

THE F-WORD: FUNDING FOR SILICON START-UPS

THE PERSPECTIVE FROM A VC FUNDED COMPANY

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Picochip



Bath



Cambridge



- ✓ Fabless Semiconductor company
- ✓ Femtocell market leader
- ✓ 180+ employees
- ✓ Major development locations: UK, China



Beijing





Picochip

- Disruptive change to wireless industry
- No longer a “start-up”
- Now “Pre-IPO” or “Growth company”
- 10 years old: From bootstrap, to A-round, B-round, C-round... (don’t ask)
- \$110M total invested
- Now competing with Broadcom , Qualcomm

Life in a start-up ?



Rubbish!



- Not “uni-directional”
- You are not a passenger; you have (some) control
- You don’t exactly know where you’re going
- BUT... it is expensive !

A better analogy

This is your start-up

... and yes, sometimes you will go underwater!

But sometimes the sun shines!

It goes on and on...

Alternatively...



ROCKET SCIENCE

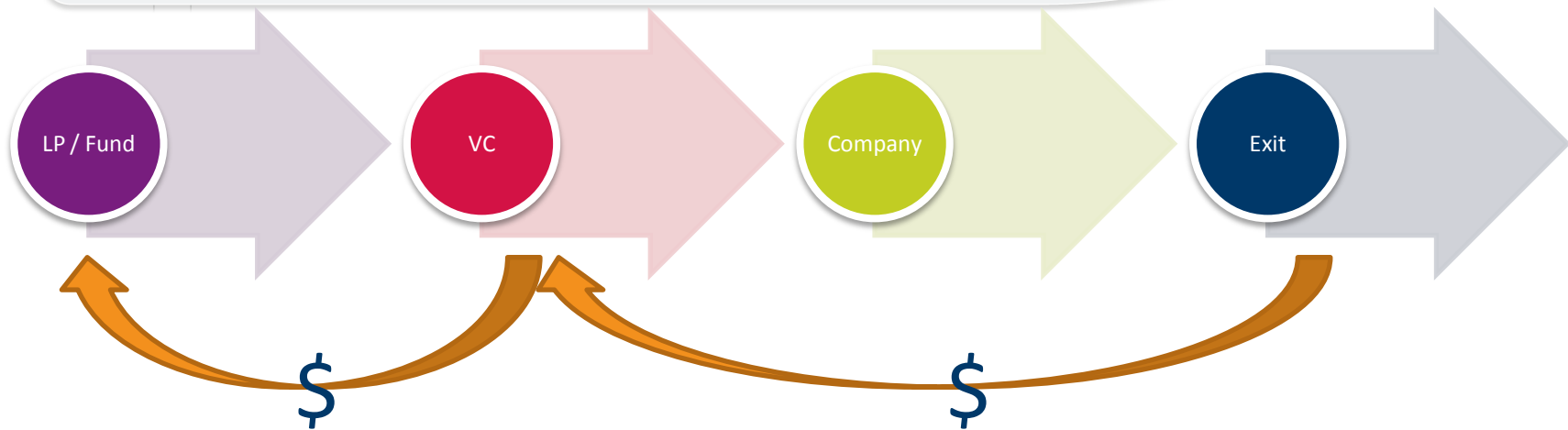
It really is that hard, but the results kick ass.

PunditKitchen.com



It really is that hard. And then you lose.

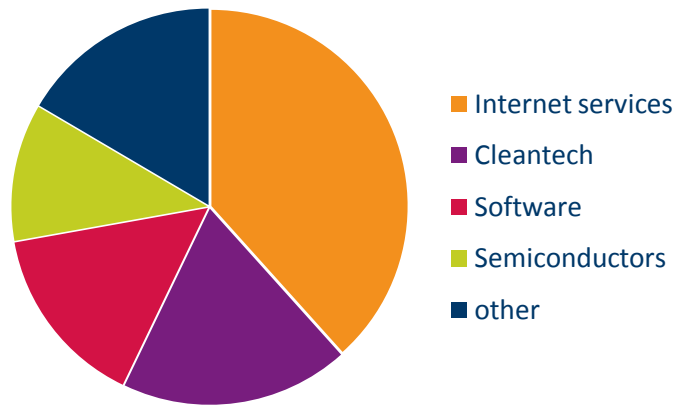
Where is the problem?



Lack of investment into VC?
Not enough VCs?
Not enough quality companies?
Companies cannot exit?

