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From left, Fund Manager Herb Tews, DJ Wetmore of Self Echo, Fund Director Jacques Habra and lead investor and adviser Patrick Steele of the Noospheric Quantified Fund. The fund hopes to raise up to \$50 million to invest in niche data companies.

Quantifying success

New fund to invest in data companies

By Stephen Nellis
Staff Writer

A group of Santa Barbara entrepreneurs is looking to raise as much as \$50 million for an investment fund that would finance dozens of little big-data startups.

It might sound like a contradiction in terms, but the theory behind the proposed Noospheric Quantified Fund is actually fairly straightforward. With everything from search engines to mobile phones and wearable devices capturing and compiling huge streams of data, there are thousands of opportunities to tap experts in a variety of fields to slice and dice that data into niche products and services.

“All the companies we read about on a daily basis are data companies to one extent or another,” said Jacques Habra, a Santa Barbara investor who funds and consults startups and will be the director of the fund. “The way that you apply subject-matter-expert algorithms to that data is how you create value.”

A case in point is one of the startups in Habra’s current stable called Self Echo. The company’s software uses a person’s smart phone to gather data on how the person is feeling and what they’re doing, and then runs it through algorithms to

produce an easy-to-read report on what’s putting the person in a positive mood or negative mood. The company’s leadership team includes James Pennebaker, chair of the psychology department at the University of Texas, and Jonathan Schooler, a professor at UC Santa Barbara.

“Out of that algorithm comes meaningful analysis that a therapist or clinician can use,” Habra said.

Though intended for patients, Self Echo is essentially a business-to-business play, with the company selling to therapists on a subscription basis. The therapists can then use the software to understand what’s happening in a patient’s life between sessions. “They can purchase this service for x dollars a month and then possibly mark it up because it creates value for them,” Herb Tews, a veteran Santa Barbara entrepreneur who is joining the Quantified Fund as fund manager and lead investor.

Habra initially intended to raise \$3 million to \$5 million and invest seed money in five to eight companies using data in ways similar to Self Echo. After hearing significant initial interest, Habra set the bar much higher, hoping to invest in up to 50 companies, with a list of 25 early candidates already in hand.

“The vision now is to really do it right. We can do that if we cast our net nationally instead of locally,” Habra said. “We don’t want to focus on stay-alive money. We want to focus on seed funding and growth capital.”

In some ways, the Quantified Fund is a bet that there’s a whole lot of data out there that traditional tech companies, led by engineers or coders, aren’t well-equipped to derive value from because they don’t understand the niche. Habra said the fund specifically will look for software and services firms whose leadership doesn’t fit the mold. The investors will want to see people with deep experience in a given field, rather than only techies, in important positions.

“Part of the due diligence is to make sure there’s a subject-matter expert in the leadership and that they actually have equity. The key is who is on your management team,” Habra said.

Of course, bringing on experts without traditional tech business experience entails risks, but that is why the fund is building out advisers and investors to guide young companies. “Where these things fall down is you have brilliant people who don’t know how to run a business,” said Pat Steele, who is lead investor in the fund and an advisory member.

The Quantified Fund wants to go after niche services and products that, by definition, don’t scale up to hundreds of millions of users as venture capitalists usually demand. But Habra is convinced that scale isn’t what it used to be when it comes to company valuations — the actual value created for a paying end customer counts, too.

“The answer is value. The answer is whether clinicians say, ‘Because my patients are using Self Echo, I’m able to deliver better service.’ The new metrics of valuation are the number of users, the number of daily users and a very hard-nosed approach to value,” Habra said.

The implication of niche companies is that they’ll never bring in billions of dollars in revenue. Self Echo, Habra said, could be a \$40-million-a-year business. That’s decent money in anyone’s book, but hardly enough to catch the eye of Silicon Valley. But that doesn’t mean investing in those kinds of businesses can’t generate a return if done properly.

“I’ve never hit a home run. I’ve hit a lot of singles and doubles. If we can hit a lot of singles and doubles, with maybe a few strikeouts along the way, we can deliver value to this fund’s investors,” Habra said.