A Word from Ellen Rudnick

On behalf of the Entrepreneurship Program, welcome to the third edition of the Entrepreneurship and Venture Capital Newsletter. Autumn Quarter in the GSB was an extraordinary one for Entrepreneurship, and the momentum is continuing into the New Year as we move forward with several exciting initiatives.

The highlight of our agenda this fall included the Entrepreneurship & Private Equity Conference, the kick-off of the Edward L. Kaplan New Venture Challenge, the first New York LBO and WestQuest student trips, and the inaugural meeting of the GSB Entrepreneurship Advisory Board.

On October 16th, the GSB launched the first Entrepreneurial Edge: Chicago Conference on Entrepreneurship & Private Equity, which was attended by more than 350 students. We featured a wide range of experience and accomplishments among our entrepreneurial and venture capital speakers, many of whom were alumni and other supporters of the GSB. Students took away valuable insights about starting and building businesses to complement their academic experiences. Planning for next year’s conference will incorporate feedback from this year’s student attendees and panelists. We will focus on making it one of the biggest industry events for Entrepreneurship, expanding the conference attendance to include alumni and other professionals. The New Venture Challenge got underway with its annual Kickoff Meeting on November 9th. There was a huge turnout of students interested in forming teams for the business plan competition. The distinguished speakers panel featured Robert McCormack (GSB ’68), Partner of Trident Capital LLP, Prof. Steven Kaplan, Neubauer Family Professor of Entrepreneurship & Finance, and Jake Crampton (GSB ’98), founder of MedSpeed. They shared their insights on topics ranging from what venture capitalists look for when making a funding decision to outstanding issues of the competitive process to an NVC veteran’s perspective of the competition. The meeting concluded with sharing ideas and team building over pizza and drinks provided by the NVC coordinators. Since then, one brainstorming session has taken place featuring projects which Argonne National Laboratory and the Israeli Incubator Program have offered, around which students can build a team. Two to

(Continued on page 15)
4th Annual Edward L. Kaplan
New Venture Challenge
by Breffni X. Baggot

If you didn’t go to the New Venture Challenge kickoff, you
missed out on some major excitement. People from all over
the University were there – from the GSB to the Med School
and College. There was plenty of food and plenty more to
drink. But more intoxicating than the beer was the feeling in
the air as students talked about the dream of starting their
own company. Jay Perlioni said, “The kickoff was an
amazing eye opener for me: I’ve had a few ideas brewing for
some time now, but to meet and talk to four different people
who had similar ideas was a hope I never thought would
come true. It reassured my thinking and gave me the
optimism to move ahead. There's an overwhelming amount
of energy about the challenge this year!”

Some students had ideas and some hadn’t. That didn’t seem
to matter, though. Name tags with colored dots were
distributed so that people with ideas but without partners
could find potential partners looking for people with ideas.

Professor Kaplan explained the rules of the New Venture
Challenge (NVC). Students who are selected from
preliminary executive summary round proceed to stage II.
Plans for stage II are usually due in April. These students
take a class with Professors Kaplan and Rudnick where they
are guided on how to write plans that will succeed at the
venture capital firms. Just getting into stage II can be a
reward in itself.

NEW VENTURE CHALLENGE ROUND-I BUSINESS PLAN SUMMARIES WERE
SEE OUR NEXT ISSUE TO FIND OUT WHO MADE IT TO ROUND-II !!!

By Mike Nolte

On December 11th, 1999, nearly 300 University of Chicago
Graduate School of Business students arrived in San Francisco
to attend a 4-
day recruiting/ networking event. Dubbed "WestQuest99," the trip provided students with a clear
understanding of both career opportunities in the booming
information economy and the unique entrepreneurial
environment that has developed there. The biggest value of
WestQuest, however, may prove be the longer term positioning of the
GSB as a legitimate force in the new economy.

The enormous interest in WestQuest99 (a similar trip last year
only netted about 50 attendees) can be closely attributed to the
larger revolution that is transforming worldwide business. The particular buzzwords of the day change frequently, but they
describe a sensation that has shaken every institution in this
country, from Wall Street to White House, and throughout the
planet. San Francisco lies at the epicenter of the economic shift
that is upending world business and forcing a rate of change
that is both tremendously exciting and potentially lucrative in
terms of personal and financial impact.

WestQuest99 consisted of a broad range of events, beginning
with a welcome reception, hosted by Dean Mark Zmijewski, on
Saturday night. The event was sponsored by Goldman Sachs.
On Sunday, most of the students participated in one of several
wine tours of Napa Valley. The events were organized by the
GSB Wine Club, which provided the great opportunity to see a
little more of the California countryside and tour some fantastic

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“The advice I used to give to MBA students is that if you want to become an entrepreneur or a venture capitalist, you should first spend a few years at one of the entrepreneurial boot camps such as Cisco. The operating experience will be instrumental to your success. But now I’m going to go against my own advice, because the market place has changed. If you have a really good idea, and you’re ready, then I’d say just go out and do it.”

This is one of the many bits of advice from Kathryn Gould (GSB ’78), one of the keynote address speakers at the “Entrepreneurial Edge” conference hosted by the GSB’s Entrepreneurship and Venture Capital Group (EVC). This inaugural conference brought together prominent venture capitalists, private equity professionals, and entrepreneurs, many who are GSB alumni, to speak with students about their professions. The conference took place Saturday, October 16, 1999 at the Gleacher Center. Because of the overwhelmingly large attendance of over 350, the conference was broadcast via live video to an overflow room for attendees who could not be seated in the main conference room.

In his opening address, William Lederer, founder of art.com, now with Minotaur Partners, offered his insights on starting a business:

1. Build a moat around your business – it’s extremely important to establish first mover advantage and exclude competitors.

2. Achieve daily victories – the initial stages are very important and can be discouraging, so entrepreneurs need to set mini goals to achieve daily victories.

3. Cater the business plan to the reader.

4. Don’t work with friends. If you do, outline the financial agreement.

The conference consisted of two keynote addresses and five panel discussions:

1. Morning keynote address by William Lederer, founder of Art.com, on building his concept into a successful e-commerce business.

2. Afternoon keynote address by Kathryn Gould, general partner of Foundation Capital, on her experiences with several successful start-ups (including Oracle) and as a venture capitalist. Kathryn also distilled her journey into career advice for aspiring entrepreneurs.

3. The “I Have an Idea – Now What?” panel moderated by Susan Hapak, on the steps and factors involved in turning a new business idea into an operational success.

4. The “New Frontiers in Leveraged Buyouts (LBOs)” panel moderated by Luigi Zingales, Professor of Finance at the GSB, on recent developments such as the increasing size of buyout funds, the tightening of the credit markets since the heyday of LBOs in the 1980s, and the expansion of US LBO firms.

5. The “Financing the Venture” panel moderated by Steven Kaplan, Neubauer Family Professor of Entrepreneurship and Finance at the GSB, on how entrepreneurs find and work with venture capitalists.

6. The “Late Stage Financing” panel moderated by Stephen Beitler, partner at Trident Capital LLP, on issues faced by entrepreneurs when attempting to grow their business beyond the development phase.

7. The “Keeping the Entrepreneurial Edge” panel moderated by Toby Stuart, Associate Professor of Organization and Strategy at the GSB, on what it means to be entrepreneurial, at the individual level as well as the organizational level.

The conference was sponsored by Willis Stein & Partners, Microsoft, Diamond Technology Partners, Durandal, Red Herring, Flyswat, The Industry Standard, Entrepreneur magazine, Business Start-Ups magazine, and the GSB’s Entrepreneurship Program.

