



GSB New Venture News

A Newsletter of the Entrepreneur & Venture Capital Group
The University of Chicago Graduate School of Business

Volume 1, Issue 1

Summer 1998

EVC Group Launches "GSB New Venture News"

by Jeff Webb GSB '99

The Entrepreneur and Venture Capital Group is proud to announce the launching of *GSB New Venture News*, the GSB's first newsletter dedicated to students and alumni involved in entrepreneurial and private equity careers. This first introductory issue serves as our "97-98 Year in Review," and next year the EVC plans to issue one newsletter each quarter during the school calendar.

What's the purpose of the "GSB New Venture News"?

We are launching *GSB New Venture News* to help foster a network among students and alumni by keeping people "plugged in" to both news about alumni in industry and major activities/events on campus. A number of GSB alumni have expressed interest in a newsletter as a way to improve communication within the segment of the GSB community focused on entrepreneurial and private equity professions. The newsletter will feature articles on subjects including major GSB initiatives, such as the proposed **Center for Entrepreneurship** (see next column), campus activities of the **Entrepreneur and Venture Capital Group**, and news of alumni entrepreneurs and private equity professionals.

What is the EVC Group?

The Entrepreneur and Venture Capital Group is a student-led group that was started at the GSB several years ago. From a membership of less than 50 in 1995, the group has grown to include over 200 current students. Our mission is threefold:

- Educate students about the world of private equity and entrepreneurship
- Provide potential opportunities for career placement
- Educate and promote major GSB activities and events to the entrepreneur and private equity communities.

The EVC Group performs a number of functions on campus including hosting distinguished guest speakers and coordinating

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GSB Launches Drive Towards Center for Entrepreneurship

by Mark Holroyd GSB '99

Over the past year, the University of Chicago Graduate School of Business has begun laying the groundwork for the launch of the Center for Entrepreneurship. **Professor Steven Kaplan**, who teaches the perennially popular course on Entrepreneurial Finance and Private Equity at the GSB, is leading this effort.

Prof. Kaplan envisions positioning the GSB as the premier business school in the Midwest for entrepreneurship and venture capital, similar to the reputations Stanford and Harvard enjoy on the West and East Coasts, respectively. Prof. Kaplan is trying to get the Center formally established and operational as soon as possible. **Dean Robert Hamada** is committed to raising \$10,000,000 to start the Center and hopes to make concrete progress towards its establishment during the next twelve months.



Professor Steven N. Kaplan

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According to Prof. Kaplan, the goal of the Center is to better integrate and institutionalize many of the academic and experiential aspects of entrepreneurship and private equity found at the GSB today. Specifically, by establishing the Center, Prof. Kaplan envisions strengthening and building upon such programs as the **New Venture Challenge** (see related article on page 2) and **ARCH Ventures**, the venture capital firm associated with the University of Chicago.

The Administration hopes to endow the New Venture Challenge as part of the Center for Entrepreneurship. Additional initiatives include developing courses around ARCH, modeled after the **New Product Lab** courses offered at the GSB. The Center also aims to

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student activities including the EVC resume book and the Ed Kaplan New Venture Challenge.

Who's on the mailing list?

Students in the EVC group, campus faculty, and GSB (and non-GSB) professionals working as entrepreneurs or in the private equity field.

We are very interested in your feedback. If you have comments or suggestions on the newsletter, articles you would like to see, or ideas about the EVC group in general, please e-mail them to:

mjwebb@gsbpop.uchicago.edu.

We look forward to hearing from you.

Sincerely,

EVC Group Co-Chairs:

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Center for Entrepreneurship

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endow chairs for tenured faculty positions in entrepreneurship and to provide funding for research grants and projects in the field of entrepreneurship and private equity. The Center will also oversee curriculum development for the concentration in Entrepreneurship, created this past year.

Toward this end, two new classes will strengthen the entrepreneurship concentration next year. Professor **Toby Stuart** will teach a course on "Technology Strategy" and **Jim Schragger** will teach a course entitled "Entrepreneurship in Organizations." These courses will be in addition to Entrepreneurial Finance and Private Equity (B338), New Enterprise and Small Business Management (B484), New Venture Strategy (B485), Special Topics in Entrepreneurship (B585), and Structuring Venture Capital and Entrepreneurial Transactions (L530) taught by **Jack Levin** at the law school.

