

Funding Models for Growth when Venture Capital is Scarce

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15th National Executive Forum

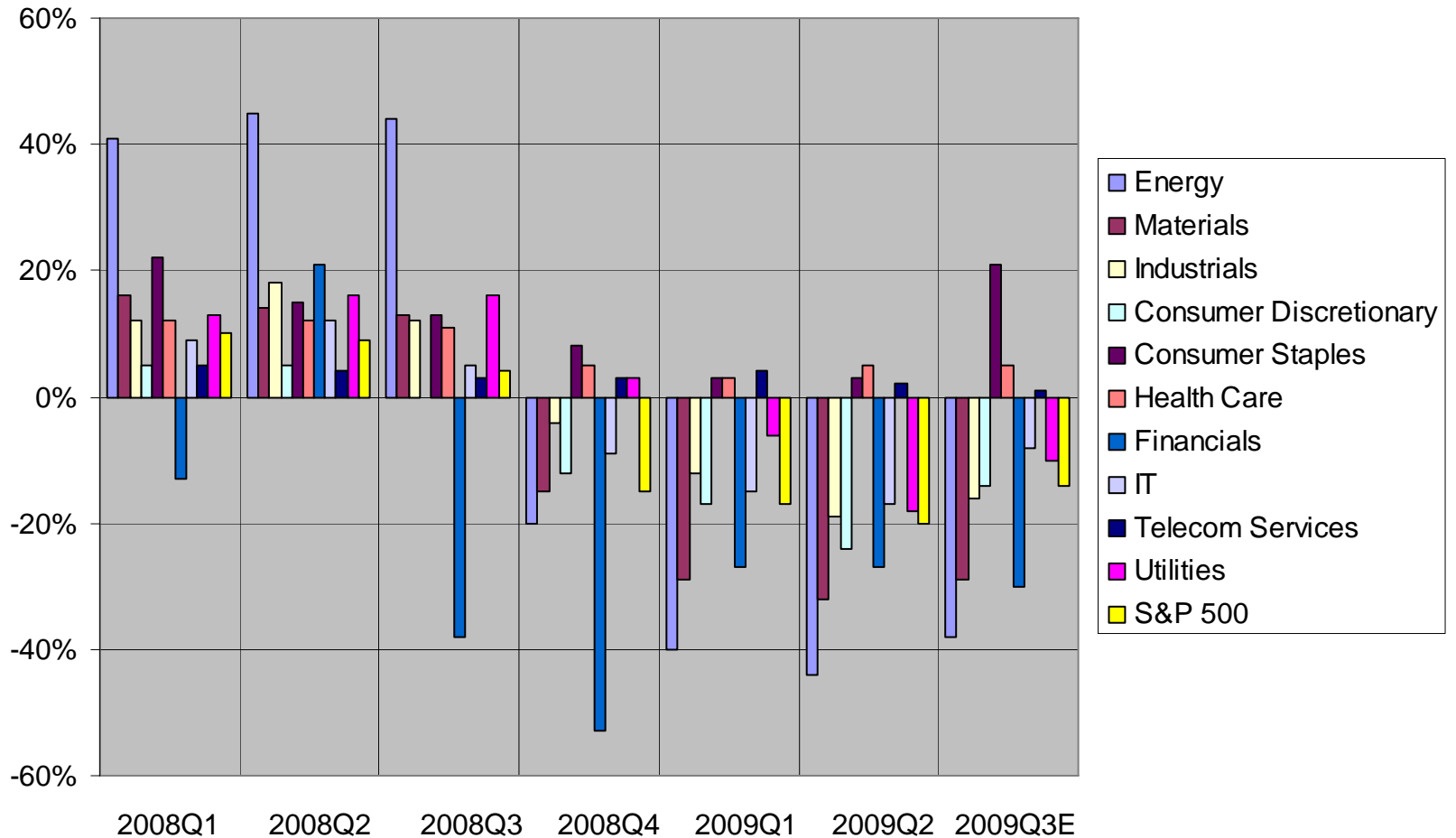
Winning in Global Markets in Adverse Times

