Western Mass Venture Forum NEWS

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Ben & Jerry's - WATERFIELDS

With Harry Gilligan, a local business adviser, as master of ceremonies, the fourth session of the Western Massachusetts Venture Forum began with a presentation by Dr. Terry Mollner, an investment banker concentrating in socially responsible investments. Dr. Mollner discussed his involvement in the Ben & Jerry's acquisition by Unilever and the lessons learned from it.

The business plan presentation was by Waterfields' president and founder, John Reid. Over the past decade Reid has perfected a self-contained and 99.7 percent recycling ecosystem for raising fish in an aquaculture system which also raises herbs as a byproduct. Waterfields will license the unique brood stock which creates a whitefish which grows at 300 percent the speed of normal growth and provides fillets which are over 40 percent of the total body weight instead of the normal 29 percent for this species.

The Ben & Jerry's story began with a hot tub meeting after Mollner read that Ben & Jerry's was being bought. Mollner was upset because Ben & Jerry's was the flagship of socially responsible businesses - the fifth most respected Company in the US. He called Ben Cohen to see how they could turn a liability into an asset. A company owned by Nestle was in line to buy Ben & Jerry's. It was very late in the process. The only way to stop this was to put in a bid higher than Nestle's. Calling leaders of the socially responsible investment movement, Mollner signed up 25 people who committed $200 million to an offer.

Five minutes before sending the electronic mail message with the offer, the investment banker involved pulled out. With only minutes left, Mollner called Joe Sibilia in Springfield who was setting up a socially responsible investment fund. Sibilia's Company, Meadowbrook Lane Capital, put in the offer at $250 million.

Because of its higher offer, the Ben & Jerry's Board gave Meadowbrook one week to prove it had the $250 million cash.

When the Board met, it wanted to find a way to not sell the Company. It wanted to sell preferred stock to socially responsible buyers, but could not do it because of the liability for not getting the maximum dollars for the sale of a publicly traded company. If you want a

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Writing For The Business Plan Audience -Part III

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Forget The Investment Details

One area of the business plan where management should not spend much effort is the company structure and, except either a general outline or potential scenarios, the exact form of the investment. Whether the investor will want seats on the Board of Directors, preferred stock, convertible stock, warrants or other particular forms for the investment are all choices the investor will want to make. Spending much space and energy in the plan on these issues only turns potential investors off if the choice of form of investment proposed (and seem to insist on by a long description) is not what the potential investor is looking for.

Value=Beauty...The Beholder's Eye

The $64 million (or maybe more) question is valuation. This is where the most detailed and intensive negotiation between a potential investor and the business plan sponsor happens. In most situations, discussions about valuation center on using comparables; i.e., transactions believed to be like the transaction proposed. Of course, whether a transaction is really "like" the proposed transaction and whether the new business proposed by the business plan is really "like" the business used as a comparable is, finally, in the eye of the beholder.

There are various methods used to value companies. Valuation formulas vary from industry to industry. The bottom line on valuation discussions is that they are very personal. Management believes that the idea, intellectual property, industry knowledge, technology development and market sense they bring to the table has a high value. The potential investor believes that, largely, the value of the idea, intellectual property, industry knowledge, technology development and market sense management has cannot and will not come true without the cash. The potential investor is looking at the ultimate return. The lower the pre-cash

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May 29 Forum:

Make Yourself the Industry Leader on a Shoestring

Jim Ross, President, Concourse Communications, LLC

Concourse Communications is the 2001 BUSINESSWEST company of the year. In a relatively short time, Concourse has made itself the industry leader in placing wireless technology in large-scale public facilities like airports and subway systems in addition to engineering cell towers.

How does a small company in Springfield become a national industry leader? How does it get recognized by THE WALL STREET JOURNAL and the trade press as the field leader without spending millions on PR and advertising?

Jim Ross, the person in charge of making Concourse's image happen, will explain how they have become nationally prominent on a shoestring. He'll show Forum participants the strategy and execution steps needed to turn a local company into a national industry leader.

Automated Holographic Systems, LLC

Louis Kronfield, CEO and Ryder Nesbitt, CTO of Automated Holographic Systems, LLC will present their business plan. Founded in 1999, this Westfield company uses a trade secret replication technology developed by its founders to produce large size production tools for security and packaging hologram manufacturers. It's current product has allowed the company to establish relationships with most of the major companies in the industry.

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Ben & Jerry's - WATERFIELDS - con't.

Company which can maintain a socially responsible agenda, you have to keep control inside by only putting a minority of the stock out.

Unilever had an offer on the table. It surprised everyone by agreeing to be a minority partner in Mollner's deal. It agreed to take 20 percent of the Company and fund a $200 million loan for five years at seven percent. The offer to the shareholders was $38 per share. The Board approved the deal subject to documentation. While that was happening, Nestle came back with a new bid. The Board decided it would give everyone one last chance to come in with a fully documented deal. It would accept the highest offer on the table then.

