



Educational Session Tab 10

The Domino Effect - Industries at Risk

B O O M T O B U S T

Recovering from the 90's Bubble





The Domino Effect Industries at Risk

Fred Myers
Goodmans LLP



**“Stocks have reached what looks like a
permanently high plateau.”**

*Irving Fisher, Professor of Economics,
Yale University, 1929*



“This ‘telephone’ has too many short comings to be seriously considered as a means of communication. The device is inherently of no value to us.”

Western Union, 1876



“Airplanes are interesting toys but of no military value.”

*Marechal Ferdinand Foch, Professor of Strategy,
Ecole Superieure de Guerre*



“I think there is a world market for
maybe five computers.”

Thomas Watson, Chair of IBM, 1943



“Computers in the future may weigh no
more than 1.5 tons.”

Popular Mechanics, 1949



“I have traveled the length and breadth of this country and talked with the best people , and I can assure you that data processing is a fad that won’t last out the year.”

Prentice Hall, 1957



“But what ... is it good for?”

Engineer at IBM commenting on the microchip, 1968



“There is no reason anyone would want a computer in their home.”

Ken Olson, President, Chairman and founder of Digital Equipment Corp. , 1977



“640K ought to be enough for anybody.”

Bill Gates, 1981



“\$100 million dollars is way too much to pay for Microsoft.”

IBM, 1982



“We don’t like their sound, and guitar music is on the way out.”

Decca Recording Co. rejecting the Beatles, 1962



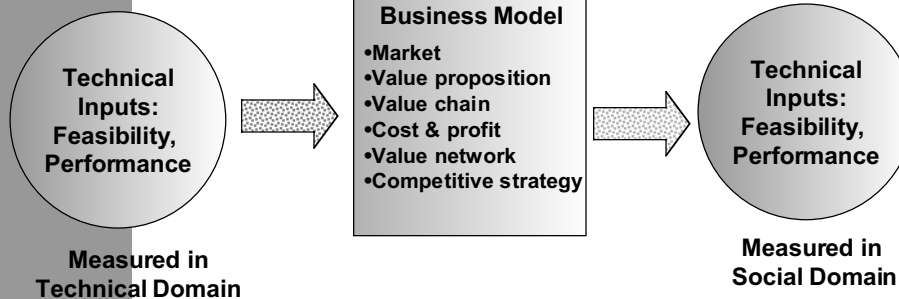
THE TECHNOLOGY DOMINO EFFECT

Martin Pichinson – Principal & Co-founder
Sherwood Partners, Inc.

Palo Alto – Los Angeles – New York City - McLean



A Good Business Model Mediates Between the Technical & Economic Domains





Technology Is Really A Science Project

- Create Concept
- Validate Concept
- Beta Concept
- Commercialize Concept
- Sell Concept
- First Sale Does NOT Validate A Company
- Even the Fourth Sale ONLY Validates First Few Sale
- Ninth To Tenth Sale and Repeat Sales Validates That There Is A Company



What Technology Will Do

- Increase Productivity
 - Information
 - Use of Raw Goods
 - Use of Energy
 - Consistency
- Reduce Expenses/Overhead
 - Equipment
 - People
 - Salaries
 - Related Expenses
 - Taxes
 - Health Insurance
 - Etc.
 - Inventory



World Phenomenon

- Consolidation
- Commoditization
- Globalization
- Information
- Transportation



But There Is Also A Technology RUT

- Who will purchase new software or hardware solutions
- What will a promise be worth
- What will a promise of “source code” be worth?
- How will startups grow with smaller investments, fewer follow rounds and longer growth cycles



What's Next

- Fewer Deals
- Fewer and Smarter Buyers
- Even Smarter Consumers
- Fewer Retailers
- Pressures from Consolidation
- Push Towards Globalization
- Stiff Competition



Future Opportunities

- Niche Areas
- Support
- Add-On
- Strategic Alliances
- Out-sourcing



Future Growth

- Without state of the art technology and the perfect application
 - Growth will be difficult
 - Expansion will be almost impossible
- Without sufficient funding
 - Deadlines will be difficult to make
 - Niche players will have a difficult time
 - Large profits will not be possible




Is there a Future for New Ideas

Absolutely **YES!**

But, the win is no longer a 10M company.
The future is for 100M+ companies. Vying for position in the global economy is key and partnerships, relationships and value will be the key factors.

