

# BOWNE

## REVIEW FOR CFOs & INVESTMENT BANKERS

INSIGHTS FROM CURRENT ARTICLES IN BUSINESS AND FINANCIAL PERIODICALS

### SPINOFFS

#### How To Execute A Successful Spinoff (*Industry Week*)

**Spinoffs beat market.** To execute a successful spinoff, CFOs need to anticipate problems and design strategic plans to meet them. Although the division or subsidiary before the spinoff may have seemed a misfit or laggard within its parent company, in the last decade spinoffs have beaten the stock market by about 10%. Good planning before spinning off the unit can create a more focused entity, concentrate the resources, and increase the employees' commitment. The newly independent company will find it has a narrow window of opportunity in the transition during which to redirect its employees' dedication and redefine its relationships with clients.

**Identity drives market and staff.** Creating a viable new identity to attract customers and motivate employees poses the greatest challenge to any spinoff. Doing so counteracts the operational disruption that otherwise would cause the staff to lose focus. When a leveraged buyout separated Lexmark from IBM, Lexmark nimbly motivated its 5,000 employees in three ways: giving them stock options; creating teams and rewarding them as a group (rather than rewarding individuals); and shortening the product design and decisionmaking processes. Lexmark cut its costs of launching a new product in half and shortened the time

required by a third. Revenues grew, debt declined, and the company now enjoys increasing profitability.

**Planning creates success.** The spinoff needs to develop a critical mass quickly if it hopes to compete successfully. Convincing skilled managers to risk their careers on a spinoff takes high salaries (relative to the new company's size) and financial resources. Western Atlas, which had earlier spun off from Litton, maintained duplicate executive teams in its different divisions for several years. Eventually it spun Unova off, which enjoyed the rare experience of operational continuity during the transition and could gear up its new identity effectively. With growing revenues and profit, Unova has now purchased Cincinnati Milacron, a deal it financed partly by selling its corporate headquarters and moving to less expensive real estate.

**Entrepreneurs of a new venture.** The parent usually initiates a spinoff to rid itself of marginal divisions that are taking resources from its core activities. Sometimes, however, a neglected division initiates the separation. For example, Novell acquired Softcraft from its founders in 1987. Six years later, concerned that Novell was overlooking the unit's needs, managers bought back the unit. Independent once again and renamed Pervasive Software, the new entity threw itself into product development, grew rapidly, and became profitable. The move required a change in Pervasive's corporate culture, as the staff evolved from division employees into entrepreneurs of a new venture.

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Making 4 Minus 3 Equal 2, by Karen Kroll. *Industry Week*, March 1, 1999, Pgs. 46-51. Penton, 1100 Superior Avenue, Cleveland, OH 44114-2543.

#### Equity Carveouts Yield Long-Term Returns For Shareholders (*Journal of Financial Economics*)

**Carveouts gain popularity.** CFOs of companies considering an equity carveout may wonder how investors will react. With an equity carveout, the parent company can combine elements of a divestiture and a stock issue by selling all or part of its subsidiary in a public stock offering. High-profile equity carveouts have included Sears's \$1.48

billion sale of Dean Witter Discover Company, Pacific Telesis's \$1.38 billion carveout of Pactel, and the \$2.65 billion Lucent Technologies offering by AT&T. To examine aftermarket performance, researchers followed 628 carved-out stocks between 1981 and 1995, then compared the results to the performance of initial and seasoned public offerings over a similar time frame.

**Better long-term returns.** The results indicate that carved-out stock offerings do not perform as well as initial public offerings in the short term. On average, they earn an initial listing day return of 6.2%, compared to the immediate 15.4% return of the initial public offerings that another study tracked over a similar period. However, the picture changes drastically over the three years following the offerings. During that time, carveouts earn an annual raw return of 14.3%, while seasoned equity offerings return 4.7% and IPOs manage only 3.4%.

**Reasons behind performance.** Carveouts achieve superior long-term stock performance perhaps because both parent and sub can sharpen their focus after the sale. Companies that undertake carveouts tend to be more diversified than others, so their motivation could well be to concentrate on core business. The relationship between the sub's stock performance and the parent's diversification is not always statistically significant, so the market may simply be reacting efficiently to its perception of future performance, favorably influenced by an expectation of continued guidance from the more experienced parent. In two-thirds of the cases studied, parents retained at least a 50% ownership stake in the carved-out company, and most hold at least one seat on the board. The superior long-term equity returns of the carveout, when compared to an IPO, may reflect the parent's more established, prominent reputation in the investment community.