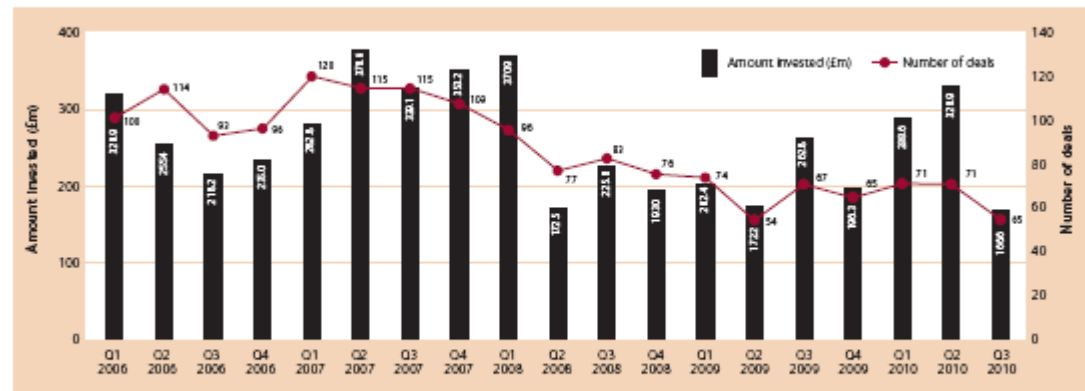
UK VC Investment '06-'10

- Only 2/3rd # deal (from 403 in 2006 to 272 last 4 Q)
- Total value held up: £1019m vs £979m
- There is money, BUT mostly for late stage



INVESTMENTS

Trends in UK VC Investment



Source: Dow Jones VentureSource



But this is far smaller than US

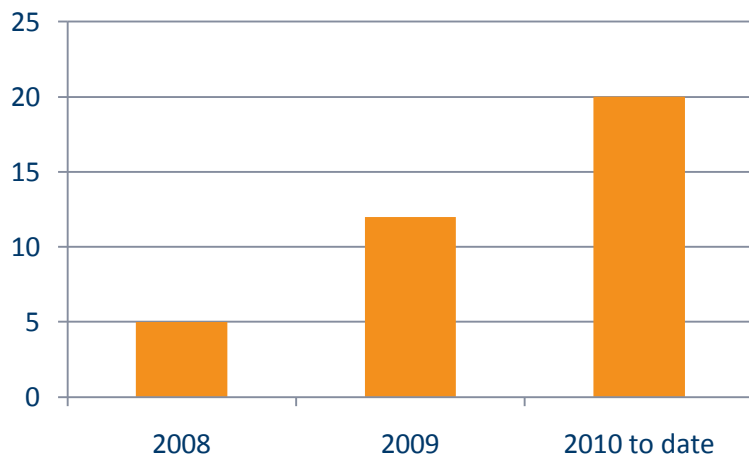
- \$4.8 billion in 780 deals in 3Q
- \$6.9 billion in 962 deals in 2Q
- Proportion to economy that is >5X

"4% of UK investment goes to venture capital compared to about 33% in the US. That's part of the reason there is no British Google, or Amazon, or Microsoft or Apple."

Lord Mandelson, March 2009

“There are no IPOs” ? There are – in USA

- US VC backed IPO
- 2010 = 40
- Already 3X 2009 and will pass 2005, 2006
- High-tech (semi, internet, etc)



Venture-Backed Liquidity Events by Year/Quarter, 2004-2010

Quarter/Year	Total M&A Deals	M&A Deals with Disclosed Values	*Total Disclosed M&A Value (\$M)	*Average M&A Deal Size (\$M)	**Number of IPO's	Total Offer Amount (\$M)	Average IPO Offer Amount (\$M)
2004	349	188	16,043.8	85.3	94	10,481.6	111.5
2005	350	163	17,324.7	106.3	57	4,482.4	78.6
2006	377	164	19,034.8	116.1	57	5,117.1	89.8
2007-1	88	31	4,640.3	149.7	18	2,190.6	121.7
2007-2	90	37	3,912.1	105.7	25	4,146.8	165.9
2007-3	108	55	11,261.7	204.8	12	945.2	78.8
2007-4	93	45	9,645.8	214.4	31	3,043.8	98.2
2007	379	168	29,460.0	175.4	86	10,326.3	120.1
2008-1	109	42	4,983.2	118.7	5	282.7	56.6
2008-2	87	27	3,321.2	123.0	0	0.0	0.0
2008-3	89	32	3,080.2	96.3	1	187.5	187.5
2008-4	66	18	2,390.9	132.8	0	0.0	0.0
2008	351	119	13,775.4	115.8	6	470.2	78.4
2009-1	65	15	666.0	44.4	0	0.0	0.0
2009-2	65	13	2,570.1	197.7	5	720.7	144.1
2009-3	69	23	1,392.4	60.5	3	572.1	190.7
2009-4	74	41	8,924.3	217.7	4	349.3	87.3
2009	273	92	13,552.7	147.3	12	1,642.1	136.8
2010-1	121	31	5,586.6	180.2	9	936.2	104.0
2010-2	97	22	2,932.2	133.3	17	1,274.9	75.0
2010-3	104	27	3,843.0	142.3	14	1,249.1	89.2