October 15, 2009

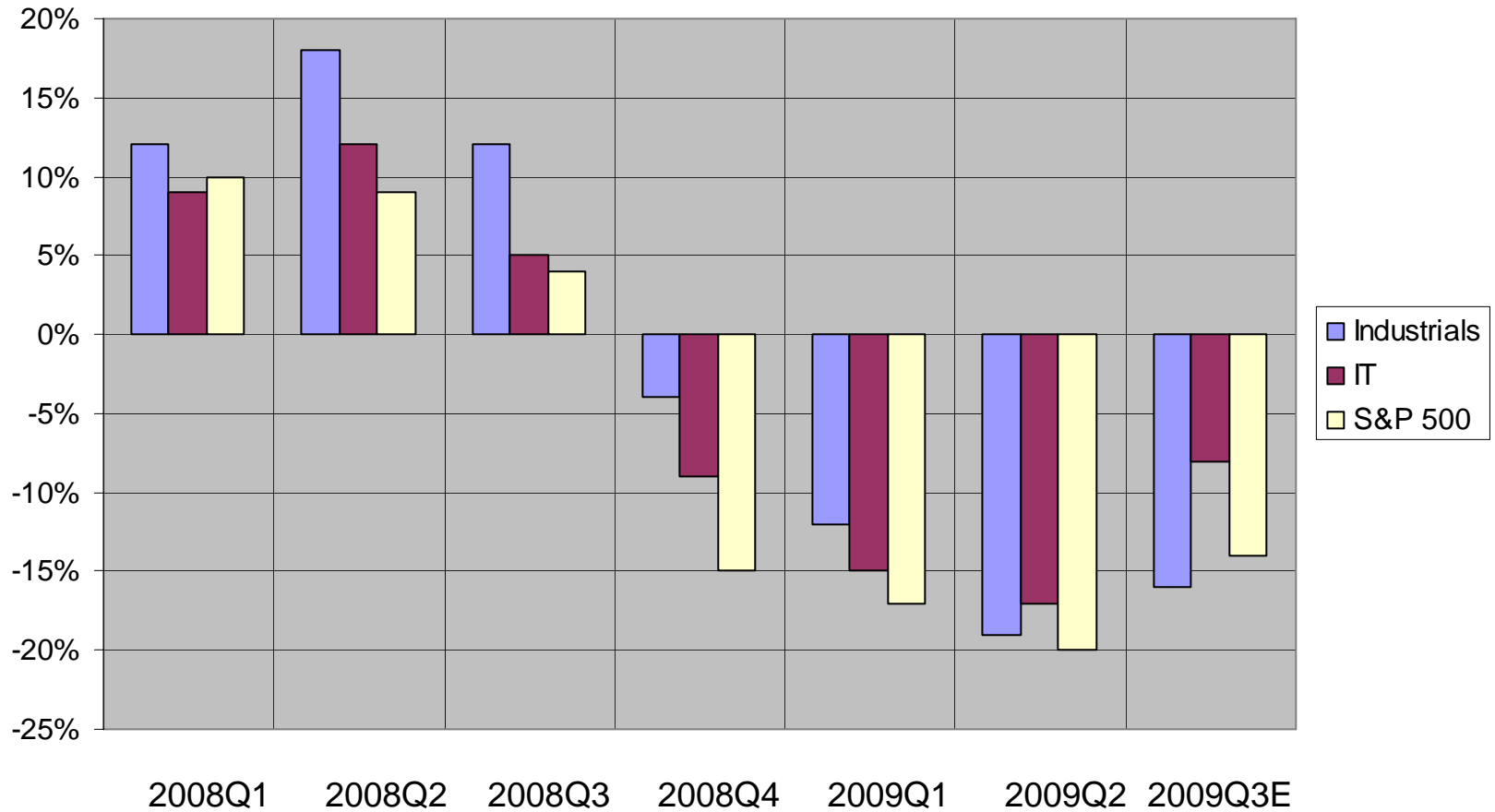
Agenda

- What's wrong with Venture Capital today?
- Venture Capital characteristics
 - A Case study
- The Genesis of an idea
- An alternative approach – My personal experience
- How is this model different?
- Who to engage?
- How to shop for bargains

