Lessons learned from the Internet Bubble.
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Thank you Dean Lataif, for that very generous introduction.
As the saying goes, my late father would have enjoyed it and my mother would have believed it.
It's truly an honor to stand here today because I too am a graduate of this fine university. And before I go any further, let me congratulate all of the graduates for their academic achievement. I'd also like to congratulate the strategic partners who made that achievement possible - all of the faculty, parents, friends and distinguished guests. And I promise this is your very last lecture -your test will be how you use your professional degrees in enriching your lives and adding value to society.
Many things have happened to me since I left BU in 1982. I've been a software company executive. I've become a venture capitalist. I've gotten to work on some of the most amazing deals of the Internet boom. But no matter how far I've traveled; something from BU always follows with me. And I'm not just referring to those letters from the alumni association.
The discipline, knowledge and values instilled in me here --- have served me well ever since - as they will serve all of you graduating today.

Andy Warhol once said that everyone would be famous for 15 minutes. I'd like to use my 15 minutes of fame today to give you a few minutes of insight into the world of venture capital.
There's a famous Seinfeld episode about the "Bubble Boy." A kid who's very sensitive to germs lives inside a plastic bubble in his room. At the end of the episode, George accidentally breaks the bubble - like we knew he would all along.
That Seinfeld episode has great relevance for us today. Because for the past few years, all of us have been living in the Internet bubble. Then it broke. And we should have known it would burst all along.
The last five years have been a unique time in business history. The rise of the Internet created an investment frenzy that's been compared to both the Gold Rush and Tulip Bulb Mania. A few years ago, out in Silicon Valley, the favorite

TV show was “Touched By An Angel” - because they thought it had something to do with venture capital. Today, their favorite show is “Survivor”.

We've all heard the horror stories. But as a venture capitalist, I look at the numbers. And they tell quite a story.

According to the “Private Equity Analyst” over the past 5 years, money put into venture funds has grown exponentially - from $1.4 billion in 1995 to $69 billion last year. And the funds have gotten bigger. In 1999, three funds raised a billion dollars including my own. Last year, 18 funds joined the billion dollar club. And a few raised over $2 billion. The business became so hot that in 1999, even the CIA began a venture capital firm. As Dave Barry would say, "I'm not making this up."

But then the boom ended. Between January 2000 and March 2001, one trillion dollars disappeared! The top 400 publicly traded Internet-related companies were worth $1.4 trillion 17 months ago. In March, they were worth only $0.4 trillion. That's $400 billion for those of you were up late partying last night.

And we've been seeing the fallout for the past eight months. Again, the numbers tell the story.

In Q1 of this year, VCs invested about $12 billion. That's down 56% from the $27 billion they invested in the same quarter last year. This means that there will be far fewer companies created this year. Again, look at the numbers. In Q1 of last year, there were 70 IPOs backed by VCs raising $8.5 billion. In Q1 of this year, there were 11 IPOs backed by VCs raising a mere $930 million.

What can we learn from all this? Lots of things.

Two plus two don't equal five, even in a new economy. Cool sounding job titles don't make up for lack of experience. Gray is an excellent hair color! And… Super Bowl ads are a major drain on cash reserves!

But on a serious note, I think there are three major lessons to be learned.

First, the Internet will change business processes, but it will not change business fundamentals. Despite all the talk about a new economy, we've learned that basic business principles still apply. You need a product or service that customers will buy. You need customers. You need predictable margins. You need to be rigorous about cash flow and managing burn rates. And you need to achieve profitability as soon as possible.

I like companies that are "analgesics." They satisfy a pain. They solve a real customer need. Companies that aren't solving real problems aren't going to sell much. Now that sounds obvious. And it should be. But you'd be amazed how many technology companies miss this point. They become infatuated with their own technology. They build a product. Then they get angry because potential customers can't find a problem for it to solve. During the past five years, I am sorry to say the venture capital community funded a lot of companies that fit this category.

That's not to say that the Internet isn't important. We haven't yet seen the really valuable contributions the Internet will bring to business. Down the road, it will radically change the way all business is conducted. It will impact production and procurement processes. It will reduce cost, reduce inventory and will substantively improve productivity. Andy Grove, Chairman of Intel believes that we are just at the bottom of the 3rd inning of the Internet revolution. And I completely agree!!

The Internet will also raise the visibility of potential product problems. The Firestone tire debacle is a good example. If all the warranty data had been available online to Firestone, they would have been able to catch the problem much sooner. That set of problems may prove fatal to that venerable 100 -year - old brand. But the days of pie in the sky dotcom companies are over - unless you can show how that pie will rapidly become profitable.

