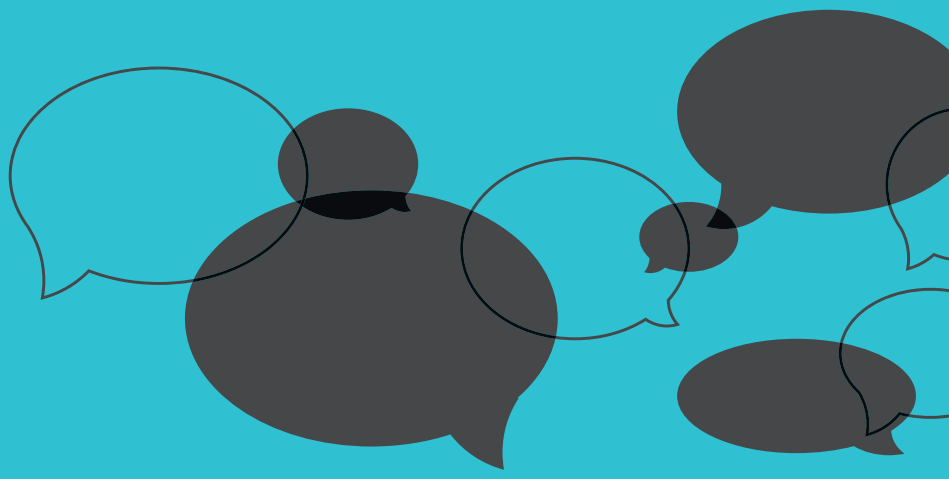
№1

# THE ART OF EXITEERING



In conversation with
European tech founders

NOTION INSIGHTS

Start. Grow. Succeed

Notion Insights is published by Notion Capital,
91 Wimpole Street, London W1G 0EF.
Registered address: Third Floor, 1 New
Fetter Lane, London EC4A 1AN

**Contact**
+44 (0)845 498 9393
info@notioncapital.com

**Content**
For opportunities to contribute to future editions of Notion Insights please contact Kate Hyslop.

**Design**
paul.jason@pauljason.co.uk

Notion Capital is a trading name of The Fund Incubator Limited – registered in Scotland Co No SC218683.
MBM COMMERCIAL, 5th Floor 125 Princes Street, Edinburgh, Scotland, EH2 4AD.
Authorised and Regulated by the Financial Conduct Authority.

Reproduction in whole or in part without written permission is strictly prohibited.
© 2017 Notion Capital. All rights reserved.

The Art of Exiteering is brought to you by

Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

Notion Capital

Supported by

TECH CITY

Contents

# The Art of Exiteering: In conversation with European tech founders


6 / Introduction
Stephen Chandler

8 / The Advisor's View – from the EY Fast Growth Team

10/ Executive Summary
The Art of Exiteering: In conversation with European tech founders

16 / The Astonishing Tribe Story
Hampus Jakobsson

20 / Axis Communications
Martin Gren

28 / Professional Perspectives
Patrick Norris, Notion Capital

30 / The Brighter Option Story
Peter Goodman

34 / The BusinessObjects Story
Bernard Liautaud

40 / The Element 14 Story
Stan Boland

44 / Professional Perspectives
Daniel Glazer, Steven Bernard and Bradley Finkelstein
Wilson Sonsini Goodrich & Rosati

49 / The Hybris Story
Stefan Schmidt

54 / The MessgeLabs Story
Ben White, Jos White, Stephen Chandler and Chris Tottman

61 / Professional Perspectives
Stephen Lowery, Silicon Valley Bank

64 / The MoonFruit Story
Joe White & Wendy Tan White

70 / The MySQL Story
Monty Widenius

74 / Professional Perspectives
Mark Heraghty, The buy-side viewpoint

78 / The Neolane Story
Stephane Dehoche

82 / The Qlik Story
Måns Hultman

86 / Professional Perspectives
Kevin McGovern, Advisor

91 / The Thunderhead Story
Glen Manchester

96 / The Scansafe Story
Eldar Tuvey

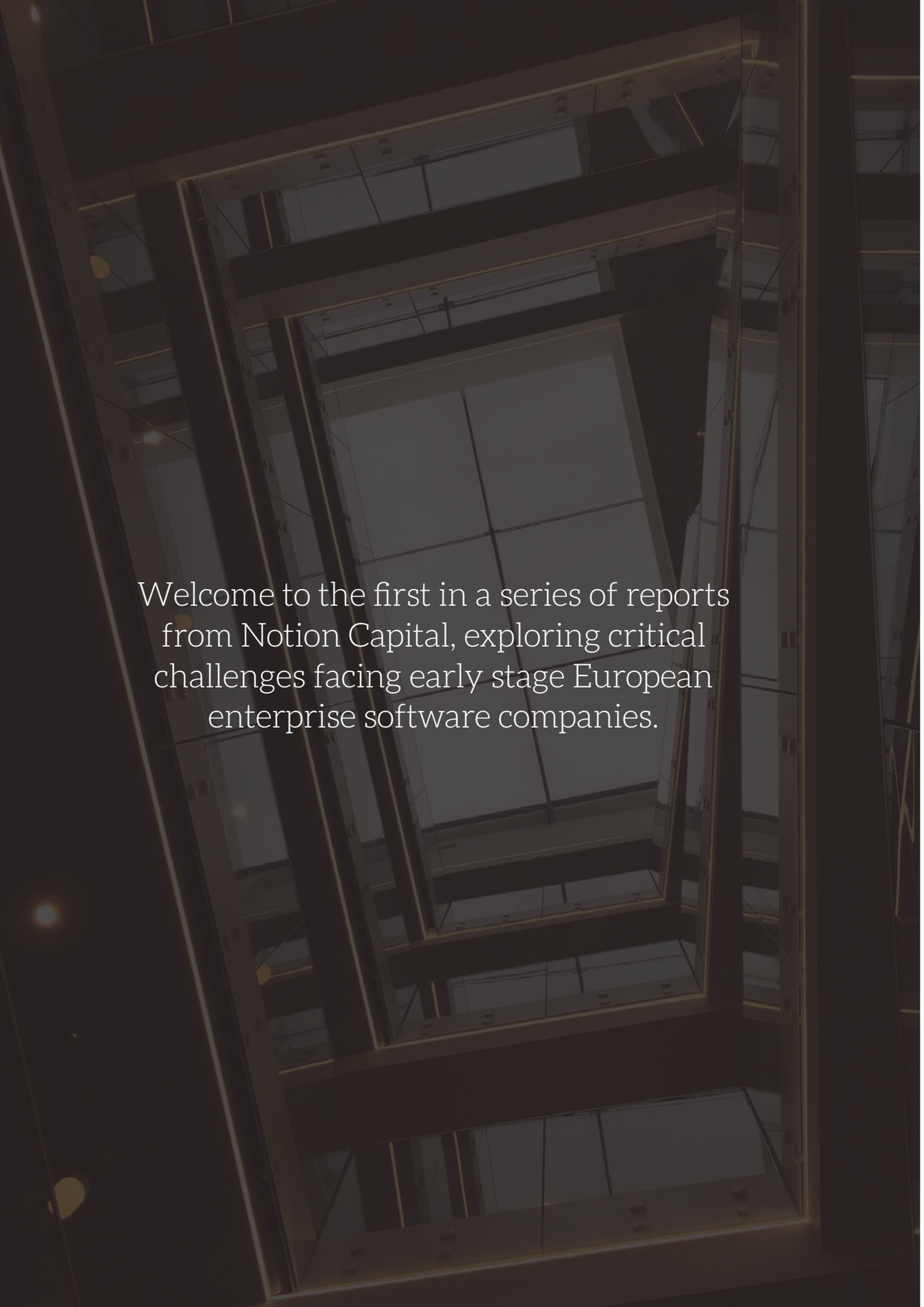
100 / The Star Story
Paul Watson

105 / Professional Perspectives
Ian Milbourn, Notion Capital

108 / The Unruly Story
Sarah Wood

112 / The Zeus Technology Story
Jim Darragh

116 / Closing words from Notion Capital...
Stephen Chandler




Introduction

# A few words from Stephen Chandler

Notion Capital is an early stage venture investor in enterprise software and B2B SaaS entrepreneurs. Our portfolio of more than 40 companies is the largest single cohort of enterprise software companies in Europe and is growing rapidly in terms of numbers of companies, their revenues and their valuations. We remain as passionate about this space as when we first started out, seeing numerous opportunities for value creation as category leaders emerge, transforming industries and working practices through new technology.