1634	1719	1719	1922-1929	1965-1989	Late 60's to Early 70's	1974	1978-1981	1982-????	1986-1990
Holland Tulip Mania	France New World Exploitation	England New World Exploitation	USA Roaring 20's	Japan Yen for Stock	USA Nifty Fifty	Hong Kong	Mexico Stock Rise	USA Technology	Taiwan
UP 5,900%	UP 6,200%	UP 1,000%	UP 486%	UP 3,720% Over 14 years	UP	UP	30 month Rally	UP 1,000's %	4 Yr. Build Up
Down 93%	Down 99%	Down 84%	Down 90%	Down 55% No Recovery in site	Down 80-90%	Down 90%	Down 73%	Down /Maybe Up 40% TBD	Down 80%



The Insolvency Train is A Rollin'

We will be quite busy for the next five years as we transform from the Industrial Age to the Information Age. There is no pattern for recovery as we are becoming a world economy.

There will be a "Golden Age" at the end, but civilization will go through tremendous pain and change as we grasp the immense change in a truly commoditized, globalize world.

Welcome to the new world, where business is at the speed of change.



That's The Good News

The Bad News Is....

- We will have to change the way we do business
- We will have to focus and fully understand globalization, pricing and “value”
- The customer now knows the game
- Mediocrity will no longer be accepted



There is a new sheriff in town and there will be a new way to do business. The change will create challenges and opportunities.

