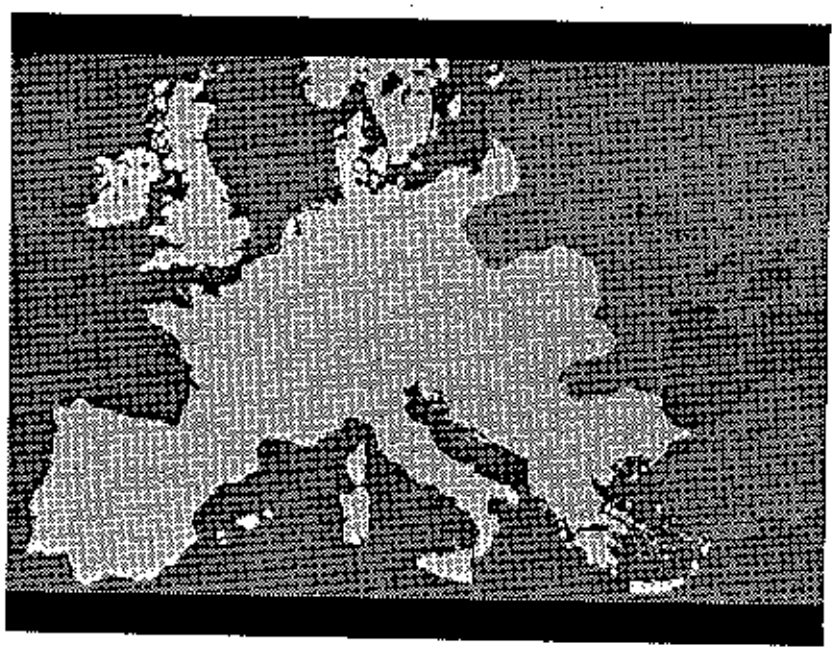
IMPLEMENTING THE TPF MODEL IN EUROPE



THOMAS D. NASTAS
INNOVATIVE VENTURES

TPF CORE GROUP MEETING

DG XIII, CEC, LUXEMBOURG

28 SEPTEMBER 1992

DISCUSSION THEMES

The Market

- Changes in the Banking Industry
- The Capital Shortage
- Client Factors

Guidelines for TPF Selection

- Identifying the Client & the Risk Factors
- Verifying Performance

Dealing With Unsecured Advances

- Structuring Deals
- Securitizing Deals

Benefits & Future Perspectives

- Make an Informed Decision
- Investment Principles & Learning Curve Lessons
- Strategic Implications

- NOTES -

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WHY IS TPF NEEDED?

Improving Returns is One Reason

- More Competition
- Shrinking Market

The Capital Shortage is Another

- Flight of Capital to the Most Creditworthy
- Unavailability/High Cost of Equity