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Long-Term Returns From Equity Carveouts, by Anand Vijh (University of Iowa). *Journal of Financial Economics*, Vol. 51, No. 2, Pgs. 273-308. Elsevier Science Publishing Co., 655 Avenue of the Americas, New York, NY 10010.

## INVESTMENT BANKING

### Internet Challenges For Tech Bankers (Investment Dealers' Digest)

**Predicting the Net's future.** Investment bankers contemplating future trends in the technology sector predict increasing stock price volatility, a growing gap between winners and losers, and continuing M&A activity due to industry consolidation. However, many believe the most

critical factor shaping the next phase of tech investment banking will be the Internet's direction. Unresolved are how online trading will affect IPOs, how companies will incorporate the Internet into their business strategies, and how the integration of the Internet, telecommunications, and media will affect the role of investment bankers. Uncertainty in these areas is making technology investment banking a high-risk business for potential players. The banks with "strategic vision, analytical support, and capital" stand the best chance for success.

**Watch the IPO allocations.** Bankers say the valuations and price spikes in Internet companies are not based on underlying fundamentals; rather they reflect how the underwriters allocated the stock. The price spikes depend on whether the IPO sells to buy-and-hold investors or simply to speculators being rewarded by the bankers with a bonus. The speculative world of online trading exacerbates this trend. Retail investors bid up prices until institutional investors are compelled to sell, leaving most Internet stocks with no steady institutional following. Banks that want to succeed in the tech sector must provide the capital and research capability to counteract this tendency and support their Internet issues in the aftermarket as they would a Ford or GM offering.

**Dangers of retail.** Despite the difficulties with online trading, bankers recognize the importance of retail investors, especially in the technology sector. Two investment banking pioneers, William Hambrecht and Sanford Robinson, are stepping into the future with online investment banks. These operations will bypass institutional traders altogether and retail new offerings directly to the public, who are clamoring for a piece of the IPO action. However, traditional tech bankers are concerned that these new institutions could further shake up an already volatile environment. They worry that a crash in high-flying stocks could set back or destroy the Internet's promise.

**Long-range opportunities.** E-commerce represents one of the Internet's greatest opportunities. Most companies in corporate America have noticed the surge of activity in this area. They take the threat of online competition seriously, or ignore it at their peril. Investment banks must provide clients with perspective and strategic thinking, if the bankers want to position themselves as business partners for the long run. Since America Online's successful purchase of Netscape, more media and telecommunications megadeals are likely. Scale seems all-important, so bankers expect a buying spree of financially strapped companies will occur. As the Internet fuses with everything else, it offers new bankers a wedge into the arena. For example, Morgan Stanley and Goldman Sachs have used their star telecommunications teams to gain a foothold in technology deals.

However, the going may be tougher for newcomers attempting to break into technology M&A, where the stakes are higher and experience counts.

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Tech Banking's Biggest Challenge, by Michelle Celarier. *Investment Dealers' Digest*, February 8, 1999, Pgs. 16-26. Securities Data Publishing, 40 West 57th Street, 11th Floor, New York, NY 10019. For more on underwriting online IPOs and the challenge for traditional investment bankers, read "Why Investment Banks Don't Need To Worry About Online IPOs—Yet" by Richard Shaffer, *Fortune*, March 29, 1999, Pg. 176.

## EQUITY OFFERINGS

### The Rush To Tap European Markets (*Euromoney*)

**A boom in progress.** Investment bankers will be doing more than vacation overseas in 1999. A combination of factors is converging to make Europe one of the more attractive global markets for issuers this year. Interest rates are low, and introduction of the euro bodes well for the region. Investors appear more open to putting money into domestic stock markets. The warm reception to SwissCom's October 1998 offering helped Europe's stock market stay on an even keel and increased the interest of issuers and bankers in tapping its equity markets. Investment bankers report a higher-than-normal backlog of issues. At the same time, stock markets in other parts of the world are losing some of their luster. The volatility of emerging markets makes them unattractive for many investors, and speculation about the US market's peak raises wary concern.