“There are no *big* IPOs” ?

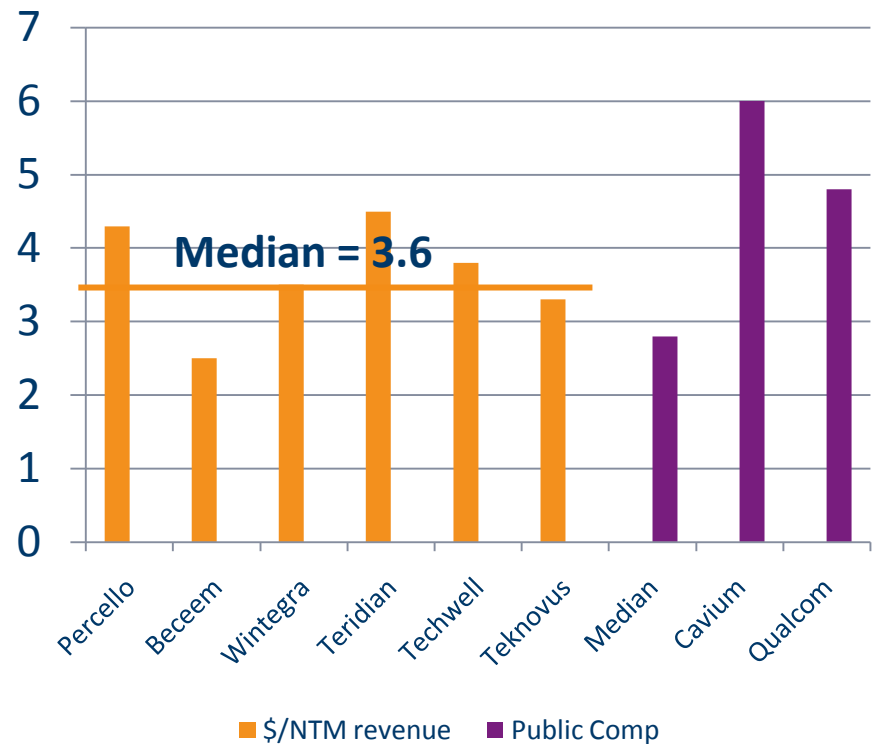
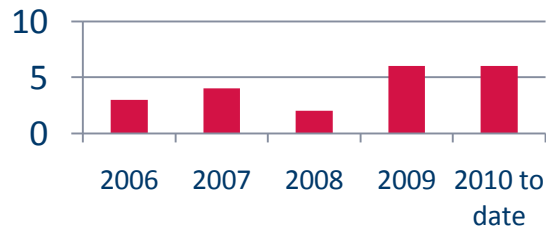
- 42 tech IPO 2008-2010
- +55.9% average
- ~\$14B of post IPO value creation
- 19 / 42 worth >\$1bn
- eg
 - RackSpace (\$3.3B market cap)
 - RealPage (\$1.8B market cap)
 - GreenDot (\$2.2B)
 - Ancestry (\$1.1B)

But chips aren't IPOing

Trade Sale (>\$100M)

