



GSB New Venture News

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The University of Chicago Graduate School of Business

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Entrepreneurship at the GSB

By Susan Tai, Associate Director of
the Entrepreneurship Program

Move over consulting and investment banking — entrepreneurship is soaring to the top of the most demanded classes at the GSB. Interest in this arena has never been stronger as a record number of business school students fill entrepreneurship and private equity classes and request additional sections and courses. Students are looking to the GSB for the training and experience to become a successful entrepreneur or venture capitalist in today's market.

To meet this demand, the GSB has created an entrepreneurship program which will provide the theoretical knowledge through top-notch faculty research and teaching, and the practical skills through experiential learning opportunities. Under the direction of **Professor Steven Kaplan**, the School has launched efforts to create a comprehensive program to cultivate and train the budding entrepreneur.

The program is taught by experienced faculty from a variety of academic areas, who are entrepreneurs and venture capitalists themselves, and who prepare students to go into business for themselves at some stage of their careers, join a start-up, participate in an entrepreneurial venture in a mature corporation (intrapreneurship) or enter the venture capital business. The quality of these courses was affirmed in the *Business Week* 1996 ratings of the top twelve entrepreneurship professors in the country. The GSB

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ARCH Development Corp: Bridging the Gap between Academia and Commerce

By Scott Seymour, GSB '00 and
Sarina McBride, ARCH Project Manager

At a recent Lunch and Learn Session, Toby Stuart, Professor of Organizations and Strategy at the GSB, spoke of the relationship between start-up firms and their proximity to universities and venture capital firms. The point



being, most successful start-ups have thrived by taking technology from University labs to the market place. In Hyde Park, the University of Chicago fa-

facilitates the process of transforming ideas into real products and services through the ARCH Development Corporation.

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Kauffman Foundation Awards \$1 Million to GSB

By Jeff Webb, GSB '99

This past fall, the Ewing M. Kauffman Foundation awarded \$1 million to the GSB to fund the newly proposed Center for Entrepreneurship (see front page article in Summer 1998 issue). Chicago was only one of three schools—the other two were Stanford and Babson—to receive such a significant level of funding, which amounts to \$200,000 per year for each of the next five years. This is a significant first step in the GSB's effort to endow the proposed Center for Entrepreneurship with at least \$10 million.

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Entrepreneurship...

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was one of only two schools with two entrepreneurship professors - **Steven Kaplan** and **James Schrage** - among those twelve. In fact, the GSB was the only school with two professors among the top six.

The Entrepreneurship office is building a central focus for the broad and growing array of activities, programs, and resources in entrepreneurship. These efforts will lay the groundwork for the Center for Entrepreneurship to become the hub of entrepreneurial research and practice in the Midwest and abroad. Thanks to the support of successful alumni, such as **Mike Herman (MBA '64)** from the Kauffman Center for Entrepreneurial Leadership, and **Edward L. Kaplan (MBA '70) of Zebra Technologies Corp.**, the Program is well on its way. The Entrepreneurship office has initiated a call for innovative faculty research, increased the number and breadth of entrepreneurship classes, and offered hands-on learning opportunities such as the Kauffman Summer Internship Program, the New Venture Lab course and the New Venture Challenge Competition.

The inaugural Kauffman Summer Internship program this year gave selected students the invaluable opportunity to work in an entrepreneurial company during this past summer. These interns worked directly with the companies' CEOs and gained first-hand insight into the challenges of running an entrepreneurial firm.

Under the guidance of Professor Robert Calvin, the New Venture Laboratory course will give students the opportunity to work with several technology-based clients of ARCH Development Corporation, the technology transfer arm at the University of Chicago (see related article on page 1). Students will be exposed to the variety of challenges facing technology start-ups, including marketing, strategy, and fund-raising.

For the third year, **Edward Kaplan (MBA '70) of Zebra Technologies** will sponsor the New Venture Challenge business plan competition. This year, another three teams of enterprising students will win seed money for their commercial ventures. At the mid-November kick-off event, **Joe Mansueto (MBA '80), Chairman of Morningstar, Inc.**, a leading provider of mutual fund, stock, and variable-insurance investment information, encouraged students from around the University to vie for one of those awards. With an added focus this year to incorporate students from the Biological Sciences and Physical Sciences Di-

visions as well as Argonne National Lab,

diverse teams will hone their skills as they create their business plans, receive guidance provided by **Bain & Company** consultants, and network with successful entrepreneurs and venture capitalists.