Our portfolio companies are all delivering their software from the cloud as recurring revenue models. Whilst each of them is unique, they have much in common, one of the most obvious being their desire to lead a category, create value and achieve a significant liquidity event on the back of distinctive intellectual property and strong economic models.

This report represents the largest single study of successful exits by European technology founders and CEOs and the lessons they learned on their way to fulfilling their potential. An exit event is just one step on the journey of a great company, but a very important one for founders and venture backers. Whilst each company is different, many of the lessons are similar and offer considerable opportunities for us all to learn.

Thank you to all the participants for giving up their valuable time and sharing their stories with us and to our partners EY and Wilson Sonsini Goodrich & Rosati for their support and insight.

**Stephen Chandler**
Managing Partner, Notion Capital

# The Advisor's View – from the EY Fast Growth Team

The European technology ecosystem is more vibrant than ever. With hubs innovating in areas like fintech and artificial intelligence, there are large numbers of fantastic businesses growing up across the region. Through the global EY Entrepreneur Of The Year programme we have been celebrating entrepreneurs and helping develop this innovation network for more than 30 years.

As technology continues its rapid evolution, all industries are experiencing profound digital disruption. Business models are created and destroyed with technology acting both as the catalyst and the beneficiary. Innovation is experiencing a golden age and the European technology industry is having an even greater impact.

**M&A trends in Europe are strong.**
Between 2014 and 2016 cross-border acquisitions of European targets rose over 400% to $119 billion. This includes some megadeals but is indicative of a wider trend, with SaaS and cloud adoption remaining the dominant underlying theme driving global tech M&A. Interestingly the pool of capital seeking technology acquisitions is also expanding, with the value of tech M&A completed by non-tech buyers doubling in 2015 and 2016, as they respond to digital transformation in their own industries. Overall the M&A market remains robust for our technology entrepreneurs seeking an exit.

**Exit preparation is vital to success.**
This Exiteering study tells the story of software businesses who have anticipated disruption, identified the opportunity in its wake and worked to dominate their niche. The report draws common themes and insights from their experiences, with the goal to inspire more entrepreneurial successes. What is clear to us, as long-term advisors to the sector, is that building a successful technology business in a competitive global marketplace is tough; it takes dynamism, dedication, resourcefulness, perseverance and a spark of genius. Alongside these traits are some key themes that recur in the success stories: from hiring and keeping great people, to getting the timing and execution of big strategic moves right.

We are also strong proponents of the point made by many of the entrepreneurs – preparing for the end game as essential. Exiteering begins long before the M&A process, often with an extended courtship, careful nurturing of the relationship and shaping of your story to entice the right suitor, so that when the time comes the old adage applies – great companies are bought not sold. EY 'exit readiness' services help businesses through this important phase, often 18 months or more ahead of an exit process.

**The European ecosystem is developing strongly.**
The US has long benefited from its track record of technology success, with founders who have exited their businesses acting as mentors and funding for the next generation. In Europe we are a little way behind. But the tide is changing and the pool of talented and successful mentors is growing. EY continues to strengthen this role with our Fast Growth Platform. We support businesses at all stages, providing tailored assurance, tax, legal, advisory and corporate finance support as companies grow and move toward an exit. Long may this success continue for European technology companies and we look forward to seeing other examples of the 'Art of Exiteering' in the market.

**Richard Goold**
Partner, Head of Tech Law, Ernst & Young LLP

**Simon Pearson**
Partner, TMT Corporate Finance, Ernst & Young LLP

Notion Capital has interviewed 20 European SaaS and technology founders who have achieved significant liquidity events. Their businesses span marketing, security and mobile, including Business Objects, MessageLabs, Moonfruit, MySQL, Neolane, ScanSafe, Unruly and Zeus Technology.

Executive Summary

# The Art of Exiteering: In conversation with European tech founders

While each of the companies in this report is unique, there is much to be learned from the challenges they faced – in particular from the recurrent themes shared across more than one business. In this report, we examine those themes in several broad categories.

All of our contributors have stories to tell about the process of founding, growing and scaling their businesses; the obstacles they overcame, their successes and some inevitable failures along the way.

They also offer insight into the complexities of the liquidity event itself, whether IPO or M&A: how they prepared, how they managed the process, and the essential sources of professional assistance which helped get their deals over the line.

As well as our founders, we have also included commentaries from some of those professional advisers; including members of the team at Notion Capital. They are able to give a perspective on the wider European investment ecosystem, and we examine why the European market is softer than the US, where longer-term capital markets can be found, and how entrepreneurs and the investment community can work together to foster greater ambition and a standard-bearing grade of exit for what is shaping up to be a 'golden age' of SaaS opportunities.

**The journey.**

The collective advice of our experts is remarkably consistent. The strongest message of all is that **great founders surround themselves with great people.** Rome wasn't built in a day, and it wasn't built single-handed. Our leaders all pay tribute to the talented co-founders, boards and managers who shared their skills and commitment during challenging growth phases or in the face of adversity.
Several were also at pains to note that growing businesses often fail to get the basics right. Focus on the low-hanging fruit and **the most valuable markets. Solve the most important problems first.** This sounds like Business 101, but growth is by definition transformational, and it's easy to lose sight of fundamental disciplines in the process. This is also why many founders spoke of the importance of maintaining **a strong company culture,** so that the shared values and objectives of the business remain clear (for a superb example of corporate culture in action, see Måns Hultman's story).

Some of our founders have experienced more than one rocky period. Their businesses have pivoted several times before discovering the right model or simply finding that their perfect time had come. That's not a point just about resilience and perseverance. It's also a key differentiator between a start-up – fighting for business and changing strategy on a sixpence – and a business developing scale. Our founders were at pains to point out that scale comes with predictability: **repeatable and predictable demand and clear sales and buying models** which the business can build on. With scale and predictability also come a broader set of metrics for effective management and governance. All our founders said that steering a business at scale requires particular **focus on the underlying economics of the business.** In particular, CAC, GM and true payback, combined with growth stats, should be daily bread-and-butter reporting for management teams. This contrasts with top-line EBIT, which becomes important much later, once the inevitable pain and expense of growth has settled down.

"The strongest message of all is that great founders surround themselves with great people."

The scale phase is also where our founders and industry experts are united in highlighting the importance of **expanding to the US.** They agree that it is an essential market, a large market under (broadly) one regulatory environment, and above all a source of potential partners and acquirers. Ideally, enter the US market fast and early; but doing so requires commitment and ingenuity. Commitment, because **one of the founding team must lead the charge,** so expect some family upheaval. And ingenuity, because any goodwill which can be leveraged to generate a client base in the US is worth its weight in gold. Our contributors mention using reputation with European clients to buy credence with their US counterparts, or even credibility built up with US suppliers (very much a core element of many SaaS technology businesses) to open doors.

This brings us to the exit phase. Practically all of our professional contributors have offered the same cautionary advice on exiting: **plan early to build the relationships and strategic alliances** that yield long-term value. Many exits come from organisations in the ecosystem (competitors, partners, customers etc.) with whom the business has worked for many years. Planning early is also the only way to deal with a raft of other priorities:

- **Getting your house in order** – good structure and governance, paying attention to accounting, reporting, employment and customer contracts and IP assignment need to start from day one.

- **Aligning your management team** and stakeholders around the same objective.

- **Getting to know your ecosystem inside out** – the market, your customers, buyers and competitors, to the degree that you can make rational and optimal financial decisions.

- **Being equipped for the effort of a sale,** and the degree to which it will sap resource from the day-to-day running of your business.



- In short, an exit is not a process to be taken lightly, and our founders all have the scars to prove it.

**The end game.**

We describe the exit as being like playing poker for the first time… against a world champion. Several of our contributors find it extraordinary that there is a peculiarly European antipathy towards bringing in professional advisers at this crucial stage. **Insight from bankers and lawyers,** particularly those with experience in your sector as well as the exit process, is invaluable.

**Optionality is critical in securing a good outcome.** This is where the long term relationships built up between the management team and their counterparts at strategic partner organisations comes into play. Several of the founders we spoke to had experienced multiple approaches at different stages of their company's development, often from the same potential buyer. Going down the road of due diligence all the way to a dead end is of course expensive and time consuming, but the experience of a few dry runs is invaluable in building knowledge and refining processes for when the time is right.

