CASHING OUT SUCCESSFULLY:
EXIT STRATEGIES TO CAPTURE VALUE

September 11, 2001 Satellite Broadcast
From MIT’s Wong Auditorium

The presentation topic for the Tuesday, September 11, 2001 MIT Enterprise Forum Satellite Broadcast will be Cashing Out Successfully: Exit Strategies To Capture Value.

The panel will include successful entrepreneurs, educators, bankers, and investors.

To be broadcast from MIT’s Wong Auditorium beginning at 7:00 PM Eastern Time, the agenda will include an opening overview by the moderator, brief introductory comments by each panelist, and interactive discussion with attendees and satellite downlinked participants from across North America.

According to MIT Enterprise Forum CEO Edmund M. Dunn, “As an entrepreneur, you may plan to stay with your company for years and have minimal, immediate concerns about liquidity for yourself. However, your investors only get paid if they can get their money out of their investments. To be successful, the company needs to be run so that the needs of everyone concerned are met.”

Members of the panel include John Chory, Senior Partner, Hale and Dorr, LLP; Jeffrey McCormick, Chairman & CEO, Saturn Management, LLC; James Nicholson, Chairman & CEO, Cortek, Inc; and David Ogens, Managing Director of High Technology Investment Banking, Goldman, Sachs & Co.

Program Moderator

John H. Chory, a senior partner in Hale and Dorr’s Corporate Department, is the chair of the Hale and Dorr Venture Group. The Hale and Dorr Venture Group, located in Waltham, Massachusetts, specializes in the representation of venture-backed emerging technology companies. Mr. Chory advises both private and public companies in the areas of initial- through late-stage venture capital financings, public offerings of securities, mergers and acquisitions, and securities law. His clients include Akamai Technologies, SilverStream Software, Quantum Bridge Communications, Eziba.com, Open Market, Sepracor, Oxford Global Resources, Village Ventures, Optiant, and GoldPocket Interactive. Mr. Chory also advises many entrepreneurs and early-stage start-up companies.

While in law school, Mr. Chory taught negotiation as a teaching assistant to Prof. Roger Fisher of the Harvard Negotiation Project. He served as a U.S. Army Intelligence Officer from 1980-1985, and as a major in the U.S. Army Reserves until November, 1998.

Mr. Chory received a J.D. degree, cum laude, from Harvard Law School. He received an M.B.A. with honors from
From the CEO

BUILDING VALUE AND CAPTURING VALUE

One of the recurring themes in the MIT Enterprise Forum Satellite Broadcast Series is "building value." We have heard numerous approaches to that subject. Let's consider the case of people who are trying to build value from their expertise in software, not an uncommon situation in our extended community of 24 chapters. At one extreme, there is the case of a software consulting firm. In this case, the principals can derive value based on their expertise by billing for hours. But, is there a better way, a way that our experts can build more value from their expertise?

On October 5, 2000, Kenan Sahin discussed the issues involved in making the transition from a software consulting company to a company which sells software products. The key insight was getting past the notion that the client has "paid for the work so they own all of the results". He made the analogy that when you buy a shirt, you only get the right to use that shirt, not a perpetual right to any company know-how developed while producing that shirt.

In our most recent Satellite Broadcast on June 6, 2001, Jon Hirschtick took the concept of building value from software expertise one step further with a discussion of developing recurring revenue. He discussed how having product upgrades is only one way and not necessarily the best way to build recurring revenue into the company. A much better approach is to formulate the products as licenses to an ongoing service. In this way, there is significant revenue expected at the beginning of each billing period from existing clients.

Having learned how to build value from a core expertise, the next step is to capture that value either through an IPO or an acquisition.

Our next Satellite Broadcast, on September 11, 2001 will discuss "Cashing Out Successfully: Exit Strategies for Capturing Value." Why is the issue of exit strategies so important for entrepreneurs? As an entrepreneur, you may plan to stay with your company for years and have minimal, immediate concerns about liquidity for yourself. However, your investors only get paid if they can get their money out of their investments. To be successful, the company needs to be run so that the needs of everyone concerned are met. So what may be another financing for you may be the exit for your initial investors and both of your interests can be satisfied.