**Dangers of rushing in.** Given the favorable climate for European issuers and the anxiety about downturns on the horizon for both the US and European arenas, companies are rushing to seize the current market opportunity. Some observers worry that the desire to get deals done quickly will prompt many investment bankers to toss caution and good judgment to the wind. The fierce battle for market share could propel bad deals into the market as well as drive fees down. It could also increase block trades, in which an investment bank buys a large block of stock to resell. The strategy could backfire, particularly for smaller banks that use them to gain market share. An increase in block trades could also reduce the size of IPO and secondary offering syndicates. If large investment banks can move huge blocks of stock on their own, they have little motivation to parcel out shares to other banks.

**Changing the equity landscape.** As the initial wave of privatization subsides, investment banks must look to other sources of business. Last year, privatizations accounted for

47% of Europe's equity offerings, the first time in several years they have been less than half of all offerings. One banker predicts privatizations will decrease to about one-third of new issue volume by year's-end. The business mix for equity departments will split about evenly between IPOs, privatizations, rights issues, and restructurings. Convertibles and exchangeables will also increase in popularity, accounting for perhaps a quarter of European equity issues. The emphasis on accelerated book building, with its speed of execution, will grow and road shows will contract from two weeks down to three or four days. Block trades will emerge as a theme this year. Mergers, acquisitions, and restructuring activity may popularize equity-linked deals, which have the advantages of fast execution, relative safety, and favorable tax treatment. The way in which bankers, issuers, and investors cope with these changes will determine whether European markets can live up to the potential many see in them.

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Issue Now—Before The Next Crisis, by Antony Currie. *Euromoney*, February 1999, Pgs. 98-100. Euromoney Publications, Nestor House, Playhouse Yard, London EC4V 5EX, England. The battle between US and European securities firms is profiled in "Squaring Off In Euroland" by Danielle Robinson, *Investment Dealers' Digest*, January 25, 1999, Pgs. 30-37.

### Key Legal And Accounting Concerns In IPO Registration (*IPO Journal*)

**English lessons required.** Despite all the new and proposed regulations, legal and accounting experts predict a robust year for IPOs, forecasting that 1999 will see a 20% increase over 1998. Legal and accounting concerns will impact the ease and speed of the registration process, the experts say, and the SEC will strictly enforce the new plain English rule. Compliance will require significant effort, and they also expect more intense scrutiny of all IPO registrations, resulting in longer comment periods. Early feedback indicates the SEC has rejected several deals while commenting heavily on others. The summary, risk factors, and cover pages will probably draw the most attention. Issuers and underwriters must replace the legalese and boilerplate common in past IPOs with clear, concise wording, spelling out specific risks facing the issuer. Copying the generic risk factors found in similar registrations and changing a few words will not suffice. One expert suggests the following rule of thumb: if you pick up a risk from one registration (e.g., "all software companies have bugs") and place it directly in another, the SEC will consider it too generic and too imprecise.

**Aircraft Carrier's potential effect.** The SEC cannot enforce its proposed Aircraft Carrier rules until officially

adopted, and the proposal still faces several obstacles. Strong resistance from corporate lawyers may cause changes in it. However, its influence will be felt long before its expected adoption in late 1999 or early 2000. For example, the SEC staff up until recently had disagreed on the practice of pricing pre-IPO rollups contingent upon the IPO price. With regulations now pending that will prohibit the practice, the staff has united in rejecting contingent pricing. Despite their significant impact on issuers, the proposed rules will have limited impact on underwriting documents. Some experts believe the most significant—and controversial—requirement will be requiring delivery of prospectuses seven days prior to sending confirmations.

**Accounting issues elevated.** In September 1998, SEC Chair Arthur Levitt called for a crackdown on several deceptive accounting practices. Increased SEC scrutiny on accounting methods is already impacting IPOs, and the experts believe the Commission's focus on accounting will continue throughout 1999. Of greatest concern may be the rules for pricing pre-IPO options. Cheap options help to attract employees, but the issuer must record deferred compensation charges. The SEC has increasingly challenged the valuation of options, requiring issuers to document the valuation methods and forcing them either to raise the strike prices or record increased accounting charges. Failure to set the fair market value properly also creates the risk that the financial statements will require restatement. Revenue recognition practices, particularly at software and Internet companies, already undergo tough scrutiny, and that magnifying-glass treatment should continue. Slowing revenue recognition could delay some companies' IPOs. The SEC has gotten tough on companies using loopholes to avoid disclosing planned acquisitions until after the IPO. Even though issuers can use IPO proceeds for funding acquisitions, they have delayed disclosure by claiming only "probable acquisitions" are in the works.

