

The Harry Edelson game: A softball fan plays hardball with high tech

You may not know Harry Edelson by name, but if you've attended a Data Processing Management Association conference, or any of a dozen other conventions or trade shows, you have heard him speak. A rumped, somewhat sad-eyed 48-year-old with an encyclopedic knowledge of the industry, he is passionately opinionated and highly articulate. Endowed with a flair for the dramatic, Harry Edelson is hard to miss. One of the best known computer and telecommunications analysts on Wall Street in the 1970s and early 1980s, Edelson constantly drops clever lines and often outrageous opinions. It's one of his trademarks.

- "There's a glut in transmission capability now with satellites and fiber optics, but some will benefit. . . ."

- "IBM is a cyclical growth company, so 1986 will be a poor year—and maybe 1987 too."

- "The odds are that Apple will eventually have to merge with somebody, a company with lots of money, to keep pace with IBM and AT&T."

- "Eventually new homes will have computers built in, with LANs right in the homes. Access to databases will be the key."

Speed reading at a cloverleaf

Today, Edelson is hunkered down in the ugly urban sprawl of New Jersey and running Edelson Technology Partners—a venture capital firm that's as aggressively profit-oriented and fast-moving as its founder and sole general partner. To an April visitor, the headquarters of ETP did not seem particularly busy. It was a sparsely furnished suite of half-empty offices eight stories up in a brown glass cube that would be more at home in Phoenix than here, overlooking a four-lane cloverleaf in Saddle Brook, N.J.

Sealed against the outside noise and dirt, the building was quietly dim and

ETP's offices were hushed. In fact, there were only three people there: Edelson, standing behind his desk talking on the phone to an executive who suddenly became available because of an unfriendly takeover, a brunette receptionist outside, and a young woman several offices away who was raptly analyzing a balance sheet. A power saw screamed as workmen installed a built-in table in what will be the combined office and kitchen, while outside the traffic flowed soundlessly on Route 80 and the Garden State Parkway.

Considerable clout

Harry was telling the executive that there may be an opportunity for him at ETP, but that he'll have to take a pay cut. That call was followed by another. This time the CEO of a high tech company was phoning to firm up a commitment from ETP for venture capital. Edelson sat down, cradling the phone under his chin, and, still listening, returned to speed reading (at 3,300 words per minute) through his "in" box—two business plans, a stack of annual reports, a dozen or so letters and resumes, some research studies, and a couple of technical journals.

Through the cryptic one-sided conversation, it was obvious that Harry Edelson was politely squeezing the man on the other end of the line for stock at a lower price than other venture capital firms have been offered. Minutes passed. Finally, a deal seemed to have been struck and Edelson smiled as he hung up. "Half the battle is going in at the right price," he says. "I like to buy cheap and be profitable the day I go in. I use whatever I have—my knowledge, my contacts, my partners."

In this case, the man seeking capital seemed willing to bend because he wanted his company associated with

the names of Harry's partners. Edelson Technology's limited partners, in fact, do carry considerable clout. They happen to be nothing less than AT&T and Gulf & Western. Both companies anted up \$15 million apiece last fall. Edelson claims they do not interfere with him and lend cooperation only when needed.

Edelson does take the time to write his partners occasional letters telling

as a transmission engineer for AT&T.

"Despair is everywhere in the venture capital business," says Edelson, leaning back in his chair. "This is the best time to be in it. There's no shortage of deals." He sighs. "Everybody is scared to death. The venture capitalists are supplying money, but just to the deals they're already in."

Harry Edelson, who has a near perfect batting average so far (see table, page 19) can be rather scathing about his venture capital competitors. Aware that some of them were critical of him for being "just a security ana-

lyst" before ETP got going, he says that most venture capitalists have gone wrong by following the crowd and insisting on making every venture a group financing. "When I get fifty business plans on one product, I don't want to be in that," he says, adding "I'm not interested in just another 'me too' product."

that will provide management aid to many of the companies that ETP invests in.