What is the "best" form of exit? Is it the initial public offering or IPO or is it the acquisition? In an overheated stock market, you may get a high valuation in the public markets. What about when the markets cool off? What about lock up periods, tax ramifications, risks of class-action lawsuits, and fit with new management?

Our program will be a panel discussion featuring a team of experts from a variety of disciplines needed to address the range of issues relevant to exit strategies.

We have assembled a group with the diverse set of skills and experience needed to shed some light on the complex issues surrounding exit strategies.

I look forward to seeing you at our upcoming program.

Former venture capitalist and early stage CEO, Edmund M. Dunn ML’73 joined the MIT Enterprise Forum®, Inc. in 1997.
Jeffrey S. McCormick is Chairman, Chief Executive Officer and President of Saturn Management LLC (“Saturn Management”). Saturn Management provides management services to Saturn Partners and other members of the Saturn Group, a team of affiliated companies that specialize in the capitalization of emerging growth companies with direct investments from private investors. Mr. McCormick works with management teams of Saturn Portfolio Companies, formulating strategies for product development, marketing and distribution. He has acted or currently acts as an advisor to or member of the board of directors of several Saturn Portfolio Companies.

In February of 2001, Mr. McCormick became CEO of Alternative Technology Resources, Inc., a Saturn portfolio company. ATR processes fee for service business medical claims on behalf of its participating providers. The company is in the early phase of implementing its technology to provide a scalable solution to handle the electronic transmission and repricing of claims.

From 1988 to 1992 he was with Bariston Associates, Inc., which originates and manages private investments for individual and institutional clients. He was an acquisition and syndication specialist and reviewed potential investment opportunities, including performing financial analysis and extensive due diligence.

From 1984 to 1986 he was a biochemist in a Syracuse University molecular genetics laboratory where he researched detection techniques for HTLV-III (AIDS) and Hepatitis B. He earned both a Master of Business Administration in finance and a Bachelor of Science in biology from Syracuse University.

He actively supports Dana Farber cancer research. He enjoys golf, skiing and running marathons.

James E. Nicholson is Founder, Chairman & CEO of Cortek, Inc. Since 1969, Nicholson has founded six medical device companies. All of the companies have been based on solving a fundamental medical or surgical problem.

In Cortek, Nicholson and his associates have invented and developed a proprietary implant and delivery system, made from either plastic or cadaver bone, to accelerate fusion in the lumbar vertebrae.

He founded Mitek Surgical Products and Innovative Devices, Inc. Both became successful public companies. Mitek was sold to Johnson and Johnson for $128M in 1995. He is known for identifying major medical/surgical market needs and co-inventing core technology as the basis of the company. Innovative is a NASDAQ traded public Company (IDEA) with a Capital Value of approximately $55M.

Venodyne, developed in 1972, is a system that squeezes and pumps the lower legs of anesthetized patients to stimulate venous return and prevent blood clots during and after surgery. It is estimated that Venodyne has saved in excess of 10,000 lives since its invention. A variation of Venodyne sold by Kendall accounts for 80% of Kendall’s profits annually.

Mammalok, the worldwide leading needle wire localizer for marking non-palpable microcalcifications that could lead to breast cancer, has been used in more than 1,500,000 procedures. If only 10% of those lesions were cancerous, approximately 150,000 lives have been saved from metastatic cancer.

The Mitek Anchor, invented and patented in 1990, has been used to repair soft tissue injuries in over 750,000 soft tissue injuries resulting mostly from sports and athletic events.

Mr. Nicholson holds a BS and MS from MIT in Aeronautical and Astronautical Engineering. He holds twenty-five issued U.S. Patents and is the author of sixteen national and international publications, mostly concerning medical devices.

David Ogens is Managing Director, High Technology Investment Banking, Goldman Sachs, Boston and is responsible for High Technology Investment Banking Services in New England. He re-joined the firm as a managing director in 1999. He was CEO of Vectis Corporation (now Physician Web Link) from 1995 to 1999. Prior to this, he was head of the High Technology Group for Goldman Sachs in New York.