Those processes and the governance that supports them is essential. Our founders and professional advisers both admit that the overhead in preparing for exit is enormous – and certainly more challenging than our founders had ever expected. But it is also the sort of management discipline that will be required ongoing in a public company, **so ensure your house is in order and be transparent.** You will not get acquired without strong underlying financial metrics and the evidence to support them. Be prepared for an avalanche of due diligence, and ensure controls are in place to keep execution going whilst your sale team – which will include many senior managers – are diverted.

“The space between $100m and $1bn in revenues is not significantly more challenging than the one between $10m and $100m.”

Finally, remember that not every business shares your culture. M&As don’t always work out, and lack of cultural fit is a surprisingly frequent reason for this. **Sell to a company you admire, and would really love to work with.** Make it a company you would also be proud for your team to work with. For an object lesson in this, read Monty Widenius’ experiences of the sale of MySQL to Sun Microsystems or Hampus Jakobbson at The Astonishing Tribe.

**The European Ecosystem.**

Our contributors are hardly disparaging about the European investment environment, but many (particularly as SaaS ventures in a globalised tech market) took finance from the deeper pockets of the US.

There is no shortage of financing in Europe, particularly in centres like London, Stockholm, and Berlin. However, **Europe has few large-scale enterprise software companies big enough to act as consolidators;** firm foundations around which new sources of innovation and scale can be nurtured. And many of our founders suggest that a key challenge seems to be a lack of ambition, leading to earlier exits than might otherwise be achieved. If a SaaS venture is solving a major problem or bridging a useful gap, then why not keep going and growing? **The space between $100m and $1bn in revenues is not significantly more challenging than the one between $10m and $100m.** Often, that growth comes from global deployment. If European enterprise tech companies are to learn to add serious scale which cannot be achieved in their domestic market, then financiers and governments must provide better support for internationalisation. Many of our professionals (see the excellent commentary from WSGR) have high hopes for the European market over the coming five years, but we think there are several strategies which might further help to create an ecosystem that fosters ambition and creates the next generation of independent, European acquirers and tech companies to feed them:

- Without overly driving protectionism, government policies to support and buy from their domestic technology businesses.

- A more supportive role from European multi-nationals (not just in tech, but also engineering, manufacturing, chemicals etc.) in fostering closer relationships with their domestic tech ecosystems, in particular in adopting innovations which both support the smaller player and directly drive competitiveness for the larger organisation.

- Increased government support for internationalisation (not just export drives, but expertise in replicating business models globally).

- And finally, perhaps a more liquid stock market for European tech companies on the route to scale, to compete with NASDAQ.

These would all help European tech ventures in the coming years. And the next generation of technologies which take SaaS scale out from behind the laptop screen and infrastructure datacentre into our daily lives (artificial intelligence, smart cities, robotics, machine learning, biotech and genetics etc.) suggest that the opportunity will only grow.

| Founded | Exited | Revenue | Valuation |
| --- | --- | --- | --- |
| 2002 | 2010 | $30m | $150m |

Hampus Jakobsson

# The Astonishing Tribe Story

When Hampus Jakobsson founded The Astonishing Tribe in 2002 in Malmö, southern Sweden, with five friends, it was not so much as a viable business but as a group of young people wanting — in his words — "to hang out and work together… to do some fun projects. It was a hobby."

They were, he says, comparable to "glassblowers", creating exciting designs in the world of mobile phone User Interfaces (UIs) without worrying about funding, growth or — even further from their minds — an exit strategy. It was a bootstrap venture with no external funding; which is lucky because the management team were inexperienced. Jakobsson says that there were plenty of problems when the business moved into hyper-growth.

Jakobsson and his co-founders had a flair for developing and designing great UIs for smartphones — an early claim was that they pioneered the first mobile phone colour screen — and they leveraged their talent with some big players: Astonishing Tribe is credited with shaping the look and feel of early Android devices and they are widely hailed as being the design flair behind the BlackBerry 10.

Within a year, the company had doubled its revenues and its number of employees. This pattern continued for several years. The business worked with every major mobile phone operator in the world except Apple, and of all the mobile phones produced globally in 2010, 13% ran The Astonishing Tribe's software. Johan Lenander, chairman from 2004 to 2010, recalls that in those early years, plenty of would-be investors came calling but the company declined for one simple reason. Leander says, "we didn't need the money".

This changed in 2007 when the company decided upon aggressive expansion, most notably by growing their business with new offices in the US and South Korea. The company's first and only share sale was valued at €3m, with the shares being purchased by Jan Barchan of Briban Invest. Barchan also acquired some of the founders' shares, thereby becoming the single biggest shareholder.

By October 2010, the company was considering an IPO after a failed and bruising M&A discussion with a would-be purchaser when it received an overture from Research In Motion (RIM), manufacturers of the BlackBerry device. What started as discussions about The Astonishing Tribe continuing to work with RIM very quickly became an M&A process; and six weeks later, on 2 December 2010, RIM announced that it had acquired The Astonishing Tribe for $150m.

Jakobsson is a graduate of the Faculty of Engineering at Lund University, southern Sweden. He now devotes his time to being an angel investor; he set up Hajak AB in 2010 after the RIM deal to handle his investments. In July last year, he co-founded Nordic Makers, "a group of ten Nordic angels working tightly together to be the best angel/early seed investor in the Nordics".

The Astonishing Tribe Story

# Lessons from Hampus Jakobsson

**Don't compromise your principles for the deal.**
I remember a crazy meeting with Mike Lazaridis, the founder of RIM, and his technical management. We had been called over to Canada with only a couple of days' notice for an introductory meeting. Everyone was really nice and we felt we really wanted to work with them. The meeting started with us presenting, and after a couple of minutes, Mike interrupted to say that he didn't want to buy Astonishing Tribe, as he preferred to use Adobe [technologies].

We argued that that was the wrong approach. In fact we fought over it for about 20 minutes. The technology team were really impressed, but Mike just seemed to be completely anti. Suddenly, Mike asked us into the office, privately. 'Thank you for putting up with that show – I didn't want to work with Adobe, but some people in my team think that's the way forward and I wanted to test you and let them hear it. I just gave you guys every argument they had given me."

Be true to yourself, even when you're negotiating for a massive sale.

**Not everyone wants to stay for the ride.**
By 2007, the team dynamic had changed. Four ofthe founding team had moved to employee status and it was really just me driving the business. We knew that the management team needed an upgrade.

When founders become employees, they are de-risking their relationship with the business. They are a different category of participant in the journey.

**Sell to someone you'll be proud of in ten years' time.**
Several acquirers came knocking. Two weren't a good fit. The third was a European company, but they were already public and just looking to boost revenues. I found the situation deeply challenging: they were offering a lot of money, but it was a company we didn't like. As it turned out, our lack of passion really damaged the sale process. They moved on. We felt relieved that we'd passed it up because a lot of our people would have ended up working somewhere that wouldn't be fun.

Later on, when Mike Lazaridis of RIM asked why we hadn't been acquired, we honestly said we were building an astonishing business. And if we were going to sell, it needed to be to similar people. You need to appreciate that when you are selling a company, you are still fundamentally selling yourself. If you're not enthusiastic then the deal won't happen.
It was as painful as sending your children to a bad school. Why would we want to sell the business to a big corporate who would just take our ideas?



"...after a couple of minutes, Mike interrupted to say that he didn't want to buy Astonishing Tribe, as he preferred to use Adobe"

But RIM was an incredible home for us, we wanted to work for hem and they wanted to work with them. And in particular Mike was incredible.

**Get professional help – especially when things move fast.**
The sales process started on 15th October 2010. The head of M&A for RIM made contact. It was a Tuesday. He spoke to our CTO on the Friday, and then on the following Monday asked our pre-sales team to help prepare for a meeting with RIM at the end of the week as though it were a normal business development approach – in fact we did an amazing prototype for their new tablet in just 2.5 days. In those two weeks, we knew that something big was happening, so we got a corporate financier to help us; the legendary Peter Globokar of Mooreland Partners. He's a magician.

We wanted someone who had been in the trenches and was entrepreneurial, and also knew mobile. We felt comfortable that he could earn his fee with incremental value, and he certainly did. And Lazaridis just kept saying, "These guys are going to be wearing Blackberry badges in 6 weeks".

**Treat an acquisition like an everyday customer engagement...**
We needed a term sheet. So we asked RIM to treat us like a supplier, and they would pay us an hourly rate to work on the project. It worked really well and it also meant that life was normal for the majority of staff. Treat the M&A process like a customer engagement. It makes a huge difference: the acquirer sees what you are like first hand, and you can mobiliseresources. We even got BlackBerry to pay our hourly rates for the work we did.