It's a matter of pride for Harry Edelson that he "missed" the PC boom. "The home computer market was a little ahead of its time," he explains. "It's waiting for the right hook so people will actually use them instead of placing them on their shelves—and we're going to get it eventually." When that time comes, ETP will have invested in a group of leading-edge companies in the field. In the meantime, Edelson is much more interested in the implications of melding computers and telecommunications than in PCs.

Partners with a purpose

The genesis of ETP was a phone call from Gulf & Western in the fall of 1983, when Harry Edelson was working as a high tech analyst for The First Boston Corp. Martin S. Davis, who succeeded the late Charles Bluhdorn as chief executive officer of G&W early that year, was rapidly divesting the conglomerate (1983 sales: \$4.198 billion) of many disparate acquisitions and, says Edelson, wanted a window on high technology. In a series of meetings, Edelson went through the options—emphasizing that the average return on venture capital over the previous 10 years had been 23%, compared with only 9% for stocks and 6% for bonds. A deal was informally struck.

The next day Edelson was meeting with a consulting client—AT&T—and happened to mention to an executive that he was going to be handling venture capital deals for Gulf & Western. "Count us in," said the AT&T man. Edelson recalls, "That's how it started. G&W had heard of me. I'd done a dozen consulting jobs for AT&T, and they saw G&W as noncompetitive." But Edelson had to wind up various other deals and sever his connection with First Boston, so the partnership did not start operating until January 1, 1985.

Both limited partners, says Edelson, see ETP as a way to keep in touch with many developing technologies, double-check their internal planning, and hedge against missing any hot high tech ventures that come along.

Edelson emphasizes that ETP does not replace the internal acquisition activities of his partners. For example, he was not aware of AT&T's recent interest in acquiring a stake in Intermetrics, Inc., a Cambridge (Mass.) software house. "I'm just one arm of AT&T's search," he says.



High tech heavy hitter: Edelson's average keeps improving.

them what's going on. He has also held one major executive briefing in Manhattan—attended, he says proudly, by more than 70 top brass. Another such meeting will take place before year-end. While explaining all this, Edelson continued to fuss with the "in" box, obviously eager to get back to his reading. It is almost a compulsion for him to read everything he can get his hands on. It's always been that way, and at night he will often sit at his desk reading, watching TV, listening to the radio—and talking with his family 15 minutes away in Ho-Ho-Kus.

The only thing more fun than work, says Harry, is winning at softball by making a clean hit at just the right time. He plays almost every Sunday when he's not on the road. He grew up playing stickball in the streets of Brooklyn and has never got over the pleasure of it. Edelson stayed in Brooklyn to get a B.S. in physics at Brooklyn College, while working full time for the Univac division of Sperry Rand. Later, he tacked on an M.B.A. at New York University while working

Venture management

He also feels that a venture capitalist who supplies nothing but money is almost bound to fail. "Some of the people who come in here, you wouldn't believe," he says. "They have a great idea and no understanding of how to make it into a business. You give them a million and it'll all be gone in a few months." Edelson's solution lies in his investment in Nexa, an Ottawa technology holding company that attracts money and invests like a venture capitalist, but also supplies management talent. Taking the Canadian company's cue, Edelson has joined ETP and Nexa to form Amerinex, a company

Similarly, he finds the recent popularity of what's being called "intrapreneurship"—new venture activities inside a bigger company—as offering ETP future opportunities. "Some of these guys might spin off their venture. Some may come to me for money on their own," he explains.

The traditional venture capital game is to advance money to a promising company in exchange for stock and then make a killing a few years later when the company goes public. But the Wall Street window has been closed for the past year and is only

leading edge; it's simply well run and growing very fast: With revenues of \$3,000 in its first month of operation, it was seeing \$200,000 per month just eight months later.

Edelson does not focus only on start-ups. What he wants is success in the field of technology. He sees the current wave of divestments and spin-offs as a great opportunity. "The unwinding of the conglomerates means that a lot of great but misunderstood companies are going on the block," says Edelson. ETP is even now winding up a deal to acquire an 8% share of

venture capital proposals, 10 to the page. Each entry simply gives the venture's name, address, and product with five little boxes for Harry to fill in with numbers or a check mark: \$ (how much do they want?), % (what will they give up?), N (not interested), I (interested), F (follow-up). There's also a long section for comments on each deal. There are 10 deals in the works now, of which two or three may become ETP investments.

