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Acquiring a Bankrupt Company

an interview with

DICK "Perk" PERKINS

of Perkins Capital Management

The King of Angels for Local Entrepreneurs

What makes him fund a company?

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COVER INTERVIEW

King of Angels

Insights from money manager Richard Perkins for local entrepreneurs

There comes a point in the life-line of any business where it will most likely require a capital infusion to take it to the next level. To what level depends upon the existing stage of the business and its growth potential.

For those entrepreneurs who feel they possess an explosive business opportunity, whether a start-up or a going concern, that is in need of money, the kind of money beyond the interest or capability of traditional financial institutions, yourself, your business, friends, and family, your prayers have been answered.

Say hello to Richard Perkins. You may not see it when you first look at him, but if you look real close, you'll see something that resembles a halo over his head. And I'm not talking about his hairdo. Better known as "Perk" among friends, he is heralded as the "King of Angels" among private investors in the Twin Cities.

Perk is an affable and energetic kind of guy who has a long history in the money-management business. He owns Perkins Capital Management (PCM) along with his two sons, Richard, 43, and Dan 42. It's a family-owned business that is located a long haul from Wall Street. Try the north shore of beautiful Lake Minnetonka in Wayzata. The atmosphere at PCM, which has 15 employees, is casual. Minnesota wildlife art adorns the walls. Perk's collection of antique duck decoys occupies shelves in the board room of what once was a law office.

This eleven-year old company manages about $500 million in assets for its clients, encompassing individual accounts, a hedge fund, Perk's investment approach focuses mostly on smaller Upper Midwest growth opportunities, and is noted for combining technical analysis with plenty of visits.

It's because of his 40 years of experience as a money manager and his constant search for change and opportunity that has led Perk to become a leading player in the risky game of funding private companies before they go public.

Not bad for someone who started out as a barber.

MB&O: Describe for me your typical work week.

PERKINS: I pretty much work 12 to 14 hours a day, seven days a week. It's usually a 70-hour work week, including several hours every Sunday to review the week's charting.

Every morning I spend about an hour reading six newspapers. I read the two local papers, the *Star Tribune* and the *Pioneer Press*, because that's where I live and that's where the bulk of our business is. I also read *The New York Times* because that's where the New Yorkers live and that's what they read. I read the USA Today because that's what the man on the street reads. I read the two financial papers, the *Investors Business Daily* and *The Wall Street Journal*.

MB&O: Doesn't that seem a bit excessive?

PERKINS: Not really. I've always been like this. That's what I do for recreation. I work.

MB&O: For someone who has been in the investment business for about 40 years, you don't look like the typical Wall Street investor. How do you explain that?

PERKINS: We live in Minnesota, not New York. The people out here aren't the pin-striped types.

MB&O: Will 1996 be a good year to invest in the stock market considering it's an election year?

PERKINS: I think it will be a fairly good

BY ANTHONY F. GIOMBETTI

ear, particularly in the second half, *because* it is an election ear. It will, however, be punctuated somewhere in the niddle by a correction. We have not had a decent correction or three and a half to four years — by that I mean 10 percent. think one is over due.

So far we have had a really good first quarter. I would xpect some sort of a relapse along the way into the summer arting sometime in April. Then a good second half folowed by a honey-moon period that will last into the first uarter of 1997. Beyond that I'm not willing to say.

IB&O: I understand you were once a barber. How did that ırn into the investment business?
ERKINS: After I graduated from high school in Westby, Visconsin in 1948, I headed off to barber college in Minneolis. It was a trade my father practiced before me and I gured it could help finance a college education my family ouldn't afford.

After a couple of years, I was clipping hair between asses at Memorial Union at the University of Wisconsin. I as a flat-top specialist.

By 1957, I had finished my undergraduate and graduate egrees in business. I then went to work for the American ational Bank and Trust in Chicago as an investment anast. Two years later, I went to work for the Mayo Foundation Rochester as an assistant endowment fund manager — a ove that soon ended my barbering sideline.

IB&O: How is that?
ERKINS: To make a couple of extra bucks on the side, I ad cut hair every Saturday for some time. I have a distinct collection of having gone to college for five years and ever having seen any college games because of this. A few eeks into the job, my boss told me to knock off the weekd moonlighting. He gave me a $2,000 raise and ordered me to the office on Saturdays.

B&O: How did you end up at Piper Jaffray?
ERKINS: After the Mayo Foundation, I worked for andard Oil in Cleveland as a pension fund manager for a ar. During that time, I met a guy while I was hunting ducks, no was a partner at a brokerage firm. He wanted me to join em. I thought to myself, 'Sounds like a great idea. But if I'm ing to do it, I'm not going to do it in Cleveland. I'll do it Minneapolis.'