The GSB is looking for an Executive Director for the Center and Prof. Kaplan encourages alumni interested in this position to get in touch with him or Dean Hamada. Of course, Prof. Kaplan is quick to point out that other forms of alumni interest and support (particularly, financial contributions) furthering this cause are, of course, welcome.

Ed Kaplan New Venture Challenge Awards \$30,000 in Cash Prizes

by Frank G. Truong (NVC Chair) GSB '99

A distinguished panel of 11 judges heard business plan presentations from six finalist student teams in the second Ed Kaplan New Venture Challenge on Friday, May 29 at the downtown Gleacher Center. The Ed Kaplan New Venture Challenge (NVC) is a competition in which students develop business plans in hopes of winning cash prizes to launch high-potential new ventures.

Winning teams this year were:

FIRST PLACE (Grand Prize of \$20,000) Jake Crampton, Everett Truitt, Gary Seelen, Zia Imran, and Tomasz Durzynksi, all members of MBA Class of 1998.

SECOND PLACE (\$7,000 Prize) Julie Diop, Kamaljit Bagga, Soujanya Bhumkar, Michael Walkley, and Mark Anglin, all members of MBA Class of 1999.

THIRD PLACE (\$3,000 Prize) Darrell Cronan, Evening Program.

(Specific business plan ideas have been initially requested to remain confidential.)

Aside from cash prizes, winning teams receive free value-added consulting advice from **Bain & Company**. This is the second year that the EVC Group has sponsored the NVC. The panel of 11 judges for this year's NVC, 10 of whom are GSB alumni, included five very successful entrepreneurs, five venture capitalists, and one Bain & Company consultant. The contest is managed by a committee of five first year EVC Group members.

This year's NVC included three sponsors: **Ed Kaplan** (GSB Alumni and CEO of publicly-traded **Zebra Technologies**); **John Davies** of the **Bishopric Foundation**; and Bain & Company. Bain & Company contributed cash and provided 500 hours of consulting services to 16 teams that advanced to the second round. Over 30 consultants from Bain assisted the 16 teams in the preparation of their complete business plans.

Each team, which must have at least one member from the GSB, submits a five-page Executive Summary in the first round and complete business plans in the second round. If selected as finalists, the teams present to a panel of 11 judges. This year, four teams were from the full-time program and the remaining two were from the evening and weekend programs.

As a testament of the quality of business ideas generated, one team from last year's competition, led by GSB student **Hayes Batson**, obtained one million dollars in funding to start an internet software company which was recently featured in the March 1998 edition of Inc. magazine. Mr. Batson worked as a **McKinsey & Co.** consultant and **William Blair & Company** investment banker before attending the GSB.

In the first two years of competition, 67 teams submitted Executive Summaries in the first round. This year, 33 teams (total of 94 members including MBA's from the full-time, part-time, and

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Venture Capital Firm Founder, Tom Huseby, Speaks at GSB

by Steve Resnikoff GSB '98

On Thursday, April 9th, the Entrepreneur and Venture Capital Group along with the Advanced Technology Management Group hosted **Tom Huseby**, Managing Director of **Seapoint Ventures**. Seapoint Ventures, founded in 1997, is a venture capital firm located in Seattle that specializes in wireless communications and Internet-related businesses.

Mr. Huseby spoke before a standing room only crowd in Stuart Hall and gave a sixty-minute presentation titled "Lessons Learned in the Pursuit of Venture Capital." Mr. Huseby has spent considerable time on both sides of the venture capital table. He was the founder of three wireless equipment companies prior to his latest endeavor at Seapoint Ventures and has a great deal of experience in selling an idea to a venture capitalist.

In the first part of his presentation, Mr. Huseby discussed what he considers the four steps to coming up with a successful business plan: solve an important problem, solve it for companies that have money to spend on the solution (he feels that the financial payoff is too unpredictable if your idea solves problems for individuals), solve it convincingly (if possible have an exclusive on the idea), and finally, solve it with a great team effort (he emphasized that already having a capable team assembled is important to venture capitalists).