- *NOTES* -

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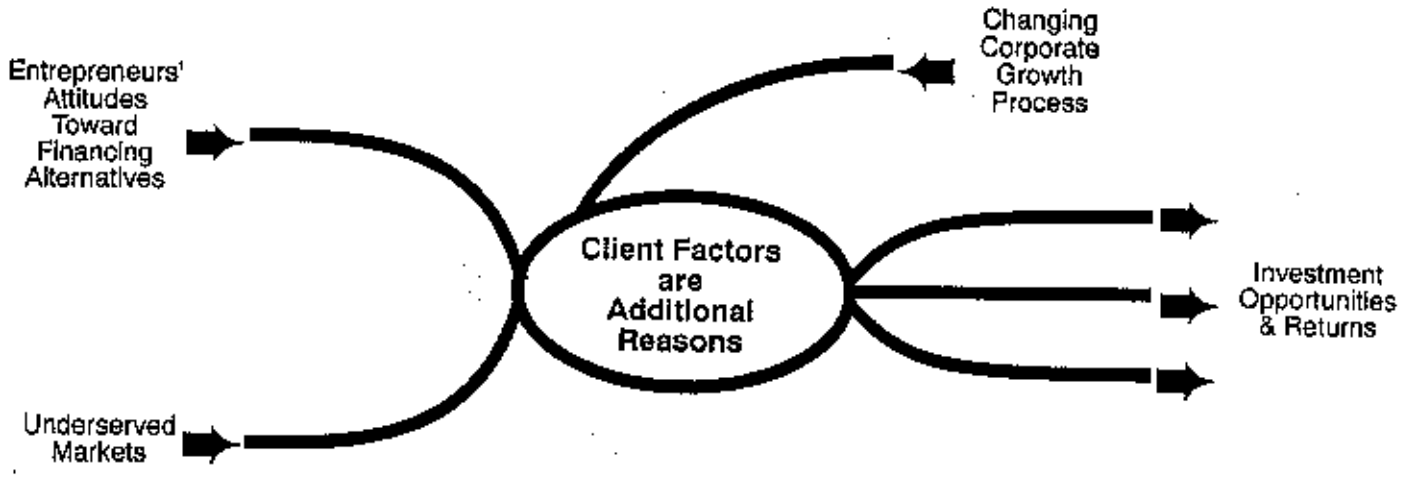
WHY IS TPF NEEDED?



- NOTES -

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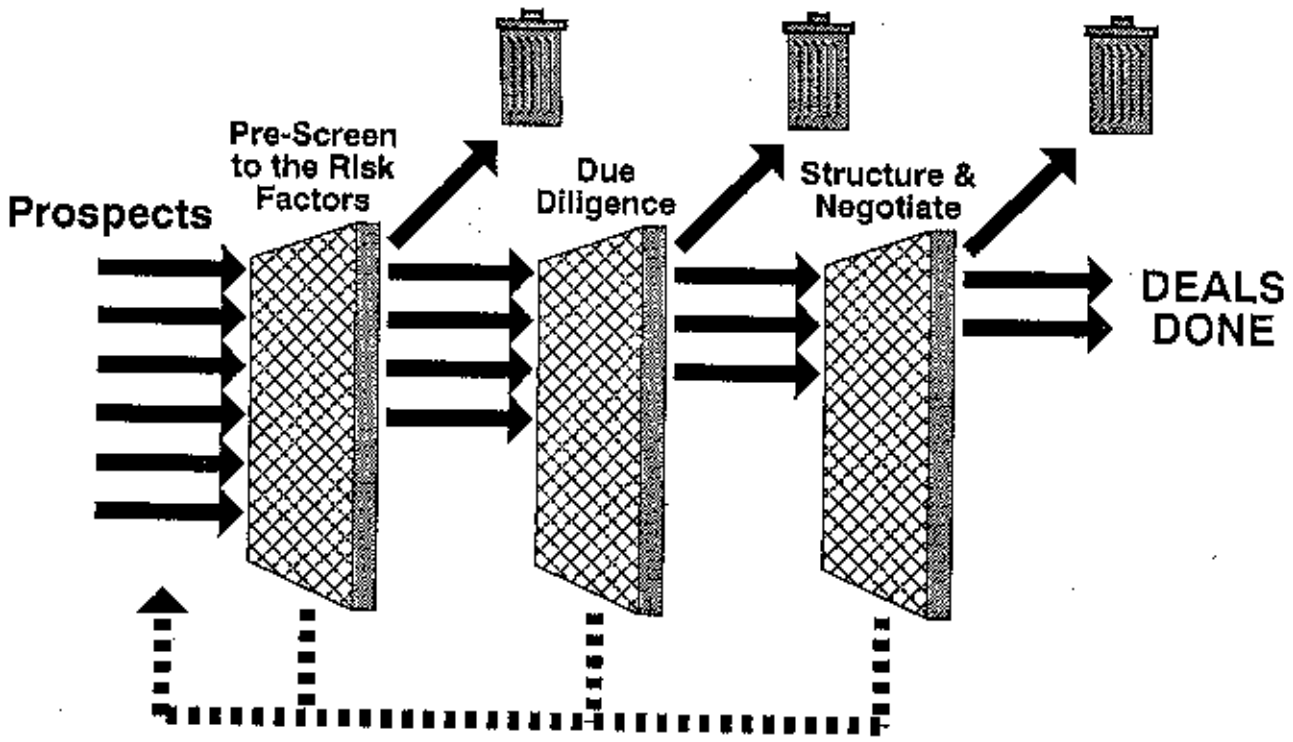
THE INVESTMENT PROCESS