**Indirect impacts on deals.** Some of the accounting practices singled out by the SEC have a less direct impact on IPOs. The SEC now requires detailed disclosure of Y2K risks and costs (which, of course, affects all public companies, not just initial offerors). The expected crackdown on in-process R&D writeoffs will mostly affect mergers. However, companies that merge shortly before going public may be challenged by the SEC. Similarly, though companies of

all sizes have taken advantage of one-time restructuring charges to protect future earnings, those most likely to do so are older and larger than those filing IPOs.

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A Preview Of The Defining Issues In Going Public. *IPO Journal*, Vol. 2, No. 1, Pgs. 1, 3-11. Bowne Publishing Division, 345 Hudson Street, New York, NY 10014.

## MERGERS & ACQUISITIONS

### Euro Gives Competitive Advantage To European M&A Players (Mergers & Acquisitions)

**Capital rationalization.** US dollar, meet the new kid on the block. The euro, by eliminating foreign exchange risk, allows European buyers to base decisions on business rather than currency concerns. With both private and government debt in a single currency, credit availability will increase, as capital flows readily from one country to another. Cross-border deals will grow more competitive, easier to negotiate, less expensive, and more commonplace. US dealmakers will have to adjust to the increased competition. They must find European partners, establish global banking relationships, and be willing to do business in the euro themselves. The new attitude recognizes Europe is a unified marketplace that retains distinct cultural, ethnic, and linguistic identities, as well as regional variations in labor and real estate costs.

**Effects of market changes.** The sheer size of the European economic block demands attention. The euro will likely rival the dollar as the preferred international currency, possibly weakening the dollar and placing US buyers at a disadvantage when seeking European deals, although their trade opportunities may increase. Capital markets will become more competitive as euro-denominated corporate debt expands European companies' potential to raise capital in world markets. The cost of capital for Europeans to finance M&A will fall, while US companies may see increased costs because of newfound competition. Globally positioned investment banks should receive more business from these developments.

Published and distributed monthly (combined July/August issue) by Bowne & Co., the world's largest financial printer, as a special service for Chief Financial Officers and Investment Bankers. Bowne Review editors select articles to abstract that analyze current events, discuss strategies, and examine trends on matters related to capital raising in the securities markets, M&A, and financial restructuring. Contact the periodicals abstracted for copies of the featured articles. Send subscription requests and address changes to: Director of Publications, Bowne, 345 Hudson Street, New York, NY 10014, 212-229-7233. The Bowne Catalog and back issues of the Bowne Review are available from 800-370-8402 or online at <http://www.bownepublishing.com>. Bowne Review is designed, researched, and written by Brumberg Publications, Inc., 124 Harvard Street, Brookline, MA 02146, 617-734-1979. Bruce Brumberg, editor; Susan F. Koffman, executive editor; Karen Axelrod, managing editor; Marla Brill, Patricia Crowe, Robert Low, Helen O'Donnell, Elliott Poretz, CPA, contributing editors; Kathryn S. Kaplan, editorial assistant. Bowne Review may not be reproduced in whole or part without the publisher's written consent. The newsletter is distributed with the understanding that the publisher is not rendering financial, accounting, investment, or legal advice. ©1999 Brumberg Publications, Inc. (ISSN 1047-6172)

**Economic outlook.** By unifying its currency and markets, the EU avoids trauma of the sort that has plunged Asia into recession and depression, where currency instability toppled one economy after another. Expanded business opportunities should strengthen the European economy. Detractors believe that internal squabbling and traditional conflicts will cripple the EU, but observers agree that the magnitude of the effort involved in getting this far is the best predictor of the euro's ultimate success. Only a profound conviction in the efficiency of a single market and currency could motivate countries to give up part of their own identity and autonomy in the name of progress. If the participating countries believe so deeply that the Union and the euro will increase prosperity, they will invest the effort to make it succeed.

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How The Euro Deals A Stronger Hand To European Buyers, by Michael Sklar and Mark Williams (Rudnick & Wolfe, Chicago, IL). *Mergers & Acquisitions*, January/February 1999, Pgs. 23-26. Securities Data Publishing, 40 West 57th St., 11th Floor, New York, NY 10019. Predictions of the euro's positive impact appear in "Launch Of Euro Seems Sure Bet To Spur Cross-Border M&A" by Erica Copulsky, *Investment Dealers' Digest*, February 1, 1999, Pg. 13.