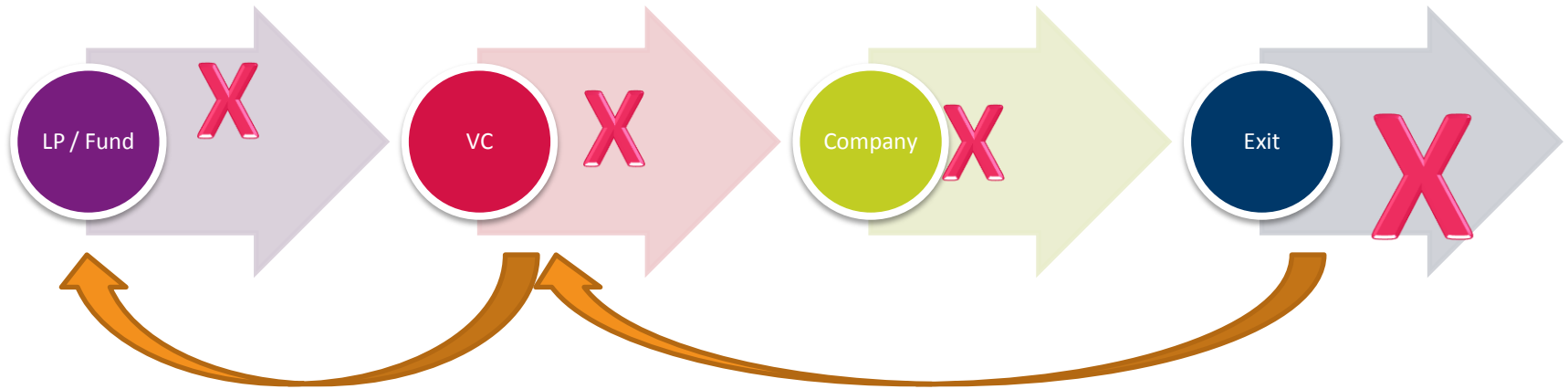
2010 to date

■ Percello	\$98M
■ Beceem	\$316M
■ Wintegra	\$273M
■ Teridian	\$315M
■ Techwell	\$336M
■ Teknovus _{# sales}	\$114M



Companies exit, but not at great multiples

Problems in UK



- LPs not investing in Funds (4% vs 33%)
- Not enough skilled VCs
- Not enough skilled entrepreneurs, teams
 - Particularly Product Management (UK design centre for US managers)
- But most of all – not enough IPOs**

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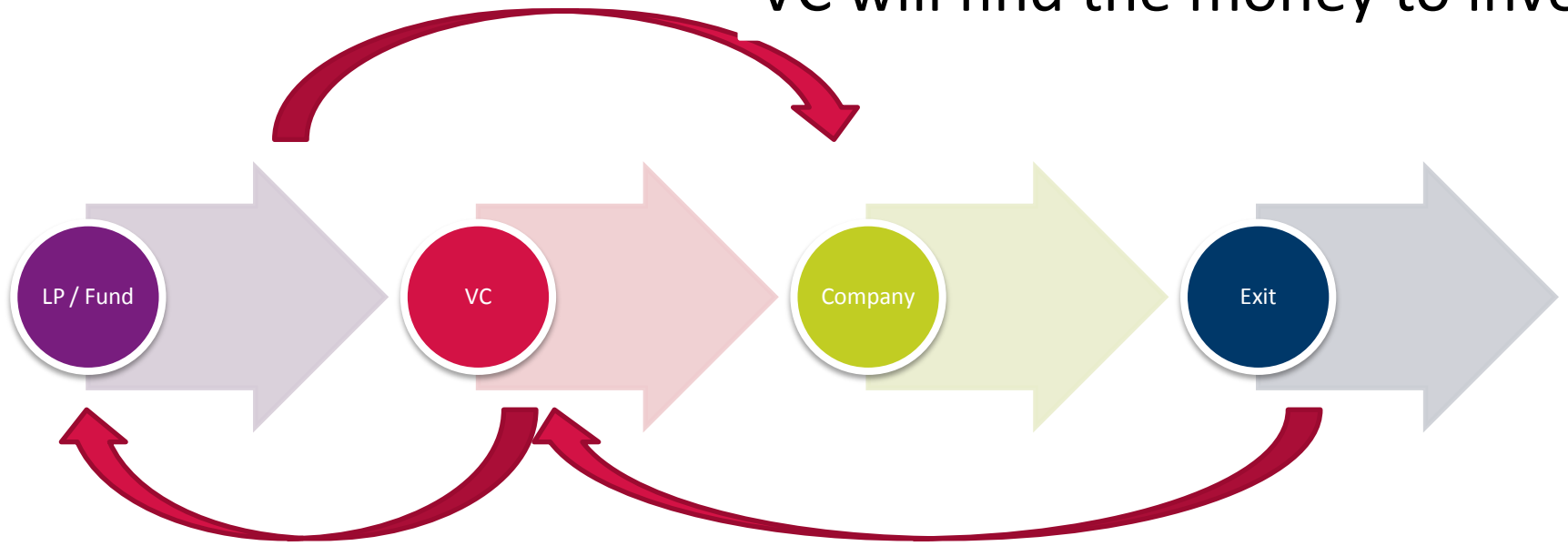


