

CRAIN'S

CHICAGO BUSINESS

VC activity picking up with \$25-mil. deal

Capital H gets cash for HR roll-ups

By JULIE JOHANSSON

In a sign that Chicago's venture capital market is emerging from a two-year slump, consultancy Capital H Group LLC has landed \$25 million in financing from Chicago's PPM America Capital Partners LLC.

With the funding, the nascent human resources firm is moving its headquarters to Chicago from Milwaukee and embarking on a roll-up strategy and hiring spree designed to make it the dominant adviser and outplacement source for mid-sized companies.

Capital H is led by two Chicago executives: Daniel Weinfurter, a General Electric Co. veteran who co-founded and helped grow Parson Group LLC into a 500-employee consultancy, and Gregory Silich, who, as chief financial officer at \$800-million-revenues Leo Burnett Worldwide, acquired more than 40 companies around the globe over a five-year span.

The human resources sector is ripe for consolidation, with few sizeable firms aside from global players like Lincolnshire's Hewitt Associates Inc. But such a rapid-growth strategy is full of uncertainty, especially for a professional services firm whose business will be built around the people it acquires, rather than a stellar product or technology.

"It's risky," concedes David Brett, senior partner with PPM America, which manages an

\$804-million fund. "You have to look at backing the right people, getting into an industry that's large enough."

He sees Capital H tapping an underserved market, enhancing its chance for success. "There's room for another large consulting firm," he adds. "The culture that Greg and Dan can create can attract some really top-notch people."

PPM America is taking on the entire \$25-million investment itself, meaning it won't hedge its downside—or share any potential upside—with other investors. The fund has limited experience dealing with early-stage investments, having focused on leveraged buyouts of middle-market companies.

Furthermore, its investment is the largest made in an upstart company here since the now-defunct Telenis Corp., a Rolling Meadows firm that specialized in network services and security, closed a \$45-million round in March 2001.

Then, the stock markets were in free-fall and initial public offerings were grinding to a halt. Denied the means to quickly cash out their investments, venture capital funds stopped striking new deals and pouring additional money into companies with poor prospects, causing many young firms to fail.

But investors are getting back in the game, encouraged by the rebound in the stock markets. The recent uptick is

still a far cry from the late 1990s, when venture capitalists jumped at the chance to fund business concepts scribbled on napkins.

Investors cautious, but active

While investors remain cautious, they are funding companies with proven products, veteran managers and a strong chance of dominating their niche.

"I chuckle when I read that early-stage investors are not doing deals," says Robert Geras, a longtime angel investor and president of Northbrook's LaSalle Investment Inc. "I've invested more in the last eight months than in any similar period in my career," pouring \$4.7 million into five area companies this year.

The current market favors companies intent on rolling up or consolidating smaller, weaker firms, he adds. Many startups are still finding it difficult to tap funding, even though they've managed to grow their businesses since the dot.com crash.

Messrs. Weinfurter and Silich became business partners at Mr. Brett's suggestion this spring. Since acquiring Capital H in May, they have increased the firm's workforce to 30 employees from eight.

They plan to add at least 10 more employees by the end of the year, in addition to the five Arthur Andersen alumni they

AFTER THE BUST

Top five equity deals in Illinois, 2001 to present

Company	Close date	Amount raised (in millions)
Telenis Corp.	3/01	\$45
Capital H Group LLC	9/03	\$25
Clear Comm. Corp.	3/01	\$20
Novarra Inc.	6/01	\$20
Fieldglass Inc.	8/02	\$17

Sources: Ernest & Young/Venture One Venture Capital Survey; Capital H Group

recently recruited from the Chicago office of Deloitte & Touche LLP. They also plan to open offices in three cities next year, most likely via acquisitions.

Mr. Weinfurter envisions growing Capital H into a full-service agency that will help companies craft strategies to handle a range of issues, from booming benefit costs, to outsourcing services to recruiting executives for middle-market companies in the \$50-million-to-\$1-billion range.

"We have an exciting market space that's growing at a pretty good clip," he says. "We have the ability to build a fairly large business in a short period of time. But we still have to execute to make it happen."