Goldman Sachs is a leading global investment banking and securities firm serving a substantial and diversified client base, which includes corporations, financial institutions, governments and high net worth individuals. Founded in 1869, the firm is headquartered in New York with offices in London, Frankfurt, Tokyo, Hong Kong and other major financial centers around the world. The High Technology Group is headquartered in Menlo Park, with 390 high technology professionals in New York, Boston, London, Frankfurt, Hong Kong and Tokyo.

David received an M.B.A. from the Darden Graduate School of Business at the University of Virginia and a B.A. from the University of Virginia. He and his wife Locke have two children and live in Weston, Massachusetts.
BEFORE THE BROADCAST: Sponsors, panelists, and guests of the Enterprise Forum gathered in the MIT Student Center for a Before The Broadcast reception. Shown above left (l-to-r) Ian Carver, Executive Director of the PricewaterhouseCoopers Entrepreneurial Service Center; Fred Middleton, General Partner, Sanderling Venture Partners; and Ken Morse, Managing Director, MIT Entrepreneurship Center. Above right (l-to-r): Chip Morse of Morse, Barnes-Brown & Pendleton, chats with Enterprise Forum Board Chair Peter Miller, President, Growth Associates. Bottom right (l-to-r): Robert Hewes, Managing Director and Udi Meirav, Engagement Manager, both of Strategic Decisions Group, exchange cards with Richard Lucash of Lucash, Gesmer & Updegrove. Opposite page top left (l-to-r): Jon Gworek of Morse, Barnes-Brown & Pendleton with John Chory, Senior Partner at Hale and Dorr. Opposite page bottom left (l-to-r): Beth Marcus, President, Glow Dog, Inc., talks with a group of reception guests.
At the Broadcast: On stage during the interactive discussion period are, (l-to-r) Beth Marcus, President, Glow Dog, Inc.; Fred Middleton, General Partner, Sanderling Venture Partners; Burt Rubenstein, Managing Director, YankeeTek Ventures; Jon Hirschtick, CEO and Co-Founder of SolidWorks, Inc.; and Moderator Ken Morse, Managing Director of MIT’s Entrepreneurship Center.

Audience Profile: Attendees at Kresge reflect a high concentration of senior management by job classification (left pie chart) and a balance of industry, service providers, and investors by organization (right pie chart).
It has often been repeated (and ignored) that a startup must "focus" in order to succeed. Yet this advice often seems to fall on deaf ears. Attempts to successfully teach this lesson to an entrepreneur who has just raised that critical first round investment - or even the one who raised $100 million in an IPO - often seem futile. After that round of financing is completed, it seems that the typical (doomed) entrepreneur forgets that capital is a scarce resource, and there is not necessarily more where the last round came from.

The recent high failure rates of dot.com and telecommunications startups are graphic evidence of this truism. So why do companies keep repeating the mistakes of others? Even well-financed companies like Winstar, PSINet, and Teligent, have failed to learn the lesson of focus and frugality. Ignoring this advice will almost certainly lead to a company's failure.

Focus! Focus! Focus!

Successful startups are all about efficiently managing scarce resources to create extraordinary value for investors and customers. Managing scarcity is what startups are all about. Not only must a startup manage scarce capital, it must also efficiently manage scarce talent, scarce human resources, scarce knowledge, scarce creativity, and scarce time, just to name a few. It is this scarcity of resources that mandates the business requirement for "focus."

During the "roaring" late '90s, when venture capital was momentarily flowing freely to anyone with a business plan (or sometimes even less than a plan), the message sent to the entrepreneur by the investment community was confusing and misleading. The free flow of capital misled entrepreneurs into believing that successful entrepreneurship was about raising capital and then spending it, rather than managing it. As it turns out, those who heard and believed this "waste now, there's more where that came from later" message, were the ones who failed.

Managing scarce cash, technology, hard assets, customers, personnel, highly skilled talent, are all the hurdles that a successful startup must overcome. It is this right of passage - overcoming scarcity - which dictates whether the startup business will, by definition, be viable. A startup that develops a "high fat" diet of cash and other resources, will find it almost impossible to get through the inevitable lean times that every developing business must face.

