e-Europe bounces back

European Internet and technology funding dried up this spring. But for a small group of financiers who believed in the original mission — ushering in the digital age — opportunities still abound. They share a new, more realistic optimism, and that's probably for the best.

By David Lanchner

Internet euphoria came late to Europe. The crash arrived right on time.

In March, as red-hot U.S. Internet companies began faltering, the European dot-com bubble also burst. Funding evaporated, IPOs for companies such as the online bank Egg were scaled back, and highfliers like online fashion retailer boo.com went bye. "The euphoria in Europe was greater because it took longer to build up, and that made the crash worse," says Deborah Choate, chief financial officer of Wavecom, a French supplier of hardware components for mobile phones and other devices.

But even a massive market correction — by some measures one and a half times worse than the U.S. technology dive between March and May — didn't deter the venture capitalists, investment bankers and analysts who held to a long-term view. They see in the World Wide Web a revolution in its early, formative stages, and the crash as a necessary and timely cleansing.

There's no shortage of tasks to be tackled. Large-scale corporate Internet infrastructure projects still wait to be built. Europe's substantial advantage in wireless communications needs to be fully exploited, and consumer electronic commerce is only starting to make headway. The digital transformation has barely begun.

Businesses need only money and imagination to pursue the next big thing. Established firms hunger for capital to revamp their basic approach to sales. Entrepreneurs seek seed money in the hope of launching the next America Online. Postcrash shakeouts are producing M&A candidates and potential partnerships between companies that went public before the crash. That's why Morgan Stanley Dean Witter, for example, recently moved global head of Internet investment banking Ruth Porat from New York to London to lead a private equity initiative. And every company — whether Old or New Economy — wants its Internet strategy tracked by influential analysts.

In Europe opportunity is again in the air. And the eight individuals we profile on the following pages — financiers who have maintained leadership positions despite the recent bloodletting — embody that optimism.

It's a hard-won enthusiasm. Initial stock offerings in Europe did not really gather steam until after the U.K. portal Freeserve raised $416 million and saw a 120 percent price pop on its first day in July 1999. That was four years after the landmark Netscape Communications Corp. IPO in the U.S. The crash of the less liquid European market was therefore more sudden and precipitous — 60 percent between March and May, according to Donaldson, Lufkin & Jenrette's Internet stock index, versus 42 percent in U.S. Says Stewart Dodd, chief executive officer of Brainspark, a London-based incubator of high-tech start-ups: "As recently as the first quarter, big venture capital firms and

Illustrations by Amanda Duffy

incubators looked to Europe as their next phase of growth. Then suddenly, we had those terrible stories, and a lot of it dried up." By late summer, Net stocks on both sides of the Atlantic were 6 percent to 15 percent higher than their May lows, depending on what index you follow.

Some people got lucky. Investment banking refugee Dodd — he had built the technology department of Westdeutsche Landesbank before taking a headlong dive last year into the Internet — got in under the wire with a $30 million IPO before the worst of the market rout in early April. On top of a previous $20 million financing led by Cross Atlantic Capital Partners, a Radnor, Pennsylvania–based firm with a $120 million transnational investment fund, the deal inoculated Brainspark and the 17 upstarts under its roof from troubles that afflicted others with less fortunate timing.

In June Nasdaq- and Nouveau Marché–listed Wavecom raised $100 million in a secondary offering managed by Thomas Weisel Partners. (The French company's $43 million IPO in June 1999 was led by Credit Suisse First Boston, whose Internet banking chief, Marc Odendall, is among those spotlighted in these pages.) Wavecom's wireless cachet helped. "Europe is ahead in that area, which could allow the Internet to develop very quickly," says Choate.

One factor working in the European stocks' favor was that the speculative bubble in Europe never swelled to American dimensions. There are fewer Internet stocks in Europe than in the U.S., which means they trade at a premium — both in terms of valuation per registered user and as a multiple of estimated 2001 sales — to their U.S. counterparts, according to Robertson Stephens International.

Signs of resurgence abound:

• Robertson Stephens recently set an Internet private placement record, arranging a $150 million investment by Italy's Seat Pagine Gialle, Europe's biggest telephone directory publisher, for 40.7 percent of a U.K. business-to-business exchange called mondus.

• Recalling IPO price pops of yore, Germany's Linos, a supplier of bandwidth-expanding technology to Internet firms, saw its shares quadruple in value after raising $44 million on September 1 on the Frankfurt Neuer Markt. (Its lead underwriters were HSBC Trinkhaus & Burkhardt and Norddeutsche Landesbank Girozentrale.)