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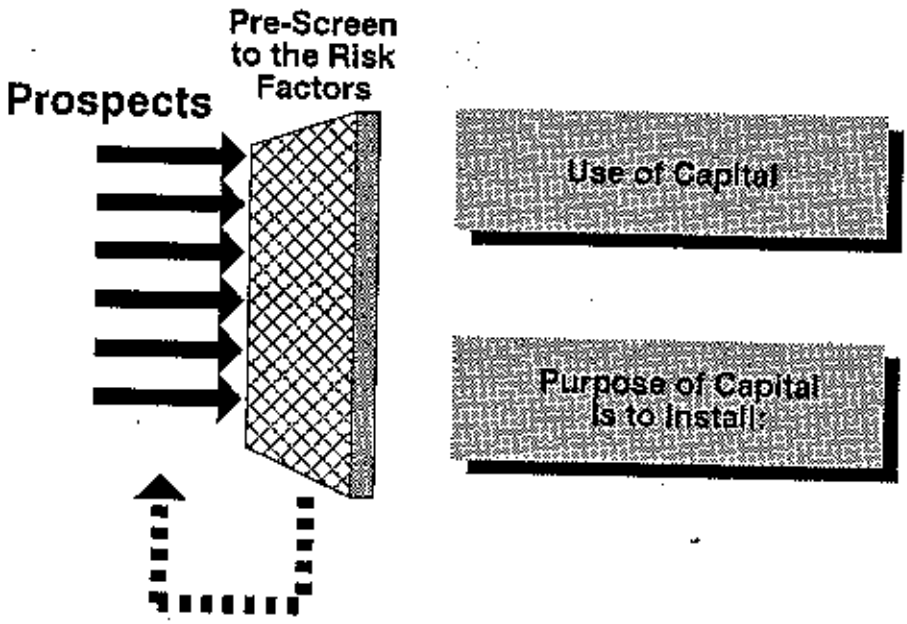
THE INVESTMENT PROCESS



- Finance Orders

- Mission Critical
- Ready-for-Consumption
- Second Generation Products/Services

NOT

First Generation or Tangential Offerings

- NOTES -

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DISTINGUISHING FIRST FROM SECOND GENERATION

Criteria	First	Second	Third
Bellweather Customer	No	Yes	
Promotion Message	Selling the Concept	Selling the Brand	
Customer Risk Profile	Innovators/Pioneers	Early Adopters Thru Risk Adverse	
Marketing Channels	Direct	Direct, OEM & Intermediaries	
Cost/Performance	Minimum Acceptable Standards	10X Gains	
Value to Buyer	Intangible: Technology an Option	Tangible: Technology a Standard	Enabling: Technology is Mandatory

- *NOTES* -

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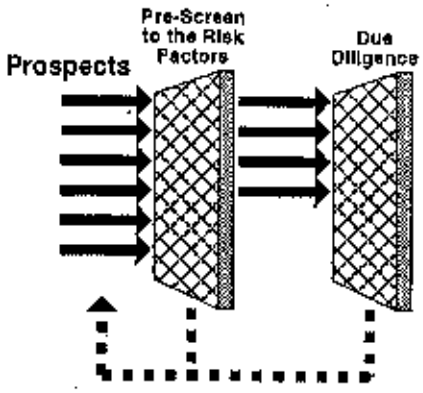
THE INVESTMENT PROCESS



