

Profile: Frank Kline '74 MSBA

On the Art and Science of Picking Winners

Following venture capitalist **Frank Kline '74 MSBA** around the Isenberg School for the good part of a day in April made it clear that the founder and managing partner of Kline Hawkes & Company in Los Angeles considers his success as much an art as a science. "The investment game is very quant oriented; picking winners though is ultimately 50% economics and 50% in the gut," he told a gathering of students. "Don't get fooled; my business is all about relationships," he emphasized. "Putting deals together as I do requires bringing people together who believe in each other and believe in themselves. People chemistry in these ventures is huge." So is identifying entrepreneurs with an unquench-

able passion for their businesses. "I'm not talking about three-time entrepreneurs with the financial comfort level to walk away from a venture if things get unpleasant," he remarked.

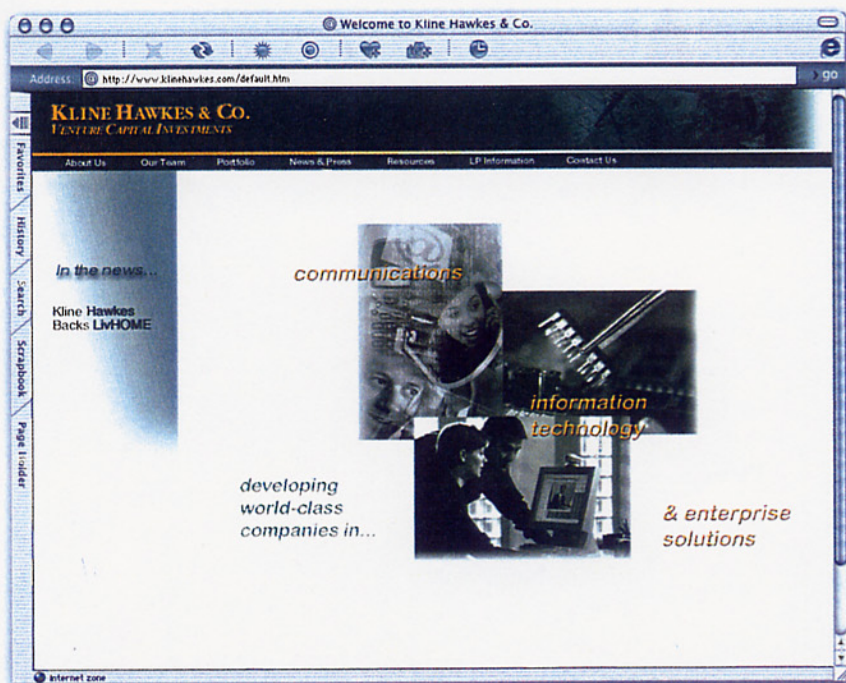
Kline's formidable success lends added authority to his picaresque pronouncements. Founded in 1994 by Kline with his own money, Kline & Hawkes currently manages \$300 million in capital, largely for institutional investors, via two principal funds. "I have job security until 2005; then I'll have to raise another fund," he noted. The Isenberg School graduate's top institutional investor/client is CalPERS, the California Public Employees' Retirement System. Last December, in a CalPERS survey of its venture and private equity invest-



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ments, Kline & Hawkes—having yielded a net internal rate of return of 43%—ranked fourth among 193 funds created between 1990 and 2002. "We currently have about thirty companies in our portfolio; two thirds of them are in the high-tech sector (mostly IT); the other third are in services," Kline told the students. Kline himself focuses on his firm's investments in communications, information technology, and enterprise solutions. "We typically invest \$5 million to \$10 million per company, with a focus on mid- and expansion-stage ventures," he explained.

"Eighty-five percent of our deals are on the West Coast, most in southern California," he continued. "That's important because we insist on being really close to our ventures." That means, he emphasized, spending time in the trenches with CEOs, badgering them with questions like, *Why do you*



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want to do this? and *Why are you taking major personal risks for this?* “Many of those managers fail to satisfy us—we typically throw them out. We also tend to cut off our losses real well.” Although Kline & Hawkes shoots for four new ventures a year, it only did two in 2001 and none in 2002. In February, the firm finally closed a deal, investing \$3 million in LivHome, Inc., an at-home assisted living company, based in Los Angeles. Musing on the sour economy, Kline confessed: “I’m currently down 23% because I trade in public markets. “I’m not worried though because this is a boom and bust business. Better times will return.”

Kline’s master’s degree from the Isenberg School focused on marketing research. His three decades of industry experience include extensive work with Drexel Burnham Lambert as an industry analyst and deal maker, focusing on high-technology businesses. He also ran ventures on the West Coast and Japan with Pat McGovern, founder of IDG and publisher of *Computerworld*. With McGovern, Kline cofounded Pacific Venture Technology, where he was a partner. Before founding Kline & Hawkes in 1994, Kline was West Coast manager of Lambda Funds, the spectacular private equity performer based in New York and Los Angeles. Today, the UMass alumnus lives in Pacific Palisades with his wife, Shelly.

“A guiding principle in my career has been to find what really motivates me and go for it,” Kline told the students. “I look for that in anyone who asks me for money,” he continued. “My advice to you is to do something creative after graduation. Find something that really makes you tick and do it; it will multiply your chances for success.” ■