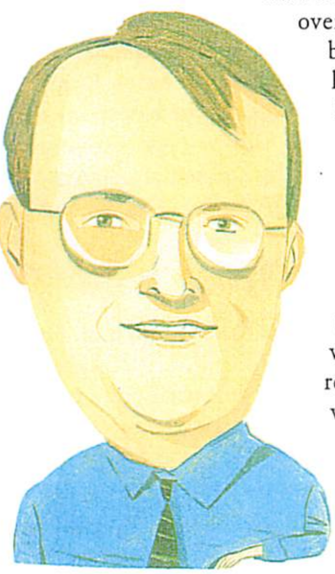
• Retail online trading, which helped fuel the European stock run-up, is not subsiding, and neither are the brokerage firms' valuations. Direkt Anlage Bank of Germany agreed on September 13 to buy French online brokerage Self Trade for $783 million — a 21 percent premium over the market price, equal to $22,000 for each of Self Trade's 30,000 customers. Direkt Anlage itself is trading at 345 percent above its November 1999 IPO price, giving it a market value of $2.8 billion.

• Billions of dollars in private equity are in the European pipeline. Although CMGI of the U.S. recently canceled efforts to raise $1.5 billion jointly with Hicks, Muse, Tate & Furst and Hong Kong–based Pacific Century CyberWorks, that would be

Paul Harvey, Goldman Sachs International

Paul Harvey, Goldman Sachs International's managing director for European technology, may be the benchmark by which the region's Internet investment bankers are measured. Thanks to his involvement in one of the biggest Internet stock debacles, he has also been the most vilified.

Harvey, 37, was badly bruised by Net portal World Online, the European-record-shattering $2.8 billion IPO that Goldman led in mid-March. It was 23 times oversubscribed and looked to be a blockbuster, but the stock dropped like a rock within days of the opening. Although plenty of Internet stocks were swooning, World Online was different. An embarrassing disclosure showed that chief executive Nina Brink had sold shares before the IPO. Enraged investors filed suits against Goldman Sachs and co-lead underwriter ABN Amro Bank, and Brink resigned in April. In September, when Italian Internet service provider Tiscali agreed to acquire World Online for $5 billion — the per-share price of €20 ($17) was down from €43 at the IPO — Goldman and Merrill Lynch International were the seller's advisers.



Still, Harvey and his 70-person team of bankers, analysts and salespeople have won more Internet investment banking mandates than anyone else in Europe. An American who grew up in Switzerland and decided on his career path as a teenager when caddying for bankers there, Harvey started shepherding high-tech deals in 1993 for Morgan Stanley Dean Witter in London. His boss was Frank Quattrone, a technology banking legend known for both deal making and for his proclivity to change firms. When Quattrone moved to Deutsche Morgan Grenfell in 1996, Harvey followed. Harvey went his own way, to Goldman, in 1998. He describes his investment banking formula as "Small to big. The way to maintain market dominance is to do big blue-chip deals while also doing deals for small, innovative start-ups."

At the high end, Harvey's long-standing relationships with Deutsche Telekom and Spain's Telefónica landed mandates this year for the IPOs of their respective Internet subsidiaries, T-Online International and Terra Networks. Harvey's focus on start-ups attracted Bookham Technology, a U.K. Internet infrastructure company. All three are among the most successful IPOs of the year, trading above their issue prices. "Almost no one can offer the sales support of Goldman Sachs," says one satisfied client. Yet it may take some time to live World Online down. "Our prospectus accurately reflected all available information," says Harvey. "Unfortunately, prices had reached a peak — and stock market sentiment is everything."

more than offset by billion-dollar or bigger Europe-focused funds in the works from Chase Manhattan Corp.'s Chase Capital Partners in New York, German media giant Bertelsmann, and Apax Partners & Co. and Schroder Ventures, both of London.

All this excitement brings back not just investment bankers but also some American-accented bravado. The two deans of European e-banking, CSFB's Odendall and Goldman Sachs International's Paul Harvey, have both worked with Frank Quattrone, CSFB's Silicon Valley–based tech guru. Besides relocating Porat, Morgan Stanley is trying to repeat the success of its top U.S. Internet analyst, Mary Meeker, in the person of German-born, London-based Michael Steib.