In the second part of his presentation Mr. Huseby discussed what an entrepreneur or a VC should be cognizant of after a financial agreement has been reached. He likened the relationship between the parties to a marriage. In order to avoid future conflicts, the two parties should be careful when signing contracts, which he likened to a pre-nuptial agreement. A good agreement (for both parties) will not have performance price formulas (which gives the VC a

larger percentage of the company if the expected return is not met), ratcheting anti-dilution agreements (which gives the VC the ability to buy stock at the lowest price any share of stock is sold for) or many managerial conflicts or super majority voting agreements. Any of these provisions could cause a great deal of anguish for both parties in the future.

Equally important, an entrepreneur should remember that there is no honeymoon after the contract is signed. The venture capitalist expects results. Thus, it is important for both sides to know each other's expectations and to be in constant communication. One must also remember that conflict is part of the process.

During the question and answer period, a student asked how much money an entrepreneur should be willing to invest in his/her own idea. While acknowledging the fact that VCs definitely feel more comfortable working with someone who has a personal stake in the idea, Mr. Huseby stated that it is not always necessary.



Tom Huseby of Seapoint Ventures speaks at the GSB

Moreover, he discussed how some people will sell everything they have and take out a second mortgage on their home in pursuit of their goal. People get emotionally involved in a project and in Mr. Huseby's experience, for an entrepreneur, a cost "ain't sunk until you're in the poorhouse."

Mr. Huseby also gave a little personal advice to those individuals who are thinking about approaching a venture capitalist. First, you should ask yourself if you are willing to give up total control of your company. Once you sell stock to a VC, you sold your company. Second, VCs may put some unpleasant strings on any financial backing. For instance, a VC may ask you to restructure your team. This may mean telling your best friend or brother that they will have to give up their role as C.F.O.

New Venture Challenge

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weekend programs, 18 outsiders, and 1 JD/MBA) participated in the first round. At the end of the second round, Professor Steve Kaplan, faculty advisor for the NVC, stated that "...quality of this year's business plans was exceptional."

One factor that contributed to the quality of business plans was the inception of Business 585: Special Topics in Entrepreneurship-Seminar in Developing a Business Plan, taught by Professor Kaplan. This class was offered in Spring Quarter 1998 to over 30 students who advanced to the second round.

For further details regarding the New Venture Challenge please see our website gsbwww.uchicago.edu/student/nvc/. The NVC Committee is currently in the planning phase to significantly increase the level of participation for the Third Annual Ed Kaplan New Venture Challenge. If you would like your firm to be a corporate sponsor or have any questions/comments, please e-mail Frank Truong (MBA99), NVC Chair and EVC Group Co-Chair, at:

mfruong@gsbpop.uchicago.edu.

GSB Private Equity Alumni Address Students in Panel

by Dhurander Bhatawadekar GSB '98

In mid-April, the EVC Group hosted the "GSB Private Equity Alumni Panel" consisting of three people currently working in the venture capital and leveraged buyout community.

The three speakers were: **Keith Yamada** (GSB '95), currently working at **Continental Illinois Venture Corporation**; **Karen Kerr**, from **ARCH Venture Partners**, a graduate student of the University of Chicago's Chemistry Department; and **Ray Rabindran** (GSB '93), of **Domain Associates**.

The goal of the meeting was for the three panelists to discuss their experiences and to provide insights on how to launch a career in the field. The three discussed their backgrounds, the various career decisions they've made in their professional life, and how they developed the skills and experience necessary to land positions in the industry.

In addition, Ms. Kerr and Mr. Rabindran, both of whom were **Kauffman Fellows**, described the Kauffman Fellows program and encouraged students to apply. Briefly, the Kauffman Fellows Program is a two-year paid fellowship in which selected individuals get the opportunity to work at a venture capital firm. Individuals apply for the fellowship, and those who reach the last round participate in a two-day series of interviews with numerous VC firms to find the right "match."

Please see the Kauffman web site at www.emkf.org if you are interested in applying. Note that applications for this year's selection process are due September 11.