Additionally, with the recent generous gift of \$1,000,000 from the Kauffman Center for Entrepreneurial Leadership (related article on page 1), the GSB can continue to create and support entrepreneurial programs for students, faculty, alumni and practitioners in the greater entrepreneurial industry to gain an edge in the field.

Students, alumni and other practitioners can both contribute and benefit by building a strong network. They will have access to resources to help them develop the new ideas, novel approaches, and advanced technologies that are driving forces for innovation and growth in our economy. The Program is in the midst of compiling a networking database of experienced alumni and non-alumni in entrepreneurship and private equity. Later this academic year, the degree of student-alumni interaction will be enhanced with a mentor program in which GSB alumni will counsel and support students with similar interests.

Take for example, some of the following alumni who have created successful, dynamic companies and who have a lot to offer any GSB student: **Joe Mansueto of Morningstar**, **Matt Rizai of Engineering Animation**, **Joe Neubauer of ARAMARK**, **Dennis Keller of DeVRY Inc.** and **the Keller Graduate School of Management**, **Ed Kaplan of Zebra Technologies**, **Kathryn Gould of Foundation Capital**, **Ellen Rudnick of Pacific Biometrics Inc.**, and **Larry Kane of Alternative Resources Corp.** These alumni are only a few among the many who have become Entrepreneurs after leaving the GSB. The companies founded by these GSB graduates range in size from small, specialized companies to corporate giants, and these alumni are part of a growing network of business owners and investors.

The experiential learning component is expanding as the Program continues to build relationships with the science and technology areas of the University. The Entrepreneurship Program is working to coordinate and strengthen these collaborations, promote a better understanding of technology transfer, and cultivate interdisciplinary relationships to produce successful high-tech entrepreneurs. Students and alumni will gain exposure to other aspects of tech-

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Entrepreneurship...*(Continued from page 2)*

nology start-ups such as licensing, patents and intellectual property, through ARCH Development Corporation.

Bringing all these programs together under the umbrella of the proposed Center for Entrepreneurship, the GSB will carry out its endeavor of providing top-notch research, education and training. The Center will also serve as an excellent networking forum for entrepreneurship among GSB students, faculty, alumni and the business community at large.

If you would like to find out more about the Entrepreneurship Program or would like to actively participate in any of our programs, please contact **Susan Tai, the Associate Director of the Entrepreneurship Program** at 773-834-2838 or via e-mail at susan.tai@gsb.uchicago.edu. Alternatively, visit us on the web at gsbwww.uchicago.edu/research/centers.



Public Market Volatility Ruffles Private Equity Market

By Shaine Gross, GSB '00

Up to this past September, 1998 had been a banner year for private equity firms. Money was flowing into new funds, debt terms were exceptionally favorable, and deal flow was strong. However, momentum in the buyout market stalled when the continued effects of the Asian crises and the debt moratorium instituted by Russia created significant volatility and uncertainty in worldwide debt and equity markets. The public market for high-yield debt dried up, the stock market slumped and then entered a period of high volatility. To many, the indomitable US economy suddenly appeared vulnerable to recession.

Private equity firms have had to make rapid adjustments to the sudden change in the financing environment. Uncertainty about the short-term direction of the domestic and world economies have made it difficult to value prospective investments. Buyout firms with large funds (in excess of \$1.0 billion) have been particularly affected as they are more reliant upon public high-yield markets and public company valuations. After falling to approximately 7,500, the DJIA has re-surged past 9,000 in spite of deteriorated earnings prospects. The increase in com-

pany valuation as a multiple of earnings has dramatically slowed the large buyout market as firms await either a market correction or greater proof that the pre-'crisis' earnings growth will resume. Few large deals have been signed since the crisis and several signed before have been renegotiated or terminated. **Kohlberg, Kravis, & Roberts (KKR)** substantially reduced its \$1.7 billion acquisition offer for a Hoechst subsidiary, effectively killing the deal. Lenders who committed to finance deals before the widening of debt spreads have had second thoughts. **Merrill Lynch** recently informed **Welsh, Carson, Anderson & Stowe** that it had no obligation to fund the group's \$2 billion acquisition of **Centennial Cellular Corp.** because of adverse capital markets conditions (invoking a rarely used "Material Adverse Change" or "MAC" clause).

The difficulties facing the large deal market have not bypassed the middle market. Lenders have both increased rates and restricted the amount of debt available for a given transaction. One active LBO lender who requested anonymity stated that the price of senior debt has increased by 100 or more basis points while lenders are providing only 3.5 - 4.0 times EBITDA of debt, down from 4.5 - 5.0 times prior to the widening of credit spreads. Lenders, he added, have tightened financing terms and covenants while offering less availability for future acquisitions. As a result of the significant reduction of new issuance in the public high-yield market, private mezzanine lenders have seen a jump in activity. One mezzanine lender who made no investments in the first six months of 1998 expects to invest \$125 million in the second half of the year.