The bankers have brushed aside their occasional disasters. Harvey, for example, oversaw the IPO of World Online, the Dutch company disgraced by the disclosure that its former chief executive, Nina Brink, had unloaded shares in advance of the offering. Tiscali of Italy agreed last month to buy the troubled World Online for half of its IPO price — still a considerable haul at $5 billion.

On the upside, Harvey and his team retain the credit for winning IPOs like those of T-Online International and Terra Networks, spin-offs of Deutsche Telekom and Spain's Telefónica, respectively. They took public the U.K. infrastructure provider Bookham Technology, which has more than doubled its April IPO price and did a $675 million secondary offering in September.

Analysts like Derek Brown of Robertson Stephens are talking up European companies as superior to their competitors across the Atlantic. He shares others' enthusiasm for Internet infrastructure companies, including Bookham; Linos; Zeus Technology, a Brainspark offshoot that recently opened two U.S. offices; and U.K. payments security company Baltimore Technologies. The Europeans tend to be "better equipped for a global rollout than their U.S. peers because they've had to develop software and technology requiring complex multilingual and multicurrency functions," Brown says.

To be sure, the European Internet market is not nearly as mature — nor has it suffered as many hard knocks — as its American counterpart. Europe is just beginning to get beyond the business-to-consumer stage and into what could be a more lucrative and stable B2B phase. When the spring storm struck, the U.S. had already gone through B2C, and B2B stocks were peaking. And although Europe may have a wireless advantage — 350 million cell phones, compared with 100 million in the U.S. — those devices may never be as practical as personal computers for Web surfing. So Europe could begin to drift in the home-PC direction. DLJ says that 100 million Europeans are using the Internet, up from 70 million last year, and that sometime next year Europe's Net population will outnumber the U.S.'s, 135 million to 126 million.

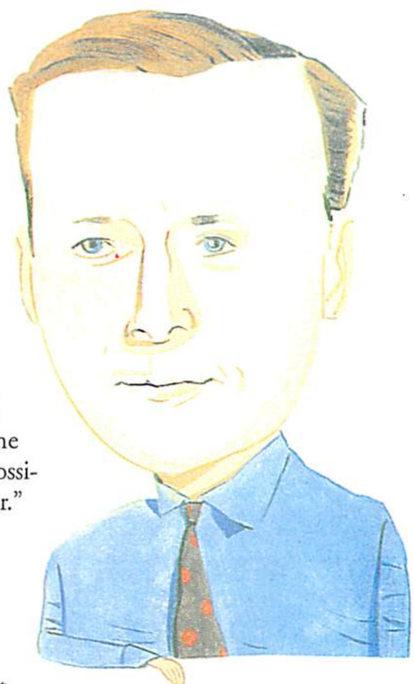
Amid such rapid changes in technologies and business models, there may be only one business certainty: the demand for capital. That gives the Continent's incubators and angel investors, venture capitalists and investment bankers every reason to keep throwing around money — and paradigms. ii

Marc Odendall, Credit Suisse First Boston

Marc Odendall brings a passion for speed — call it Internet speed — to more than one aspect of his life. A man who can devour a book in a day, the head of Credit Suisse First Boston's European technology group takes credit for setting off Europe's Internet IPO wave when he pushed to get his client past a London Stock Exchange rule that prohibited listings of new companies. Freeserve, an Internet portal, was only ten months old in July 1999, but Odendall argued successfully that it should not have to show the exchange's mandated three years of revenues.

Other IPOs followed that $400 million deal, including the $90 million offering of online auctioneer QXL.com. Freeserve is trading at a 93 percent premium to its issue price and has given CSFB the mandate to help it find a buyer. QXL is down 68 percent because of skepticism about its ability to compete against eBay and Amazon.com of the U.S., but CSFB assisted QXL on two acquisitions — the $560 million purchase of the Swedish auction service Bidlet in March and the proposed $940 million deal for the German auction site Ricardo.de. It also advised on Terra Networks' $12.5 billion acquisition of U.S. portal Lycos.

