

FINANCE

Equinet Goes On-Line

Who is really going to benefit from the Fitel-Recruit joint venture?

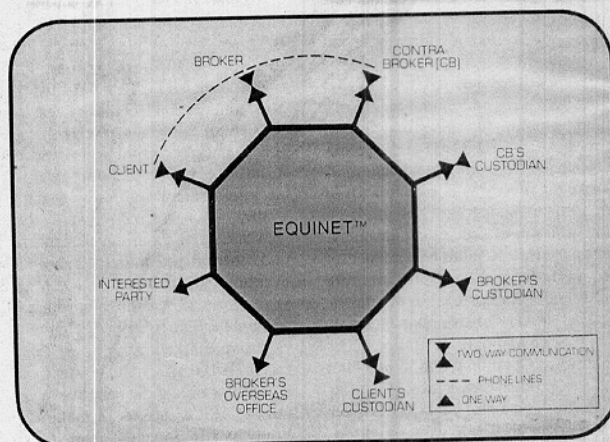
Launched in late 1985, with an initial investment of some \$6.5 million in private start-up capital, Fitel Ltd. had *Equinet* operational by January 1987. Graciela Chichilnisky and her colleagues spent most of 1986 working with system developers to create the data-base program and screen-based data-entry software that is the heart of the system. In London, they set up a Tandem *NonStop* host computer and installed the transaction management program which clients access over high-speed data links from customized IBM AT personal computer terminals.

Following intensive tests conducted with the help of several major investment banks in New York, among them Salomon Brothers and Bear Stearns, the system was ready for its first on-line demonstration in early 1987. Chichilnisky has a framed copy in her midtown New York office of the computer printout which recorded the first successful transaction between Salomon Brothers and one of its clearing banks in Tokyo, Security Pacific Trust Co. *Equinet* performed as expected, and has since won the support of some two dozen major clients around the world.

Needed Finance

By the end of May this year, users of the system included Salomon Brothers, Merrill Lynch, Prudential-Bache, Fidelity Fund Management, Putnam Investor Services, Brown Brothers Harriman, Bank of Tokyo Trust and New Japan Securities. Other likely users, in "advanced stages of negotiation," according to Fitel literature, include First Boston Corp., Baring Securities, Shearson Lehman Brothers, and Ord Minnet (a Sydney, Australia-based brokerage). Also on the list are leading Japanese brokers Yamaichi Securities and Nikko Securities.

After a year of explosive growth, Fitel's directors came to the conclusion that additional capital was needed to finance further expansion, particularly the development of next-generation products to head off the moves by potential competitors. Though Chichilnisky claims that there are no products which compete directly with *Equinet* in what she terms the "post-trade market", companies such as I.P. Sharpe, Reuters and International Securities Clearance Corp., may be in position



| TRADE ENTRY | | |
|---|---|----------------------------------|
| SEC ID: 86021009 | Trade Date: 02-10-86 | Settle Date: 02-15-86 |
| Country Code: GB | Country: United Kingdom | Ticket Ref: 1234 |
| Account ACR: INT | Account Full Name: International Investments Inc | |
| B/S: Buy | Quantity: 10000 | Secur. Ac: JAG |
| Shipping and Invoice Unit Price: 15.67 | Buyer: Jaguar PLC | Currency: Pound Ster |
| Commission: 5 Pence Per Share | Currency Code: STG | |
| Final Amount: | | |
| SELLER DETAILS | | |
| Counter Party ACR: JW | Counter Party Name: James Whitman PLC | |
| Principal Amount: 156,700.00 | Currency: Pound Ster | Other Ref: Your Trade 156 |
| Create Date: 02-10-86 | Update Date: | User ID: AD 130 |

| SECURITY TRADING MAIN MENU | |
|-------------------------------|----------------------|
| Date: | 18/03/88 02 Feb 1988 |
| 1. Process Trade | |
| 2. Investor/Inquire Security | |
| 3. Stock/Inquire Broker | |
| 4. Ticket/Inquire Account | |
| 5. Network File Download | |
| 6. File Upload | |
| 7. Reports | |

| BROKER FILE UPDATE/INQUIRY | |
|-------------------------------------|------------------------------|
| Broker ID: 01374 | Broker Code: CB Name |
| Fidel No: 007 | Linked System: |
| Full Name: James Whitman PLC | Acronym: JW |
| Alt. Tel no #: | Contact Div: J Morse |
| Print Tel no #: | Tel # 01: 878 1213 |
| Client Bank Name: 67583 JW | 87583 JW |
| Client Bank Alt. Tel #: | 87583 JW |
| Client Bank File #: | Uploads: PLC |
| Supplier: | DB: 08083 |
| Create Date: 11/21/85 | Update Date: 11/23/85 |

Equinet can connect all parties to a transaction through a screen-based entry system.

to challenge Fitel with similar network products.

Despite what she terms "significant revenues" from operations and a "conservative" approach to managing the company's expansion, it was clear to Chichilnisky and her colleagues that Fitel faced an acute need for additional capital. Staffing was an immediate priority, as the company's principals found the burden of running the company by themselves too taxing. Shuttling between London and New York and fielding midnight calls from Tokyo, directors Geoffrey Heal (43) and Chichilnisky (41) have to juggle outside commitments with the round-the-clock demands of the job. Both are on leaves of absence from teaching positions at Columbia University.

Fitel's president, Reinout baron Sloet tot Everlo, (44), a wealthy Dutch venture capitalist residing in Portugal, is not directly involved in day-to-day management. Michael E.S. de Mello, (32), studied under Chichilnisky at Columbia, and joined Fitel full-time as executive vice president after spending four and a half years as a banker in New York with The Irving Trust Co. Based on the Channel Island of Jersey, Fitel has subsidiaries in New York, Lon-

don, and Tokyo. But with a growing list of clients and a variety of new products in the pipeline, Fitel's resources were stretched to the limit.

Needing Know-How

To meet the need for expansion capital, Chichilnisky and her colleagues began to think seriously about forming a joint venture with a Japanese partner. Fitel had opened a liaison office in Tokyo last August, and when Chichilnisky heard from a former colleague at Berkeley that Recruit Ltd., an aggressive publishing and communications company in Tokyo, was interested, Fitel's Japan connection began to take shape.

Working without investment bankers and other intermediaries, Fitel and Recruit eventually struck a deal, in late March this year, worth \$3.25 million in which Recruit acquired a 12% stake in Fitel in return for exclusive marketing rights to *Equinet* in Japan. As Geoffrey Heal, Fitel's executive director of operations, announced on May 10, the deal with Recruit makes Fitel the "only partly Japanese company in this market."

It is not the first time, however, that an

entrepreneurial start-up from the U.S. or Europe has signed on with a powerful Japanese company in what management consultants like to call a "strategic partnership." Like many other joint-ventures in Japan, however, it remains to be seen how closely Fitel's objectives match those of its new partner, and how conflicts, when they appear, will be resolved. Privately-owned Recruit, it should be noted, has not been a key player in Japanese finance, and it is uncertain how effectively it can market *Equinet* to Japanese institutions.

Moreover, as the two companies move to integrate *Equinet* into the global communications network which Recruit is developing, Fitel also has to gauge how much of its proprietary know-how it can safely transfer to its partner. Given Recruit's broader ambitions to move into the U.S. and European markets, ostensibly to provide data communications services to Japanese companies, Fitel may want to determine if it will be used primarily as a wedge for Recruit's overseas strategies, or whether it will participate in planning those strategies. The answers will depend on the degree to which it really is a "strategic" partnership. *(Peter Fuchs)* □