Speaking at the closing remarks, Ellen Rudnick, Executive Director of the Entrepreneurship Program at the GSB and Clinical Associate Professor of Entrepreneurship, called the conference an unqualified success, noting that it set a very

- Exclusive!!! The EVC Group held its Inaugural Conference this fall at the Gleacher Center downtown.
- From your first idea to late-stage financing and LBOs, we have full coverage of the conference inside this issue of New Venture News!!!

Finance at the GSB, on how entrepreneurs find and work with venture capitalists.

THANK YOU
Your generous donations have helped the Entrepreneurship Program at the GSB to thrive.

If you are interested in contributing to the program in any way, please contact Ellen Rudnick, Executive Director (773) 834-3781
Keeping the Entrepreneurial Edge
by Jeff Crum

How can an organization maintain its entrepreneurial spirit as it grows? How does it keep its “entrepreneurial edge?” These were the questions posed to the members of the “Keeping the Entrepreneurial Edge” panel.

Yezdi Lashkari, former co-founder of Firefly Network Inc. and currently a program manager of the Business Portal Group at Microsoft, explained Microsoft’s efforts to maintain an entrepreneurial spirit—a topic that is particularly relevant to Mr. Lashkari since he joined Microsoft upon the company’s acquisition of Firefly. At Microsoft, business units are separated into semi-autonomous groups, each with its own revenue goals and each responsible for justifying its use of resources. These groups have enabled creative people at Microsoft to maintain ownership of a project or group, and create the feeling of running their own company. In addition, senior managers heavily scrutinize these “product units” and those that perform are given more resources to operate—further duplicating the feel of a start-up.

I have an idea - Now what?
by Ben Robertson

This exciting panel discussion on what to do once you get a brainstorm for a new business covered a variety of topics related to how fledging entrepreneurs can implement their ideas. The panelists included John Rodkin, a GSB drop-out who started flyswat, a browser plug-in firm, and Nathan Leight, a Harvard grad who never saw fit to go to business school but who co-founded his own merchant bank, Terrapin Partners, after 27 years on Wall St. So we don’t feel like we’re wasting our time getting MBA’s, the panel also included two GSB grads, Patrick Blake and Susan Hapak. Patrick is founder and CEO of fob.com in the B-2-B segment and Susan is the owner of Current Technologies, a laboratory supplies company. She is also a professor at the GSB teaching New Venture Strategy. The distinguished panelists brought their varied perspectives to bear on topics as diverse as what makes a good business plan and if it is really necessary to run up your credit cards to gain legitimacy as an entrepreneur.

The discussion started with business plans and panelists agreed that the most basic question your plan should answer is, “What is your competitive advantage in creating value?” VC’s realize that many of the new businesses that are being created today, especially Internet businesses, do not have existing business models or legacy industries from which to glean data so the detailed estimates of the business plan may not be worth much anyway. What is important is you and what is special about your plan.

Another crucial issue the panelists agreed on is that aspiring entrepreneurs should know how much money they need. After you’ve extrapolated that idea into a billion dollars in revenue Ralph Clark, a “serial entrepreneur” currently working at Bigbow.com (an online gifting solution), mentions the need to decide what to give people—what ownership rights—in order to allow everyone to contribute. “You need to balance where you want the company to go with getting others involved and contributing ideas.” But how do you let just anyone feel comfortable speaking their mind and contributing ideas? E-mail has been key in this area, as it has helped to break down hierarchies. Executives need to be responsive to ideas from anywhere on the hierarchical ladder, and people with good ideas need to be recognized when they contribute something.

According to Michael Sachs of The Sachs Group, the goal is maintaining a growth-oriented, entrepreneurial focus as the company grows. “People are attracted by the vision, the opportunity to create.” If you can create that type of environment, you can keep creative, entrepreneurial people. Martin Kuhn (GSB ’95), Director of Corporate Ventures at Sony (Sony’s venture capital group), stresses that it’s all about finding the terms that will make people want to stay. “Golden handcuffs” are fine, but you really want the environment to motivate people—not the money. “People want to win; so excite them with a vision.”

The panelists agreed that the most crucial aspect of entrepreneurial success is networking. Networking can help in making these estimates and it is likely to give potential VC’s confidence that you know what you are talking about.

When it came to intangibles, networking was cited as a key aspect of entrepreneurial success. Patrick Blake gave the example of his own recent experience in sending his business plan to US Venture Partners in January of this year. He got no response as is probably typical for most business plans submitted to VC’s. In August he submitted the same plan with a reference and within 8 days he was funded. At the same time, Prof. Hapak reminded us that “chance favors the prepared mind.”

For all of us who thought that we needed to go out and lever ourselves up on credit cards, Nathan Leight gave an important insight into why he does not think this is necessary—the opportunity cost incurred by the entrepreneur is high enough to demonstrate commitment to the new venture. This should be especially true for MBA’s who are giving up the security of employment at larger firms.

As far as tracking the success of your new venture the consensus was clear—follow the money. Each round of financing is a test of how well the company is doing. Because these milestones do not come everyday the panelists also recommended having mini goals that you can achieve on a daily basis in order to keep yourself motivated. These are essential to counterbalance the myriad failures which new ventures are bound to face. And it is also good to remember that if you do not succeed right away it does not mean you are wrong. One panelist gave the example of the now ubiquitous barcode that took ten years to catch on. Let’s
Panel Discussion: Financing Your Venture

by Nicole C. Pietrandrea

Venture Capital is a hot topic for budding entrepreneurs. At the GSB’s Fall Entrepreneurship Conference, venture capitalists from four top firms shared with us some of their insights on the business. Our panelists were Kathryn Gould from Foundation Capital (also the conference’s keynote speaker), John Regan from Keystone Ventures, Keith Crandell of ARCH Venture Partners, and Immanuel Thangari of Essex Woodland Health Ventures. These firms manage large funds that finance technology, e-commerce, communication, information technology and pharmaceuticals/life science ventures.

There were several underlying themes of our discussion, which was moderated by Professor Steve Kaplan. First, if you are starting a business, how do you catch the eye of a venture capitalist? Once you do, what can you expect from the process? Lastly, how do you manage the inevitable tradeoffs in control, price, terms of your deal, and value-added services, that will inevitably arise and form a mutually beneficial relationship between your start-up and your venture capital firm?

Most start-ups that receive venture capital funding initially approach the VC firm through networks and existing relationships. Only two to three percent that are funded arrive unescorted. Our panelists agreed that it looks good when entrepreneurs are resourceful enough to find contacts that have a relationship with the VC firm. Surprisingly, few groups take the time to talk to other CEOs in the VC’s portfolio. The VC’s web site can help you to figure out the types of ventures in which the firm invests and find potential contacts. When researching venture capital firms, it also makes sense for the entrepreneur to understand where that fund’s money comes from. Typically, investors in VC funds include university endowments, corporate pensions, wealthy individuals, and successful entrepreneurs. Side funds that are 2% of the main fund are made up of private investments from entrepreneurs in the VC’s network. European pension groups are also starting to become very active investors.

A “well-escorted” plan will be looked at regardless of the stage it is in, but the timing of when you should approach the VC firm often depends on the project and the structure of the fund itself. Recently, start-ups have been finding more and more first-round investments from “angel” investors. Financing through a well-known angel investor can get you through your proof-of-concept stage and help you to build your case and credibility. If you approach a VC firm too early they often have angel financiers they can refer you to. Typically, in e-commerce, it will take up to $100,000 to get through your proof-of-concept stage before you would approach the VC community.

