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FinPro founder hoping to cultivate new business

By Joe Mantone

Don Musso is hoping to take what FinPro Inc. has done with de novo banks and extrapolate it to other sectors with Stonehall Innovations.

In 1987, Musso founded FinPro, which focuses on providing investment banking and consulting services to community banks. Part of FinPro's business is opening de novo banks and consulting them in an effort to improve their financial results. He realized that when FinPro works more closely with a de novo bank, that institution performs better. For instance, with some of the de novo banks, FinPro just did the transactional work.

"We got the thing running, and we were pushed aside," he told SNL.

Those institutions had a success rate of about 30% to 40%, Musso said. However, with some other de novos, FinPro entered into partnership relationships with them. After those institutions opened, FinPro stayed heavily involved, helping with capital markets work, strategic planning, market feasibility studies and asset-liability committees.

"All of those banks have done exceedingly well," he said.

Now, Musso is looking to do something similar in other sectors with the launch of Stonehall, which wants to help entrepreneurs turn their ideas into viable businesses. Unlike FinPro, Stonehall is not focusing on a particular industry; it has been investing in innovative ideas, no matter the sector.

While the concept of investing in startup companies is nothing new, Musso believes Stonehall offers a fresh approach. It is helping companies to execute their strategies rather than just providing financial backing or connecting startups to investors.

"A lot of people get you to pitch day, a lot of people invest in your company, but it's that gap in the middle that nobody is filling," he said.

Musso believes his new business is filling that gap, referring to Stonehall as a "cultivator" of companies.

"We're not an incubator, we're not an accelerator, we're not a venture capital firm," he said. "We're kind of a blend of all of them."

Musso said Stonehall is taking a hands-on approach to helping its companies with accounting, capital markets and legal work. The idea is to show entrepreneurs how to "morph into becoming a real company."

Stonehall is also taking the companies into FinPro's headquarters in Gladstone, N.J. Stonehall has about 5,000 square feet of the headquarters and room to house about 10 startups. It aims to invest about \$20,000 to \$50,000 — but could invest more — into the companies or ideas and take a stake from about 10% to 20%.

So far, Stonehall has made three investments, two of which are in the health care field. One of those is an information gathering company examining types of care, such as diabetes. The other health care company sends individuals' health information to medical professionals in an effort to improve proactive care. The third company performs stress testing of infrastructure, primarily concrete.

More investments are expected before year-end. Stonehall is considering at least two ideas in which banks would become the companies' customers. One is an early stage idea for a financial technology concept that would create a

single platform that can automate several lending processes including underwriting, analyzing allowances for loan and lease losses, and providing ongoing grading of a credit throughout the life of a loan. Stonehall might also make an investment in a company that would help banks develop social media advertising strategies.

Musso is a co-founder of Stonehall and spends about one-third of his time working for the business. His son, Bob, is also a co-founder and runs the business along with John Mauro, the corporate counsel. When it comes to investing, Bob Musso said Stonehall is taking a different approach than venture capital firms. He said venture capital firms invest in a high number of companies and try to generate as many liquidity events as possible, while Stonehall wants to help create companies that have longevity.

"We don't want one in 10 to be successful," he told SNL. "We want every single one that comes through to be successful."

The venture field is not easy. Shikhar Ghosh, a senior lecturer in Harvard Business School's entrepreneurial management unit, has studied the topic and said investors in about 75% of venture-backed companies do not even reach a breakeven point on their investments. Given that failure ratio, Ghosh said, companies often have a difficult time succeeding in the field.

"There are lots and lots of dead bodies," he told SNL.

Ghosh said new companies entering the space can face an adverse selection. Entrepreneurs or startup companies with the best ideas can gravitate to the venture firms most known for specializing in the space, while investors new to the venture field find themselves choosing from companies or ideas that have already been passed over, he said.

Nonetheless, many try to enter the venture field, and many offer space and administrative backup to their portfolio companies, Ghosh said. He does not believe that providing such offerings as legal or accounting services makes much of a difference in the success rate of entrepreneurs.

"I've never seen a company go out of business because they didn't have enough administrative support," he said.

Still, venture firms often offer the office space and back-office support because those are tangible examples of how they are adding value, Ghosh said. Less tangible offerings such as sales support may seem nebulous, but they can have more of an impact, he added.

Young companies need connections with customers, he said, adding that it is immensely helpful for companies to receive feedback from customers who provide reviews of the products or service offerings.

"What the young early stage companies need most is access to the market and to have somebody who knows their customers and can introduce them in a way that causes these customers to take a chance on them," he said, adding that venture firms that focus on a particular industry could have this ability.

"If they have specialized expertise in a particular sector and they can help these companies get customers, then that's worth something," he said.

FinPro certainly has the specialization with banks, and Don Musso said FinPro's work with the depositories has helped him develop relationships with executives from other industries. FinPro works closely with the board members of many banks, and those board members are often executives from different industries.

"The top telecommunications folks from AT&T, Verizon we know them all," Musso said. "All the top pharmaceutical guys, we know all of them. All the top real estate guys across the country, we know all of them. So pretty much as you go through every major industry sector, we know the key players."

Musso said those executives can help open doors for Stonehall companies and provide investment decision advice to Stonehall's leaders. Having the expertise as a resource is helpful because there are plenty of ideas for Stonehall to sift through.

"It's really incredible how many ideas are in the marketplace," Musso said. "Hopefully, we're picking the winners."