Case Study

Financing IntraLinks*

Mark Adams, President and CEO of IntraLinks Inc., was considering which way his company should go to finance the next stage of his company's growth. In mid-1999 the company had raised $35 million in the previous two years, but Adams estimated that the next stage would require more than that amount again. He considered that his choices included the following:

- Issue debt, either by borrowing from one of the big New York banks keen to get more involved in promising Internet businesses, or by means of a private placement of debt notes, possibly with "sweeteners" such as warrants to attract a lender.
- Seek out one or more private equity investors, ones who believed in the company's product and its management.
- Do an initial public offering (IPO) soon, while the market remained robust..
- Find another corporation who would be willing to acquire IntraLinks.

Background

Founded in 1996 by Mark Adams and Arthur Sculley, IntraLinks was one of numerous firms in New York's "Silicon Alley" aiming to capitalize on the phenomenal growth of the use of the Internet by businesses.. The core business of the company was to provide an Internet-based deal management system for banks and others involved in the global capital markets. The company's Web-based programs provided companies and institutions engaged in multi-party negotiations with enhanced control of financial documents in a neutral third-party setting. By creating a "virtual conference room," the system allowed deal participants to electronically exchange, store, comment on and edit documents involved in a negotiation, thus improving operating efficiencies, expediting transactions and reducing costs.

IntraLinks' first line of business was syndicated loan negotiations, and their first deal was completed in April 1997. By the summer of 1999 the privately held firm had about 40 employees and $6 million in sales, a rapidly expanding customer base, and the potential to move into other applications. One such application was case-specific document exchanges and negotiations between law firms. Another was drug trials, a crucial but information-intensive activity of pharmaceutical firms in the United States and elsewhere.

The Business

IntraLinks is a limited-access online service designed to speed the completion of financial deals including loan syndications, mergers and acquisitions, IPOs, private placements and other capital market transactions. Such transactions can involve more than 100 institutions worldwide, and require the distribution of hundreds of pages of documents.

Prior to the Internet, these documents had to be faxed, photocopied or mailed overnight. Now, using advanced Internet technology, IntraLinks enables corporate management, accountants, lawyers, investment bankers and other advisors involved in a deal to rapidly create, distribute, review and negotiate all the necessary documents in a safe electronic environment.

In a typical IntraLinks-facilitated transaction, Royal Bank of Canada employed IntraLoan, the loan-syndication product, to complete a $475-million bank financing for Alliance Atlantis Communications Inc in September 1998. All the details about the credit facility were put onto the IntraLoan system by Royal Bank and shared with the 14 lenders as well as other parties to the deal such as lawyers. Since the borrower had included spreadsheet-based predictions of its merged future operations, participants were able to download and manipulate the information. They could also cut and paste information for internal credit application purposes, saving time and effort. No software had to be downloaded; all the participant banks required was a browser and Internet access to participate in the system. Royal Bank, as lead manager, initiated the process simply by calling IntraLinks to set up a “Deal Space,” and identifying potential lenders who would have access to the on-line documents. For this Royal paid a fee to IntraLinks. Notices were sent out to the banks, with an ID and password and details on how to access the Web site with the specifications and terms of the deal.

Carolyn Buck Luce, the Ernst & Young partner in charge of Internet commerce, had this to say: “Like other Internet trailblazers, IntraLinks is dramatically changing the way we do things. In the same way that Amazon.com has forever revolutionized the way consumers buy books, IntraLinks is building the definitive platform for business and their professional advisors to quickly, safely and cost-effectively collaborate on multi-million dollar transactions.”

IntraLinks charged the lead manager in a deal on a flat-fee basis per participant per transaction. A loan officer at Citibank, one of InterLinks’ most active users, said: “We use InterLinks in many of our syndicated loan transactions. We pay them a fee that varies with the number of banks in the deal, and for that fee we can distribute and exchange as many documents as we wish for as long as the negotiations are active. A big advantage to us is that InterLinks enables us to see which participants have accessed which documents: it tracks every interaction. InterLinks also stores all this information, as well as the documents themselves, in a sort of electronic safe, which could prove useful in the event of a dispute later on.”

According to IntraLinks, early adopters were finding that the service had helped them complete major capital market deals five to ten days faster than normal and cut administrative costs 20-25 percent. The company claimed to have facilitated more than 350 capital market deals totaling $250 billion in their first two years of business.

Financing IntraLinks Thus Far

IntraLinks received its initial funding from “friends, family and fools,” as Mark Adams put it, commenting that this was the typical financing for many start-up firms. “Over the first year, starting in June 1996, money dribbled in, a hundred thousand or so at a time. That was Phase 1 of our financing.”

The Sculley family offered both funding and contacts. Arthur Sculley, co-founder and brother of John Sculley (former CEO of Apple Computer), served as Chairman and help bring in an additional $1 ½ million of equity from private sources.

The second phase of Intralinks’ financing involved three well-known venture capital funds, Perseus Management, Euclid Partners and HK Catalyst, which together provided $5 million in the form of a convertible preferred note with accruing but non-paying coupons that would become payable if the company was not acquired or went public within a given time. These investors secured seats on the board and were more “hands-on” than the initial investors.

In the third phase, the company had a bad experience. It used a placement agent who agreed to place a tranche of 9 ¼% “pick-or-pay” notes, but failed to do so and then reneged on its agreement to buy the securities. This debacle was soon remedied in the form of $16 ¼ million of common stock financing raised by Patricoff & Co., a prestigious venture capital firm. The shares were sold at $6.50 each.

In April 1999 Ernst & Young, a large professional services firm, paid $20 million to acquire a significant minority share of IntraLinks at $10 per share. E&Y regarded the investment less as a good financial investment than as securing an opportunity to offer their clients a solid and useful e-commerce business service. CEO Mark Adams was very happy with the visibilty and access the link-up accorded his company. “In addition to their global business channels, market credibility and investment capital, they will provide insight and strategic guidance for the research and development of future services, some of which will be outside the capital market arena.”

The fifth round proved to be much easier than earlier ones. The company now had a reputatio not only among its clients, but also in the Silicon Alley investment community and because it had acquired two prominent strategic partners in addition to Ernst & Young: IBM, Reuters and Johnson & Johnson. $8 million of shares were sold at $13 each to Johnson & Johnson and Reuters. IBM declined to take an equity stake, but cemented it tie with additional product collaboration in the form of a Lotus Notes-based “external LAN” product dubbed e-Express.

“This is our pre-IPO financing,” said CEO Mark Adams. “The question is, what’s the next stage? Will the IPO market hold up? When should we take the plunge? Should we go public at all, given all the headaches involved and the vicissitudes of the market?”