a lot easier to build a successful technology company in a college town more than an hour's drive from downtown

Minneapolis and half a world away from Silicon Valley. They just doubt it's any harder. "Advantages and disadvantages," Ryan Weber said.



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Ryan, right, and Rob Weber are the founders of Great North Labs, a Minnesota-based venture fund that invests in startups.

This doesn't seem to be the kind of observation that would seem newsworthy, but unfortunately it still is. The idea that Minnesota remains a technology backwater is so hard to knock down that it came up right away in a recent conversation with the Weber brothers about their plans.

"We go back to when we were 20, and we had this idea of Freeze.com in the dorm rooms of St. Cloud," Rob Weber said. "And the community really supported us up there, and in the Twin Cities. There weren't a lot of other tech entrepreneurs. But there were people passionate about business and startups."

He described that support as "a little bit of money and a lot of advice." The Webers remain grateful for the more experienced people who kept an eye on them and made sure they didn't quietly disappear. They are now 38, and they say it's their turn to do that.

The Webers come across clearly as siblings when you meet them, but they should never be thought of as interchangeable. As NativeX, which helps developers integrate ads into mobile games grew to 175 people, Ryan gravitated to technology and product

development while Rob worked more on finance and business development, serving as CEO. It's a little like brothers running a restaurant, with Ryan as the chef in back and Rob working the front of the house, ensuring a great experience for the guests.

Exiting NativeX

NativeX was acquired in early 2016, and for the next project Ryan wanted to start another technology company, even if that meant going it alone. Rob, meanwhile, had more interest in investing in young companies and helping them grow. Eventually they decided to work together on a fund.

While they are already making investments, they continue to raise money for Great North Capital Fund. That means they can't talk about the details, like their projected size, because of rules around the proper way to solicit investors.

A good guess is that it will be no bigger than a \$20 million or \$25 million fund. That would include their own money, proceeds from the sale of NativeX and money from a small portfolio of venture investments.

The brothers began investing in technology companies after an earlier NativeX recapitalization, their first capital out of a business they had largely bootstrapped. From 2006 through 2011 they invested in seven small companies in the Upper Midwest.

They calculated the annual return from this portfolio at about 26 percent, not including the value of some shares they still own. Rob characterized this brothers-only partnership as performing "very well, actually, better than almost anything else we've been involved in."

Now as Great North Labs investors, Ryan, in particular, seems intrigued by businesses that employ "exponential" technologies, big ideas rather than incremental improvements. They look to invest their money into seed deals, usually described as the first investment after money from the founders' friends and family. By then the startups need to have shown that they have a viable business model, with a first product and at least some revenue.

Deals at this stage of development won't get all their capital though, as maybe half the capital will be to invest more in their growing portfolio of companies. But they want to make money from seed investing.

They make a point that larger venture-capital firms don't always do it that way, making their money on investments made in later and much bigger financing rounds while still investing in seed rounds. These firms seem to treat seed rounds as loss leaders.

The Webers are unwilling to invest \$250,000 and then just shrug off a complete bust. That's where their advice comes in, what Ryan characterized as "startup intelligence," to help solve some basic problems that often lead to early mortality.

It's providing the capital-raising advice, introducing potential customers, coaching on how to fill a key job and whatever else might be needed to help the founder figure out how the startup can grow.

Much of this advice is delivered informally. Right now it's the brothers giving advice along with Pradip Madan, a third partner in California who once played the role of adviser to them. And they have lined up a deep bench of additional advisers.

Staffed up in Sartell

Part of their conviction that entrepreneurs can succeed anywhere stems from their having done it in Stearns County. They also opened an office in San Francisco and another in the Twin Cities, but they staffed up at the Sartell headquarters, relying on young employees from the colleges and universities around St. Cloud along with some more experienced hands from the Twin Cities and elsewhere.

They don't quite say this, but it's clear they don't see the point of founders moving to a city to jump into the formal program of a technology accelerator like Techstars, not when the coaches can come to them.

They can't promise that one of Midwestern companies they fund won't pick up and move to downtown Minneapolis or even northern California, as a good reason to do that could come up.

"But it shouldn't be because the capital can't find you," Rob Weber said. "It shouldn't be because you can't get the mentorship you need."

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