**The big regret...**
We were on a path we couldn't change and I'm not sure I would do anything differently. We just set out to do astonishing work. But there wasn't a rule-book for anything we did...

**And the big take-away...**
Sell to someone you believe in, that you would want to work for and that you trust holding your baby in their hands.

Martin Gren

Axis Communications is the world leader in the manufacture of network cameras for the surveillance and security industries. Its products are ubiquitous in public and controlled environments, from retail chains to prisons. This has opened up a wide range of vertical markets, including transport, infrastructure, retail, banking, education, government and industrial.

# The AXIS COMMUNICATIONS Story

Though an IT company in its DNA, Axis started out as a manufacturer. Founded in 1984 in Lund, Sweden, by Martin Gren, Mikael Karlsson and Keith Bloodworth, the company was dedicated to building print servers. Initially for IBM mainframes, then later for TCP/IP networks. This put the company in the right place for the coming connectivity revolution: it chose to specialise in making a protocol converter that allowed the connection of PC printers to IBM mainframe and more modern networks.

With mainframes a dying breed, Axis realised that to thrive and survive, it would need to innovate into new markets. They focused on TCP/IP printing and later multi-protocol print servers, became seen as networking pioneers, and grew explosively with the internet from the early 1990s. By now with offices in Japan and Hong Kong, as well as a subsidiary in the US, Axis had become the number two in the industry.

A major breakthrough came in 1995 with its invention of the world's first optical network storage device. Using the company's bespoke and proprietary Thinserver technology, Axis became the world's leading supplier in this field.

The following year, Axis developed the world's first network camera, the Axis Neteye 200, that transformed video surveillance from analog to digital. An early application was in monitoring oil spills in the sea via web interface – saving a client two overflights per day. One of Neteye's first purchasers was a certain Mr Steve Wozniak, co-founder of Apple, who bought two Neteye 200 units at the N+I Show in Atlanta where the product was unveiled.

By 2002 the company's transformation from a manufacturer of print servers to the world's number one in the network video market was consolidated. Milestones in recent years include 2004, which saw the world's first network camera with Power over Ethernet (PoE), 2008 when the Axis 1755 established HDTV as the norm for delivery of video and 2010 for the world's first thermal network cameras for night surveillance.

In February 2015 Canon offered $2.83 billion to acquire all shares in Axis Communications; the Axis board unanimously accepted the offer. The move by the Japanese giant into video surveillance is seen as a fightback in the face of the shrinking camera market, thanks to sharp competition from smartphones. Whilst a subsidiary of Canon, Axis operates as a separate entity and retains the pre-existing management board.

Today, Martin Gren is Director of New Projects at Axis. His awards include an Honorable Doctors title from Lund University, Ernst & Young Entrepreneur of the Year (Sweden) in 2009, security trade magazine Detektor's Lifetime Achievement Award in 2010 and Ifsec Global's Most Influential Security Person In The World (2013).

The Axis Communications Story

# Lessons from Martin Gren

**Unlock the power of the channel.**
I took my first steps in business aged 14, selling disco lighting systems and using my school friends as resellers. I learned a few simple rules that have stood the test of time. I learned the importance of running an indirect business model, and I learned how important it is to treat my classmates equally.

The founding team at Axis was very complementary, myself, Keith Bloodworth, who was very experienced in indirect business models and Mikael. Keith had been a reseller of IBM and had encountered channel conflicts. We founded the business on the premise of never bypassing the channel and that gave us the head start we needed.

Thanks to channel leverage, we rapidly became number 2 in the market.

**Growth as a business means growth as people.**
Being in a state of continuous growth means never being satisfied, both as a company and as individuals. We made it our business to drive change externally in our industry and internally as a business. We created a culture where everyone was encouraged to be always open, curious and grab every chance to improve, as individuals and as teams – to rethink, question and learn from others. Think ahead. Act rather than react. Dare to be pioneering!

**A successful business pools its talent to act as one.**
Axis has three core values: Act as One, Think Big, and Always Open. Central to 'Act as One' is the idea of co-operating for the benefit of our customers. The Always Open means always tell the truth, even if it means errors of any type or not being able to keep promises. In the long run, you win customers because of this. With a team spirit, dedication, and taking responsibility for each other and the outcomes we created, we could achieve much more than any individual. That strength supports the more challenging and aspirational values – being open to change, honest and transparent even if it's hard to do, and challenging ourselves to achieve more. From committing to the decisions we make and just having a lot of fun, Axis became a single entity in which everyone contributed to everyone else's success. That's why we could push boundaries.

**Find a problem and do everything to keep solving it simply.**
I had always intended to start a business and was constantly looking for a problem to solve. At the time, connecting IBM mainframes to printers was very expensive, in that you could only connect an IBM printer. So we built a box to connect an ordinary printer to an IBM mainframe. We made Germany our home market (Sweden, the UK were out of scope as we had our roots there and we realised the US was too complicated) and outsourced all our manufacturing.

On the back of the IBM printer connectivity, we saw growth from 1992 to 1996 of 40% CAGR.

**Collect different people with different skills – and then act in unison.**
The fact that we were three founders with different skills, different backgrounds and different views was essential in the early days. When you start up, you're learning as you go and you need everyone on board to contribute. Mikael, for example, gave us the ability to scale – he had the big picture.

Think big, act as one, and always be open with each other about problems.

**Innovation needs to be nurtured.**
We had two phases of hyper-growth. From 1992 to 1996, Axis experienced 40% growth YoY; and then from 2000 to 2011 we grew by 40% CAGR. These growth spurts are spurred by product innovation, and it's not easy. We made some bad product decisions, but I think every product business does that sometimes. More important is how you manage innovation – it's really hard to nurture. Too many processes will stifle innovation. Too much middle management will stifle innovation. And you need to have an eye for opportunity. Mikael was essential – never shy in investing money and effort in new areas, but doing so with control.

R&D cost is proportional to the size of a company, not the complexity of the product.

**The big regret…**
We made a lot of bad hires which we took too long to discover. There were times where we created a pretty corrosive corporate culture.

**And the big take-away…**
Never bypass the channel.

Professional Perspectives

# Patrick Norris

Notion Capital

Patrick Norris is a Partner at Notion Capital, where he is a key decision-maker in the VC's investment decisions and a contributor as a non-executive director or board observer to many of the high-growth companies in Notion's portfolio. Patrick is also involved with the firm's fundraising activities. He joined Notion in 2013. Key investments in which Patrick plays an ongoing role include DemystData, Dealflo,  DueDil, Elevaate, Kisanhub and Smartpipe. Patrick was also a board observer at Mojn (sold to LiveIntent) and Trustev (sold to Transunion).

Prior to joining Notion Capital, Patrick was a three-time founder of businesses in the online, media and retail sectors and was also VP of Corporate Strategy at Curve Securities. Immediately prior to joining Notion, he worked in a private equity advisory business sourcing and evaluating TMT transaction opportunities in Europe for growth equity funds. Patrick began his career at Morgan Stanley in London working across both Investment Banking and Fixed Income Capital Markets where he was responsible for structuring innovative capital management solutions for large corporates and financial institutions as well as being involved in the European government bail-outs of financial institutions.

Patrick holds an MSc in Finance and Investment from Edinburgh University and a BSc (Hons) in International Management and German from Manchester Business School and the University of Economics in Vienna.

One of the toughest challenges for European technology companies seeking an exit is getting noticed and becoming known outside their home market, particularly in the US.

While some larger European companies are well down this path and have advisors and investors who have made the journey before, many smaller companies don't have easy access to this insight. It is therefore much harder for them to navigate exits. Those that do well tend to have close existing relationships, often commercial in nature, with their potential acquirers.

In contrast with the US, European companies also seem to have something of an aversion to using advisors to guide them through the process. It seems to be a cultural unwillingness. Yet the right advisor can add significant value and provide valuable insight that would be difficult to get elsewhere.

Another potential challenge for European companies looking to build relationships with US firms is the complexity of the legal and regulatory landscape in some parts of Europe. This can present challenges when it comes to tax and hiring, for example.

**Despite those caveats, it's an exciting time to be investing in European technology businesses.**

Private Equity is showing significant appetite for European technology firms. The stickiness of the B2B SaaS revenue model is becoming increasingly interesting to them.

It also looks as though the IPO market is going to be particularly hot over the next 24 months, with things really starting to take off in the next 3-6 months. Some commentators are optimistic that we may be heading into one of the strongest periods in history for Tech IPOs. Time will tell.