Once you have a VC looking at your project, it is important to understand how they will be evaluating it. Most VCs are looking first and foremost at the caliber of the management team. The team should understand their market and preferably have started a business before. Most CEOs are co-investors who made money in a prior entrepreneurial endeavor. The VC will look at the market and they will talk to people who follow the industry on the investment banking side to see if it is a hot area and to gauge the liquidity of the deal. VCs want to fund deals that they know can be the number one or number two player in the defined market place and are big enough to provide at least ten million in revenue over time. Despite the new paradigm that has been established by web giants with tremendous market caps and low revenues, top VC firms still will not invest in anyone without potential to make four to five million in revenues within a few years. Your idea needs to be in the billion-dollar market cap space or higher to push the IRR (Internal Rate of Return) which is the VC’s primary measure of the success of their deals.

Once the VC analyzes your proposal, they will come up with a price and terms of the deal to begin negotiations. The role of the entrepreneur in this process is to create a fabulous pitch and talk to a reasonable number of VCs. You will start to get a feel for the market price of the deal. VC firms do not want entrepreneurs to try to price their deals before approaching them. If your opportunity is compelling, you will find VCs competing for your business and the market will determine your price.

The exception to this rule is when the entrepreneur is going after angel financing or individual investors. In this case the entrepreneur must structure the various rounds of pricing and the terms of the deal prior to approaching the investor. If your angels get ahead of themselves price-wise, a VC firm that you approach later will have to do a “down round,” making it will be difficult for them to step into the deal and often not worth it for them. In the case of angel investing it is also important that you are prepared to meet the expectations set up at the onset. If you have a lot of disenchanted angels or individual investors it will be harder to get VC funding in later stages. When enlisting an angel investor, get just enough financing to start the process of building your business, then go back for more if you need it and provide the angel with a step-up.

Before you start talking to venture-type investors for your round-one financing, you need to decide what you are looking for from this partnership. Consider which VCs are giving you the best value and the right value-added services to meet your needs.

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Growing the Business (Late Stage Financing)
by Irina Libon

One of the final panels presented at the Entrepreneurial Edge Conference, the Growing the Business Panel discussed financing issues faced by entrepreneurs attempting to grow their business beyond the idea generation and development phase. The panel was comprised of investment bankers and venture capitalists who gave their unique perspectives on the key company characteristics required to secure late stage financing.

Moderated by Stephen S. Beitler, Partner at Trident Capital LLP, the Growing the Business Panel included: Kelly J. Martin (GSB ’88), Principal and head of private equity placements for William Blair and Company, Curtis Hart, Vice President in the GE Capital Merchant Banking Group and Robert B. Womsley, Jr. (GSB ’91), Director in the Investment Banking Division of Salomon Smith Barney.

Unlike the question and answer format of the typical panel, the speakers each presented a case involving a company that had recently raised late stage financing. These cases illustrated the many different attributes that enabled companies to ultimately receive funding.

Panelist Kelly Martin relayed the challenges of helping to secure financing for a mid-west based golf equipment and apparel retailer. In addition to operating in a very competitive industry, the company had missed its financial projections due to delays in new store openings. Martin, echoing the sentiments of many other presenters at the Conference, believed the company was ultimately successful in raising capital because of “management, management, management.” Martin explained that the company had a strong management team with a reputation for store-level execution and merchandising which “investors believed had the talent to succeed.”

Curtis Hart discussed the reasons behind GE Capital’s decision to invest in a body shop consolidator in the Mid West. On the surface, the body shop industry appeared to lack the growth and profitability required to entice venture capital investment. GE Capital was offered the exclusive opportunity to back an industry leader in the consolidation of a large ($25 billion), highly fragmented industry that at the time was undiscovered. Avoiding the auction process enabled GE Capital to invest at a less inflated valuation and make its return hurdles despite the portfolio company’s moderate revenue growth.

Robert Womsley discussed Salomon Smith Barney’s efforts to raise capital for a client company providing Internet enabled wireless communication capabilities for the trucking industry. Womsley believed the company was successful in securing financing because its differentiated business model offered a true value proposition to its customers, a significant cost savings over the competing technology.

In a change of perspective, Womsley also addressed the entrepreneur’s motivation for obtaining late stage financing from a venture capitalist, outside of the traditional need to fund operations. In the case of the wireless trucking communication company, management believed that by partnering with a well-regarded venture capital firm, the company’s decision to go public in 12 to 18 months would be viewed more favorably by potential investors. The company was also interested in adding a board member with established contacts within the financial community who could provide advice on accessing the public markets. Lastly, the company was interested in securing an alternative source of financing should the IPO market not be available.

The final and most thought provoking discussion of the day was the panelists’ perspective on how the Internet economy coupled with the current hot IPO market have changed the landscape of late stage financing. Hart mentioned that in the past, late stage financing was reserved for profitable companies who needed capital to become market leaders. “In today’s marketplace,” Hart continued, “many dot.coms are able to raise traditionally late stage capital (such as public equity) with an early stage business model.” Hart noted that neither limited operating histories, lack of revenue nor large operating losses seem to deter investor’s enthusiasm for hot technology issues. As a result of this paradigm, the late stage financing market has been striated into two distinct “worlds”: (1) established companies with predictable cash flows and stable management teams and (2) Internet related start-up companies who are currently not profitable and do not know when they will become profitable.

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New Frontiers in LBOs

by Dave Blackford

Professor Zingales moderated a panel of LBO professionals which included Adam Bergstein of Safeguard Scientific’s SCP Private Equity, John Willis (GSB ‘79) of Willis Stein & Co., Timothy Walsh (GSB ‘89) of Chase Capital, and James Perry (GSB ‘85) of Madison Dearborn Partners.

Professor Zingales focused the panel discussion on the new direction of LBOs including opportunities in technology and in Europe prompting the panelists to describe how their firms are positioned to participate. At the traditional end of the buyout spectrum, professionals at Chicago-based Willis Stein are generalists who partner with industry executives in order to get needed industry expertise. Willis Stein’s activity is half buyouts and half build-ups that have been focused in the areas of telecom, publishing, and manufacturing. Madison Dearborn uses small teams of industry groups to do buyouts, early-stage, and growth investments. Chase Capital, which is backed by Chase Manhattan Bank, is considerably larger than its counterparts and employs increased specialization around the globe. Chase focuses on geographic regions including North America, Latin America, Asia, and Europe and then focuses on industries within those regions. At the specialized end of the spectrum, SCP Private Equity does late-stage investing in the technology and telecoms arena. Although SCP invests primarily in growth opportunities it expects to see more LBO opportunities in these sectors as they become increasingly mature.

While the US saw an explosion of LBO activity in the 1980s, the volume decreased in 1998. It was noted that the decline in 1998 was partly due to lessened ability to leverage. With asset prices at unprecedented highs a great deal of equity is required to finance acquisitions leading to the trend of capitalizing with 25%, 30%, or 40% equity, levels unheard of in the 1980s. In addition, the 1980s had more asset arbitrage opportunities, now less common due to the efficiency created by the restructuring of Corporate America, arguably prompted by LBO activity. Finally, debt markets are highly cyclical and in the current environment LBOs cannot get as much leverage as in the past, forcing them to settle for lower rates of return and higher levels of equity investment. One interesting area for LBOs in the future may be technology where fallen angels that have tangible assets would be able to support increased leverage.

Unlike in the U.S., in Europe many of the “easy” fixes of companies have not been achieved and management teams continue to be less shareholder focused. This leads many to conjecture that Europe could see a surge in the number LBOs similar to the U.S. in the 1980s. Although deal flow is still at a lower level, panelists agree that cultural change is coming in Europe. Indeed, the advent of the Euro currency may grease the wheels of LBO activity as industries consolidate across the continent.