Mollner thought his deal was dead. Unilever decided to make its own offer and invited both Cohen and Mollner to be members of the new company's Board. Unilever agreed the new company would have a socially responsible agenda and that Unilever would contribute a total of $15 million; $5 million for the Ben & Jerry's employees and $10 million for a new socially responsible venture fund. That's the deal that happened.

Eleven entrepreneurs made one minute pitches looking for money for businesses ranging from recording companies, restoration trades training, electronic auctions for fund-raising, software development and an all natural ice cream manufacturing operation besides a natural beverage manufacturing operation.

Waterfields intends to license operations in most of the world to provide its unique brood stock to aquaculture operations to raise and market the fish. Adapting a model used to make poultry farming a commercial scale industry, Waterfields will become the leading supplier of the core technology. Unlike other aquaculture operations which depend on natural water sites, the Waterfields technology allows aquaculture operations to be located within two hours of major markets. Because the operation is 99.7 percent self-contained and recycling, it can be located anywhere, Natural resources, like water, are not necessary in great quantities to carry on the operation.

The reviewing panel included Mollner, Rick Feldman, executive director of the Western Massachusetts Technology Business Council and Glenn Hanson, a local investor. They commented that the business plan was a well thought out document. The structure of the proposed investment included a level of unnecessary risk for the technology business by transferring a large portion of the money raised to the current fish raising operation in order to purchase assets from it. They also noted that while there was a management team in place which has survived business cycles, the creation of a new company means split responsibility for management which could cause a problem in the future.

May 29: Automated Holographic - continued

This company is now seeking money to expand its capabilities to include the in-house creation of original holograms while providing a secure mastering and replication solution to the optical technology industry.

The company is only one of three independent companies world-wide which currently provide hologram replication services. There are only seven companies which offer the ability to master holograms. The company anticipates that by creating a mastering lab and implementing its concepts for improved tooling, it will be positioned to integrate forward into the production of proprietary, high value products including innovative security holograms and other products. The company is looking for an investment of $7 million to implement its plan.

Writing For Business Plan Audience III - continued

valuation of the company, the higher the potential return to the investor.

There are as many opinions on negotiating valuation as there are people giving them. One approach is to look at how much money is needed now and how much money will be needed in future rounds. Project what the company will look like when future financing is needed and what its value will be then. Consider what will happen if this round does not go as well as projected. The result of those considerations creates a starting point. If future investment rounds will come from investors other than the original investor, the original investor is looking at the discount on the investment when those rounds happen. He will want a lower valuation for the discount he will take in future rounds.

Whether a plan should have any valuation numbers or rates of return is an open question. This is another area where you will get as many opinions as you have people giving them. Some argue that without valuations and rates of returns, it is difficult to interest potential investors in the plan. Others argue that investors really make their decision on the plan and the perceived quality of the management team and are sophisticated enough to be able to negotiate valuations and return rates once they are interested in the business.

One thing is certain. If there are valuations and potential rates of returns in the plan, they should have appropriate disclosure language. Management should be prepared to negotiate both of them.

Exit Stage What?

An area business plans tend not to deal well with is the exit strategy. This is because management's perspective is that they are building a business which will provide income and long-term value.

The potential investor is looking at return and risk. The longer the investment has to be in the company and the less clear the plan on how the investor will reap the return, the higher the risk. Management has to consider who will buy the company or the investor's investment, when that will happen and what the potential price for that purchase will be.

Too frequently management deals with this by saying the company will have an IPO. An IPO is generally not what happens. Only about 25 percent of investments made by venture capital funds (and less of those made by angel investors) end in IPO's. In 1/3 of the cases the company is bought by another company; generally a competitor. Another 5 percent of the investments are bought back by management. Understanding which alternative is the most likely exit strategy for your business is important.

Qualifying The Prospect

The business plan should treat the potential investor as the prospect. Management is selling the potential investor a part of the company. As with any prospect, the first thing is to qualify it. Make sure you are talking to and writing for the right prospect.

Practically all investors limit the investments they make by one or more of (1) the stage of the investment; (2) the amount of the investment; (3) the industry of the investment; (4) the projected return on investment and (5) the geographic location of the company or the market.

Even if the prospect has an investment profile which matches what the plan is looking for, management should look at whether the prospect has the contacts to help grow the business. Management should be asking whether the prospect can help the next financing round by knowing the likely candidates for it. Management also needs to know whether the prospect can help with the resources needed for the plan like industry contacts, leads on the potential customer base and leads on labor resources. Remember, you are making a deal with someone who will be your partner for the next three to seven years.