Buyers and lenders are giving greater weight to recession scenarios and are seeking lower purchase price multiples. Sellers, meanwhile, are coming off of years of economic prosperity, with strong revenues and improved cash flow. Many who went to market to sell their businesses during the boom early in the year have not fully revised their expectations and are resisting any decrease in valuations. This struggle between buyer and seller expectation has resulted in slightly lower purchase price multiples. However, this decrease in purchase price is not as large as the decrease in debt financing. Buyout firms have had to fill this void by increasing their equity commitment by an average of 5-10% of purchase price.

Given the financing difficulties and the valuation uncertainties, one might have expected deal flow to decline as sellers waited for a return to a higher-price environment and buyers waited for a period of

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Public Market Volatility...

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greater stability in financial markets. While deal flow has ebbed, it has not fallen precipitously. Three factors have buoyed the market. First, the decrease in interest rates at the federal level has mitigated the effect of the lenders' widening of spreads. While not fully offsetting the risk premium lenders are requiring, the decrease has offset much of the tightening. Second, the dollar volume that has flowed into private equity funds over the past two to three years has put pressure on managers to invest the capital. New funds, particularly first-time funds, are particularly under pressure to put this money to work.

Finally, companies facing illiquid public debt and equity markets have turned to the private equity markets for capital. Private equity firms have seen an increased flow of minority stakes and preferred securities in public companies whose stocks have dropped sharply. Middle-market firms that realize little benefit from being public are evaluating going private. Conversely, private companies considering going public have seen the market for IPO's dry up. Many private business owners seeking liquidity are considering private sales or mergers instead.

Careers in Private Equity

By Nitin Gupta, GSB '00

A career in private equity (PE) is an intriguing blend of the career paths most popular with GSB students: consulting and investment banking. Landing your first job within PE, however, requires focus, the commitment to an independent search and much perseverance.

PE firms are generally partnerships which invest institutional or private capital in companies during various stages of their development. While capital infusion is an important aspect of PE, the operating advice provided to emerging and growing companies, particularly in the case of Venture Capital (VC) firms, is often the major reason private companies sell equity stakes to VC firms. For this reason, PE is not the exclusive domain of former financial analysts.

PE associates will usually source deals or conduct due diligence on active deals. Over time, an understanding of what is happening within an industry or company strategy becomes increasingly neces-

sary. David Trucano (GSB '99), who interned at Pomona Capital LP, New York, noted that the majority of professionals (including principals) at Norwest Venture Capital Management, Inc., Minneapolis, where he was an associate, had graduate engineering degrees and previous operating experience (other experience valued by this fund included product management or strategic analysis). Since this is not the typical experience set of someone entering business school, what can the aspiring private equity professional or venture capitalist do to land a job?

Network!

PE firms tend to be small and top-heavy – partner to associate ratios of 3:1 are common – and partners tend to do their own work. It is a business of personal relationships; the search can be very hard without contacts. Absent a referral when calling a private equity professional, it is unlikely the phone call(s) will be returned. The best advice for those at the GSB hoping to get a foot in the door is to meet as many people as possible during business school and begin building your own network. Resources within the GSB community include ARCH Development Corporation, the VC firm affiliated with the University of Chicago, the Career Services Center and the courses and faculty within the Entrepreneurship concentration. You should also not forget that some of your best contacts may be your classmates. Many arrive at the GSB with PE industry-related experience.

Demonstrate interest

An excellent way to show interest in PE is practical work done during school, such as reading business plans or doing market research. This could include part-time work with ARCH or local firms. David Walter (GSB '99) took two courses during the spring term of his first year while working twenty hours/week with GTCR Golder Rauner LLC, a private equity firm located in Chicago. He then took one course over the summer during his internship at ServiceMaster Ventures LP, a Chicago-area VC.

Focus on a Value Added "Deliverable"

Another component of a successful strategy is to think about a definable project or deliverable to complete over the summer. Without structured environments or hand-holding, partners will not find work for interns. Saying "here's what I can do for you" is appealing and demonstrates initiative.

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Bridging the Gap

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ARCH Development Corporation is a non-profit alliance between the University of Chicago and Argonne National Laboratory. The corporation was founded in 1986 on the basis of a task force recommendation that sought to address the need for a mechanism to commercialize important and lucrative new technologies. Under the guidance of current CEO **Tom Churchwell**, ARCH's primary purpose is to create the greatest value for the University of Chicago and Argonne National Laboratory in a manner consistent with the missions of these institutions. It does so from the commercialization of the intellectual assets entrusted to it.