Which brings us to the second lesson from the frenzy of the last five years -- you need to know how to raise and manage capital . A company's growth and survival depends on it - especially a company with an unproven business model.

In today's burst bubble environment, as an aspiring entrepreneur you will really have to do your homework to obtain even small amounts of venture capital.

I recently heard someone define a venture capitalist as someone with deep pockets and short arms. And if you look at the numbers we spoke about earlier - that's true. Venture capital firms are raising more money than ever before. But they are not throwing it around anymore.

Because they've been burned. Or at least, the money they've invested has often been burned through. And believe me, the dotcom debacle isn't over. A lot of the write-downs have yet to happen. A lot of companies still haven't run out of cash. But their investors aren't going to wait to the bitter end.   Recent estimates, by Bear Sterns are that 15-20% of the portfolio companies funded during this era will be shut down by venture capitalists.

And the valuations have adjusted accordingly.   I just agreed to fund a company. We're putting $7 million into a Series B round.   It's a good company. We're excited about it. But it's only $7 million and it’s for 51% of the company. 14 or 15 months ago that deal would have been done at $50 million pre – minimum and for only a 20% stake. Today it was done less than $14 million—post valuation.

So what's an entrepreneur to do?

To raise money, entrepreneurs need a proven, operating business with several customers, not just the idea of one. The days of getting venture money for a business idea sketched out on a napkin is over. Unless the napkin has a table of contents and a profit and loss statement and most importantly a CEO who has done it all before.

A well-conceived business plan is essential. The agony that goes into drafting one reflects the entrepreneur's commitment to the business. If you can't make the effort to create a good business plan, what kind of effort can?

I expect from you when it's time for the really heavy lifting? The days of raising a quick $10M off a glossy Powerpoint presentation are gone with the bubble!

Now let me point out this isn't a one way process. Just as the VCs are choosy about their investments, you should be choosy about your VC. All venture capital isn't equal. You want capital from people who can really add value. They should be able to help you build your business -- bring you customers! Operating experience counts for a lot. You want your venture capital firm to have a team of people who have proven experience building and managing successful businesses. They should also be able to get you access to foreign markets and give you access to other companies in their portfolio.

That's what we do at SOFTBANK. We have a very large group of over 300 Portfolio companies. We're very aggressive about creating partnerships across our companies. We stopped counting when we had over 500 interrelationships between all the companies. We establish joint ventures overseas particularly in Japan and have been able to take several of those public.

One last point about the venture capital process in today's market. When you finally get the cash, it has to carry your start-up to profitability -- not just the next round of funding. The days of the rapid IPO are over! Five years has replaced 18 months as the average VC investment time horizon.

And that leads right into the third, and last, major lesson - strive to build something of lasting value. All the dotcoms that went in and out of business over the past few years burning billions of invested capital didn't do any favors for anyone. Yes, some people got rich on quickie IPOs. But a lot more people got burned and disillusioned.

And the public image of business suffered. Many people now equate the dotcom promoters with snake oil salesmen of the old west. And to some extent they're correct. Lots of Internet entrepreneurs and investors were motivated solely by the possibility of a fast buck rather than the prospect of building the future.

And I'd like to leave you with one final thought. No matter how much technology changes the business world during your lives, you can successfully adapt. Just be creative. Be flexible. Be persistent. And be open to new opportunities. One last story illustrates my point.

In 1879, there was a company whose best-selling product line were candles. But the company was in trouble. Thomas Edison had invented the light bulb. As candle sales dwindled, the company approached bankruptcy. But then something happened. An employee at one of the company's factories in Cincinnati forgot to turn off his machine when he went to lunch. When he came back there was a frothing mass of lather --- filled with air bubbles. It was useless for making candles. But instead of throwing the stuff away, he made it into soap. Then he discovered that the soap floated. And it suddenly became wildly popular. Because back in those days, some people in Cincinnati actually bathed in the Ohio River. Floating soap could never sink. So it could never get lost. As word of the soap spread, it became a best selling item in all of Ohio and then all across the United States. This product - better known as “Ivory Soap” – is still with us today.

And so is that company that almost went bankrupt - Proctor and Gamble.

What can you learn from this? Three things. First, a breakthrough idea can come from anyone at anytime! Second, never give up no matter how bleak things look! And third, once in a great while, you'll find a bubble that won't burst.

Congratulations again. I wish all of you the best of luck!!!!