Along with his prominent U.S. mentor Frank Quattrone, Odendall and more than 100 colleagues defected to CSFB in 1998 from Deutsche Morgan Grenfell. Dubbed in the British press as "banker to the digerati," Odendall, 42, likes to portray himself as the ultimate Internet insider. He and his team have working relationships with London private equity firm Apax Partners & Co. and French retailer and entrepreneur Bernard Arnault's Europe@Web investment vehicle. "This is a very fast-moving environment where there are only a few players and everyone is talking to everyone," Odendall says. "As an investment banker, you are either close to Internet companies and talking to them all the time about a wide range of deal possibilities, or you are not a factor." Odendall, who grew up in Tokyo and has dual French-German citizenship, says share-price volatility is the biggest stumbling block for Internet companies that want to bulk up through mergers. "The only way you can get deals done is by offering premiums that are so attractive even market volatility won't affect them," he explains. "Whether it's the Americas, Europe or Asia, only market leaders can do that."



Michael Steib, Morgan Stanley Dean Witter

Early last year, when Morgan Stanley Dean Witter executives were mulling over ways to replicate their firm's U.S. Internet success in Europe, they chose a familiar technique. They asked Michael Steib, a 32-year-old technology investment banker in London, to edit a massive report on the European Internet market, putting a Continental spin on a 1995 study, "The Internet Report," by Morgan Stanley's renowned Internet analyst Mary Meeker. Her report, says the German-born Steib, "was the foundation of our U.S. franchise. We saw an opportunity to come out with the same kind of groundbreaking report here." Published in June 1999, Steib's 316-page "European Internet Report" delved into the Net's impact on everything from software to food retailing, and it struck gold. Trumpeted in full-page ads in the *Financial Times* and *The Wall Street Journal*, it was downloaded 27,000 times on the first day that it was posted on the Morgan Stanley Web site. The firm moved Steib to New York for ten months to work alongside Meeker, and soon he was pulling in important European mandates, such as the $198 million IPO for U.K.-based Internet discounter lastminute.com and the $417 million IPO of Swedish online recruiter StepStone. Both deals were oversubscribed more than 40 times before coming to market on March 13. Morgan Stanley increased those stocks' price targets by about 40 percent within two days of the offering date. But then came the Internet crash, and by month's end both stocks were more than 40 percent below their issue prices.

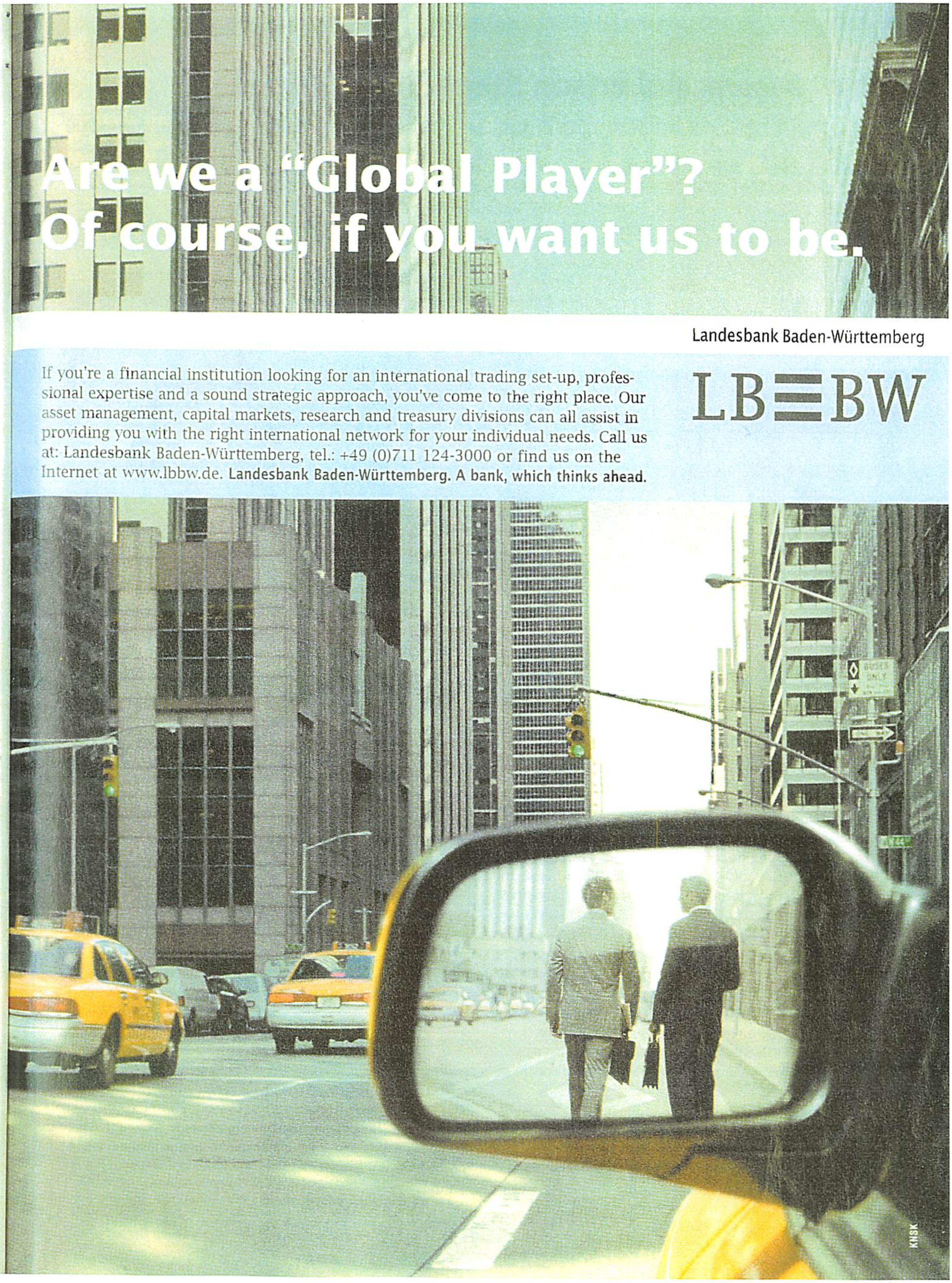
"Our work does not end on the day of pricing," says Steib, who hit the phones to sell fund managers on lastminute.com and StepStone (both are ahead of revenue expectations but do not anticipate profits for at least two years) and organized road shows for the managements to plead their cases directly. By mid-September StepStone was 14 percent below the issue price, although it was in positive territory for much of the summer. Lastminute.com was languishing 58 percent below. The results haven't hindered Steib's deal making. He handled the $1.7 billion July IPO of the French Internet service provider Wanadoo, which was oversubscribed 30 times and in mid-September was 3 percent above its issue price.