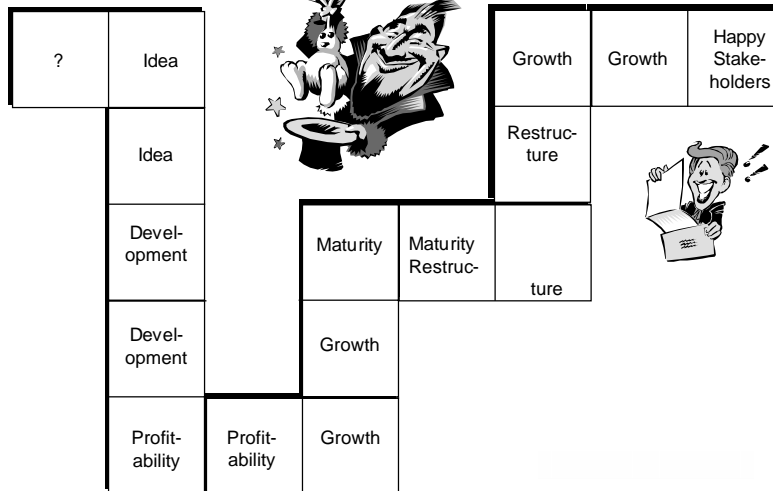


The Domino Effect - *Industries at Risk*

Peter Spratt
PricewaterhouseCoopers
Global Restructuring Services LLP

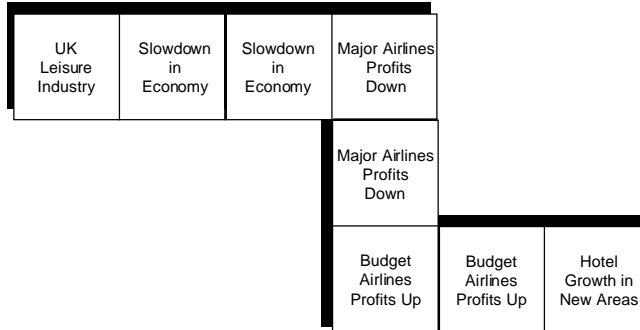


Stakeholders' Dominos

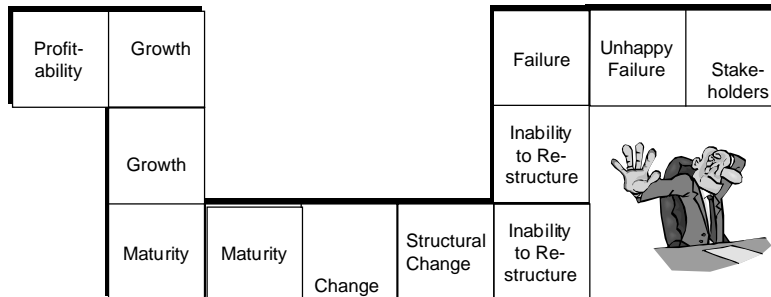




Leisure Industry - *a domino effect?*

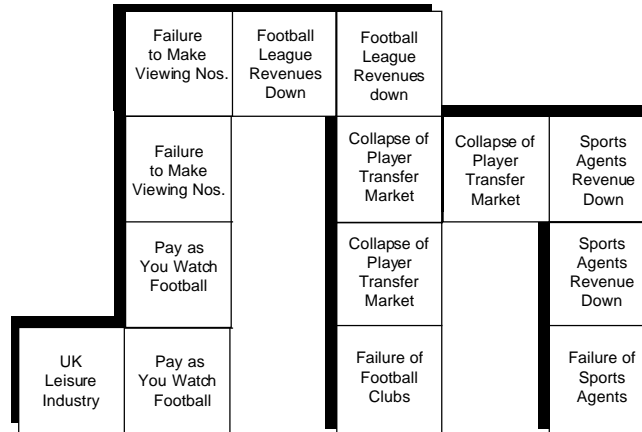


Stakeholders' Dominos

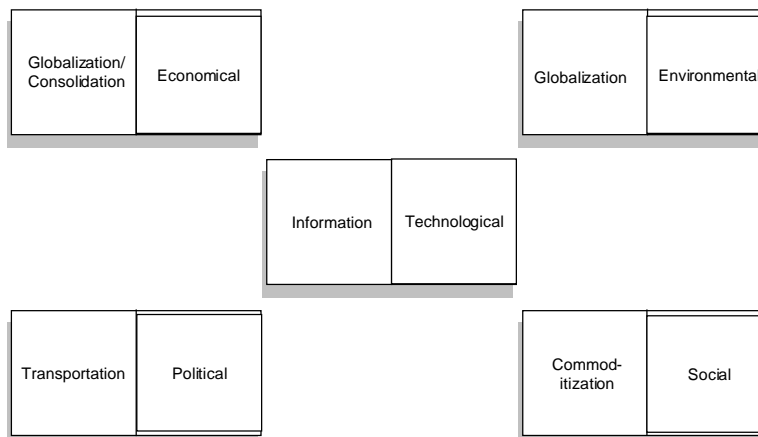




Leisure Industry - *a domino effect?*



Catalysts of Change





THE DOMINO EFFECT - INDUSTRIES AT RISK

James H.M. Sprayregen, P.C.
Kirkland & Ellis LLP



Identifying Future Troubled Industries

- Energy/Utilities
- Airlines
- Automobile
- Shipping
- High Tech
- Supermarkets
- Real Estate



What Factors Put Industries At Risk?

- The Domino Effect
- Technological Innovations
- Commoditization
- Regulatory Changes
- Management Issues



Actions That Can Characterize At-Risk Industries

- One Time Asset Sales
- Operational Restructuring/Bankruptcies
- Issuance of High Yield Debt
- Frequent Management Turnover

Are these symptoms or solutions?



Actions that Characterize At-Risk Industries

Asset Sales

Are companies just “burning the furniture to pay the rent?”

Many sectors are seeing asset sales:

- Energy
- Telecom
- Utilities
- High Tech



Actions that Characterize At-Risk Industries

Multiple Bankruptcy Filings

Signal of Inherent Weakness



Actions that Characterize At-Risk Industries

Issuance of High Yield Debt

Why Now?