ARCH leverages off its relationship with the academic community to identify important discoveries and orchestrate patent filings. It is able to do so well before related research is published in academic journals. ARCH employs state-of-the-art licensing techniques and enterprise development to develop ideas and inventions into commercial products.

For the faculty, ARCH offers a way to maximize the commercial application value of their invention without diluting their primary focus on research. Some recent start-up projects developed from research at the University of Chicago include **NephRx** and **Xcyte Therapies**. NephRx has the potential for regenerating kidneys and Xcyte Therapies uses the immune system to combat cancer and the detrimental effects of HIV infections.

Whether it is new therapy for cancer or a dynamic new search engine, ARCH employs both state-of-the-art licensing techniques and enterprise development to foster the development of scientific inventions into commercially viable products and successful companies. Teams of experienced business professionals, researchers, academicians and graduate students work together to bring these new technologies to the market. To do this, ARCH maintains three inter-related "lines of business".

Licensing: ARCH does conventional licensing deals as any university technology transfer office would.

Start-ups: ARCH may decide that the best prospects for commercializing a given technology may be to proactively create its own start-up vehicles, known as "virtual corporations". These are incorporated legal entities that share certain core services (accounting, legal, finance, and market analysis) provided by ARCH staff and which are led by a CEO

recruited from the ranks of local private-sector management talent.

Virtual Venture Fund: Although ARCH pays for core services to the virtual corporations, there comes a time when each corporation must begin making direct expenditures in its own behalf, if only to begin raising significant money for commercialization research. To capitalize the companies for this stage, ARCH maintains an internal "virtual venture fund" which advances money to the virtual corporation in exchange for convertible preferred stock.

For students at the University of Chicago, ARCH offers great opportunities to learn and get involved in start-ups, product development, and the venture capital industry. ARCH accepts volunteers from the University of Chicago's graduate programs in business, law, biological sciences and physical sciences. To be selected, all one needs is the "entrepreneurial spirit" and a desire for making real decisions on real products accompanied by the willingness to make a time commitment of 8-10 hours a week. Occasionally, volunteers advance to internship or associate positions within the firm.

Currently, there are two full time GSB students participating with ARCH. **John Pena (MBA 2000)** is a project manager and **Pratik Shah (MBA 1999)** is the VP of Operations for NephRx. Additionally there are a few alumni of the GSB who are full time project managers at ARCH.

More information on ARCH Development Corporation and Arch Venture Partners is available on the Internet at www-arch.uchicago.edu and www.archventure.com, respectively.



Kauffman Foundation Award

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Alice DuBose, Director of Development, who conducted much of the fundraising and application process with **Professor Steve Kaplan**, explained, "It was really an honor to be selected by the Kauffman Foundation. The funds will be very helpful in building the entrepreneurship program." Funds will be dedicated to further developing the entrepreneurship course curriculum, conducting research and developing cases, and hiring an executive director for the center. One important stipulation in retaining the funding is that the proposed Center for Entrepreneurship must meet its goal of raising \$10 million by the end of 2002.

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Kauffman Foundation Award

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Ms. DuBose explained that two factors were particularly important in the GSB's selection. For one, the Kauffman Foundation was impressed by the quality of faculty research at the GSB and it is confident the funding will help support research in the area of entrepreneurship. In addition, the Kauffman Foundation, which is headquartered in Kansas City, was interested in helping the GSB establish itself as the "incubator" for ideas in the Midwest, much as Harvard and Stanford have done on the east and west coasts, respectively.

For those interested in learning more about the proposed Center for Entrepreneurship, please contact **Professor Steve Kaplan** by email at steven.kaplan@gsb.uchicago.edu.

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Comments? Suggestions? Questions?

Please e-mail them to:

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Getting a Job in Private Equity...

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Hold out

The recruiting process is haphazard at best, partly because PE firms generally do not have traditional internship programs (ServiceMaster Ventures LP and General Atlantic Partners being the exceptions). Firms hire when they need people. Because of this, offers come late in the spring term, forcing students to make the difficult decision to pass on traditional offers in order to hold out for a PE position.

Landing a PE job is difficult, but not impossible. Finding the right opportunities requires focus, persavrance and entrepreneurial spirit.

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David Walter (GSB '99) is the Second Year Career Advisor for Venture Capital at the Career Services Office. He worked part-time for GTCR last year and spent this past summer with Service.Master Ventures

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