

Re-capitalization

Blue Sky Software Corporation

**The Client:** Blue Sky Software (Blue Sky) is recognized as the world leader in Help Authoring software and hypertext technology. It is a beautifully run, very profitable company that increased revenues by 40% in 1998 to \$16.5 million. EBIT was 38% of revenue. The Company is on target to deliver \$22 million in revenue in 1999, while maintaining its high net margins. Their goal is to reach \$50 million in revenues by 2001.

**Sequoia's Challenge:** The founders of Blue Sky wanted immediate financial security for their families. They also wished to participate in the upside potential of the Company. Sequoia was chartered to find investors, who would allow the founders to take some money "off the table", while leaving the Company independent to pursue an IPO strategy when market and Company conditions were aligned. Our problem in finding investors was that the Help Authoring market was simply too small to support an exciting public company. We discovered, in fact, that Blue Sky had a treasure trove of technologies that could be applied to larger and more dynamic segments of the software and Internet industries.

**Results:** We consulted with Blue Sky to better articulate its strategic options for the future. Once this positioning work was completed, Blue Sky began receiving focused interest from the investment community. Harborvest and GEOCapital acquired 42.5% of Blue Sky in an equity recapitalization transaction. This structure worked well for both the founders and the investors. The founders received cash up-front and retained enough of an interest in the Company to potentially win big again when the IPO is completed. The investors purchased a significant position in an extremely well run and profitable company, which is poised to break into selected new hot markets.

*"Simply said, Sequoia Partners founders became part of our executive management team in order to get this transaction done. We never expected such insightful and strategic input from bankers - and that is what made this transaction happen."*

Jorgen Lien, Tond Berquist  
 Founders Blue Sky Software Corporation

*"As a lawyer, I know what great service is all about and how important it is to entrepreneurial technology companies. Sequoia Partners provided outstanding service to our client, Blue Sky Software."*

Fred Muto  
 Cooley, Godward