

# *The Journal of* **PRIVATE EQUITY**

Strategies and Techniques for Venture Investing

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**I**t seems like we never have quite as many troubles and burdens to bear as in a Presidential election year. Not only the candidates, but most every newspaper, television and radio news segment informs us of yet another bit of bad news. In keeping with that spirit, we have collected all the trouble we can find in the new venture and buyout equity worlds and gathered it together in this issue. Included are accounting fraud, outsourcing, public business development funds, the social incompetence of entrepreneurs, reduction in the European high tech scene, and the always challenging company turnarounds.

Business Development Companies allow portfolio managers to raise large funds from public equity markets rather than high net worth individuals and institutions. But what kind of animal are these fund pools and how big are they getting? Mark Anson traces the history and current doings, as well as the advantages and disadvantages from both issuer and purchaser points of view.

How important is personal persuasion in the process of raising funding for a new business? How accurately do entrepreneurs rate their own skills? Hoehn-Weiss, Brush, and Baron studied 66 entrepreneurs and videotaped their business plan presentations. As you might imagine, many of these budding business tycoons felt they were more persuasive than the experts did. But do you think there was a difference between those who obtained funding and those who did not? How long does it take to form a good impression of the social skills of an entrepreneur? How long do you take? This article will shed new light on these difficult questions.

Would you like to predict when one of your portfolio companies will go belly up? Wouldn't it be handy to have a set of early warning signals? Mishra and Drtina analyze two different types of large companies to attempt to predict bankruptcy, using existing techniques. In two companies, United Airlines and Federal Mogul, their models accurately predicted impending financial doom. But what about for Enron and WorldCom? Are any predictive models of use for those companies?

Of all the issues this fall, outsourcing is one where we have plenty of data to measure its effects. We have been buying cheaper goods and services from outside our borders for several decades. Manufacturing jobs in the United States have been in decline since the 1970s. Yet our economy continues to prosper. But what about outsourcing in the world of venture capital? Will fewer dollars be

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needed as a result of lower costs? Will VCs need to cultivate offshore sourcing skills? Will the long-term lead of the U.S. in innovation be threatened? Terry Angelos tackles these tough questions in his look into the future of outsourcing and how it will affect the private equity world.

You think you have it tough? In Germany, the NEMAX index, rough equivalent of our Nasdaq, dropped 95%. It was permanently closed. Sound like some major changes going on? Kollmann and Kuckertz take us to three German-speaking countries on a tour of the wreckage: Switzerland, Austria, and Germany. They analyze 10 actual deals in depth to study deal origination, deal screening, deal evaluation and deal structure. How have things changed? How will they change in the future?

Sticking with our disaster theme, let's investigate the issue of corporate turnarounds. Sure, some segments of the economy are doing well, but others remain in deep trouble. Our first piece deals with Section 363 of the Federal Bankruptcy Code which allows a neat and clean sale of a bankrupt's assets to an outside purchaser. This eliminates much of the hassle of a traditional bankruptcy pro-

cess that can also be very slow. Although a section 363 sale looks like a traditional auction, there are many pitfalls. Daniel Glosband shows us what to watch out for along the way.

Anybody want to rescue a Canadian steel processing company that sells to the auto industry? What's that, you think this might be a tricky one to save? Brave turnaround folk think nothing of issues like an uncooperative seller, the complexities of working with organized labor, an unenthusiastic lender group, and a handful of legal difficulties. Authors Midanek, Forte, Katz, and Jorgensen tell us the tale from several different points of view.

Our final piece in our disaster spotlight makes a point none of us can understate: operational experience makes the difference. Peter Tourtellot regales us with a list of things that the best outsiders bring to turnarounds. How many of these do you have? Without them, your turnaround efforts may be less than effective.

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