## Rebranding Takes Vision And Time (Across The Board)

**Create a powerbrand.** Successfully rebranding after a megamerger takes time. The combined entity needs at least six months to generate a clear identity, create management consensus, design the identity images, and develop the launch. Add another six months if the company name is changing. The new identity ideally will embody the best qualities of the companies' traditions while bringing the name and logo up to date with the new united corporate structure. It should arouse positive emotions and convey the new company ethos. For example, the merger of Guinness and Grand Metropolitan led to the new company name Diageo. Although ridiculed by the British press, the new name is "short, globally effective, and entirely distinctive, with a sense of warmth and sheer fun." Hastily selected names rarely succeed, particularly in mergers of equals when the managers of the combined companies must "walk on eggs around the tough identity issues."

**Logos of new mergers.** Distinctive enough to identify the company without words, a logo ideally conveys some essence of company identity and pleases the eye with good design. With so many megamergers combining already well-known and diverse companies, symbols can prove particularly useful in the market. UBS, which emerged from the merger of Swiss Bank Corp. and Union Bank of Switzerland, linked redesigned black keys to the bold red UBS. Famous subsidiaries can keep a variation of their original

name and add on the group logo, so that the company gets the best of both worlds—the renown of tradition and the cachet of the new association. When UBS acquired Warburg Dillon Read, it kept the well-known name and merely attached the UBS key logo. Should the company later wish to rename itself, the logo will lend continuity.

**Symbolic sense of logos.** Celera Genomics adopted its name to connote celerity, or swiftness. For a logo, it trimmed a DNA helix (the object of the company's research), to resemble a dancing person with arms raised. NGC Corp., an energy company, changed its name to Dynegy (for "dynamic energy") and adopted a Chinese tangram puzzle as its logo. An advertising coup and prize-winning idea, the puzzle can be rearranged to form endless symbols in Dynegy's ads. When two Midwestern public utilities combined to form Ameren, they chose a radiating circle—reminiscent of the sun over the heartland—for the new entity's simple yet clever logo. Iridium selected its name because it planned to launch 77 telecom satellites and iridium has 77 electrons. The name remains memorable even though the company eventually sent up only 66 satellites. While the name's significance might seem arcane, Iridium's new logo—the Big Dipper—is recognizable anywhere. A less felicitous choice might distract from the company mission and sometimes inadvertently reveal the lack of unity in the "graphic personality clash." Consider, for example, MCI WorldCom's new logo, which simply combines each company's former logo. The WorldCom portion appears to be running away from the MCI part.

**Practical considerations.** Create a globally unique brand for a global economy. Short names under five syllables produce more impact and are easier to remember. Given the growing number of mergers, unused or unregistered names are growing scarcer, so companies will have to devote more time and planning to creating the new brand and logo. Sharing a brand with another company rarely makes sense, yet some have been lured into this pitfall with international companies. Even a distinctive name may not have singular initials. Since companies with long names may well want to use an abbreviated version, the initials matter. Unusual but similar-sounding names may create confusion. To be effective, a powerbrand should be simple and confident, able to capture attention, create positive emotion, and connote corporate characteristics.

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Powerbrands, by Tony Spaeth. *Across The Board*, Vol. 36, No. 2, Pgs. 23-28. The Conference Board, 845 Third Avenue, New York, NY 10022. Another big post-deal challenge is integrating the companies' workforces and cultures, as explained in "Can This Merger Be Saved?" by Sarah Cliffe, *Harvard Business Review*, January/February 1999, Pgs. 28-44. The M&A wave will likely continue, according to a survey of CFOs in "Don't Stop The Music," *Institutional Investor*, February 1999, Pg. 29.

## Controlling Flowback In Cross-Border Mergers (*Global Finance*)

**When investors sell out.** Investment bankers concerned about flowback during cross-border mergers have developed sophisticated strategies to stem the tide of stock returning to its country of origin. Several factors unique to cross-border mergers drive the acquired company's shareholders to sell their new shares during an international M&A deal. When investors sell out, a large volume of shares can stream back to the originating country, sinking stock prices and perhaps making the merger unworkable. Using new types of securities, different deal structures, and improved communication to investors, companies have been able to control flowback. The recent merger of Germany's Daimler and the US's Chrysler provides a lesson on how to protect a cross-border deal from flowback.