I knew some people at Piper Jaffray from my days at the ayo Foundation. I made some inquires and asked them out starting an institutional department. In 1966, I joined e firm and helped establish investment research and sales erations and started an international sales department in 78.

B&O: What was the impetus to leave a vice-president sition at Piper Jaffray, Inc. and start your own money anagement firm?
ERKINS: I had worked at Piper for 19 years. One day hile I was driving home from work, I saw a billboard that id, "If you lived here, you'd be home now."

I thought about that one day. If I had started my business years ago, I'd be "home" now. It seemed to me like a good ea. I also wanted to have a business with my sons.

The problem of quitting was that I had spent 20 years ilding a business for someone else and realized what good it had done me. Sure, I had made good money and made od friends, but the business wasn't mine.

B&O: When did you go into business for yourself?
ERKINS: Our official start date for Perkins Capital Manement (PCM) was January 1, 1985. Each of the boys have 20 percent ownership stake. We located out in Wayzata cause that's where we lived.

B&O: When you left Piper, how much client money did u bring with you?
ERKINS: About $8 million.

B&O: What was your strategy for growth?
ERKINS: We weren't out to grow fast. Our plan was to a good business and keep our noses clean. We wanted to money and not people. We were not looking to have $3 billion under management. Today we've got about $500 million.

MB&O: What kind of money management firm is PCM?
PERKINS: It's a private money management firm, including some conservative stock-and-bond accounts.

MB&O: How would you describe the working atmosphere at PCM?
PERKINS: It's pretty casual and informal.

MB&O: What are the ups of running a money-management firm?
PERKINS: First of all, there are no receivables. Second of all, your fees are collected four times a year. The best part about that is they are charged in advance so you don't need any working capital. Think about that for a moment.

"The problem of quitting was that I had spent 20 years building a business for someone else and realized what good that had done me."

MB&O: And the downs?
PERKINS: Money managers are always trying to do well for their clients. After all, that's how they get paid. The downs come when the stock market goes down. Clients don't always understand that sometimes there will be bumps in the road, sometimes potholes.

When clients get nervous one of the things we try to do is prevent them from getting too nervous and calling us up to say, 'Sell my stocks!'

MB&O: What is your strategy for investing in the stock market?
PERKINS: Our strategy may be characterized as a search for opportunity. We concentrate on finding stocks we think will appreciate in value. Our primary focus is on companies which we perceive to be undergoing change which may not have been recognized in the market place, but which may result in higher earnings, and when recognized by others, a higher price earnings ratio. This combination offers what is referred to as a double play, a situation that often results in excellent appreciation.

There is also more to successful investing than picking stocks. They must be purchased in suitable amounts and sold at the right time. Actually, selling at the right time is often more difficult than buying because it is easy to fall in love with a stock when, in fact, a more objective attitude is required. A stock should be sold, of course, if something fundamental changes to negate the original reason for buying it. Sometimes, however, a stock may go up so quickly that it becomes clearly overpriced. Then you sell.

Occasionally, it is necessary to prune the tree by selling the least attractive holdings in portfolios to make room for new and more promising ones.

We do not believe in trading, in fact, PCM tends to undertrade. I believe patience is an important ingredient in successful investing. Once purchased, situations must be given time to develop. Although we wish it were so, stocks don't start to go up just because we purchased them.

Strong nerves are also required. Sticking with a stock through a reaction may be necessary if full and complete benefit of a successful investment is to be obtained.

MB&O: How do you use technical analysis in your decision-making?
PERKINS: Thirty-five years ago we didn't have computers. We used slide rules to calculate price earning-ratios. It was a lot of work.

Today, there is too much information at your immediate disposal. However, in our investment selection process, we use various computer programs to derive the necessary fundamental information about an industry or a company. Technical analysis is used as an aid in determining those industries that appear to offer the best investment opportunities at a particular time.

We don't do a lot of fancy footwork around here. We do the two-step: the fundamentals and the charts. It doesn't have to be complicated.

MB&O: Why does PCM primarily invest in Upper Midwest companies?
PERKINS: Since 1959, I've probably visited every company that's here. I think it's important to have a good understanding of what companies do and know who's running them. It's also easier if you're concentrating your choices in an area you're familiar with.

Also, I think the Upper Midwest has a strong work ethic. We seem to have more than our share of companies that are very successful. There's a strong sense of entrepreneurship in this part of the world.

MB&O: Which companies are the stars in your stable?
PERKINS: In any portfolio, there are always going to be some that perform better than others. That's the law of averages.