However, the panelists asserted that there are other areas which are becoming ripe for buyouts including Asia, small-cap companies, and even high-tech in the U.S. The Asian Crisis pushed Asia from the growth to buyout phase while small-caps in the U.S. offer thousands of low-valuation private companies with substantial revenue. Interestingly, the panelists pointed out, high public valuations of technology start-ups have made investments look good even when the companies don’t achieve their business plans. This creates pressure for private equity firms to focus earlier-stage because the maturation of the business is much shorter and they can exit more quickly. There has been an increase in LBO firms doing convertible-preferred deals more often associated with growth businesses. One such firm is KKR, which is buying a telecom company and is also doing a “roll-up” in technology. The panelists observed that this investing approach relies more on timing than on long-term investment of capital and noted that as market multiples stabilize the current trend may in fact lead to LBO opportunities in the technology sector.

Across the Midway...

GSB Students learned more about LBOs, Start-ups, VC and other topics in entrepreneurship, this past quarter through Professor Andy Rosenfeld’s (U of C Law Professor and CEO of UNext.com) popular Entrepreneurship class, Law630. The course, made up of an equal mix of GSB students and U of C Law students, is the latest addition to the list that can be applied towards the Entrepreneurship concentration at the GSB.

The distinguished roster of guest speakers for the course included the following:

Michael Milken
Chairman of Knowledge Universe

Thomas Pritzker
Chairman and CEO of Hyatt Hotels

Michael Moe
Director of Global Growth Research for Merrill Lynch

Dan Doctoroff
General Partner, Oak Hill Capital

Steve Koch
Vice Chairman for M&A at CSFB

John Rodkin
Co-Founder and CEO of Flyswat.com

Hugh Patinkin
President of Whitehall Jewlers

Jerry Michaelson,
Founder of Jam Productions
Overview
by Sekhar Nair

On Friday, October 29th, the Entrepreneurship and Venture Capital Club held its New York Leveraged Buyout Conference at the Roosevelt Hotel in Midtown Manhattan. A group of over forty GSB students made the trip following a long week of midterms. Neither this fact nor the conference’s 8 a.m. start time was able to hinder a highly informative and interactive session with leading professionals from the LBO / Private Equity community. The format consisted of four individual presentations from Chase Capital / Chase Securities, Patricof & Co. Ventures, McCown De Leeuw and Jupiter Partners and an afternoon panel with representatives from Cerberus Partners, DLJ Merchant Banking and UBS Capital. The speakers provided the audience with valuable insights on the leading players in the LBO / Private Equity industry, prevailing market conditions, significant trends and, perhaps most crucially for the present audience, advice on getting a job in the industry.

Tim Walsh (GSB ’89), John Gammage and Frank Truong (GSB ’99) from Chase Capital / Chase Securities began the session and introduced some of the major themes discussed throughout the day. The first step was to define the LBO subset of the larger Private Equity industry. Leveraged Buyout funds make equity investments in public or private companies using borrowed money that result in the purchase of a significant portion or majority control of the companies. This contrasts with other types of private equity such as venture capital, which involves equity investments in companies with undeveloped or developing products and revenue, and mezzanine financing, which is investment in the subordinated debt (with equity conversion features) of privately owned companies.

The benefits of an investment in Private Equity consist of superior long-run returns to listed companies and a low correlation with public equity markets. From 1984 through 1996, the average return from LBO funds was 22.8% compared with 22.4% for Venture Capital funds, 14.9% for the Nasdaq and 12.9% for the S&P 500. The size of the opportunity is impressive: 54% of US companies with revenues greater than $250 million and 84% of companies with revenues between $10 million and $250 million are privately held. Inflows into LBO funds have risen dramatically from $4 billion in committed capital in 1991 to $55 billion in committed capital in 1998.

With so much money chasing returns of this magnitude, the ability to identify companies with intrinsic value-generation potential has become the crucial success factor for LBO firms. Management and strategy, rather than financial engineering, determine the success of Private Equity investments in the current market environment. These themes were strongly emphasized by David De Leeuw of McCown De Leeuw & Co. (MDC). MDC’s strategy is to back a superior management team and pursue build-up investments in industries that are both fragmented and undergoing strategic change. The investment begins with a platform acquisition followed by additional equity investments (typically $30 - $60 million) to build the company. To achieve this requires a management with vision and persistence. De Leeuw provided an example of an MDC investment in the fitness industry. Starting with the leading chain of fitness centers in California, management, supported by MDC, has embarked on a successful global expansion into Europe and Asia.

The approach to management teams of John Klein from Jupiter Partners reflects his prior experience as a Management Consultant with Bain & Company. Jupiter seeks to develop a strategy with management of its portfolio companies. If management is unable or unwilling to execute on the agreed strategy, they will be replaced. This strategy confirms the adage that it is better to have “A” management at a “B” company than “B” management at an “A” company.

Opportunities outside the United States were another important topic during the conference. Europe, in particular, represents an important opportunity for LBO firms. Competitive pressure from the single market / globalization, the advent of the Euro and long-overdue corporate restructuring will drive increased private equity activity in Europe. The leading US houses, such as Kohlberg, Kravis & Roberts and Clayton, Dubilier & Rice, are setting the pace. Large European multinationals such as Fiat, Hoechst and Mannesmann are restructuring their activities. Additionally, the Euro promises to create a deep and liquid European High-Yield market. International expansion was one of the main topics during the afternoon panel. Jim Breckenridge from UBS Capital, Newton Glassman from Cerberus Partners and Dan Pulver from DLJ Merchant Banking touched on the strategies their firms were using to enter Europe successfully while avoiding the risks of operating in a distinct cultural and regulatory environment. Asia and Latin America remain question marks; although many companies in these regions offer significant growth potential, few possess the developed revenue and cash flow characteristics sought by LBO firms. This uncertainty is compounded by the attendant legal and political risks.

The Internet represents a challenge to LBO firms and their portfolio companies. Tom Hirschfeld, who invests in new media companies for Patricof & Co. Ventures, claims that all companies, even in the “bricks and mortar” category, need to develop an online strategy. The rise of the Internet has, on one level, blurred the distinction between venture capital and Buyout activity. Often, implementing an effective “e”-strategy will be one of the most immediate and tangible value-creating actions management and the private equity investor can make for the portfolio company.

The range of topics covered during the conference reflect both the rapid changes occurring in the industry and the developed knowledge base of the GSB participants, many of whom had worked in investment banking or industries related to Private Equity. Given the active discussions and strong student turnout, Private Equity looks set to remain an area of intense interest to GSB students.
Chase Capital Partners
Stephanie McMichael

Chase Capital Partners, flanked by Chase Acquisition Finance, led off the LBO Seminar in New York City on October 29. Perspective on the private equity market, and Chase's investment philosophy, was provided by Principal Tim Walsh (GSB '89) and Associate Frank Truong (GSB '99). John Gammage, Managing Director of Chase Acquisition Finance, enhanced the discussion with his insight into private equity financing.

Chase Capital Partners, with $11 billion under management, focuses on leveraged buyout opportunities within the private equity arena. Venture capital and mezzanine financing round out CCP's portfolio, host to 800 transactions and a 42% internal rate of return on liquidated investments since its inception in 1984. Within the leveraged buyout segment, which represents the largest share of the private equity market (74% in 1998), CCP focuses on mid-cap companies, those most ideally suited for private (versus public) ownership. Teamwork with existing management is considered a critical element in the restructuring of a company's operations, capital structure, and related strategic initiatives. According to Walsh, "Any day of the week, we'll take a good management team with a bad company over a bad management team with a good company." CCP holds in excess of 250 board seats at the companies it advises.