Peter Englander, Apax Partners & Co.

Peter Englander's office at Apax Partners & Co. in London is the first stop for many eager Internet entrepreneurs, because the private equity firm has a track record. In 1996 it put $2.5 million into U.K. Web software concern Autonomy Corp., which two years later became Europe's first publicly quoted Internet stock. The 11.8 percent stake that Apax retains — it sold off 4 percent in May — has climbed to $700 million in value, from $12.7 million when Autonomy was listed on the Easdaq exchange in Brussels.

Autonomy, which develops software for organizing and categorizing information on the Internet, is one of 27 companies in the European Internet portfolio that Englander has overseen for the past two years; of those, he has sold stakes in five. Though the returns are not disclosed, "all the companies we've listed or sold to strategic acquirers have done spectacularly," says Englander, a 48-year-old former chemical engineer with a Ph.D. in technical innovation from the London Business School.

Englander shares the credit for those gains. He did the Autonomy deal with partner John McMonigall. Working with Michael Chalfen and Richard Wilson, Englander enjoyed a big payoff when Baltimore Technologies, a provider of Internet security technology, listed on the London Stock Exchange in July 1998. It is now trading at three times its offering price. Apax was also among the backers of First-e, the pan-European online bank that Banco Bilbao Vizcaya Argentaria acquired in July for €1.58 billion ($1.35 billion). An affiliate of the U.S. venture capital firm Patricof & Co. Ventures, Apax didn't do as well with QXL.com, the European online auction site, now 68 percent below its October 1999 IPO price. But outside observers are upbeat about Apax because its plays are mainly in Internet infrastructure, e-finance and business-to-business, which "have resisted the market's undertow," says Nick Gregg, a Donaldson, Lufkin & Jenrette Internet analyst in London. Apax hit all of those bases in September with its biggest deal, a $30 million private placement in bolero.net, an offshoot of the Swift international banking network that seeks to automate B2B trade documentation. Bolero.net chief executive Barry Morse saw the involvement of Apax as "a tremendous vote of confidence in our business model." Englander's experience "means entrepreneurs are willing to give him the right of first refusal on financing their companies," says a competitor at the investment firm Broadview International in London. And since he has at least $860 million available for technology investments, on top of the $688 million already placed, many more Web-business hopefuls will be beating a path to his door.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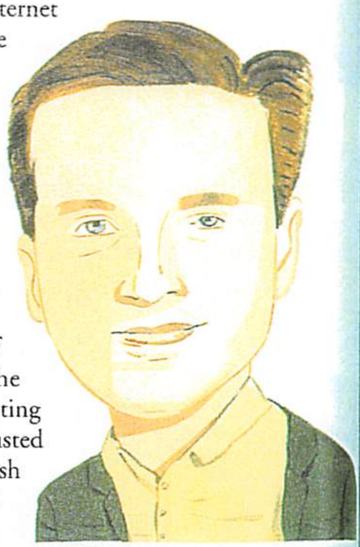
Derek Brown, Robertson Stephens International