So how do we get to these ideal outcomes? The best companies don't sell themselves, they get bought. They are demonstrably of a higher calibre than similar operations. They understand the process, the market and the strategic opportunity for the buyer, inside and out. There is no one-size-fits-all playbook here. Educate yourself until you are aware of all of the available options, understand how the processes work and are able to optimise the outcome for any eventuality.

To achieve this, smart businesses start working on the process and building relationships early. Remember that geographical constraints mean that doing the groundwork required to build these relationships can be a lot harder for European companies than US ventures.

So how early is early? When a company gets to just £10m in annualised revenue, the team should define its options and ambitions: continue to scale, a sale to Private Equity, a corporate sale, head towards IPO etc. Effort should be put into understanding each possible exit route, then picking only one or two to pursue in earnest. At that point the management team can focus on putting the foundational work in place. If IPO is an option, get to know what it means both to IPO and to be a public company – the burden of effort and governance overhead is dramatically increased. Likewise with late-stage investors, put effort into getting onto their radar.

There are, of course, other factors which influence the market's appetite for new investment. It will be interesting to see what impact, if any, the possible tax holiday on the repatriation of the $2.5 trillion dollars of American capital currently being held overseas has on M&A. On the one hand, there is uncertainty that if this money goes back to the US, acquirers might not be as incentivised to look outside the US for acquisitions. On the other hand, all that available money could make for some very buoyant market conditions. Ultimately, investors will only ever buy what they believe to be strong assets at the time. This newly available money may mean the bar is raised in Europe, but there will always be demand for good assets. Success breeds success and with every big exit (like Skyscanner, for example), the market in Europe is learning and getting stronger.

Finally, we should note that, in order to maximise outcomes, you should fully understand the value of your company to your acquirer, and do whatever you can to enter into the sale process in a position of strength. Certainly, if you can have lots of options on the table, the competitive dynamic will put you in the best possible position. But even without optionality, having a view on the true contribution of the deal to your acquirer's business, long-term ambition and strategic direction will arm you much more effectively for the negotiation.

My advice for companies on this journey is therefore three-fold:

1. Build long-term relationships and build them early
2. Understand your potential acquirers inside out
3. Create an element of competitive tension

Peter Goodman

# The Brighter Option Story

Brighter Option is a pure SaaS success story, and its success — and speed of exit — can be attributed to the simplicity of the problem it solved. It was a Saas self-serve technology platform for social media advertising (specifically, Facebook) that promised to automate advertising and to reduce substantially the costs to the advertiser of booking it. Within ten months of launching in July 2010 it had become the world's largest social advertising management technology, and within 24 months had 6,000 clients using the platform to manage a quarterly ad spend of $100 million.

It's fair to describe Brighter Option's Peter Goodman as a dyed-in-the-wool start-up entrepreneur —the business was born from the gaps he saw in social advertising as founder of a successful advertising agency in London. After meeting his engineering Co-Founder Andrew Craven, Brighter Option was born.

Social advertising, though relatively new, was becoming a major sector in its own right — by 2012 it was worth $8 billion. But Goodman's achievement was not just to ride the coat-tails of a market trend: his view was that social advertising was operating on an outdated spend-and-bill system which was ripe for disruption. The time-honoured agency model was to take ad-spend in its total and then to charge 15% brokerage.  As MD of a small London advertising agency, this made little sense: he was struggling to produce the ad spend and commission, and figured that the problem was scalable – it must be significantly worse for bigger players.

He was right, and Brighter Option's pure technology platform - taking no media spend - but charging 3% on spend through the platform at the end of each month drove huge demand. That led to Brighter Option being acquired by New York City-based social  management platform Buddy Media in February 2012 in a cash-and-stock deal providing a good return on the £500k investment of Brighter Option's Angel investors. Goodman stayed on to spearhead international expansion.

Buddy Media was billed as the world's leading social media advertising company, with agency clients such as advertising giant WPP, and enabling brands such as Ford, Hewlett Packard and L'Oreal to connect with more than a billion customers across social media platforms. Within six months of the Brighter Option deal, Salesforce bought Buddy Media for $740m (8x revenues). This dwarfed the three-times-revenue stream in the deal that Vitrue had negotiated in its acquisition by Oracle, just months earlier. Revealingly, industry observers pointed to the fact that Vitrue was seen more as a traditional agency model, whereas with Brighter Option, Buddy Media offered a technology platform and an evolution,  as well as its roster of impressive high-prestige brands as clients.

Brighter Option was renamed Social.com and Goodman went to Salesforce as part of the deal, a position he left after 18 months in April 2014. On his LinkedIn page, he now describes himself as "investor, mentor and improving golfer", though as a serial entrepreneur also runs "next generation incubator" Grow Bag Capital, and contributes at board level to online conveyancing and moving technology platform  When You Move and is the full time CEO of his insurance one-stop shop Homelyfe back alongside Andrew Craven as the co-founder and CTO, the same team that built Brighter Option.

The Brighter Option Story

# Lessons from Peter Goodman

"Look for pain, but don't be greedy. The big gap between the pain we solved and the value we created was huge and that is what drove the massive shift of demand to us."

**Destroy the old model if you're angry with it.**
Our idea was simple. A self-serve model, charging 3% (as opposed to 15%), taking no media spend simply enabling it. Our business model was simple, our clients booked their ad space and paid for their media spend themselves and we would reconcile spend at the end of each month. We destroyed the old model in a matter of months and the spend moved to us incredibly fast.

In hindsight it was an amazing move. At the time it was motivated by the fact that we didn't have the cash to arbitrage the media spend and also that I hate to see people being ripped off! We were also very focused on the underlying economics of our business so that the revenue we were generating contributed free cash flow to fund growth.

Look for pain, but don't be greedy. The big gap between the pain we solved and the value we created was huge and that is what drove the massive shift of demand to us.

**Keep adding value – because the competition will come**
Once we had created the technology platform and the model, a number of better-funded competitors entered the market. But we had a few key advantages from the outset. We had a very strong relationship with Facebook and they understood and liked our approach. Secondly we understood their strategy. Facebook at the time was growing incredibly fast and constantly evolving as they explored new routes for monetisation; which mostly manifested in adding more ad units.
We separated our R&D into an "innovation" team and what we called a "keepy-uppy" team and it was the latter that was most important. Facebook were evolving their model incredibly fast, constantly adding new ad units and channels and it was our focus on "keeping up" that kept us ahead of the competition and within nine months we had the biggest Facebook ad platform in the world.

**Know where the value lies: mountains and plateaux.**
We realised pretty early on that world domination was not on the cards. We had commoditised the market and stolen a march, and we were consuming most of the available Facebook ad spend within 18 months. A new wave of growth would entail significant investment and the challenge of overcoming the inertia of the big ad agencies – a very different direction from the technology business we had built.
As a team we were well aligned with the reality of the business we were creating.

We were fortunate that we hadn't raised much in terms of investment (we had raised £400,000, although with hindsight we should have raised 50% more); so when the opportunity came knocking, we were well placed to realise the incredible value we had created.

**A good exit is a win-win: then you can capitalise on the next 12 months.**
We had a few options on the table, but when negotiating with Buddy Media it was really just me, my laptop and some numbers. I knew would end up working with whoever acquired me so I knew I wanted to do a deal that was win-win. So when they asked, I gave them a number which was realistic and at the end we were very close.

I could never have imagined that within a couple of years of starting the business, we would end up working with Marc Benioff at Salesforce. The exit for me was an incredible learning experience and I would encourage anyone who ends up being acquired by a far bigger company to embrace it and learn from it as we did.

It was great to negotiate out of an earnout in a successive acquisition and I loved every minute. I learned so much at Salesforce, it was like an MBA, and working with Benioff was incredible. He is on another level of smart.

**The big regret…**
I don't have any regrets, but it's critical that you have good legal support behind you. The team at Osborne Clarke, and in particular Mathias Loertscher and Mike Turner, were incredible for us.