CCP's investments are diverse both in terms of industry and geography. While media/telecommunications (25%) and industrial/auto (20%) reflect the largest concentrations of CCP's equity investment, smaller segments, such as retail and natural resources/chemicals, have been key drivers of CCP's strong overall IRR. A smaller segment of the private equity market in absolute dollars (23% in 1998), venture capital investments at CCP continue to grow. This diverse industry perspective extends to foreign markets, where CCP partners with regional experts in addition to industry specialists. "Our scope is broad and deep... for example, when a technology deal comes up in Latin America, we can bring in Chase's Internet specialists and Latin American specialists to augment the core team." These relationships, as well as CCP's sizable portfolio, help garner greater "mindshare" within the private equity community.

Chase Acquisition Finance, headed by John Gammage, is a clear leader in this community. Having just disembarked a transatlantic flight from Europe, where he had been attending a regional conference on the nascent topics of corporate governance and shareholder value (necessary prerequisites to the growth of private equity investment abroad), Gammage forecasted strong LBO growth outside the U.S. Mirroring the States’ high-yield-driven LBO boom in the mid/late-80's, Europe, and to a lesser extent Asia and Latin America, are gaining momentum on the corporate divestment and M&A fronts. Referencing the record-setting £22.5 billion acquisition of Telecom Italia by Olivetti in May (orchestrated by Chase), Gammage called Europe “a sleeping giant” and later remarked, "Asia is next." Corroborating this viewpoint was the Financial Times Survey on Leveraged Finance, serendipitously published the morning of the GSB trip, which cited Gammage’s colleagues in European Global Syndicated Finance, M&A, and Financial Sponsorship Coverage. As foreign markets continue to recover from Asia’s implosion, Latin America’s devaluation, Russia’s bankruptcy, and the launch of the Euro, private equity players vie for position. Global recognition, access to $366 billion in capital, and an established bench of industry- and geography-specific advisors, differentiate Chase from smaller, regional players. Chase Acquisition Finance, which provides financing to industry kingpins KKR and Hicks, Muse, Tate & Furst in addition to CCP, is unsurpassed in Global Syndicated Finance (leveraged loans), High Yield Finance (underwriting), and Global M&A (buy side advisement). This developed web of industry and financing partnerships positions Chase to extend its leadership from the U.S. into newly emerging private equity markets.

Jupiter Partners
by David Blackford

John Klein of Jupiter Partners discussed his firm’s approach to private equity investment as well as the current buyout environment. John emphasized that buyout firms do not add value through capital structure and illustrated this point with an interactive example of how capital structure decisions are made. He solicited input from audience members while leading the discussion through the many contingencies considered by LBO firms that ultimately shape capital structure and the terms of the deal. John noted that while the balance of debt and equity will favor leverage, sponsors often want to retain the capital flexibility to extend holding periods when IRRs exceed expectations as well as to recapitalize and do add-on acquisitions.

Upon establishing the pragmatic nature of capital structure choices John Klein pointed out that many LBO firms have become frustrated with debt markets as a source of financing deals in recent months. As a result many have committed larger slugs of equity to their acquisitions causing the current proliferation of unlevered transactions. In this sense some LBO firms have appeared more venture capital-like. However, these firms still tend to avoid businesses that consume large amounts of cash which is more typical of growth start-ups.

Jupiter differentiates itself with a strategy that is consulting oriented. In contrast to some of its LBO peers, Jupiter continues to make modest upfront outlays of capital and to rely predominately on debt financing for its investments. Its

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investment focus is on identifying strong businesses, often having ‘franchise’ value, that are not operating at full potential. The partnership deploys its management consulting approach to redirect the business’s strategy—replacing management if necessary, then pursues add-on acquisitions, and conducts strategic reviews of the process. Jupiter, which has $600 million in two separate funds, aims to assemble a concentrated portfolio of companies. The firm avoids cyclical businesses and focuses on transitioning its portfolio companies from low to high annual EBITDA growth. When investments are successful Jupiter rarely uses the public markets as an exit strategy because of the restrictive nature of IPOs. Jupiter prefers to divest its holdings in a single transaction rather than the drawn out and uncertain schedule required by public issuance.

Jupiter’s investment outlook is not blind to the opportunities of the Internet but it prefers to seize those opportunities in companies with proven business models and current profits. On a broader front, Jupiter sees many value opportunities in forgotten businesses. These are opportunities where Jupiter can contribute its expertise and realize value without relying on price-multiple expansion for its returns.

McCown De Leeuw

by Shaine Gross

A founding partner of McCown De Leeuw, David De Leeuw shared the experiences that he has gained from his extensive investing experience. The early days of buyout investing were characterized by cost cutting and equity investments that accounted for less than 10% of the capital structure. Over time, buyout firms were required to put in more equity and develop strategies to grow the top line. Today, firms typically utilize 30% equity (even higher percentages are common) and must make significant operating investments to the business.

McCown De Leeuw backs strong management teams to pursue build-up investments in fragmented industries that are undergoing structural change, a strategy commonly referred to as the ‘buy-and-build’ strategy. Mr. De Leeuw utilized a case study in the fitness industry to demonstrate how this strategy creates value. After investing in a California chain of fitness gyms, McCown De Leeuw purchased other gyms, which offered some economies of scale. The gyms shared best practices and focused on service. Further acquisitions and strong internal growth led the company to being a leading market player in the Western United States and expanding into Europe, where it also has strong market positions.

The success of this transaction and others is predicated on a strong management team. Mr. De Leeuw stated that he would prefer "an A management team in a B industry to a B management team in an A industry." While stressing the importance of management, Mr. De Leeuw also noted how hard it was to get the management team right. Finding a management team that can both execute a strategy and adjust to changing business conditions is particularly challenging, but he said it's his most important function.

Financing Your Venture

(Continued from page 5)

start-up as a combined venture including several rounds of dilution.

When considering various offers, keep in mind the value-add that you can create internally for yourself from the people you are recruiting and the team you put together. It is advantageous to already have a skilled team in place and really know your strengths and weaknesses before you go to the VC. You should also understand your industry and understand the stage your project is in. What the VC firm can add is industry knowledge, people skills, networks, and a portfolio of CEOs to which to introduce other entrepreneurs so they can leverage each other. Your VC partner can help you form strategic partnerships within your industry. They serve as a sounding board for operating issues, and financial strategy – IPOs vs. acquisitions, and exit strategies – and they can help to set you up with a good investment banker whose interests are aligned with your own. The VC also provides industry intelligence and strategy ideas and can help you navigate the rough spots in entrepreneurial management situations. They bring perspective to help people keep moving.

When starting a business, a Venture Capital firm can be an invaluable partner. Armed with the knowledge that our panelists bestowed upon us, all of the GSB soon-to-be entrepreneurs will have a better idea of how to get started on creating these
NY LBO Conference Panel Discussion
by Dave Blackford

A lively panel of buyout specialists including Newton Glassman (Cerberus Partners), Dan Pulver (DLJ Merchant Banking), and Jim Breckenridge (UBS Capital) discussed the approaches each of the 3 firms take to private investing.

DLJ Merchant Banking has approximately $8 billion of capital available for, or committed to, private investments in all layers of a company’s capital structure for leveraged acquisitions, buildups, and turnarounds primarily in the U.S. UBS Capital, reflecting its international roots, employs 3 teams of local professionals covering over thirty countries in Western Europe, the Americas, and Asia Pacific to invest in buyouts and later-stage financing opportunities. Cerberus Partners’ primary invests in distressed securities where it specializes in purchasing the secured debt of U.S. middle market companies as well as large pools of Japanese non-performing commercial loans, often secured by real estate.

As numerous U.S. LBO firms are raising funds and investing in Europe, the three panelists acknowledged the importance of local expertise for international private investment. A thorough understanding of the cultural and regulatory environment in each market is an important determinant of success as evidenced by UBS Capital’s use of regional investment teams. DLJ Merchant Banking is also mindful of local understanding as it begins to enter the European buyout market. Although Cerberus Partners has limited activity in Europe it shows its willingness to enter into foreign investments with its portfolio of Japanese loans.