Define Value Creation Process

- Dissect Company until Distinctive Competencies are Uncovered
- An Input into the Silent Lien

Determine Quality of Payment Stream

- Cost Savings & Other Benefits
- Supplier/User Issues

- NOTES -

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INFORMATION REQUIREMENTS

New Product Markets	1. How is Basic Function Performed Now?	2. What Do Present Methods Cost?	3. What's Wrong With Present Method?	4. What Value Improvements Have?
Market Needs				
Physical Product Design				
Production Methods				
Marketing & Distribution Methods				

Economic Cost & Value Consideration

Existing Product Markets	1. How is Basic Need Satisfied Now?	2. What Do Competitive Products Cost?	3. What's Wrong With Competitive Products?	4. What Value More "Benefits" Have?

- NOTES -

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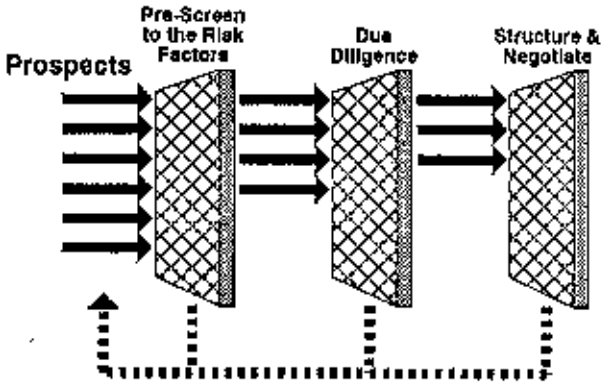
THE INVESTMENT PROCESS



IRR Inputs

- Components of the Performance Payments
- Slope & Longevity of the Payment Curve
- Timing of Performance Payments/Disbursements

Negotiation Inputs

- Supplier/User's Motivation & Hunger Factor
- Features & Benefits that Appeal to Supplier & User

Investment Monitoring Inputs

- Supplier/User's Operating Style
- Investor's Style & Information Needs
- Investment Security

- *NOTES* -

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STRATEGIES TO CAPTURE UPSIDE & LIMIT DOWNSIDE

TPF Selection Guidelines

- Invest in Mission Critical,
- Ready-for-Consumption,
- Second Generation Products & Services

Structures to Improve Accountability

- Link Disbursements to COGS or GM
- Tie Disbursements & Payments to Interim Performance Measures

Silent Lien to Provide Safe Haven

- Technology Held in Escrow
- Tangibles & Intangibles Needed to Sell & Service Customers
- Non-Exclusive Worldwide License
- Accessed in Conditions of Default

- *NOTES* -

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INVESTMENT PRINCIPLES AND LEARNING CURVE LESSONS

1. Define your objectives up-front
   Fuzzy objectives erode total returns
2. Establish screening criteria as a tool to clarify objectives and simplify the investment process
3. Exploit leverage to improve total returns
4. Introduce flexibility in structures that allow modifications to reflect changing conditions and unforeseen events
5. Rethink conventional wisdom

- *NOTES* -

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STRATEGIC IMPLICATIONS OF TPF

1. What is Your Objective?
   - Income
   - Management of the risk factors
   - Improve market share
   - Defend market share
2. Is your tolerance for risk consistent with the structure, deal flow, and your investment monitoring strategy?
3. How does deal flow influence structure chosen?
4. How does the environment impact your objectives & structure?

- NOTES -

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BACKGROUND ON INNOVATIVE VENTURES

Fund Manager

- Direct Investing in Technology
- Project & Company Investing
- Royalty & Equity Structures

Advisor

- Governments
- Development Banks
- Institutions

Commonality In Schemes

- IRR Tied to Project Performance
- Unsecured Investments
- Large Risk Exposure

- NOTES -

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