High Yield Debt Market - Past Ten Years

New Issues of High Yield Bonds	
Year	Total Cost of New Issues
2003	\$151 Billion (projected)
2002	\$74 Billion
2001	\$110 Billion
2000	\$67 Billion
1999	\$125 Billion
1998	\$161 Billion
1997	\$153 Billion
1996	\$90 Billion (approximated)
1995	\$45 Billion (approximated)
1994	\$50 Billion (approximated)

Source: Securities
Data Company, June 9,
2003; All High Yield
Volumes, including
144a Issues



Increased Issuance of High Yield Debt: 1997 - 1999

According to Fitch Ratings, 40% of all junk bonds issued between the beginning of 1997 and the end of 1999 had defaulted by the end of June, 2002.

Source: Richard, Christine, High Yield Bull Bonds Packed Risk, Wall Street Journal, October 10, 2002



High Yield Debt Market

Current Boom

Is it based on unreasonable optimism?

or

Will there really be a brighter tomorrow?



Current Junk Bond Boom is Concentrated in Lowest Rated Issuances

"CCC" rated bonds (lowest rating available) account for more than 57% of all defaults in the past ten years.



Bonds rated "CCC" account for just under 15% of recent high yield debt offerings.

Source: Securities Data Company, June 9, 2003; All High Yield Volumes, including 144a Issues



Predictions for Industries at Risk



Martin Pichinson
Co-Founder & Principal
Sherwood *Partners*, Inc.

The Technology Domino Effect

Fact: The focus of a technology company and eventual sale of the technology is to:

- Increase productivity
 - Information
 - Use of Raw Goods
 - Use of Energy
- Reduce expenses/overhead
 - Equipment
 - People
 - Inventory

Result: Technology increases profits, margins through better information and control of all costs.

Phenomenon: The world is experiencing five elements. As they are now in total alignment, going forward we will massive changes in the way we work and play:

- Consolidation
- Commoditization
- Globalization
- Information
- Transportation

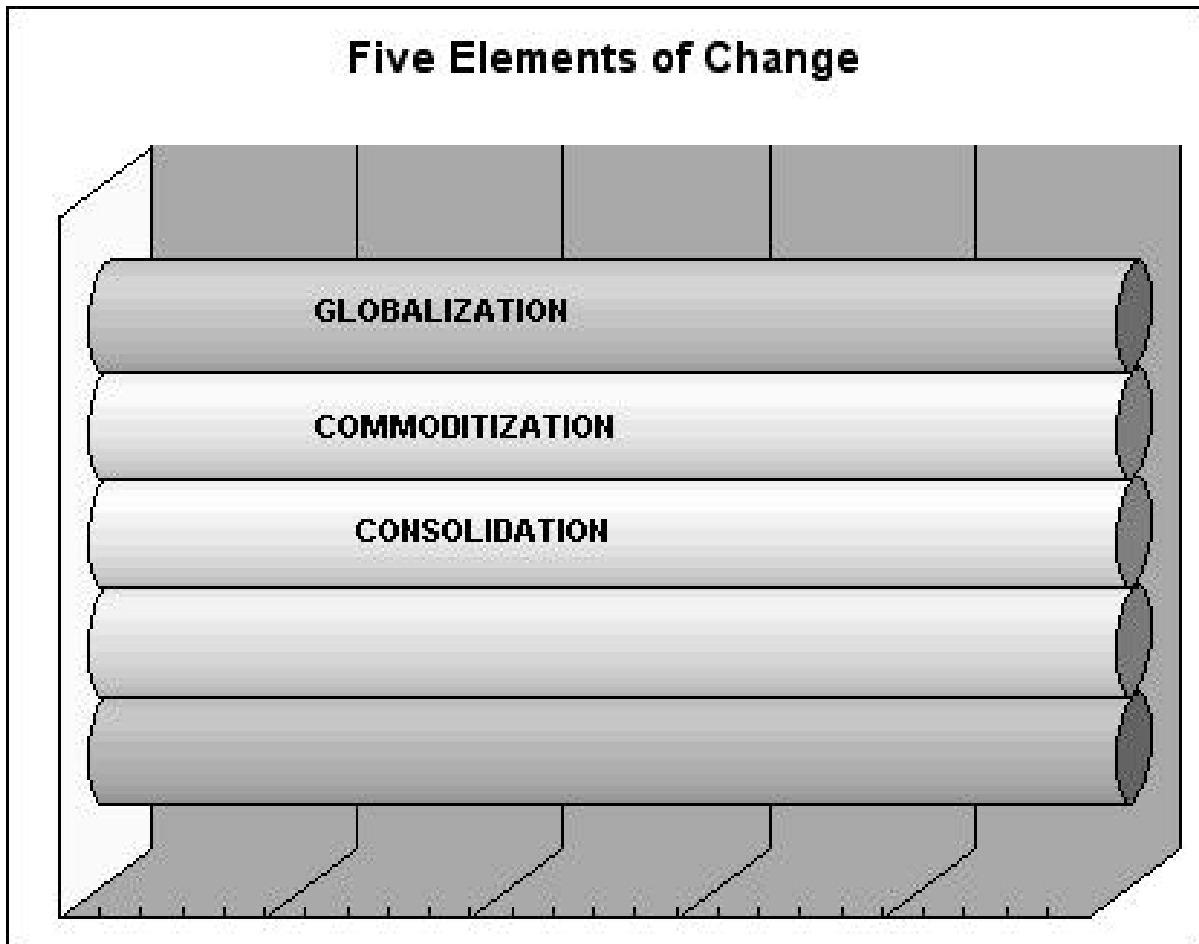
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Five Elements of Change