Newton Glassman of Cerberus broached the topic of buyout firms’ business models by recounting his recent observation to buyout legend Teddy Forstmann, that Forstmann, Little’s “business model is dead.” Glassman prescribes a buyout firm that has access to intellectual capital beyond its own professional. Cerberus keeps a finger on the pulse of distressed debt markets through its proprietary trading activities. He notes that whether trading is profitable or not, the market intelligence harvested from these activities is invaluable for identifying buyout opportunities as well understanding the climate for financing leveraged acquisitions.


West Quest 99

(Continued from page 2)

wineries. Sunday night consisted of a reception, sponsored by Documentum (and Chairman/GSB alum Bob Adams) that was well attended by students.

On Monday, the "business" part of the trip began formally with six groups company visits (around 3 companies each) that included everything from established high-tech powerhouses like Cisco Systems to a whole range of pre- and post-IPO organizations with less known names like Calico Commerce, Banter Technology and Flyswat. The opportunity to compare the environments and business models of a range of companies proved to be extremely valuable for students. In ft, the one major complaint was that students wanted time to visit more even companies. The industries represented included typical e-commerce (business to business and business to consumer) as well as broadband technology, consulting and even industrial design.

Monday evening, there was a joint career fair (with UC Berkeley Haas School of Business) sponsored by iLux Some thirty-four companies participated, representing a full range of Internet, high-tech and financial services organizations. The room was overflowing with students, recruiters and staff. Despite the crowded conditions, however, GSB students found the career fair to be a complement to the company visits, as people could speak with a large number of cutting-edge firms in a short period. Monday night concluded with another reception, and afterwards most students headed towards the city to restaurants and nightspots.

Tuesday’s events were split between another series of company visits and venture capital presentations. VC panelists discussed, among other topics, client projects, the funding process and career paths. Many of the presentations were built around case studies of particular businesses, which highlighted the role of venture capital as an engine of growth in the new economy.

GSB students received advice on both the process and the resources available to new businesses. Finally, while no offers were reported, students also gained insight into the business of venture capital and the implications of a career there.

WestQuest formally concluded on Tuesday night with a Student/Alumni mixer and a panel discussion focused on the role of MBA’s in this economic revolution. Professor Steven Kaplan served as the moderator for a discussion that centered on the value of a top tier MBA education to growth phase and high-tech companies. Panelists consisted of GSB Alums Howard Graham, CFO of Siebel Systems, Guy Nohra of Alta Partners and John Van Dyke, who has been heavily involved in a full range of venture capital and seed funding activities. One key conclusion of the discussion was that, despite being at a small geographic disadvantage, Chicago MBA’s are highly competitive in terms of their skill set and potential value to high-growth companies.

WestQuest99 was much more than just a recruiting event. Most students valued it as an educational/networking opportunity, and it certainly proved to be much easier to understand the Bay Area/Silicon Valley dynamic once student’s saw it first hand. Even more importantly, though, the events positioned the GSB to impact the growth of the new economy, in industries and organizations that are not traditional GSB employers. WestQuest99 was an integral part of an ongoing partnership between of Chicago talent and extraordinary, high-growth companies in the e-commerce and high-tech sectors. The awareness that it generates is both a beginning and a renewal of the long-term GSB relationship with entrepreneurs in high technology.
TiE GSB Downtown Event
by Elke Rohn

November 17, 1999 Downtown Chicago: The TiE event, a mock negotiation between entrepreneurs and venture capitalists, was held on the evening of November 17. The scenario had two entrepreneurs, Wally Cornett and Jerry Mitchell, request initial funding of $2.5 million from two Venture Capitalists, Len Batterson and George Middlemas. The entrepreneurs’ mock company, KaleidoScape Co., developed commercial software used with set-top boxes to “surf” television broadcasts the same way browsers and search engines search the web. The focus of the negotiations was on the terms of the investment.

Interesting points in the negotiations included:

• The VC’s were shocked that the company was not a dot.com business and urged the entrepreneurs to add a dot.com to the name.

• The VC’s wanted to start with a 50/50 ownership breakdown and readjust the ownership based on the company’s performance. In other words, if the company did not meet financial targets, the VC’s stake would increase by 10% and the entrepreneurs’ stake would decrease by 10%. Or, if the company did in fact meet its financial targets, the entrepreneurs’ stake would increase by 10% and the VC’s stake would decrease by 10%.

• The VC’s stressed their interest in the long-term success of the business and reassured the entrepreneurs they were not merely out to steal technology.

• The VC’s were disappointed the founder’s brother was a shareholder as he could present potential problems later on. However, they were unwilling to allocate VC funding toward buying him out.

• The VC’s suggested a syndicated investment group. The entrepreneurs agreed but expected a higher price if the investment group was syndicated.

• The entrepreneurs were asked why they did not do business with an investment bank. They responded that the investment bankers wanted a retainer up front and the investment terms were less favorable.

• The VC’s did not expect to finance the training of any employee, low level or high level. They prefer to pay a higher price for employees with existing experience. This implied that one of the entrepreneurs could be replaced with a more seasoned executive.

• The VC’s and entrepreneurs had to decide on an independent director for the board of directors. They agreed the VC’s would recommend a director and the entrepreneurs would approve that recommendation.

Some general comments about VC deals:

Both parties in the negotiations are interested in maintaining a cordial and loyal relationship as they are beginning a long-term partnership. Negotiations for the most part tend to be friendly, not antagonistic.

High Tech companies are breaking all the rules of traditional Venture Capitalism:

• Many companies go public that are run by inexperienced management teams.

• High Tech companies are being valued by untraditional valuation methods, typically discounting revenue as opposed to discounting earnings or cash flow.

• Entrepreneurs have increased negotiating power with VC’s and walk away with larger stakes in their companies than they did ten years ago.

• High Tech companies have condensed the negotiation time for funding from several weeks to between 5 and 9 days.

Some general comments about the stock market:

One of the panelists compared today’s market to the pre-1929 market in that the investing population has grown broadly and this is a sign of an overvalued market. “Joe Kennedy pulled his money out of the stock market when his shoe shine boy gave him a stock tip.”

The panelists believe such high valuations will spawn a correction within the next two years. A correction is particularly tough on start-ups because IPO and VC recessions tend to last longer than stock market recessions. The message was that if we, as GSB students, develop a start-up now and a correction occurs within the next couple of years, we should anticipate that.

WHAT IS TiE? TiE came into existence anecdotally in late 1992, when a group of Silicon Valley entrepreneurs with roots in the Indian sub-continent met by chance for a meeting with a visiting dignitary from India. A delayed flight kept the group waiting, and provided an opportunity for people to get to know one another. It turned out that most of the assembled invitees to the meeting had achieved varying degrees of entrepreneurial success. It also turned out that they all had been long-term residents of the Bay area, and yet, mostly strangers to one another. The group saw value in getting together on a regular basis to network with one another. Thus, the idea of TiE was born as a mechanism for high achievement-oriented IndUS entrepreneurs to network. FOR MORE INFORMATION ABOUT TiE, VISIT THEIR WEB SITE AT WWW.TIE.ORG
by Nick Tcherepnin

Still out of breath from whirlwind internships, eight second-year GSB students shared their diverse summer experiences across a spectrum of start-ups and private equity firms. The forum, held in Ida Noyes Cinema on October 7, was hosted by the EVC Group to expose first-year students to the wide range of opportunities in entrepreneurship and private equity and provide insights on obtaining summer internships.