Of the 75 stocks in our portfolio, some of the top performers in the last year have been local companies. There is Ciprico, located in Plymouth that makes data storage devices; Rain Forest Cafe located in Hopkins; MicroComponent Technology, located in Arden Hills, that makes semi-conductor equipment; and Angeion, located in Plymouth, that makes a new defibrillator for the heart.

MB&O: In lay terms, describe for me what an angel is.
PERKINS: I suppose it would be someone who takes a small entrepreneurial company under their wings and helps it by providing money and advice.

MB&O: Is there a large pool of angels in the Twin Cities?
PERKINS: Yes, there are a large number of them — perhaps as many as 300.

MB&O: What are some of the reasons an angel invests in a private company?
PERKINS: Probably because it represents an opportunity to invest early in a company and make a lot of money. Typically, an angel will bring in more friends with more capital.

MB&O: How much money is a reasonable amount for an angel to invest?
PERKINS: It all depends on the situation. It could be anywhere from $50,000 to $500,000.

MB&O: When is it appropriate or at what stage of business development should an entrepreneur seek out an angel?
PERKINS: You can't put a hard, fast rule on that. Most small businesses that are seeking capital should get the initial capital from friends and relatives. That's really the first step. Usually most of these smaller companies are at such an early stage that's where the money more appropriately comes from. Angels usually come in at a later stage after the company has been in business for a while and has proven themselves, but are in real need of capital and advice.

IB&O: How does an entrepreneur go about finding one?
'ERKINS: Good question. I guess there really isn't a irectory, is there? I think you just have to ask lawyers and ccountants and so on.

IB&O: Is there a certain form of etiquette or protocol that hould be used when dealing with an angel?
'ERKINS: Don't try to put on some false airs. If you are sed to dressing in a short sleeved shirt, don't start wearing ıree-piece suits. Just be yourself because that's what eople want to see. I don't think angels expect entrepre-eurs to have the ability to put together a beautiful business lan because they're busy running their business and will ıost likely need help putting it together.

IB&O: Among private investors and entrepreneurs in the 'win Cities, you are commonly referred to as the 'King of ıngels.' How does that make you feel?
'ERKINS: I didn't really know that. I am amazed to learn ıat. I'd prefer to remain anonymous about it. I put my ocks on one at a time just like everybody else.

IB&O: In what ways does Dick Perkins fit the description f an angel?
'ERKINS: I've never really thought of myself as an angel ntil someone came along and said that's what I was. Yes, 've done a lot of that kind of stuff over the years, but it was ıst a way for me to learn more and have a lot of fun.

My main business is managing money and, because of ıat, I see many companies that are publicly-held and ublicly-traded. What's more, I have an insight into other ıings for other companies that are smaller and not pub-cly-held.

IB&O: How important is Dick Perkins' stamp of ap-roval on an investment in a private company?
'ERKINS: Let's put it this way. If you know anything bout farming, there is something called a bell-cow. It's the ell-cow that leads the herd and that's the angel.

IB&O: How has being an angel impacted PCM?
'ERKINS: I think it has brought some opportunities to us ıat we might not have seen otherwise. By the same token, has infringed seriously upon our time. There's both good nd bad.

The bottom line is, as my son Dick says, 'If you don't go, ou won't know.' That's why we go to meetings and listen ı people.

There's another guy I know who's fond of saying, 'You ever know what you're going to know next.' You can't be n ostrich with your head in the sand and expect the world ı come to you. You have to go out and find it.

IB&O: When raising money, what percentage of owner-ıip should be exchanged for how much money?
'ERKINS: The amount of ownership you give up for a ertain amount of dollars depends a lot upon the stage of the ompany. If the company is at an early stage, it will have to ive up a greater percentage of ownership. Whereas if the ompany has been operating for several years, has some evenue with modest earnings or losses, and the tough mes have been past, the risks will have, for the most part, een mitigated and the percentage give-up for a certain mount of dollars will be less.

These are all judgmental decisions. There is no textbook r formula to go by.

IB&O: If an entrepreneur decides to raise capital by oing a private placement, how should they go about it?
'ERKINS: If the company is at an early stage and the ntrepreneur is looking for an angel who can bring in 100,000-to-$500,000, in most cases, any document will e written by the entrepreneur. The document will summa-ze what the company has done and is trying to accom-lish. An internal accountant, if the company has one, will ut together some simple financial projections with the elp of the entrepreneur.