These five elements are enabling a new world order and structure that will change every business throughout the world. This in fact will push weak businesses into insolvency while the strong will get stronger.

Technology Rut: Startups will have a problem selling their wares to corporations:

- Who will purchase software or hardware solutions from a company that “may not be around in two to three years”?
- What will a promise of growth with future products be worth if a customer base is not established?
- How will the “customer” be assured of maximum customer support?
- How will new startups grow with smaller investments, fewer follow rounds and longer growth cycles?

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Technology will enable management to control every element from every factory, distribution center and sales effort; no matter what the location to monitor and establish benchmarks from country to county and manufacturing floor to manufacturing floor.

Today's "black" factories are running 12 to 18 hour shifts with a dramatic cost and staff reductions. ROI will be very black and white. And...this is just the beginning!

U.S. statistics are reflecting the early stages of this change and yet, no one is listening. Productivity is up 4_% while unemployment continues to grow. This is not only in the U.S., but all through Europe and Asia. What evidence if any creates a pattern of re-employment for the unemployed?

- Vulture funds today are experiencing a shortage of opportunities, as markets are shrinking.
- Fewer corporate buyers control more purchasing power than ever before.
- Fewer retailers control their industry "space". Competition from the local and regional retailers has disappeared.
- What is next? National corporations are taking control and looking towards global domination.

It will be all about funding, funding and funding with the corporate venture investors controlling their markets

Future: The opportunities will be:

- The future opportunities will be niche areas
- The niche areas start off regionally and small, therefore they will initially slip under the radar of the national and global corporations

Future Growth: Will be difficult:

- Without state of the art technology, expansion and growth will be difficult.
- Without funding, the niche player will have a difficult time expanding.
- The large corporations will get larger and control more of the space.
- Who will purchase a new technology or any business if you are not an established company?

Presumption: Is there a future for new ideas?

There certainly is, but we are currently departing from the Industrial Age and entering the Information Age. Companies are not fighting to become a \$10,000,000 business. They are vying for a minor to major position in their space. With globalization, the market point will be \$100,000,000 plus businesses.

Opportunities for the insolvency world: We will be quite busy for the next five years. There is no pattern for recovery as we are becoming a world economy. There will be a “golden age” at the end, but we will also go through tremendous pain and change to grasp the immense change in a truly “commoditized” world where competition will be fiercer than ever before.

Welcome to the new world, where “Business at the Speed of Change™” will keep us all on edge.

Consider the facts....business basics will still be in play. We can not forget the old rules about manufacturing, distribution, sales and processes, but there is a new sheriff in town. Technology will play a very important factor to any growth or change. It will not be something that any successful or growing company will be able to put on the sidelines. There will be a new way to do business...this will be the challenge and the opportunities for us all!