Panelist Keith Yamada, who started with CIVC eight years ago before attending the GSB, and subsequently returned to the firm after graduating in 1995, offered some insights to what types of professional experience might be applicable to private equity. He mentioned that a lot of people get into venture capital and private equity from management consulting and investment banking. Investment banking helps in the finance area, but the range of experiences working in different industries in a consulting environment is also important. At CIVC, Mr. Yamada focuses primarily on niche businesses generating cash flows of fifty to two hundred million dollars.

Ray Rabindran received a Ph.D. in Biochemistry from MIT and received a six-month Kauffman fellowship. When asked if there were any courses that helped the panelists in their careers, Mr. Rabindran mentioned that he had taken a "Cases in Entrepreneurial Finance and Management" class that was extremely useful. He still refers to some of the cases when sorting through various issues.

Karen Kerr started working for Arch Venture partners after it was spun off from Arch Derivatives Corporation. Her clients include the **University of Chicago** and **Argonne National Labs**. She focuses on biotech and high tech firms. Her firm has raised over twelve billion dollars, which has been put into over three thousand venture capital projects. Ms. Kerr also credited the Kauffman fellowship for helping her get into private equity and venture capital.

Proxicom CEO and VC Investors Share Insights to Launching and Funding Internet Business

by Michelle Burchfiel GSB '99

On January 14th, while a few inches of snow blanketed campus, students interested in entrepreneurship and venture capital braved the weather to hear about the venture capital industry and the success of **Proxicom**. Proxicom was founded by its current CEO, **Raul Fernandez**, in 1991 and has been a pioneer in the internet-based business solutions arena. Proxicom received the first Gold Clio award for Web site design in 1996 and was awarded **KPMG's** 1997 High Tech Entrepreneur Award.

Mr. Fernandez has grown this high-tech phenomenon to a 205-employee, \$17 million company, with 100% annual revenue growth, even though he does not have a standard technical background. He claims his start with technology was "doing spreadsheets for Senator **Jack Kemp**," for whom he worked from 1984 to 1988.

The spirit of Proxicom's founding father is represented by the fact that Mr. Fernandez invested his own savings to start Proxicom. He says having your own money invested instills the mentality that everything is on the line—it's fourth and ten at the end of the game and you're out of time-outs. And even with Proxicom's stunning growth, this mentality still exists and continues to contribute to the success of the company.

Another reason for Proxicom's success is its broad product offering. It offers three traditional skill sets that are typically provided to corporations by three different suppliers. First, Proxicom offers internet strategy consulting—how a company can take their business to the internet and develop a competitive advantage. Second, Proxicom offers strategic marketing and advertising to clients. Third—the largest of the three according to Proxicom's revenues and number of employees—is application development and systems integration.

Ms. **Eleana Gordon**, Proxicom's Director of Corporate Development offered a unique perspective, as she previously worked at venture capital firm **General Atlantic** on the deal to invest in Proxicom. She said VC prepared her for the corporate development role as she did a lot of mergers and acquisitions work. Also, she spent a lot of time interviewing customers during her due diligence at General Atlantic and recognized the strength of that source of information. In fact, she currently speaks to Proxicom customers at least once per week to find out the company's strengths and weaknesses and where customers think the company should venture in the future.

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One student questioned the panel about any setbacks they had experienced when trying to enter the industry. Mr. Rabindran mentioned that the hardest thing for him was gaining access to the VC community. He emphasized that "access is key. Who you know is really important in the business." Keith Yamada commented that people in venture capital and private equity "are really notorious about not returning phone calls."

A Web Guide For the Budding Venture Capitalist

by David C. McClellan, GSB '98

For students interested in learning more about the private equity industry, jump-start your education by checking out the following web pages:

- **www.v1.com:** Venture One provides "critical investment information on the nation's most promising venture-backed companies." Includes quarterly VC industry statistics and news and online resources for entrepreneurs.
- **www.redherring.com:** Red Herring provides fun yet insightful info on venture capital firms and the entrepreneurs who they back.
- **www.upside.com:** Upside Online provides the latest Silicon Valley news and gossip.
- **www.pw.com/vc:** Price Waterhouse publishes a quarterly venture capital survey that includes statistics, trends and a listing of virtually every VC firm. The latter contains a "skinny" for each VC firm and often a link to the firm's web site.
- **www.once.com/gcg:** The Growth Company Guide to Investors, Deal Structures, and Legal Strategies. A 302 page online book on the industry, organized by topic.
- **www.ideacafe.com/getmoney/FINANCING.shtml:** Idea Cafe provides info for the entrepreneur seeking VC funding.
- **pubweb.acns.nwu.edu/~sra858/entrep.html:** The Kellogg "resources for entrepreneurs" page offers links to several handy sites, including other MBA clubs such as HBS, MIT, Berkley, and Stanford, and to networking organizations.