**New type of shares used.** When a company merges into a foreign partner, the shareholder's domestic investment suddenly becomes a foreign holding. Most foreign companies trade in the US using American depository receipts. This added layer of paperwork—plus disenchantment with receiving ADRs instead of actual shares—could encourage the stockholders of a US target company to sell out. DaimlerChrysler skirted this problem by distributing global ordinary shares, which saved paperwork and gave some flexibility in dividends' payment form. Technical reasons, such as some countries' prohibitions on registering in foreign countries, will force many companies to continue using ADRs. Some experts nevertheless expect global shares to become the standard in cross-border deals.

**Protecting shareholder value.** Cash deals can trigger significant tax liabilities and harm future earnings by creating goodwill charges. Both of these are avoidable in stock transactions by using pooling-of-interests accounting, yet cross-border stock deals seemed unfeasible until recently. The mergers of Daimler/Chrysler and British Petroleum/Amoco have proven otherwise, although the opportunity may end since regulators threaten to tighten the pooling rules. Proactive stockholder relations, share liquidity, and effective communication about the synergies and savings the merger will create can keep shareholders on board. This means moving quickly to answer shareholder concerns and conveying a clear, precise message. With the help of their bankers, companies can try to target favorable stockholders. By getting its shares into the hands of likely long-term investors, the company can reduce flowback. Similarly, stock buyback and option plans can support share prices and tighten the shareholder base.

**Midsize companies face unknown risks.** Cross-border deals currently account for about one-fourth of all merger

activity. So far, the deals have generally involved major companies. When deals involve two equal-sized giants, institutional investors usually stay on board. Even when a large foreign company swallows a much smaller domestic one, management may have little concern about the potential volume of flowback. However, as small to midsize companies start to find foreign partners, flowback may become increasingly costly and difficult to manage.

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Surviving Flowback, by Kathryn Hanes. *Global Finance*, February 1999, Pgs. 46-48. Global Finance Media, 1001 Avenue of the Americas, New York, NY 10018. Foreign companies are on an acquisition spree in the US, as discussed in "Europe's 'Buy American' Policy" by Debra Sparks, Leah Nathans Spiro, Thane Peterson, and Kerry Capell, *Business Week*, March 8, 1999, Pg. 35.

## VENTURE CAPITAL

### VC Deals Happening Faster (*Venture Capital Journal*)

**Snooze and lose.** Entrepreneurs of companies with high appeal to venture capitalists are in a position to call the shots these days. Venture capitalists who could once take months to review a business and complete due diligence before making a commitment must now decide within a few weeks, risk losing the most desirable deals to competitors. Profitable and highly visible technology IPOs, including venture-capital-backed eBay and Exodus Communications, have helped to create a frenzied climate.

**Potential problems.** Wary of what they view as a minefield, some venture capitalists prefer sitting out the intense competition. The rush to complete deals, they believe, raises the probability of incomplete due diligence and inflated pricing. Most venture capitalists concede that the market's frenzy for information technology deals can lead to poor decisionmaking. Investors may drop or rush through key steps in dealmaking, such as examining corporate details thoroughly, having intimate discussions with management, conducting thorough due diligence, or developing terms. Early commitment can also mean bypassing important references, such as customers or suppliers, or skipping through a complete analysis of the industry.

**Term-sheet negotiations.** About the only aspect of the process that seems to take more time now than in the past is the term-sheet negotiation, particularly in areas where venture capitalists feel the need for greater protection. Medical device companies—known generally to have low returns—will find that venture capitalists demand sturdier liquidation preferences or require regulatory approvals.

Terms for new tech companies are complicated because of questions concerning control of IP rights and licenses. Other than those odd cases, however, the trend toward the quick close prevails. Venture capitalists may conduct management risk investigations early in the due diligence process to uncover potential deal breakers, such as criminal records or bankruptcy claims. In general, most feel more comfortable doing business with companies referred by trusted friends or outside advisors.

**Touched by an angel.** Aside from competing with other venture capitalists for plum deals, VC industry players must also learn to cope with the growing ranks of wealthy individual investors, or angels. These former entrepreneurs, who invest a few hundred thousand dollars and provide advice to managers, can form into groups with coffers as large as several million dollars. Recognizing that strength, some venture capitalists invest in tandem with angels, who generally provide the first round of financing.