If the secret to a successful startup were not managing scarce resources, there would rarely be any successful startups.

The Curse of Having Too Much In Resources

As noted earlier, high-fat diets lead to later failures. Compare the beginnings of AOL and Prodigy. One of the early founders of America Online was asked several years ago at a local networking event why AOL, a cash-starved startup, succeeded, while Prodigy, which was richly funded by blue chip companies like IBM and Sears, effectively failed.

The answer was money. Prodigy had too much of it, and consequently developed the business equivalent of "clogged arteries." Born of a joint venture of large, inefficient companies, Prodigy took its culture from its parent partners. This culture supported spending without serious con-
NEW ECONOMY WORKSHOP

By William H. Newman SM ‘96
Oregon Entrepreneurs Forum

On Thursday, December 7, 2000, a coalition of Oregon business groups, including the Oregon Entrepreneurs Forum, offered the first New Economy Workshop to educate, inform, and stimulate a dialog on emerging economy issues with incoming and returning state legislators. By emphasizing that there is no aspect of Oregon’s economy that has not been fundamentally impacted by application of new technology, the organizers hoped to persuade legislators that more time and attention must be devoted to an integrated, statewide economic policy that works to help move together the resources-based (“old”) and knowledge-based (“new”) economies and which has the support and cooperation of industry and education. Judging by the attendance and the actions legislators have taken since, the workshop was more successful than anyone expected.

The event drew over 350 attendees, including representatives from federal congressional offices, the state’s executive branch, over 60 legislators serving in the 2001 legislative session, and a broad array of representatives from Oregon’s business, higher education, and public policy communities.

Speakers and panels gave overviews of the state’s evolving economy, focusing on higher education and access to private equity capital, and recommended that Oregon strengthen its public and private universities’ ability to create knowledge and reap the economic benefit of their discoveries.

Many compared Oregon’s progress to that of areas such as the Bay Area, Boston, and Austin, which all take advantage of their ability to grow companies from their local universities. Their examples - such as estimates that the economic benefit of MIT-spawned businesses place it in the top 30 of the world’s economies, and that as much as 35% of the high-tech jobs in Silicon Valley can trace routes to Stanford - made impressions on the audience.

The program clearly touched a chord: when the legislative session began in January, a group of business, education, and community interests (led by senior executives from Intel and Tektronix, the administration of the state’s universities, and prominent community leaders) formed the New Economy Coalition, which hoped to help the legislature focus adequate attention on these issues.

The Coalition generated broad-based support for initiatives that linked higher education and economic growth, including funding for a Tier-1 engineering program at Oregon State University, a top-tier bioscience institution at Oregon Health Sciences University, increasing funding for university technology transfer, repealing a constitutional amendment that prohibited the state’s institutions from holding stock in university spin-outs, creating a science and technology council within the Governor’s office, and revitalizing the state’s seed venture fund to enable it to finance university-originated spinouts.

Due in large part to their efforts, and to those of the organizers of the New Economy Workshop, the Oregon legislature passed each of these proposals into law.
cern on how those costs would ever be recouped by its investors - with satisfactory return on investment.

Once Prodigy built up its inevitable cash-thirsty, fat-laden cost structure, it was difficult for the company to kick the cash habit, and develop into a viable profitable business. AOL, on the other hand, started out with little cash, and from almost its first day of business, had to develop the culture of determining not only how to stretch the little cash it had, but also to make money without spending a lot to do it. That "commercialization now!" culture ended up being the most sustainable Internet business model, despite being highly criticized and mocked by the "everything is free" Internet advocates during the late 1990s.

So, who is responsible for all of the dot.com failures? Is it the entrepreneurs? The venture capitalists?