When Derek Brown applied for an analyst's job at Fidelity Investments' London office in 1994, he didn't know what a price-earnings ratio was. It didn't matter. The recent Cambridge University history graduate impressed his interviewers by steering clear of superlatives. He brought that same cool and sometimes contrarian attitude to his current post as Internet analyst for Robertson Stephens International in London. "When our investment bankers propose an IPO or a merger, my job is to flyswat the deal if it isn't good," says Brown, 29, a 14-month veteran of the firm. "The last thing I want is for us to sell something I don't believe in."

He has believed in enough proposals to support a steady deal flow for his firm, which has tripled its European staff over the past year, to 165 people. It aims to become one of the region's top five Internet banks, as it is in the U.S. Brown identified and helped bring to market the $112 million IPO of French e-commerce software company Integra in December, and the $194 million IPO of German Internet portal Web.de in February.

Brown's ideas directly influenced the July IPO of LetsBuyIt.com, Europe's largest Internet discount retailer. He suggested this year that the start-up take equity investments from media companies British Sky Broadcasting Group and Germany's ProSieben Media. "The prospect of integration with those two companies made LetsBuyIt.com's IPO possible," Brown says. It raised €62.3 million ($53.5 million) and saw its shares on the Neuer Markt rise 20 percent in the first week. The volatile shares are currently trading 5 percent below the issue price — still better than the 30 percent-plus decline for most European Internet retail IPOs this year.

Brown, who plays percussion, folk guitar and piano in his spare time, showed early aptitude for stock picking. For Fidelity he began tracking Europe's first Internet stock, the British Web software company Autonomy Corp., in the run-up to its July 1998 IPO. Its market valuation has climbed since, to $5.9 billion, from $125 million.

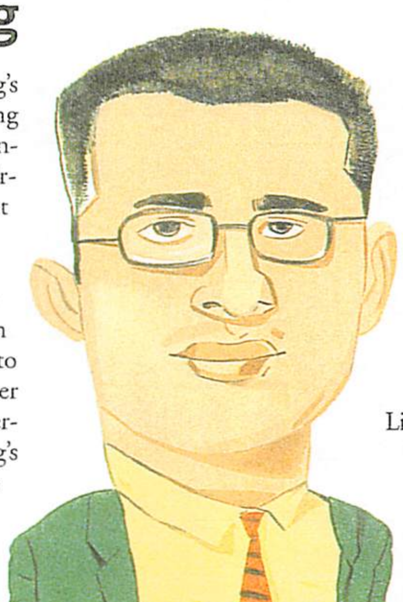


Brown's contrarianism carries over to out-of-favor retailing stocks. "Consumer e-commerce was stifled even before it got off the ground in Europe because of the downward momentum in the U.S.," he says. "But many are hitting or exceeding targets and have adjusted their business models to reduce cash burn. We think their results will be better than expected."