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No Rest For The Weary VC, by Deborah Lau. *Venture Capital Journal*, February 1999, Pgs. 52-54. Securities Data Publishing, 40 West 57th St., 11th Floor, New York, NY 10019.

## Tips On How To Approach Venture Capitalists (Success)

**Beating the odds.** Despite the recent expansion of venture capital financing, only 0.2% of all new businesses receive venture funding. Venture capital funds typically receive between 2,000 and 4,000 business plans annually, yet on average most invest in just 10 to 25 altogether. To beat the odds, CFOs need more than a good plan, a solid idea, and plenty of persistence. They also need to understand how to locate venture capitalists, what the fund wants to see in an investment, and how to gain the capitalists' interest and confidence.

**Establish a fit.** Before seeking out venture capitalists, first decide whether venture financing makes sense for the enterprise. Venture capitalists seek more than just growth; they want dramatic returns. Companies without the potential for 30%-45% returns over three to seven years and valuations over \$100 million should try other financing options, as should those asked to give up a greater share of their company than they feel is fair. If valuation becomes an issue, let time pass and establish a track record. This may make locating the capital easier and the terms more favorable. Having reached the decision to seek venture financing, companies need to target the right VC funds. Many venture capitalists specialize in high-tech; others target industries such as retail or health care. Some funds will

provide seed capital; others invest only in later-stage companies. Rather than blanket the venture community with business plans, entrepreneurs should seek out VC funds whose portfolio companies resemble their own. Later in the process, do reverse due diligence, to ensure the potential backer has the necessary contacts, personality fit, and value-adding resources.

**Making contact.** Cold-calling venture capitalists rarely works. Instead, seek referrals from lawyers, accountants, and other contacts. Venture capital forums, which allow an entrepreneur to make a 15-minute pitch to a roomful of investors, provide a cost-effective way to gain exposure. Funds generally prefer to invest in a company located within easy reach, so look within the region. Venture capitalists have extremely busy schedules and travel frequently. E-mail may be the most effective way to reach them. One venture capitalist suggests e-mailing just a two-page executive summary. If this overview catches his attention, he will ask for the full proposal; if not, he deletes the message and moves on. Setting up a website and including a business plan allows potential investors to research the company at their leisure. Gaining publicity through magazine articles and press releases may spark the interest of potential financiers looking for ideas. When turned down, consider trying again later if the company can demonstrate new achievements since that initial contact.

**Pitch the plan.** Be prepared to express the business plan's essence concisely. Practice delivering the pitch in the length of time it takes to ride the elevator to an investor's office. The written plan should also be concise. Highlight significant clients or investors, include financial projections, and discuss risks and competition. Exaggerating claims or understating obstacles may reveal inexperience or ignorance. Dishonesty will also kill a deal. Venture capitalists do thorough background checks, likely to expose even the smallest lie. They value a strong management team, so assembling a quality staff and featuring them prominently in the business plan may be the most important factor in raising money. Make it easy for investors to do their research; provide as many references and supporting materials as possible. Venture capital investment agreements can be complicated, particularly on the East Coast. All clauses are negotiable, but do not negotiate without seeking help from lawyers and other experienced professionals.

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Unlock The Venture-Capital Vault, by Anne Field. *Success*, February 1999, Pgs. 57-61. Success Partners, 733 Third Avenue, New York, NY 10017. For more financing tips, read "How To Finance Anything" by Jill Andresky Fraser, *Inc.*, March 1999, Pgs. 32-48. Many VC-backed companies are using M&A instead of an IPO. Read "The Urge To Merge" by Paul Crisci and Mark Strauch, *Upside*, February 1999, Pgs. 76-77.

# IPO JOURNAL

TRENDS AND TECHNIQUES FOR THE IPO PROFESSIONAL

Monthly reporter with the most complete and comprehensive analysis of activity in the IPO market available anywhere. Insightful articles, monthly data and year-to-date tables all assembled in one attractive, inviting and easy to assimilate source. Get all the information you need to stay abreast of the challenging IPO arena: IPO trends, statistics, rankings, one-on-one interviews, forecasts, industry undercurrents and how to use them to your advantage. Discover techniques of the most successful IPO professionals, key changes in IPO practice, how to structure deals more effectively, the inside scoop on megadeals. A strikingly attractive user-friendly publication which will become a trusted adviser.

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