**And the big take-away…**
Treat the earn-out as a learning opportunity. It can be an incredible opportunity.

Bernard Liautaud

# The BusinessObjects Story

BusinessObjects was a French start-up founded in 1990. At its core was a vision to enable universal access to information within the enterprise. Today it is part of German information technology giant SAP, a market leader in enterprise application software who acquired BusinessObjects for $6.8 billion in 2007. At the time, it was hailed as the third largest software M&A deal ever.

| | |
|---|---|
| Founded | 1990 |
| IPO | 1994 |
| Acquired | 2007 |
| Revenue | $1.5bn |
| Valuation | $6.8bn |

Bernard Liautaud, a French national who took a Masters at Stanford University after graduating with an engineering degree from Paris's prestigious Ecole Centrale in 1984, founded BusinessObjects with Denis Payre, and lead developer Jean-Michel Cambot. Their first software product, SkipperSQL led to the business signing its first client, Coface (Compagnie Française d'Assurance pour le Commerce Extérieur), a global French credit insurer.

At the heart of BusinessObjects' philosophy was an emphasis on enterprise information management solutions. These allowed clients to extract and cleanse data from a wide range of disparate sources, transform it into a format that could be loaded into data marts and warehouses and then analysed by BusinessObjects' end-user tools to uncover customer trends and predict ways of enhancing corporate performance. After pioneering the modern business intelligence industry, the company expanded to enterprise performance management software, offering to model "what if?" scenarios, and everyday applications such as financial planning and forecasting, and employee productivity analysis.

In 1994, BusinessObjects listed on US tech stock exchange, NASDAQ, the first European software company to do so. From 1994 to the SAP acquisition, under Liautaud's stewardship and with the funds made available by listing, BusinessObjects filled out its enterprise offering by acquisition: targets included Next Action Technologies, OLAP@ Work, Acta Technologies, and Crystal Decisions. Liautaud garnered several awards during this period. BusinessWeek' named him one of the "Hottest Entrepreneurs of the Year" in 1996. By 2002, Time Magazine's Europe edition had included him in their "Digital Top 25", and BusinessObjects was one of BusinessWeek's "EuropeStars" that year.

BusinessWeek' named Liautaud one of the "Hottest Entrepreneurs of the Year" in 1996

by 2002 Time Magazine's Europe edition had included him in their "Digital Top 25"

The company achieved $1.5bn in revenues in 2007, with EBITDA close to 20% and growing at 15% per annum. With these sector-beating credentials, SAP agreed to acquire BusinessObjects for $6.8 billion; the deal was concluded in January 2008 and Liautaud stepped aside from the company he had created 18 years earlier. Since then, Liautaud has served as a general partner at London-based venture capital outfit Balderton Capital. It's one of the best-known funds for start-ups, and has scored notable wins with fashion start-ups Thread and Lyst, navigation app Citymapper, fintech companies Wonga and GoCardless and media start-up The Tab.

Being based in enterprising London gives the fund an edge over US-based funds, says Liautaud, in that Balderton effectively acts as talent spotters, handing over its finds to US funds for cash injections in later funding rounds.



The BusinessObjects Story

# Lessons from Bernard Liautaud

Magic happens when you have a great team; I was fortunate to find people who carried me forward.

**Surround yourself with great people.**
When we started BusinessObjects in 1990, I was very young, and hadn't been a CEO before. Yes, we had big plans and were hugely ambitious, but what made the biggest difference to me was the quality of the people I was able to attract. People such as my co-founder of course, but by the time of the acquisition we had 7,000 people. The people around me were critical. A lot of the success was down to the team. That's what made it work.

I was only able to stay on as CEO because of the quality of the team I hired who pushed me onwards. We always talk about iconic founders, but I like to think about the important people behind the stars who get all the press:

Larry Ellison? Ray Lane.
Mark Zuckerberg? Sheryl Sandberg.
Larry Page & Sergey Brin? Eric Schmidt.

Many amazing people were key to making Business Objects a success. Here are a few key ones: Alex Dayon now President and Chief Product Officer at Salesforce, who was my EVP Product from 1989 to 1999; Dave Kellogg, now CEO of Host Analytics, who was my SVP Marketing between 1995 and 2004; and Tom Weatherford, who was my CFO from 1997 to 2003.

**Think big. Really big.**
It comes down to having the plan, the ambition and the resources and to go way beyond $10m, $20m or $30m. Even way beyond $100m to $1bn in revenue. Entrepreneurs are better off focusing on building a really large business rather than getting a nice exit. In fact, I would go so far as to say the obsession on "The Exit" is one of the biggest blockers to success. If the company is very successful there will be plenty of opportunities to make money. And let's push the bar higher - we need more entrepreneurs who believe that a $100m or $200m outcome is not enough.

Many European entrepreneurs lack ambition. They settle for too little. This is

"My biggest regret is that we didn't turn BusinessObjects into one of the world's top 5 software companies."

Bernard Liautaud

changing, but it could go faster. How many software entrepreneurs are targeting $1bn in revenues rather than $1bn in valuation?

**Watch out for the US heavyweights.**
Growing technology businesses is hard work. European technology businesses have historically lacked the capital and the ecosystem to support them, though that is now changing. European country markets are also small and fragmented in terms of legal regimes etc.; which makes it hard to scale fast. So it's essential to conquer the US. Many European companies have failed in this regard. These factors mean that there are still very few large-scale technology acquirers in Europe, and that's a long-term problem. So, of course, most of the buyers are US tech companies who see European companies as easy pickings.

Long term, we need to build big software companies in Europe and for them to remain independent in Europe to act as both "inspirers and acquirers".

**Right sector, right time.**
We weren't looking to sell and were focused on continued innovation and growth. The year before (2006), we had had an approach from Oracle. We said no, so they bought Hyperion instead - and that stirred the market up.
In July 2007, we were approached by IBM and SAP at the same time. We hadn't approached them – they came to us. We appointed a banker, informed both parties they were not alone and put them in a process.

Our banking partner was very good, and we couldn't have done it without them. As a public company it was necessary, and having them as a neutral party was very reassuring. But all the discussions were conducted by myself and the leadership team. The process started in July 2007, a term sheet was released in October and we closed in January 2008.

**The big regret…**
My biggest regret is that we didn't turn BusinessObjects into one of the world's top 5 software companies.

**And the big take-away…**
Keep at it. Don't settle. Say no to early acquisition offers and push on to create massive, category-defining businesses.

Stan Boland

# The Element 14 Story

The story of Element 14 and subsequently Icera and Neul are object lessons in how to create value through ruthless focus which, in the case of Element 14, delivered a spectacular 32 X return on investment.

| | |
|---|---|
| Founded | Sept 1998 (w. Acorn) |
| Acquired | Nov 2000 |
| Revenue | $0 |
| Valuation | $640m |

Central to the story of all three companies' stellar success is Stan Boland. Stan is a physics graduate of the University of Cambridge, with a fascinating CV. He combined his scientific background with an interest in business by starting out as an engineer then crossing over to become Foreign Exchange Manager for Rolls-Royce plc (aerospace firm). In the 1980s, he became deputy treasurer for the now-defunct Bell Group, owned by controversial Australian businessman (and Australia's first billionaire), Robert Holmes à Court.

A spell as Asst Treasurer for a large PE-backed buyout Bricom eventually led Stan back to technology and ICL, the former British computing behemoth, where he worked from 1990 to 1997. Then, aged 37, he moved to the public company Acorn, where he set about creating the first of three major deals.

Based in the 'Silicon Fen' of Cambridge, Acorn was considered "the most influential business in the innovation cluster's history". Acorn held 40% of ARM, then a private company. Stan, as new CEO, merged the remaining chip-design group with an expert team of chip designers from ST Microelectronics which he hired into a separate company, Element 14 (so-named as silicon is the 14th element in the periodic table), which then specialised in digital subscriber line (DSL) equipment. Morgan Stanley bought the rest of Acorn for £440m in a deal he engineered.

As part of that Morgan Stanley deal, Stan and a group of his programmers bought Element 14 from Acorn for a reputed £1m, while raising some £9m from VCs Bessemer Venture Partners in the US, Atlas Venture and Amadeus Capital Partners in the UK. Less than 18 months later, he sold Element 14 for $640m to US chip firm, NASDAQ - listed Broadcom Corporation. In the UK, the Telegraph reported enthusiastically that the deal made millionaires out if its 68 staff in offices in Cambridge, Bristol and Mechelen, Belgium; some 40% of stock was owned by the fledgling company's employees.

After serving a brief period as VP, DSL Business Unit for Broadcom, Stan returned to pioneering in the chip business, founding mobile phone baseband chipmaker, Icera, in 2002. Based in Bristol, Icera developed soft modem chipsets for the mobile device market, including embedded modems for smartphones, tables, e-books and other mobile computing devices. In Stan's nine years at the helm, Icera raised $250m from backers including Balderton, Accel Partners as well as Atlas and Amadeus (who had each invested in Element 14), alongside 3i Ventures (now DFJ Esprit) and Tudor Investments. The company was sold in May 2011 to Silicon Valley's Nvidia, the specialist manufacturer of high-end graphics process units (GPUs) for the gaming and AI market.