You don't necessarily have to have the documents ompiled by lawyers or accountants to raise this kind of ıoney. However, when you take the next step and are looking for a couple of million dollars, then you want to get the lawyers to write it. You want to put yourself in a CYA position, namely, cover your ass. In this case, you have to make you sure all of the risk factors have been disclosed because it will be sold to a greater number of people.

MB&O: Once the document has been completed, how long should it take to raise the money?
PERKINS: It normally takes between 30 to 60 days. Sometimes it takes 90 days.

MB&O: If 90 days comes and goes and you haven't raised the money, then what?
PERKINS: You've got a problem because then the deal gets stale. People start asking, 'Why haven't you been able to do this?'

If the entrepreneur has been trying to do it themselves, then the question is, 'Have they been able to devote enough time to it?'

It's a time consuming process, especially if they also have to run the business.

MB&O: How do you resolve conflicts after an angel has invested in your company?

The general rule when investing in private companies is, "It always takes longer and always costs more. You have to be realistic about things."

PERKINS: Not always do you have a problem. If you do, however, it is usually because something isn't going ac-cording to plan. Then it is certainly appropriate for the investors to take a hard look and see what went wrong and what can be done to bring the company back on track.

Where head-butting takes place is figuring out how to bring the company back on track, if the entrepreneur doesn't accept that something isn't working or isn't willing to admit failure on their own part and something has to change. Then it boils down to a question of control. If the investor has less than 50.1 percent, then they don't have control and there's not much they can do about it. That's a risk all investors take.

MB&O: What types of companies do you see raising money in the Twin Cities?
PERKINS: First, you've got medical companies. There are more medical deals being made here in the River City than anywhere else in the country. It all goes back to Medtronic.

The second type is high-tech computer companies. Did you know the first real computer was built right here on the banks of the Mississippi River in the early 1950s? The INEAC was built in 1946. You'll also see a lot of software companies, especially those dealing with the internet.

The third category is food companies. You've got Pillsbury, General Mills, and so on, which is another big part of our heritage.

MB&O: What kind of return on investment does an angel look for when investing in a private company?
PERKINS: Individual investors usually look for a lower rate of return than do venture capitalists. An individual looks to double their money in a five-year investment where as a venture capitalist looks to get a 25-to-35 percent return compounded annually.

Don't forget the general rule when investing in these types, 'It always takes longer and always costs more.' You have to be realistic about things.

MB&O: How much weight does an angel put into the financial projections of a business plan?
PERKINS: There's an old saying, 'Take the projections the management gives you and cut them in two and then cut them in two again.' I've seen projections so unrealistic they boggle my mind. I know you have to be optimistic to be an entrepreneur, but come on, be realistic. I would much rather see numbers move along at a much slower, yet realistic growth rate than some that stretch my imagination to its limits.

MB&O: What are some red flags an angel notices when looking to invest?
PERKINS: When sales remain the same while ex-penses continue to grow. Or an unreasonable owner's salary or a lot of family members on the payroll. Another thing are digs, better known as lavish office furniture or equipment.

MB&O: How does an angel exit an investment in a private company?
PERKINS: One exit strategy is for the business to go public. But just because a company goes public, it doesn't mean the investor will sell. It just means you can put a price tag on the investment and take it to the bank. Another exit strategy is to sell the business or merge it with another company.

There has to be an exit strategy, but sometimes there isn't one because some companies don't lend themselves to ever being publicly-held. Unfortunately, this may cause a situ-ation where an angel isn't willing to invest.

MB&O: Since you began your career as a money man-ager some 40 years ago, you never strayed off course or changed career paths. Why is that?
PERKINS: Every day has been a new day. Every day has been different. There have always been new compa-nies and new ideas.

MB&O: What motivates you?
PERKINS: It's just the way I am.

MB&O: It's not accumulating wealth?
PERKINS: Oh, that's how you keep count, but it isn't that. If it were, I wouldn't be driving a used jeep or running around with only one sport coat.

MB&O: To whom or what do you owe your success?
PERKINS: My days at the Mayo Foundation in Roches-ter. What I was doing then was trying to identify something that was changing within a company that could be capital-ized on. The strategy hasn't changed much.

MB&O: Any regrets?
PERKINS: I probably would have started a business like this much sooner in my life.

MB&O: You've been known to quote Satchel Paige by posing the question, 'How old would you be if you didn't know how old you were.' Allow me to ask you, how old do you feel?
PERKINS: The way I see it, I'm 55. And at that age, I should retire, eh? Never.

I'm 65 and have no intention of retiring because I wouldn't have any fun. For me, I have fun through work-ing. For me, it's going to be business as usual. **MB&O**

Anthony F. Giombetti is Editor In Chief of Minnesota Business & Opportunities.