VCs Fund Proxicom

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When Proxicom received its first venture capital in 1996, it had revenues of \$8 million and was doubling its revenues each year. Mr. Fernandez explained why Proxicom brought in VC as a simple cost-benefit analysis. The amount of expertise that came with the VC was greater than the equity position surrendered.

Proxicom chooses venture capitalists that have dealt with issues it is, or expects to be, facing and who can otherwise add value to Proxicom. Proxicom has had the luxury to choose its venture capitalists as it has received an unsolicited offer of funds about once every two weeks for the last two years, according to Mr. Fernandez.

Gene Riechers, Managing Director in charge of Venture Investments at the investment banking firm of **Friedman, Billings & Ramsey**, and **Roger Horwitz**, a Director in **GE Capital's Corporate Technology Ventures Group**, are representatives of two VC firms chosen by Proxicom in the last two years. These gentlemen shared insights into the VC industry. According to Mr. Horwitz, "Raul is a seasoned CEO and could take Proxicom into the public market as an IPO. That is rare; many young companies fail to have this [a seasoned CEO] taken care of."

Mr. Riechers offered advice and some startling statistics. He said, "VC is much more a time management game than a money management game. You have to look for deals where no one else is looking, and you have to make quick decisions." Last year, he spent less than ten minutes reviewing 90% of the business plans that crossed his desk. Out of 400 proposals he received last year, he did 6 deals.

He also gets 5-10 resumes per week from people looking to get into the VC industry. He said there are three ways to get into the VC industry. First, receive an undergraduate, technical degree, then work for a few years in industry, return for your MBA at a top school, and then try to get into a VC firm. This is a very competitive route. Alternatively, one could work for years in industry, get a lot of great experience, and then enter the VC industry. The final alternative is to start your own venture fund.

As for a job that will lead to the VC industry after two years out of business school, Mr. Riechers offered some sobering advice. Go into a job because you are passionate about it, not because you think it is a stepping stone to VC, because all jobs are stepping stones. Find something you believe in and want to be in and do it.

Finally, all the panelists gave some tips for would-be entrepreneurs. First, you need some work experience, though it may have been before entering the GSB. Second, give the venture capitalists a clue that you know you do not know everything—for instance, bring in outside board members, hire a good attorney and a good accountant. Third, you must be willing to fail. Finally, if you have the drive to do it, then do it.

PRELIMINARY SCHEDULE OF EVENTS
1998-99 School Year

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Fall Quarter

- Kauffman Fellow applications due: *September 11*
- EVC New Membership/Kick-off Event with Prof. Steven Kaplan—*Week of Sep. 28*
- EVC Pub Night—*October 8*
- 3rd annual Ed Kaplan New Venture Challenge Official Kick-Off Event with Distinguished Guest Speakers—*Week of November 9*
- NVC: Teambuilding Events among GSB, University of Chicago graduate schools, and Illinois Institute of Technology undergraduate engineering students—*TBD*
- EVC Distinguish Speaker Event—*Week of November 16*
- EVC & ARCH: Workshop with ARCH CEO's Business Plans—*TBD*

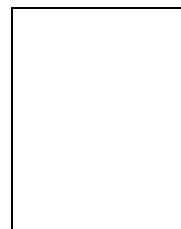
Winter Quarter

- GSB Entrepreneurship & Private Equity Conference—*tentatively scheduled for Jan/Feb 1999*
- NVC Guest Speakers: How to create a business plan & lessons learned from previous winning teams—*TBD*
- NVC: Phase I Summary Business Plans due —*Week of February 22*
- Private Equity Alum Panel—*TBD*

Spring Quarter

- NVC: Phase II business plans due—*Week of May 10*
- Speaker Series Event—*TBD*
- NVC: Phase III presentations—*May 28*

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