In the back of the same notebook are a dozen pages listing more than 100 people who have expressed interest in working for Edelson Technology Partners. Harry says, "I get resumes from \$350,000 executives who want to work here for under \$100,000 to break into venture capital." Small wonder. The candidates know of Harry's track record, and they think they will wind up with more than salary. His own remuneration is about 20% of the profits of the partnership. Based on the performance of just the first three months, Edelson could easily wind up the first year with a tidy \$750,000 as his share.

Broader gauge

Harry Edelson is being deliberate about adding staff. You get the impression that he's really not all that interested in having many others on board. He's done six deals pretty much as a one-man shop and acts as though he could continue that way.

At heart, Harry Edelson is still the broad-gauge, high tech analyst. He is extremely proud that, while at First Boston in the early 1980s, he single-handedly covered 20% of the market value of all stocks followed by the research department, which then had 45 analysts. Having routinely tracked both computers and telecommunications, he's somewhat scornful of the trend toward narrow specialization. "There are analysts now who cover only 5/8-inch disk drive makers," he exaggerates, shaking his head.

The point is that Edelson's wide-angle view of high tech gives him perspective that few other venture capitalists have in house. He thinks that perspective is not only helpful in the search for future high tech winners, but essential to understanding even one part of the electronics industry. "I understand IBM well," says Edelson, "but to understand IBM well you have to understand AT&T well."

—John S. Tompkins

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HARRY'S BOX SCORE THE INITIAL INVESTMENTS OF ETP

COMPANY	LOCATION	BUSINESS	% INTEREST	COST
AT&E	Calif.	Electronic mail	5%	\$1,000,000
Aquanautics	Calif.	Oxygen extraction	16%*	1,500,000
Nexa	Canada	Venture management	11%*	750,000
Amerinex	N.J.	Venture management	44%	200,000
Comptronix	Ala.	Contract manufacture	3%*	450,000
Perception Technology	Mass.	Data input—Voice answer	2%	400,000

SOURCE: EDELSON TECHNOLOGY PARTNERS

*PLUS OPTIONS OR WARRANTS

open a crack even now. The result, of course, is that venture capitalists find themselves locked into their deals unless they can arrange an acquisition.

'First exposure'

Edelson takes that into account, but he emphasizes that he can't count on either of his present partners' buying a particular investment. "I don't care if AT&T buys the company or IBM does," says Edelson. "The partners are getting first exposure, not first refusal." Synergy isn't in Edelson's vocabulary, but that's what the investments of ETP get from their exposure to the limited partners.

For example, he's enthusiastic about ETP's investment in Comptronix Corp., a Guntersville (Ala.) contract electronics manufacturer. "They stuff components onto circuit boards," Edelson explains. "Low-cost plant, low-cost labor, low-cost manufacture—I see it as a place to direct business to—things any company might want to sell but not make."

Comptronix is not the kind of company usually thought of as a candidate for venture capital. It's not on the

telecommunications company that's being spun off from a much larger company.

How does Harry Edelson get onto such deals? To hear him tell it, the process is very simple. The business plans and proposals just keep pouring in, in every morning's mail: "I have a tremendous deal flow. Two or three a day." They come to Harry because he knows hundreds of industry executives from his 15 years as a high tech analyst in the Street—and because he's constantly on the speech circuit. "Speeches used to get me consulting business," he says. "Now, they give me deals." He holds up a wad of business cards collected after his appearance at the last American Electronics Association meeting in Minneapolis. They are the cards of industry executives who have a friend looking for money, or who are themselves looking. Word gets around, too, that Harry has venture capital to invest and can make up his mind fairly fast. Says he, "I know a good deal when I see one."

The search for deals is summarized neatly, if briefly, in a well-thumbed paper notebook Edelson keeps on his desk. It contains more than 200 ven-