Among the start-up experiences, there were sharp contrasts in the nature of the work involved. For example, Tony Schopen worked with dozens of Java, HTML, and graphics programmers to help Go.com develop Internet commerce products, leading to a new product launch by summer’s end. Naveed Bandukwala, on the other hand, was focused on budget planning and other finance-related areas at Bamboom.com as he helped the company prepare for its IPO, which was consummated in the final week of his internship.

Eddie Weinhaus and Mike Licosati, meanwhile, pursued more traditional internships but were immersed in the start-up world by summer’s end. Mr. Weinhaus, who had founded Summerexchange.com in his spring quarter at GSB, worked at The Boston Consulting Group during the summer but was back in the start-up world by August to develop a golf content web-site. Mr. Licosati spent his summer at Morgan Stanley but ended up signing on as CFO and COO with ApartmentZone.com (and now he is finishing the full-time GSB program “some of the time” while working with the venture).

While the nature of their work varied considerably, the panelists involved in start-ups voiced some common themes. One was that there is an incredible field of opportunity. Many companies have substantial technical and creative talent but lack the people who can put it all together, develop the business plan, communicate with customers and investors, and get the ideas off the ground.

“The human capital is almost more important than the currency,” Mr. Licosati said. For those who want to get involved, “make yourself valuable,” he advised. “Things develop quickly once you prove your value.”

The panelists also pointed out that companies generally don’t know where to go for help. Despite the high level of need, start-up companies do not actively recruit, so it pays to aggressively seek out opportunities. The second-years suggested networking with friends, former colleagues, and professors (e.g., Ellen Rudnick and Steven Kaplan), going to entrepreneurial forums, reading the many available periodicals (a list is available at Career Resources), and even asking VC firms about job opportunities at their portfolio companies.

Most importantly though, it is vital to be well prepared when you get into an interview. The key questions that are asked, said Mr. Schopen, are: “Do you understand the business?” and “Do you have a passion for it?”

The four panelists who worked for private equity firms displayed similar breadth in their summer experiences. Wolfgang Schwerdtle, who worked at Apax Partners, gained exposure to both the LBO and VC sides of the business, but was more focused on the larger buy-out transactions.

Each of the others – John Pena at Arch Venture Partners, Pritam Doshi at Trident Capital, and Todd Scarpato at Safeguard Sciences – worked on a range of venture capital deals. Mr. Pena evaluated business plans for seed and investment stage ventures in life sciences and developed his own venture based on University of Chicago technologies. Messrs. Doshi and Scarpato, meanwhile, each worked on deals with companies at various stages in Internet, software and related high-tech industries.

The panelists relayed how they found their summer positions: Mr. Schwerdtle networked through a former colleague at Goldman Sachs; Mr. Scarpato, also a former banker, worked on the IPO for one of his summer employer’s portfolio companies; Mr. Pena leveraged his deep background in the sciences (PhD) to work on life sciences venture capital deals; and Mr. Doshi obtained his internship through a Kauffman fund grant.

While few similarities are apparent in those searches, they are notable for the way the second-years developed an angle based on prior experiences. Whether networking through colleagues or clients or leveraging technical expertise, the key is to find an approach that gets you in the door. Once you’re there, don’t expect the interviews to drag on with the venture capitalists. “Their time is extremely limited,” said Mr. Scarpato, adding that his interview at Safeguard lasted “only 15 or 20 minutes.” Also, one must recognize that many private equity firms don’t plan for staffing as far in advance as other firms. Mr. Scarpato said he did not secure his summer internship until April – well after many of his classmates who pursued more traditional routes.

**KAUFFMAN INTERNS**

The following students were awarded funding from the Kauffman Foundation to pursue their start-up internships during the summer of 1999. The 2000 Kauffman interns will be listed in the next edition of New Venture News.

**Summer 1999 Interns**

- Pritam Doshi, Trident Capital LLP
- Sol Kanthack, flyswat
- Elaine Kong, Artemis Ventures
- Anita Kuba, Zurai Inc.
- Edward Naranjo, Cobalt Networks Inc.
- Cedric Olbrechts, Euressys S.A.
- Walter O’Leary, Florida International Communications, Inc.
- John Pena, ARCH Venture Partners
- Tamara Polewiek, CEA/Montgomery, Palomar Ventures
- Atif Rafiq, Audible
- Misha Reznikas, Trident Capital LLP
- Jean Rosauer, Durandal
- Tony Schopen, Infoseek Corporation - Go Network
- Maryola Stanik, Neodesic Corp.
- Kevin Ward, PaperExchange.Com
Successful implementation of a new technology venture requires three things: powerful technology; the appropriate development partners and legal expertise and protection

When I enrolled in the Committee on Immunology at the University of Chicago to attain my doctoral degree, my goal was to work as a research physician or other area involved in patient care. It was towards the end of my studies that I decided to pursue a career in the rapidly evolving biotechnology field. In speaking with several scientific/medical colleagues and industry people, two things became evident. First, business school was going to be in my future (yes, more school!) because an M.B.A. would be an extremely valuable asset. Second, since I had been a student for a large portion of my life, work experience would be very beneficial. The catch was that the ideal position would need to utilize my scientific skills, expertise and interest. Through discussions with Craig Thompson, my thesis advisor, he suggested that I contact Andrew Scott (GSB '96), the senior project manager at ARCH Development Corporation.

What is ARCH? ARCH (ARgonne/CHicago) was established in 1986 as a non-for-profit University affiliated corporation. It is charged with the commercialization of technology developed at the University of Chicago and Argonne National Labs. One consequence of the early stage nature of the research is the significant amount of additional development required to generate a commercially viable product. Accordingly, an interested commercialization partner must be extremely devoted to further developing the technology. As a result, licensing the technology to a large corporate partner is the predominant and optimal commercialization vehicle. In a limited number of instances, the technology can serve as the foundation for a company start, which ARCH has the capability to pursue.

Successful implementation of a new technology venture requires three things: powerful technology; the appropriate development partners (whether a large pharmaceutical or entrepreneur); and legal expertise and protection (a principle concern for a company expected to make a significant investment into the new project). In order to identify the perfect corporate ‘fit’ or to determine if a company start-up is the optimal commercialization vehicle, ARCH must perform extensive due diligence on the technology, existing intellectual property, and the projected product landscape. ARCH accomplishes this evaluation process by utilizing a variety of resources: in-house expertise, patent attorneys, consultants, industry contacts and university faculty and students.

Since its inception, ARCH has sponsored the associates program in conjunction with the business school. This program typically provides the opportunity for GSB students to work closely with an ARCH project manager on select commercialization projects. While primarily geared towards the GSB, in recent years, ARCH has started to attract students from the physical and biological sciences; a project spearheaded by Alan Thomas (GSB '90), Director of Licensing, and Andrew Scott. I joined the associates program during my final year in graduate school in order to gain exposure to the high-tech business world. As an associate I was able to have an immediate impact on ARCH by providing scientific expertise in evaluating the technology and competitive landscape. In addition, I was able to leverage my scientific expertise and experience into the legal, financial and political aspects of technology commercialization. Through working with Mr. Scott and other GSB associates on several projects, I decided to direct my career focus towards the biotech entrepreneurial field. It also solidified my decision to accept a full-time position as an ARCH project manager and enroll at the GSB.

The combination of ARCH and business school has been an extremely powerful one in several respects. First, it has provided a comprehensive introduction to the business world through working with ARCH, University and GSB personnel (both faculty & students). I have participated in several licensing projects and was directly involved with developing a business plan for an ARCH company start-up that is up and running today. Second, and most important, the ARCH experience has provided me the foundation necessary to generate, initiate, and pursue my own entrepreneurial ideas, enriching and complementing my business school experience immeasurably.