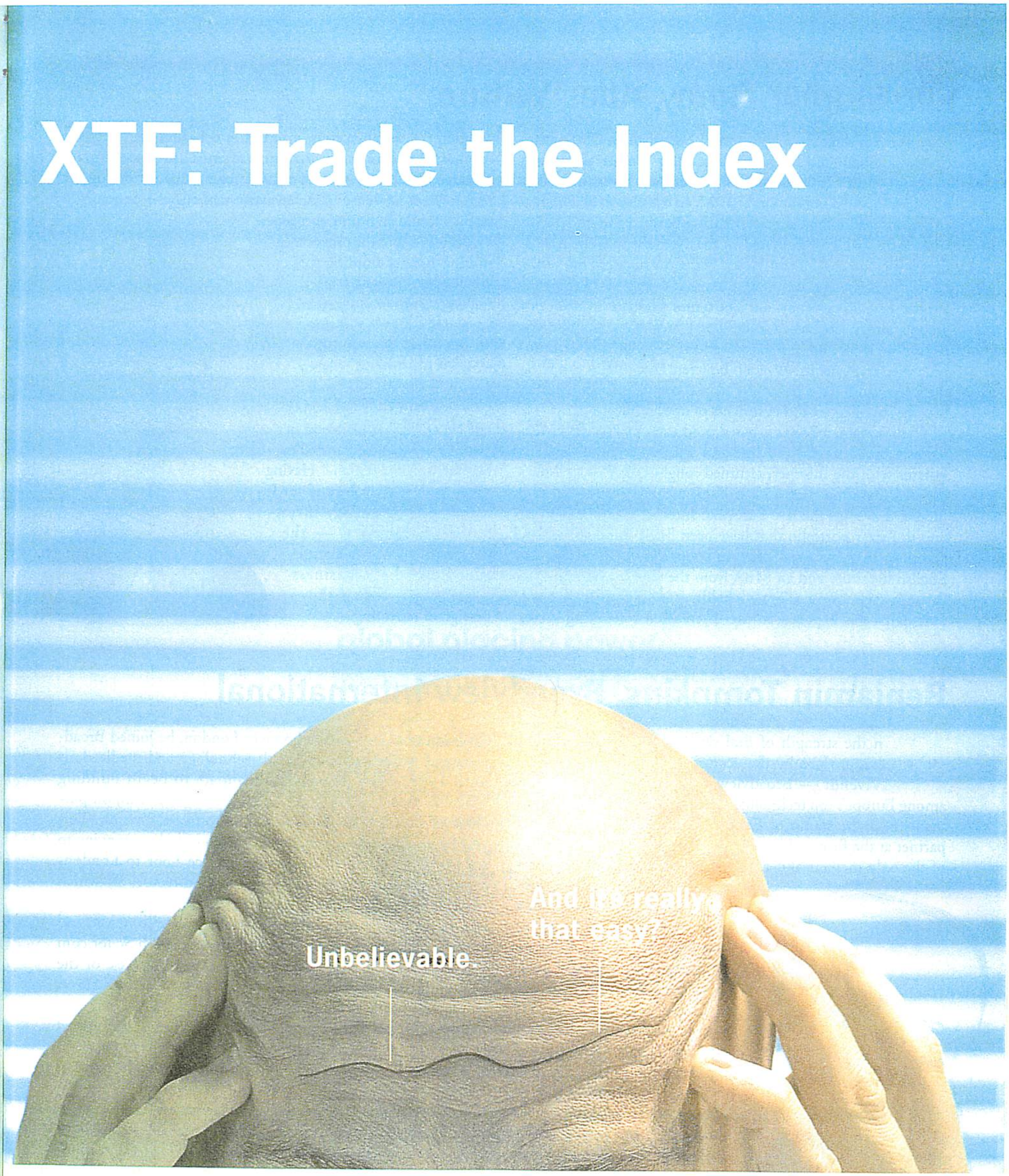
Milan Radia, UBS Warburg

Milan Radia, 28 years old and part of UBS Warburg's Internet team only since December, is approaching superstar status on the strength of one deal. He handled the $60 million initial public offering in June of Orchestream, a London-based communications provider that integrates fixed-line, wireless and Internet channels. With the stock recently trading 229 percent above its 185 pence ($2.78) offering price, Orchestream is Europe's best-performing Internet IPO since the market slide began in March. It is an Internet infrastructure play, and Radia wants to bear down exclusively on that specialty, in contrast to other banking teams that tend to generalize. (Colleagues on an Internet portal team and Dutch-based analysts led UBS Warburg's advisory role in the Italian portal Tiscali's $5 billion agreement to buy troubled World Online, announced in September.) "Radia is one of Europe's few specialists in what is emerging as one of the hottest Internet areas," says a London-based fund manager. Says Radia of Orchestream, "Its software prioritizes and regulates traffic on the integrated networks that will increasingly become the norm in data and voice transmission." He says he has two more IPOs in the pipeline.

A Cambridge University economics graduate who moved to UBS Warburg in London after five years as a money manager for the U.K.'s Prudential Portfolio Management, Radia worked Orchestream hard. He issued an exhaustive premarketing report documenting what he viewed as enormous potential, then pitched the IPO to more than 100 fund managers in the U.S. and Europe. He timed the listing to follow on the heels of a *Red Herring* magazine survey that placed Orchestream among the "50 Private Companies Most Likely to Change the World."



