

UNIVERSITY OF ROCHESTER

William E. Simon Graduate School of Business Administration

Finance 423
Corporate Financial Policy & Control

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Quiz #2: Wednesday, April 16, 1997

(10 points) The story below from the *Wall Street Journal* of March 18, 1997 describes the possible IPO of PointCast Inc. Read the article and answer the questions at the end.

HD News Corp. Seeks Purchase Of PointCast
BY By Jared Sandberg and David Bank
CR Staff Reporters of The Wall Street Journal
PD * 03/18/97

SN The Wall Street Journal, PG B6
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LP Media giant News Corp. is in talks to acquire PointCast Inc. in an attempt to tap the hot Internet trend toward "push" media that automatically delivers news, sports and weather -- and ads -- to users' computer screens.

People familiar with the negotiations said News Corp. has offered between \$350 million and \$450 million in cash for PointCast, which "broadcasts" information over the Internet directly to one million subscribers' screens, relieving users of the burden of surfing the Web to find it.

TD Though it is uncertain whether News Corp. will clinch the deal, an acquisition of PointCast could help give the media giant Internet distribution for its various publications and media properties after years of stumbling in cyberspace.

But an acquisition, particularly by News Corp., could upset the broad array of alliances that PointCast has struck with media companies that are News Corp. rivals. PointCast's content is supplied by partners such as Time Warner Inc., which has channels for its CNN and Pathfinder services, and by newspapers such as the Times Mirror Co.'s Los Angeles Times, Knight-Ridder Inc.'s San Jose Mercury News and The Wall Street Journal, published by Dow Jones & Co.

And PointCast, which had been planning to go public, has another worry: whether to spurn an offer from News Corp. or some other bidder and gamble on trying to entice a higher valuation from Wall Street at a time when investors have cooled to Internet stocks.

The Cupertino, Calif., start-up is undaunted by the prospects of an * IPO. "We've received plenty of unsolicited offers in the past as well as recently and we've accepted none of them," said Chris Hasset, PointCast's president and chief executive. "The path that we're on is to take the company public. We're enthused about that, the bankers are enthused about that and our investors are enthused about that."

Some industry watchers, however, think selling out before going public might better serve the company and its stakeholders.

"Wall Street is not going to buy it," said Steve Harmon, an analyst at high-tech publisher Mecklermedia Corp. Mr. Harmon noted that other * potential IPO's such as Wired Ventures LLC have been shelved due to lack of investor interest. "Look what happened to Wired," he added. "The

* no-brainer IPO is gone forever."

Ann Winblad, a venture capitalist with Hummer Winblad Venture Partners, added that PointCast is among several Internet startups that raised money privately last year at valuations approaching what they were likely to get in the stock market. That makes a deal to be acquired * more attractive now that the IPO market has cooled to companies without strong revenue growth or early profit potential, she said.

PointCast has demonstrated the market appeal of "push" technology but hasn't conclusively proven that it is the winner in the niche, given that more than half a dozen other startups offer similar technology, Ms. Winblad said.

But Jonathan Feiber, a venture capitalist with Mohr, Davidow Partners * and a member of PointCast's board, countered that an IPO is an alluring option. "Obviously, with companies like Yahoo! Inc. with a market value * of more than \$900 million, an IPO is very attractive. At some point the company is going to want to pursue that," he said.

* If successful, the IPO would represent a big payoff for PointCast's investors. Last July, PointCast raised \$36 million in a private, preferred stock offering that put a total valuation of the company at about \$250 million. The investors included Knight-Ridder, Times Mirror and Gannett Co. Other investors included Adobe Systems Inc., Compaq Computer Corp. and General Electric Capital Corp., a unit of General Electric Co. An earlier round of financing raised \$12 million from three venture-capital firms.

"PointCast is going to make very sure our partners are happy," Mr. Hassett said.

News Corp. hopes the company could help reverse its fortunes on the Internet. Early in this decade, News Corp. was among the first major media companies to enter the Internet market with its acquisition of the Delphi Internet service, then a competitor to America Online Inc.

News Corp. abandoned the service in favor of a new Internet venture with close partner MCI Communications Corp. But before the venture could be legally formed, MCI balked at the tens of millions of dollars it was supposed to invest in the venture and pulled out, creating an on-line marketing alliance with Microsoft Corp. instead.

1. If you were asked to advise the Board of Directors of PointCast, would you sell out to News Corp., or consider an IPO at some time in the future? **Why?**

2. If you were to opt for an IPO, what factors would influence your decision about the timing of the offer?

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