

The Journal of **PRIVATE EQUITY**

Strategies and Techniques for Venture Investing

VOLUME 4, NUMBER 1

WINTER 2000

JAMES E. SCHRAGER	Editor
NANCY E. LICHTENSTEIN	Assistant to Editor
<hr/>	
HARRY KATZ	Production Director
PEGGY MALONE	Production Supervisor
MICHELLE WRIGHT	Production Artist
AJANI MALIK	Production Manager, Prepress and Reprints
YVETTE DANIEL	Copyeditor
<hr/>	
CHRISTOPHER ENTICKNAP	New Business Development Manager
IGNACIO MULAS	New Business Development Manager
<hr/>	
GEORGE LIAO	Circulation Director
INGRID BONEY	Direct Marketing Manager
STEFANNY HSU	Marketing Associate
<hr/>	
JOSHUA STERNLICHT	Advertising Account Manager
TAMMY MARTINEZ	Advertising Assistant
<hr/>	
ALEX BELINSKY	Fulfillment Manager
CHERLY-NINA BONNY	Fulfillment Supervisor
KATHY COMMISSO	Fulfillment Assistant
NASHELLE ORTIZ	Fulfillment Assistant
<hr/>	
GREG ANDERSON	COO
<hr/>	
ALLISON ADAMS	Associate Publisher
GAURI GOYAL	Publisher
CHRIS BROWN	CEO

Where do you turn for answers as the stock market continues to swing wildly from glee to despair? In this issue we present a series of articles evaluating some of the fundamental building blocks in the private equity world: a look at the effects of institutions, both public and private; of valuations, for both low tech and high tech industries; of industries outside of our country; and of the effects of individual personality on the progress of a new enterprise. While these readings may not offer precise answers to the perplexities of the market, discussions concerning the fundamental issues of any complex system are always enlightening as we develop our own models of success and failure.

Our first article examines the effects that Stanford University has had on technology companies in the San Francisco Bay Area. If I told you that a technical graduate of Stanford had a 63% chance of starting a company sometime in his or her lifetime, would you believe me? Thomas Byers, Robert Keeley, Anthony Leone, and George Parker take a fascinating look at how much impact Stanford has had on nearby industry. Their results may surprise you.

What role do State and Community venture capital and development funds have on new enterprises? We continue to watch these funds grow, yet as with any government program, hard facts on success are not easy to find. Axel Martinez has developed data on a number of state venture capital funds, reporting the total number of deals completed and their status. These data show wide variation in size and number of deals from the states profiled. Would you have imagined that Connecticut has done more deals than New York?

In building a model of what works, understanding past success and failure is vital. Strategic Rollups held great appeal in the last decade, so it is required reading for us to learn how well they have performed. Did you predict success or failure for these Wall Street darlings? What did you think would differentiate the good from the bad? You can check your ideas against those of Paul Kocourek, Steven Chung, and Matthew McKenna as they explore

The Journal of
PRIVATE EQUITY
Strategies and Techniques for Venture Investing

the ups and downs of this market segment. What should you do with a failed Rollup now? They'll give us their opinion on that as well.

How do you value an Internet company? With great care and frequent adjustments. Steven Rosner has the guts to help us understand how the valuations of such Internet standards as Amazon, Yahoo!, and eBay can be viewed with traditional and non-traditional tools. Whatever your system of value, you'll find this approach useful in thinking about these firms and perhaps applicable, as well, to many others.

No model that analyzes business is complete without a look at what other countries are doing. Japan has a fascinating economy with an even more interesting stock market. Although not well reported here in the United States, the Japanese market rose to dramatic highs in the decade of the eighties, dropped by 50–60% in 1990, and then, agonizingly, has remained at those depressed levels. Masaki Kuroki, Mark Rice, and Pier Abetti present a look at the venture capital industry in Japan. For those who wonder how life may be after the fall, here is a set of facts that may help us envision what happens when the stock market remains flat for a decade.

Germany is another major industrialized nation that has interesting patterns. Gary Cadenhead and his co-authors have investigated the role of Angel Investors in Germany, and they present data that compares angels' role with that of similar investors in the U.S., Great Britain, Finland, and Holland. Do you wonder where German Angels get their deals? Do you wonder about their business backgrounds, or why they might reject deals? This paper answers these and other relevant questions.

How important is the personality of the entrepreneur you are about to invest in? This is a controversial question, with both successes and failures in the usefulness of this approach as one component of deal evaluation. John Eggers applies the Five Factor Theory of Personality to a sample of forty-four Canadian CEOs. While this is still an emerging field, the present study will help you to think a bit more clearly about how certain aspects of personality affect success.

James E. Schragger
Editor