Yet Orchestream may seem a bit hyped. Its market cap of $986 million is more than double the $480 million of revenues earned by all companies in its business last year, according to Radia's estimate. He prefers to emphasize Orchestream's contrasts with other, languishing technology performers. "Retail e-commerce companies are spending lots on sales and marketing but without getting the expected results," he says. "Our belief is that Internet infrastructure is the best value for the next 12 months."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Christopher Spray, Atlas Venture

With stakes in 37 e-commerce companies, Christopher Spray and his partners at Atlas Venture are among Europe's most aggressive Internet investors. Their operation opened in London in 1997, an outgrowth of computer and biotechnology successes dating back to the mid-1980s when Atlas, which originated in the Netherlands, opened offices in Boston and Silicon Valley. "After the huge growth in the U.S. Internet sector, we made a bet that the same thing would happen here," says Spray, 44. The senior principal in charge of group strategy, Oxford-educated Spray moved to London from Boston in 1998 and has since overseen $500 million of European Net investments. Overall, between Europe and the U.S., the 20-year-old Atlas has stakes in 120 companies, which often become suppliers to and customers of one another.

Orchestream, a London-based producer of software that integrates broadband, fixed line and wireless communications systems with the Internet, returned roughly eight times Atlas's original investment of $3.1 million when it went public in June. On average the five European Internet portfolio companies in Atlas's portfolio that have been listed "produced a 100 percent-plus gain," says Spray, an opera lover with a degree in English literature and an MBA from the elite Insead school in Paris. But with most of Spray's holdings unsold, the jury is still out. Atlas was exposed to the discredited e-retailing sector through Clickmango.com, a health and beauty products site that ceased operations in September after Atlas refused to grant a bridge loan. Spray says he has "no regrets about funding the project and no sense of defensiveness about the decision to stop." He adds: "Both the competitive outlook and the prospect of sharing further funding for Clickmango changed after the March drop in Internet share prices. The worst thing you can do in technology markets is to continue laboring on in the same old way in an environment that has changed. That's understood in Wall Street and Silicon Valley but not yet in London." Having raised a $750 million fund for Internet and technology investments in February — the firm's second with a significant European e-business component — Atlas shows no sign of retreating.

Benjamin Tompkins, Broadview International

On the strength of deal size and prestige — notably, transactions by the acquisitive French conglomerate Vivendi — Broadview International clearly ranks among Europe's top technology M&A advisers. Its accomplishments bear the stamp of Benjamin Tompkins, a 35-year-old partner at the firm and its reigning king of content. "He is one of the only mergers-and-acquisitions specialists with an encyclopedic knowledge of Internet content providers," says a rival from a bulge-bracket firm. "He can do more than just execute deals. He can identify who should hook up with whom, which can enhance the geographic coverage, market penetration and cross-platform delivery capabilities of clients."

Tompkins got his first glimpse of the nascent Internet sector through a 1993 private placement for the U.S. technology magazine publisher Ziff Davis. At the time, the British-born Tompkins was finishing a four-year stint at the New York boutique firm Henry Ansbacher & Co. Coming home to London, he joined Broadview and worked on traditional technology and media deals until 1998, when he won the mandate to begin building Vivendi's then-small Internet unit with the $985 million purchase of Cendant Corp.'s interactive software division. This year he established his matchmaker reputation by arranging to sell the U.K. classified advertising service Loot to London-based Scoot, an electronic yellow pages directory in which Vivendi had a 22.4 percent stake, for €300 million ($258 million). That happened in July, seven months after Tompkins had closed a €500 million joint venture deal between Scoot.com and Vivendi. He also worked on the April purchase of the U.S. online gaming site PrizeCentral.com by Vivendi's Havas Interactive subsidiary and he is expected to play a role in the expansion of Vizzavi, the Internet portal that Vivendi announced in May as a joint venture with the U.K.'s Vodafone Group.

Outside the Vivendi axis, Tompkins and his eight partners advised the German auction company Ricardo.de in its negotiations to be acquired by troubled QXL.com for $280 million, and E*Trade Group in its June purchase of the 64 percent of its U.K. subsidiary that it didn't already own. (That transaction's value was not disclosed.) "We offer more than other M&A bankers because we are truly hooked into the market," says Tompkins, who was trained as a barrister at Lincoln's Inn in London and who hang-glides in his spare time. "We can advise our clients on the best way to build a business long term." ii