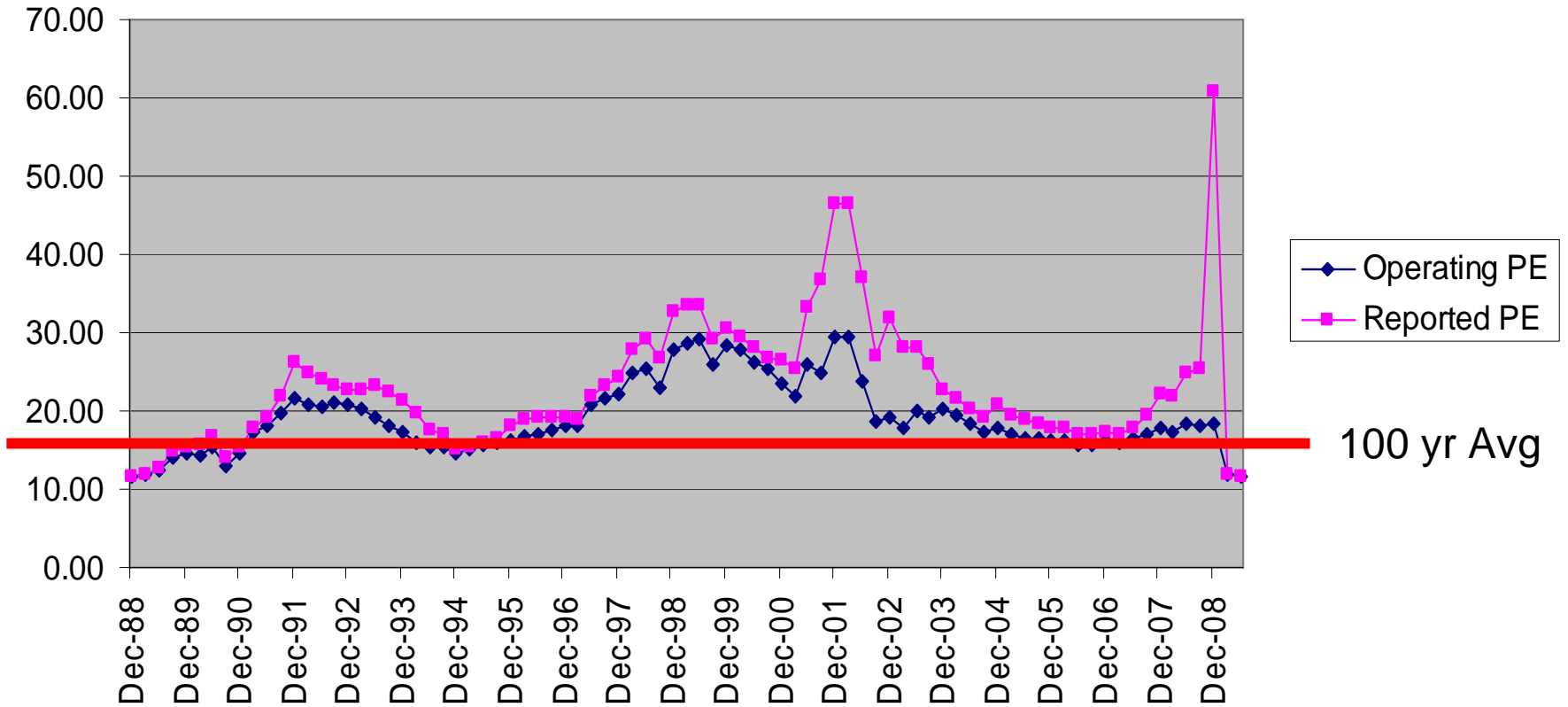
S&P 500 Quarterly Sales Change



IT Spending Mirrors Industrials



S&P 500 PE Ratios



What's wrong with Venture Capital in 2009?

- Losing money
- Valuations are down across the board. This downdraft makes profitable exits difficult.
- No money for new investments
- Hunkered down protecting subset of existing investments
- Timetables are artificial
- VC partners can only make 1-2 investments per year.
- Terms are terrible! You will work for 2% ownership.

The Famous Sequoia Presentation



Created a nuclear winter in the venture community

Personal Experience

- Wavesat successfully raised 11M in January 2009!
- 37 investor pitches later, and no new investors.
- Money came from existing investors.
- Most VC's stated they were protecting the 20-30% of investments that had a path to positive cash flow in 12 months or less.
 - The rest were cast to the wind.

Case Study - Atsana

- Year Founded: 1998
- Focus: Multimedia processor chips for handheld applications
- Funds raised: US \$45M
- Employees: 80 (at its peak)
- Sold to: MTEKVision - Korea
- Year Sold: 2005
- Sale Price: Fire-sale price!
- Revenue at time of sale: < \$1M
- Growth of Business: now 1.2 million units / month

The Genesis of an Idea

- How to turn cash on the balance sheet into R&D investment without impacting earnings (Legally!)