A recent confession in a local business publication by one long-time mid-Atlantic area venture capitalist shows where much of the blame lies. "Venture capitalists," he was quoted as saying, "once downplayed a fast burn rate, believing that there was always more money for companies growing rapidly. Instead, it's the entrepreneurs who have been burned as money belts tightened this summer and fall. …That's not a criticism of entrepreneurs; that's a criticism of venture capitalists who said, 'Don't worry about it,' …A lot of people have woken up to find the VC was lying, not that it was an intentional lie." So, entrepreneurs, you have been misled by some of the very folks who were supposed to give you good advice, along with their investment dollars.

e-Toys is another good example. As pointed out in December 2000 by Chris Nerney, Senior Analyst at internet.com, the Internet Stock Report: "What went wrong for e-Toys? In many ways, the story begins and ends with red ink. Even when it was a Wall Street darling, eToys was a huge money drain. In its fiscal year ended March 31, E-Toys reported a net loss of $190 million. This was due primarily to eToys' aggressive 'first-mover' strategy that called for it to capture online toy market mind-share before competitors - both Web-only and bricks-and-mortar - got...
Low Fat Diets and Lots of Exercise

their acts together. .... The blitzkrieg method may be viable when investors are supportive and cash readily available. But when the market goes south, as it did this year, size beats speed. And as nimble as eToys is, it couldn't win a war of attrition against Toys 'R' Us or Wal-Mart.

Is It Possible to Have Too Little Cash?

Obviously the answer is "yes." Many startups underestimate their initial cash needs because they fear they will have to give away too much of the company too soon. Another local venture capitalist answered the interview question, "What is the most common mistake new entrepreneurs make?" by responding, "Asking for too little money. Most entrepreneurs think they can accomplish 100 different things with $100, when it really takes $1,000."

The Magic Formula

So, if too much money can cause a business coronary for a startup, and too little money can starve it, what is an early stage startup to do?

The answer is the following: "Get as much startup investment as you can, but manage its spending like it is all you are going to get for a long time." In other words, the startup must spin "straw" (those scarce resources) into "gold" (an ongoing, cash-flow positive, high-growth business).

How do you implement this magic formula? Focus, and "hire slowly, fire fast." This philosophy was pointed out at a June presentation hosted by the MIT Enterprise Forum, in a panel discussion on "Managing in Turbulent Times" by panelist Beth Marcus, Founder and President of Glow Dog, Inc.

So, whether you are starting a business or already running one, learn from the most common mistake of others. Manage all of your resources as if they are scarce, and create the maximum value with them.

Don't waste resources on a "first mover, first loser" strategy. Cut excess fat out of your operational diet, and exercise caution and sensible growth, focusing on every aspect of your business.

Get the most value for every dollar you spend - there isn't a lot of room for mistakes.
By Jennifer Carroll, Executive Director
MIT Enterprise Forum of San Diego

On Saturday, July 14, 2001, San Diego Enterprise Forum Chair, Amy Romaker, led the organization’s Board of Directors and Committee Co-Chairs in an annual strategic planning session.

The meeting focused on developing and articulating strategic initiatives and opportunities that the organization plans to pursue over the coming year.

One of the most prevalent initiatives is increasing visibility of the Enterprise Forum within the San Diego business community as the meeting place for technology.

Another high-priority initiative includes increasing the value of Enterprise Forum events for sponsors, high-technology companies that present each month, volunteers, and for event audiences.

A core group of volunteers is embarking on the creation a strategic plan that not only captures these initiatives and opportunities, but explains the steps required to attain them.

The strategic plan will be completed by early autumn, when the chapter begins its 2001-2002 season of dynamic and content-rich programs on September 19th.

Looking back over the 2000-2001 season, the organization had another great year of educational, entertaining and entrepreneurial monthly programs. Several executives of hot high-tech San Diego companies presented their most pressing business issues in front of a diverse panel of experts comprised of venture capitalists, consultants, entrepreneurs and other key executives in the San Diego business community.

The chapter also launched an outreach program designed to promote collaboration with other not-for-profit business organizations to bring visibility to San Diego as a great place to be for both biotechnology and high-technology companies.

In March 2001, the chapter wished a fond farewell to JoAnn Michael, Executive Director of the Forum since 1998.

Her contributions to the organization are unparalleled, as she was responsible for making the chapter as strong and as well regarded as it is today.

Jennifer Carroll succeeds JoAnn Michael as Executive Director.

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