Following that experience, in 2013, Stan joined, led and ultimately sold Neul, a Cambridge-based, 30-employee Internet of Things specialist. Neul was in serious trouble when Stan joined but he managed to refocus it and Neul was sold to Huawei for a reputed $25m, returning investors' cash plus.

Since September 2015, he has served as Co-founder and CEO of FiveAI Inc, developing the artificial intelligence required for safe urban driverless cars.  That mission looks like it promises to be an exciting one!



The Element 14 Story

# Lessons from Stan Boland

**Solve the most painful problem first and solve it fast.**
The starting point for every one of my businesses is to identify a marketable problem to solve. At Element 14 we spent the first 3-4 months focusing solely on that.  Our choice of investors was critical and Bessemer in Boston were invaluable. Rob Soni, who had done 15 communications technology deals over the years advised us on the transformation and introduced us to 70 or more CTOs and VP Engineering across his rolodex. This helped us rapidly accelerate our thinking and so we positioned ourselves as a DSL 'fabless' chip company for telecoms, i.e. a chip manufacturer building software for chips, but without the burden of a manufacturing plant.

The pivot from Element 14's first idea of being a developer and licensor of a more general purpose processor core (a bit like ARM) into a vertically focused  business transformed its prospects and led to a highly valuable and rapid exit.

**Never skimp on people.**
Once we had decided on the problem, the next priority was to build a specialist DSL team. In 2000, the market was unbelievably overheated, but we still hired the best people we could find with deep expertise.

We searched for and found the world's leaders in DSL technology, who happened to be in Belgium, and we persuaded them to quit their safe jobs and join us. We built a raw team of 30 engineers into a global leader in DSL chipsets in less than 2 years.

**Strong connections with major clients create demonstrable value.**
We were incredibly well connected already with major players around the world and we knew that Lucent and Alcatel in particular were 'pregnant with demand' for what we had to offer.

We never shied away from talking to the biggest corporations around the world. Less than a year had gone by from acquiring the business when we were approached by Broadcom, initially for a partnership discussion, but rapidly moving towards the potential for an acquisition.

They knew how well connected we were and we moved rapidly into negotiations. It was partly the value of the prospective client base and Element 14's clear mastery of the subject that led to it being a 'must buy' Company.

**An investment bank gives you options. Or the appearance of it.**
There were massive arguments about appointing an investment bank - Broadcom had never used one and I had never had sold a business without one.  After a lot of threats, which we eventually ignored, we appointed Deutsche Bank Alex Brown. When engineering an acquisition you have to get yourself into a position of confidence and the appearance of many options.  The bankers coached me on what to say in each circumstance, good and bad, to maximise the result.  That's what an investment bank gives you; don't sell without one.

Appointing an investment bank kicked off a competition to create optionality, which was critical. The initial offer was $200m and we eventually sold for $640m.

**The big regret…**
I don't have any regrets, but don't be shy about talking to the biggest and best. Don't worry about global competition. Always get on the plane.

**And the big take-away…**
Focus on a massive problem and build the best team you can.

Professional Perspectives

# Daniel Glazer, Steven Bernard and Bradley Finkelstein

Wilson Sonsini Goodrich & Rosati

Dan, Steve and Brad are partners at Silicon Valley-headquartered Wilson Sonsini Goodrich & Rosati (WSGR). WSGR is the premier US legal advisor to technology and life sciences companies worldwide. WSGR advises more start-ups on their venture transactions than any other US law firm, ranks among the leading legal advisors to issuers and underwriters involved in tech IPOs, and also ranks among the top 10 M&A advisors in the US for representing tech enterprises. The firm's US Expansion team assists high-growth companies with the legal aspects of US expansion, fundraising, and corporate and commercial transactions, and seeks to facilitate connections with investors, government agencies, strategic partners, and other US professional advisors.

## The Big Picture

Interest among companies in going public has risen and fallen at various times over the last decade, depending on how receptive or closed the US markets are. It can take six months for changes to filter through and impact IPO demand.

We're certainly seeing an uptick in European companies looking to list in the US. Increased activity in the UK technology community – and to some extent other European countries – is having a direct impact on demand and we're seeing more European companies achieve the metrics required to IPO.

In the US, we're seeing companies stay private for longer and look more towards growth equity – in part due to having to manage Wall Street's expectations and the increasing regulatory burden associated with being a listed company (it remains to be seen whether the current presidential administration eases this regulatory burden). Accordingly, companies continue to view M&A exits as a preferred alternative to IPO. The M&A trend also is being buoyed by large enterprises seeking to utilize acquisitions to counter the dearth of engineering talent. Cisco's acquisition of AppDynamics is a great example of this shift.

### US Expansion

Once a technology business reaches a certain scale in Europe, it often looks to access the US market. In particular, we've unsurprisingly seen a post-Brexit uptick in UK companies looking to build relationships with the US. Once a UK or other European company has traction in the US – e.g., a founder has relocated, and/or they've made key hires and have US customers – raising capital from US investors becomes much more likely.

### Trapped Cash

One dynamic that impacts US firms' potential acquisition of European technology companies is the "trapped cash" phenomenon. Published analyses suggest US companies are holding an estimated $2.5 trillion in profits outside the US that would be subject to a tax charge if repatriated to the US. The lower tax rates in UK and elsewhere in Europe increasingly make acquisitions of companies organized in those countries attractive to American multinationals. Indeed, acquiring a non-US parent company with a US subsidiary can result in the indirect acquisition of a US business without incurring the repatriation tax charge. Of course, it's important to note that recently proposed changes to US tax laws and corporate tax rates could significantly alter this dynamic.

### Fostering the Conditions in Europe

Some entrepreneurs seek the big "win" and look to build a successful public company. Other founders are prepared to "settle" for smaller M&A exits. We see more of the former in the US.

Similarly, higher valuations and larger exits in the US are a function of the investment community's mindset. On average, US investors culturally are more inclined to bet on high-growth, high-risk companies than are European investors.

These differences reflect the maturity of the respective technology ecosystems. The US venture community has been investing in high-growth, high-potential technology firms for generations; Europe simply doesn't yet have the same level of experience. However, Europe is catching up quickly – for example, in 2010 the total amount of VC money invested in London-based technology start-ups was $100m; in 2016 the figure was $2bn. The shift will become even more pronounced when access to growth capital in Europe catches up with the US.

The differences in mindset also reflect the backgrounds of the respective investors. Historically, venture funds in the UK have been managed by individuals with a finance background, whereas in the US venture funds often are led by individuals who were themselves entrepreneurs that built and exited businesses. These differences in background result in differing investment approaches and styles. These dynamics are changing and we're seeing more experienced entrepreneurs moving into venture investing in the UK and elsewhere in Europe.

### Outlook for the Future

Continued success in Europe will be predicated on the ecosystem maturing. The wheels are in motion; it simply will take time for the impact to filter through.

Founders having successful exits now will go on to build or invest in something bigger and better next time around. Venture investors showing strong returns for their limited partners will look to raise larger funds. It's an ecosystem that has to grow organically, and that takes time.

A great way to encourage more European companies to scale and go public, rather than sell early at a lower valuation, is for those companies' founders to see others do it. It will inspire and encourage other entrepreneurs to follow the same path. Those entrepreneurs must then encourage their stakeholders – the management teams, board members, employees, and investors – to support the vision and "go big."

**Success begets success. It all just takes time.**

# Stefan Schmidt

## The Hybris Story

Hybris, now a major SAP brand, delivers enterprise-grade customer interaction solutions to manage multi-channel retail and B2B sales relationships. Today, this includes sales management, marketing, commerce and billing cloud solutions, but when Hybris was founded back in 1997, neither 'SaaS', 'Cloud' nor 'omnichannel' were part of the technology lexicon.

Stefan joined in 2000 as a project manager; when Hybris was still in its infancy. He has remained with the company for no less than 18 years, with a strategic brief that changed dramatically as the business grew. By 2011, he had risen to VP, Product Strategy, and when Hybris was sold to SAP in 2013, he continued with the business to incubate 'Hybris as a Service' within SAP.

