The knot

The Knot was formed in December 1995 by David Liu, the co-founder and CEO with a dream of building the country's number-one wedding resource online. The core management team started with Daivd Liu (CEO), Carley Roney (VP of creative development), Michael Wolfson (VP of new business development) and Rob Fassino (VP of marketing). David Liu and Carley Roney co-founded RunTime, Inc. which was a CD-Rom development company. Wolfson and Fassino were the founders of Digital Media Division and later partnered with RunTime to create a very successful project.

This planted the seed for them working together in the future and creating a successful media business based on past experience. The team eventually grew to encompass Russ Casenhiser (Director of operations), Becky Casenhiser (Director of marketing) and Eric Herz (Director of advertising sales). The management team was very well rounded and a strength of The Knot; however they were missing a key component in a financial expert. The management team was looking for a niche market that offered high advertising revenue, stable demand and stagnant competition.

After extensive research they came up with a business model that would cater to the niche market of the wedding industry but operate initially online, and then would grow to encompass more traditional means providing comprehensive bridal content and services. The Knot would also later grow to include a gift shop, a registry, a book deal and ultimately a magazine. Initially they were able to become partners with AOL and believed with this strategic move they would be able to dominate the online wedding market.

In order to be a successful business model The Knot would have to generate revenues, make profits and produce free cash flows. They felt they could generate revenues based on the fact that there were 2. 4 million wedding per year and advertising revenues were very high. Also based on financial projections by their investment banker team they were able to see Gross Profit in 1999, Net Income by 2000 along with an increase in free cash flows in 2000, which was only a few years from now (Exhibits 2, 3 & 6).

The risk/reward structure was good for investor's because although there was competition and a large initial investment, based on our projections the ROA for 2000 was about 29% and jumped to almost 47% in 2001 (Exhibit 5). The niche market of the wedding industry is a great market based on the number of weddings per year which was pretty much recession proof along with the stagnant competition that was stuck in their ways of bridal magazines.

The Knot operating online would allow them to become first to market which is big for a start-up company. The size of the wedding industry is huge at almost $35 billion in sales and services and even if you consider just the bridal registry segment that generated around $17 billion per year. Based on the financial projections The Knot's growth rate was anywhere between 134% to 754% thru 2001 and a 5 year average of 311% (Exhibit 1).

Also by the year 2000 based on projections cash flows (Exhibit 6) started becoming positive and continued to increase going forward which we believe would continue well past their projections since couples would continue to get married and spend money. The Knot needed to move quickly with financing because there was completion on the front. Internet Gift Registries recently received a venture capitalist investment and several online businesses had launched to compete with The Knot's current and potential customers.

The WeddingChannel was potentially the biggest threat with successful business financial backers looking to invest $4 million into their business. This was not good news for The Knot because they were no longer the only game in town online and now there would be a race to dominate the online wedding industry. The Knot would need to receive an investment quickly to remain in business and continue their momentum. We believe that the Knot made a good decision asking for $10 million from the investment bankers.

We believe they could have asked for less and still been successful for example if they asked for $8 million they would have been about breakeven in cash flows in 2000 or $5 million and still had positive cash flows in 2001. However, we felt the $10 million was appropriate based on the rise of competition entering the market place and based on the investment bankers projections. We believe that The Knot should have raised the money from venture capitalists put in place by the investment bankers, but could have also looked to ask for some trade credit and thus possibly could have reduced how much they needed to raise.

The Knot should have used the proceeds to concentrate on the start up of the registry, marketing costs, and the development of their new magazine and then focus on production and their other expenses. We believe David Liu's exit strategy within the next few years would be to concentrate on an initial public offering. We believe with the buzz surrounding internet companies along with seeing other online businesses IPO proceeds and post money valuation soar; this would be a no brainer and The Knot would be a huge success when they went public.

We believe The Knot made a smart choice with issuing preferred stock to the investment bankers, which would not negatively impact cash flows while trying to grow their business and would ultimately lead to both The Knot's management team and the investment bankers cashing in on a huge pay day when they went public. By using the investment bankers and venture capitalists for financing this will make a smoother transition for their IPO. They will already have a team that understands their business, their financial situation and ultimately be able to help out with the IPO process and work with their investment bank.