Case Study – Tundra Semiconductor

- Microprocessor Host Bridge Portfolio consisted of 4 products. Products complemented Freescale and IBM PowerPC products.
- Company had completed 80% of a 5th product in the family. But concluded the feature set was not ideal. Product was cancelled.
- Company wanted to build a next generation, but didn't have the expense head-room. Freescale wanted this product to exist, but could not fund it.
- Partnership discussions with Freescale were at an impasse. Neither company had the expense head-room to fund another chip development.

But

- Tundra had cash but couldn't spend it without creating a loss for the fiscal year.
- Freescale wanted near-term revenue
- Freescale's host bridge products were being used as a cash cow. Revenues were modest (for Freescale).

The Solution

- Tundra acquired the Freescale host bridge product line.
- Cash payment was a balance sheet transaction for Tundra.
- Freescale treated the asset sale as income.
- Newly acquired revenue stream to Tundra was enough to fund investment in the next generation chip. No negative impact to company profitability.

Case Study – Somerset Technologies

- Year was 2003
 - Industry was still in dot-com hang-over.
 - Venture capital was scarce.
- We wanted to start a microprocessor business.
- Landscape was littered with companies that had tried to start building processors. Few had survived.
 - Digital Equipment Corporation, SiByte, Alchemy, Cyrix, PA-Semi, Fairchild, Sun Microsystems.

Our Business Requirements

- 30M-50M in funding
- Staff of 70-90
- Leverage an existing software ecosystem

VC Feedback

- 10 Investor meetings later
 - Not funding semiconductors. Too risky.
 - Some could only invest 5M at a time. Will need to assemble a syndicate of 5-10 investors.

The Idea

- Build a team of experienced processor semiconductor, operations, and systems people to acquire a business through an LBO.
- Acquire the assets of IBM's embedded microprocessor division.
- Attempt to raise 250 million to acquire the business.
- Use the revenue stream from the business to fund our "startup"
- If not successful with IBM, then go after National Semiconductor's Cyrix division.

The Venture

- Built a dream team of 30 that consisted of key experienced people from Austin Texas and Ottawa Canada.
- Enlisted a dream team of advisors who had run the PowerPC businesses inside IBM and Motorola.
- Approached IBM senior executives and M&A team.
- Completed a full business transition plan which was presented to IBM.
- Entered into exclusive negotiation with IBM to acquire the business.
- Raised 160 million in private equity funding.

How is this model different?

- Startups go through several natural growth phases. People grow with the company.
- An acquisition is an instant-on business.
- You need experienced people in all the key roles. They must hit the ground running. You don't have the luxury of training people.
- Must have everything ready to go day 1.

The result

- IBM was desperate to close the deal by March 31, 2004
- Our banker wasn't satisfied with the quality of the business forecasts from IBM and needed a few more days for due diligence.
- After 4 weeks of exclusive negotiation, AMCC was invited to bid on the business on March 29, 2004.
- AMCC ultimately offered 70M more than we could afford and won the business.
- The Somerset leadership team was hired by AMCC to lead the business within AMCC.

Generalize the concept

- Look for assets that are a distance of 1 or less from your core business.
- Look for assets that are not core to their current organization, but could be core to yours.
- Look for opportunities to outsource a service.
- Determine whether the asset can be a source of revenue for the life of your funding requirements.
- Sell the idea as a turn-around play for the business.

Who to Engage?

- Investment Bankers?
- Private Equity Firms?
- VCs?

Investment Bankers

- Goldman Sachs
- CIBC
- Credit Suisse First Boston
- Citicorp Ventures
- others.

Who are the players?

- Francisco Partners
- Texas Pacific Group
- Golden Gate Capital
- Gore Capital
- Bain Capital
- Carlyle Group
- Apollo Investments
- Blackstone Group

Where are the bargains?

- Public companies that are marginally unprofitable or lack growth, with lots of cash.
- Simple search conducted on Oct 12, 2009

Company	Revenue	Profit	Mkt Cap	Cash	EV
Market Leader	38M	(12M)	56M	55M	2.4M
Trident Microsystems	76M	(62M)	202M	187M	22.4M
Radvision	85M	(15M)	115M	106M	6.2M
Support.com	49M	(21M)	114M	97M	17.3M
A Nortel division?					

Reverse the drain

- Find a US business and move the headquarters to Canada.