Chicken & Egg

- IPO is possible in USA; but tricky in Europe
 - Not enough capital, liquidity, analysts
- Chicken & Egg
 - Not enough quality companies for deal-flow
 - Not enough exits
 - Not enough good VCs

VC is very simple

VC will find the money to invest



If there is return here




UK Lacks the dynamism to produce the next Google

- UK lacks the dynamism required to produce the next 'Google'
- European firms grow and shrink at a *slower* pace than their American counterparts.
- *“This lack of dynamic movement in Europe means that innovative, high growth businesses find it harder to penetrate the market whilst companies which stop innovating continue to exist”, notes the report.*
- **Europe has fewer high growth firms than the US (4.3% vs. 5.9%).**



Opinions

- Choose your VCs wisely...
 - You will be stuck together for a l-o-o-o-n-g time
 - “Marry in haste – repent at leisure”
I would pass & close quickly, rather than get “bad money” and close more painfully later

- 
- Eco-system / cluster
 - *We nearly* have one here...
 - Learn from peers
 - Get good NEDs / advisory board



Mood

- “Animal spirits”
- Finance is not rational: driven by sentiment

BENCHMARK
CAPITAL

VCs/Angels are behaving like its 1999 - crazy entries (without the crazy exits).

2:39 AM Nov 10th via web from Stanford University, Palo Alto

BENCHMARK
CAPITAL

Bill Gurley of Benchmark



Is the Silicon model broken?

- If it costs \$20M & 3-5 years => Easy business model
- If it costs \$100M & 10 years => is there a VC business model?

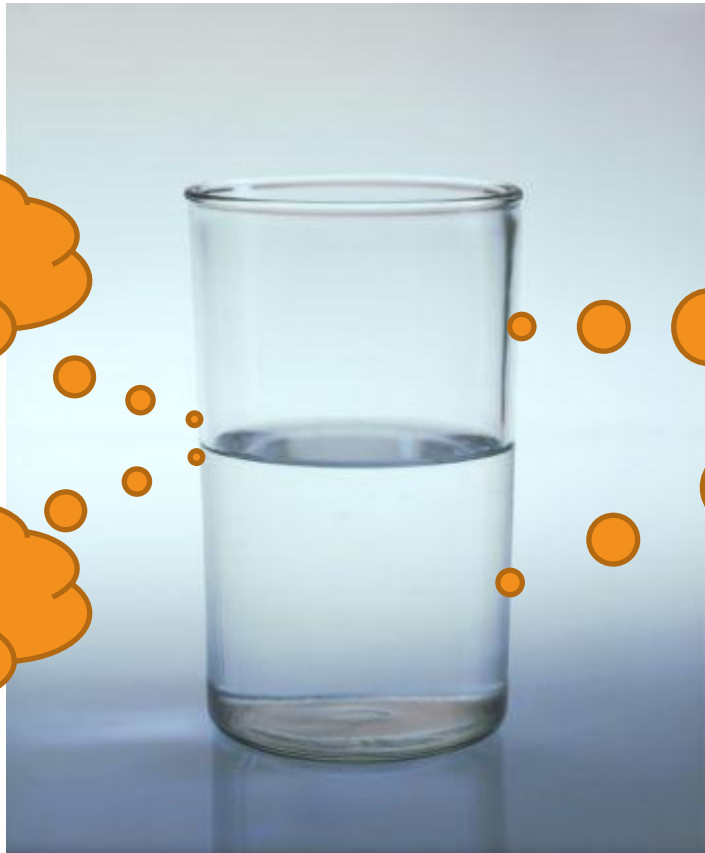
- BUT
- Historic average is 6-7 years to exit
- Is it really that much worse?

- There are some different models...
 - Eg Pharma
 - Platform
 - ...



- If Picochip & Icera get great exit
That changes the mood, and will change the segment
- If we bomb...
- There will be some experienced folks who'll do it better
- Try again, fail again, fail better
- (But it will affect sentiment)

Final thought



Pessimist:
Glass is half empty

Optimist :
Glass is half full

Entrepreneur:
Glass is half full...
And I have a *great* idea for that real estate in the top half...