What Can We Learn From SolidWorks Case?

SolidWorks: John Hirschtick’s New Venture

Discussion led by:
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For class on Monday November 3, 2008
Agenda

1. News
2. ABCs of Financing
3. Solidworks
   1. Opportunity and Risks
   2. Deal/Financing
   3. Outcome
   4. Epilogue
4. Takeaways
News

• The national elections tomorrow will have a great deal to do with the entrepreneurial context in which you live and work for the next four years – wherever in the world you may be!

• If you can vote tomorrow, and have not yet done so, please vote.

• If you are not a U.S. Citizen, take time to see how your friends and colleagues are voting.

• Learning about the political environment is a great “real world” lesson in entrepreneurial context.

• On November 21, Barelypolitical.com and Obama Girl come to Stanford.
News

• Please let CAs know if you want to meet the founder of Barelypolitical.com and Obama Girl in a session from 5:00-6:00 PM on Friday, November 21, 2008
ABCs of Financing

A. Amount of Cash Needed and Purpose

B. Sources of Capital

C. Deal Structure and Terms
Is SWKS a High Potential Opportunity in September of 1994? Why or why not?

PEOPLE & RESOURCES
Experiences, Skill, Contacts, Attitude, Knowledge

CONTEXT
Macroeconomy, Tax, Regulatory, Socio-political

DEAL
Allocation of Risk and Reward, Incentives, Signals, Sorting, Consequences

OPPORTUNITY
Entry Barriers, Customers, Suppliers, Substitutes, Rivalry, Economics

YES

Favorable Technology
Macroeconomy

Favorable Rules of the Game

Project-Appropriate Financing
Option Preservation

Appropriate Risk / Reward Allocation and Incentives
Investor Value Added

Sahlman et al. (1999) The Entrepreneurial Venture
What are the major risks that the SolidWorks Leadership Team needs to manage?

1. What are the most critical risks?
2. How will you manage or prevent them?
3. What is your contingency plan if a risk becomes reality?

- Technology Risk
- Market risk
- Management Team
- Financial Risk

* Adapted from Sahlman (1997), *How to write a great business plan.*
SolidWorks’ Options

**Single Round**

- **Raise _______ Now.**
  - 2 investors
  - Profitable

**Multiple Rounds**

- **Raise _______ now.**
- **Raise_________ later (When)**
  at $_____/Share.
Let’s vote!

• Who would take the deal as is?
• Who would do one round, with more negotiating?
• Who wants to do multiple rounds?
SURESNES, France, and CONCORD, Massachusetts, June 24, 1997 – Dassault Systèmes S.A. (Nasdaq:DASTY) and SolidWorks Corporation today announced the signing of a definitive agreement whereby the privately-held SolidWorks will be acquired by Dassault Systèmes in a stock transaction. Dassault Systèmes provides process-centric solutions for major industrial customers and suppliers through its CATIA-CADAM and VPM product lines, which are successfully marketed, distributed and supported worldwide by IBM. Through this unique strategic partnership with IBM, Dassault Systèmes is a leader in the worldwide CAD/CAM/CAE/PDM-II software market. SolidWorks, a pioneer in developing mechanical design software products for Windows, is a leading provider of cost-effective, easy-to-use production solid modeling solutions for the mainstream design-centric market. Together, Dassault Systèmes and SolidWorks will offer dedicated solutions for both market segments, thus meeting the needs of customers at all levels of product and process complexity.

The agreement calls for Dassault Systèmes to issue 4.85 million shares of common stock in exchange for 100% of the outstanding capital stock of SolidWorks and all the shares issuable upon future exercise of outstanding options and warrants of SolidWorks. Based on yesterday’s closing price of the Dassault Systèmes common stock, the transaction is valued at approximately $310 million. Subject to regulatory and shareholder approvals as well as other customary conditions to closing, the acquisition is expected to be completed in the 1997 third quarter. It is expected that the acquisition will be accounted for as a pooling of interests.
Jon: In 2001, my wife was pregnant with our fourth child in six years, in the crazy early years of the company. Our kids were 5, 3, and a newborn, and my wife got pregnant again. So I took a sabbatical.

Devon: Good for you.

Jon: Within ten days, there was September 11, and on the night of September 13 my father passed away, and on September 21 our fourth child was born. I had to drive to his funeral in Chicago because the flights weren’t running because of September 11, and I had to leave my wife home because she was nine months pregnant. So I decided after the sabbatical that I couldn’t go back to the way I was working, it was too much sacrifice in my personal life. I’d finished a year in which I’d flown 52 times on American. It was crazy, SolidWorks grew, took a lot of time, and we had a lot of passion for it.

So, anyways, John McEleney (current CEO of SolidWorks) was ready and was itching to go. The company had gotten to be a big company, $100 million per year, and I was doing less and less of the things I like to do. I thought maybe I wasn’t the best guy anymore. So Johnny and I worked out this deal where I would work part-time. So I feel like the luckiest guy in the world.


In the five years since then… I have three different things that I do.

One is advising and consulting to the management team… Johnny and I spend a lot of time talking about things, we’re great friends. I help a lot with marketing, new strategies… Or, I might take a look at FeatureXpert, how should that technology develop. A little bit of time I spend with the team in designing. I consult on marketing, what should we call it, how we should explain it to the world, what applications are there.

…Number two, strategic projects, looking at companies to acquire, or special days we do with other people.

The third thing I do is lots of customer interface… I talk about SolidWorks and I listen about SolidWorks. I go out to User Groups, I hear something, I might bring it back and say, “John, look, in three User Groups, this is sounding important, and I just thought you should know that.” Or, he may say to me, “we’re going to a bunch of User Groups and I want you to be promoting this message.” …


Jon: I have the best job in the world. I really do, no one has more fun here than I do! I get all the benefit and, frankly, all the wonderful treatment by our employees. I don’t have to carry the headaches of sales forecasting, I don’t fire people, and I don’t have to do any of that stuff. I’ve been doing this 25 years, I’ve been doing SolidWorks for 13 years. I just called my wife today and told her how exciting this is for me.

SolidWorks “TakeAways”

1. The pursuit of opportunity includes assembling an extended team including best-in-the-world talent and value-added investors.

2. Important to appreciate the motivations and pros/cons of different sources of cash including professional venture capital.

3. Entrepreneurs and VCs speak in terms of risk reduction when they discuss use of funds.

4. Staged financing can benefit both the entrepreneurs and venture capitalists.

5. A founder may or may not remain as a senior executive in a venture. There is no “one best answer…?”
Solidworks Web Site
http://www.solidworks.com/
Parting thoughts

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