There has been a significant amount of press extolling the low level of start-up activity, venture capital funding sources and entrepreneurial personnel in the Midwest. Working at ARCH and attending classes with fellow GSB classmates has helped me to place the press’ view in perspective. First, the GSB is an exceptional source for extremely talented and willing individuals. Second, the efforts by the Entrepreneurial center and ARCH will help to expand awareness as well as increase the opportunities currently available to students interested in an alternative career track. Finally, the current crop of individuals cultivated at ARCH/GSB are now entering the world of venture capital and small business who in turn will promote and expand the presence of the GSB in the Midwest entrepreneurial arena and beyond.

The ARCH experience has provided me the foundation necessary to generate, initiate, and pursue my own entrepreneurial ideas, enriching my business school experience.
A Word from Ellen Rudnick

(Continued from page 1)

three more sessions are planned for January 2000. The first of three phases in the competition will conclude with the submission of business plan executive summaries on February 16. We predict another record number of entries this year due to the increasing popularity of the NFC.

Fall Quarter also saw the launch of two student trips organized by the Entrepreneur & Venture Capital (EVC) student group: the New York LBO Trip and WestQuest. Approximately 40 students traveled to New York on October 29th to hear speakers from firms, such as Chase Capital Partners, Patricof Ventures, McCown De Leeuw, Jupiter Partners, Cerberus Partners, UBS Capital, and DLJ Merchant Banking. The much-anticipated WestQuest between December 11-15, featured visits and networking with companies including flyswat, egreeting, Nortel, Cisco, Oracle, Silicon Sierra, Onsale, Active Research Technologies, Techfund Capital, Vanguard Venture Capital, Hambrecht & Quist, and Intel. The prevailing mood is one of conquest as more than 267 GSB students visit hot startup companies and hear presentations by the venture capital companies that funded them.

In addition to the foregoing, the Entrepreneurship Program is engaged in the administration of ongoing programs and the development of new initiatives that will strengthen and build credibility for Entrepreneurship at the GSB. The 3rd Annual Kauffman Entrepreneurship Internship Program (KEIP) for summer 2000 has kicked off with a call for applications, due January 14, 2000. A panel presentation was held in the first week of January and featured the experience of Kauffman interns from the summer of 1999. Additional experiential learning is provided through the BUS 711 New Venture Lab and BUS 714 Private Equity Lab courses in the Winter and Spring Quarters.

On the alumni front, we are creating the Entrepreneurship and Private Equity Forum. This Forum, still in the development phase, will have a two-prong approach. First, it would serve as a “networking” forum for GSB alumni. The Forum would showcase the University of Chicago’s entrepreneurial talent by means of periodic presentations of alumni business ventures to investor groups, much like the NFC. Secondly, the Forum would present to the business community the scholarly talent and research of the GSB faculty and institute a Speaker Series, the goal of which would be to generate educational lecture/question and answer sessions and to foster collaborative relationships.

To help us develop additional meaningful events for our alumni, students and community, we have created an Entrepreneurship Advisory Board. The Board, chaired by Joseph Neubauer (GSB ’65), Chairman & CEO of ARAMARK Corporation, includes entrepreneurial and venture capital members, such as: Kathryn Gould (GSB ’78) of Foundation Capital, Edward Kaplan (GSB ’70) of Zebra Technologies, Joseph Mansueto (GSB ’80) of Morningstar, Robert McCormack (GSB ’68) of Trident Capital LLP, Dennis Keller (GSB ’68) of DeVry Inc, Laura Pearl (GSB ’88) of Frontenac Company, and John Van Dyke (GSB ’69) of Dakota Water Systems and the Band of Angels in California. Their mission is to help the GSB become recognized as the best in entrepreneurial studies by providing exceptional programs and resources to support the development of new and growing businesses, and we are achieving that.

The Year 2000 will prove to be another successful year for Entrepreneurship at the GSB. We will enter the year with more initiatives that will bring the GSB into the forefront of entrepreneurship and private equity. If you would like more information on the Entrepreneurship Program, please see our website at http://gsbwww.uchicago.edu/entrepreneur, or contact us at (773) 834-2838 or eprogram@gsb.uchicago.edu. We look forward to working together with you in the New Year.

Ellen A. Rudnick
Executive Director, Entrepreneurship Program
Clinical Associate Professor of Entrepreneurship

In the News!! The B-to-B BOOM  Let’s Get Vertical

If you didn’t see it this fall, ‘B’ sure to check out the much-talked-about article in Business 2.0 Magazine written by GSB Professor Steven Kaplan and Kellogg Professor Mohanbir Sawhney.

Read it on line at:

About the authors:

Mohanbir Sawhney (mohans@nwu.edu) is the Tribune Professor of Electronic Commerce and Technology at the Kellogg Graduate School of Management, Northwestern University, and heads the ecommerce and technology group.

Steven Kaplan (steven.kaplan@gsbpop.uchicago.edu) is the Neubauer Family Professor of Entrepreneurship and Finance at the University of Chicago Graduate School of Business, and the faculty director of the entrepreneurship program.
A number of 1999 GSB grads went on to work in the world of venture capital and private equity last year. Congratulations to those who stuck out the job search and landed one of these very difficult-to-find positions.

**Dave Walter:** ServiceMaster Ventures, a $50 million venture fund, which is a subsidiary of the The Service Master Company ($4.7 billion in 1998 sales), based in Downer’s Grove, IL. Dave spent his summer internship working there focusing on education and electronic commerce investments. His summer research in the education industry resulted in an investment in Digital Think, a San Francisco based distance education company. Before school, Dave worked with Piper Jaffray Healthcare Ventures and also spent two years with Piper’s technology investment banking group.

**Krista Courter:** Code, Hennessy, and Simmons, LLC, a $600 million private equity firm based in Chicago. Mary Damkot, currently enrolled in the GSB’s evening program, also just recently started with the firm. CHS invests in middle-market companies that design, manufacture and distribute a broad array of consumer and industrial products, as well as service businesses. Krista spent her summer internship at McKinsey & Company, conducting a supply chain study for a major retailer based in the Midwest. Before school, she spent three years in corporate finance with J.P. Morgan in New York and Chicago.

**Robert Pace:** Keystone Venture Capital, a Philadelphia based VC firm with $100 million in capital specializing in technology, consumer products and outsourcing businesses. Rob spent his summer at Keystone, focusing on investments in technology software and hardware, and he helped the firm close a deal with a wireless middleware company. Prior to business school, Rob spent three years in the technology strategy and planning group at AirTouch Communications, one and a half years in Booz Allen & Hamilton’s telecom practice, and one year at Bell Atlantic Corporation.

**Agustin Arellano:** Trivest Inc., a $200 million private equity fund based in Miami, focused primarily in manufacturing. Agustin spent the summer interning there, primarily spending most of his time searching for acquisition candidates for existing portfolio companies. “I was one of the last to get an internship offer at the end of last spring, but looking back, I wouldn’t change a thing because that’s the way the industry works.” Prior to attending the GSB, Agustin worked for three years at Zilkha & Company, an LBO/M&A boutique based in New York.

**Dave Trucano:** private equity group of Houlihan Lokey Howard & Zukin Inc. in Minneapolis. Dave spent the summer at Pomona Capital in New York, and prior to school he worked with Wachovia Capital Partners in Atlanta.

**Matthew Janopaul:** was awarded a Kauffman Fellowship to spend two years working in the Boston office of Weston Presidio Capital, a $900 million private equity firm with offices in Boston and San Francisco. Matt was one of 12 Fellows selected this past March by the Ewing Marion Kauffman Foundation, based in Kansas City, MO, out of over 300 who initially applied to the program. (For more information on the Kauffman Foundation see their web site at www.emkf.org.) Matt previously spent three years in two San Francisco investment management firms, including Brookside Capital. He also served on the board of his family-owned manufacturing company.