But the path to sale for Hybris was not straightforward. In the days of the first dotcom bubble, client server architecture was still the dominating software paradigm, which was by no means a good fit for the internet and a far cry from today's cloud architecture that SaaS businesses take for granted. In 2001, servicing an Austrian retail brand, Hybris realised it would have to shift to a three-tier software architecture which required a complete re-build of the existing software stack. Like many other tech businesses, Hybris was pushed hard for a globalisation strategy by its VC investors and within the space of a year had unsupportable offices in Japan and across Europe. By 2002, with the wrong tech and overstretched for scale, the business was being rebuilt from scratch.

In 2002, Hybris won a major B2B client in Germany (Hybris remains the leader there in B2B Commerce today), and the business found its feet. The product and sales teams aligned to deliver on its promises to enterprise clients. The company found the right balance between scale and service, ensuring that it could continue to develop the product rather than becoming outsourced developers to a few top clients. Feedback channels were opened to keep the product cutting-edge and connected with the needs of its client base. And crucially, Hybris developed the business models and resources to support a partner network of systems integrators who were incentivised and capable of implementing the product more effectively and allowing the company to focus on acquiring new clients; knowing partners would deliver the projects to the customer.

Over a decade after launch, Hybris was, at last, a scalable proposition, and the business took four rounds of funding between 2009 and 2013; including from 83 North, HGGC and a $30m Series B led by Meritech Capital Partners. From 2009, Hybris began to venture into new markets beyond its core European and growing US business, beginning with Australia and Asia and ultimately conquering North America in 2011. Leverage came from a strategic partnership with Endeca (back then the leading faceted search engine) and the 2011 acquisition of Canadian firm, iCongo; which Schmidt says gave Hybris instantly improved credibility in the North American market. But just as importantly, he adds that the acquisition also gave the management team essential experience in the M&A process – a 'dry run' for the challenges of either IPO or a trade exit. Whilst an IPO certainly was an option, the team felt it would distract them from what they do best - building great software. Thus a trade exit remained a valid option whilst the team were preparing for an IPO. Ultimately SAP made an offer Hybris couldn't refuse, not because they were the highest bidder, but because it came with a commitment to the Hybris name, the team, and the culture of the business. The Hybris name continues to this day, with a wider product portfolio than before the acquisition and still growing.

Born in Germany but now resident in London, Schmidt spent almost two decades at Hybris. Today, he continues to invest in technology start-ups, mentoring smaller firms as they develop.

# Lessons from Stefan Schmidt

**Find early customers that share your vision, but don't run for the hills when things go wrong.**
We won a large project early on with an Austrian retailer - essentially a 'multi-channel retail' project in the days long before the term 'multi-channel retail' had ever been coined. Our customer's ambition matched our vision for e-commerce but the project made us realise that our product was far from fit for purpose. The project forced us to address the flaws in our software, which ultimately allowed us to sell not only to retailers but a much broader market. The journey to get there, however, was painful for them and for us and I am eternally grateful for their patience and commitment to us.

We also learned the value of having people on the ground with our biggest, strategically important projects. Those consultants came back and communicated to the product teams what our customers were doing with the software, where they were struggling and how our partners were implementing the technology.

Your first customers have to buy into your vision not in your product. You'll need them to be patient while you getting it right and ultimately delivering the competitive advantage they are hoping for.

**Investors are not all the same. They have different appetites for risk and longevity.**
Our first effort at scale was abortive. The struggle with product-market fit and the failed attempt to go global meant Hybris had to start again from scratch - much to the horror of our early investor. We moved forward with the support of a new private investor who was much more focussed on the people within Hybris and the company's longer term prospects, rather than on trying to make a quick profit in the short term.

Really think about investor fit. Get the right type of investor for your stage of business, someone who really understands your stage of growth and the challenges that come with it.

**Continuously invest into your technology.**
In contrast to a physical product which you will regard as finished at a certain point, software is never finished. In fact it constantly evolves and morphs. The list of companies that ultimately vanished because they did not to continue invest into the software stack beyond maintenance is very long. We never assumed that what we were building would remain cutting edge. Innovation cycles in software development tools were and remain extremely short. Just look how quick the current cloud architecture has evolved in the span of less than five years. We knew that if we were to remain competitive, we would have to stay abreast with new technology which at a number of times meant a complete overhaul of our current architecture. It becomes very expensive to do that the more customers you have, but not doing it will ultimately make your software expire in a very near future. We actually refactored our platform four times over the course of 16 years.

Technology investment is never an instant revenue generator and often hard to justify internally. But you have to fight for it, because otherwise your product and sales will be very short lived.

**Sell tomorrow's vision and today's reality.**
One thing we did very well was getting the balance right between our sales team and our technologists. The sales team understood how to get the customer to buy into our vision whilst also helping him to understand what is available today. Managing customer expectations was key in the sales process and how we created customers who stayed with us. Our founder always talked about managing the gap between vision and reality. You have to have a vision, but also to be realistic about where you are right now in that journey.

This is a really important part of the communication with sales and marketing: It's important that they are selling the vision - but they need to be selling the product that is your reality right now otherwise you just create disappointment on both sides and ultimately you're setting yourself up for failure. Our go-to-market team got this balance right.

**A network of partners can help you grow faster.**
It's important to figure out what kind of partner network your company and product requires. Hybris had a network of technology partners (in-bound OEM) that provided technology we didn't want to develop ourselves and a network of delivery, implementation partners who

# Lessons from Stefan Schmidt

would deliver the software and the project to the customer. Hybris, however, always sold directly and hardly ever through partners. If your product has a certain degree of complexity you will find it hard to sell it through resellers. For Hybris this setup worked very well as it allowed every party to benefit greatly and focus on what they were good at: Partners selling consulting and delivering projects and Hybris building software and selling it.

Don't assume your partners want to grow your business. They first and foremost want to grow theirs. Thus you have the figure out what will incentivise them to grow your business. Getting that right is the key to a successful partner network.

**Leverage the analyst community.**
Getting exposure to and from industry analysts marked a huge step change in our credibility and market awareness. It took a long time for the impact to hit, and building meaningful relationships with analysts requires a huge amount of effort. But the effort paid off in three really important ways. It really focussed our thinking on what we were bringing to market and how we communicated it. It provided exposure and credibility (particularly going into the US market) that we simply couldn't have achieved any other way at the time. And we could see a measurable spike in revenue tied to each analyst report in which we featured.

Analysts were one of the most important marketing tools in our armoury.

**To grow internationally, you need people on the ground.**
One of our founders, Carsten Thoma, knew that it would only be possible to break the US with senior feet on the ground. This ultimately led to him relocating to the US - as I had relocated to the UK a few years previously. We knew we wouldn't have been able to effectively scale globally from Germany. Up until the iCongo acquisition, customers were wary of a European vendor. They were concerned that we weren't established, or liquid enough. The US really stretched us in terms of having enough people to support our customers and partners, working across different time zones, and actually understanding US culture.



Asia and Australia followed. Going into Asia isn't a decision to be taken lightly. Europe is big, the US is bigger, but Asia is a completely different kettle of fish because it's fragmented: you cannot view it as one homogenous market. The distances you have to travel, the time zones, the languages and customs all make for an interesting journey. You must have locals who speak the language and know the customs. Luckily we managed to recruit people who were a great link between Western and Eastern culture and really helped us to find our footing in these markets.

Going into a new market will always overstretch you, there's never going to be a perfect time, and there will always be some element of having to figure things out as you go along. Having senior people on the ground in important markets is key as they can not only communicate best what you are offering but also bring along the culture that you want to establish in your satellites.

**The big regret…**
There are moments when I muse about whether we should have gone IPO. Though, it really is not a regret not having done it. May be printing a few hundred software handbooks which were outdated by the time they arrived and then sat gathering dust in our office for years.

**And the big take-away…**
Hybris was always like a family. We worked hard and we played hard. People and hiring decisions, especially early on, were critical. Guenther Lampersdorfer, the early stage investor who stayed with us up until Hybris was sold to SAP, said one thing to me when I asked him why he was still investing money at a time Hybris he really was on the ropes: 'I am investing in you guys, not into the product.' That really stuck with me and made me realise that a great team can make almost any company/product successful. But when the chemistry is off, it doesn't matter how great your product is, the company will fail.

# The MessageLabs Story

Symantec.Cloud, the globally recognised leader in SaaS-powered security is the direct descendant of MessageLabs, founded in Gloucestershire, UK in 2000 by brothers Ben and Jos White, with Stephen Chandler and Chris Tottman joining shortly thereafter.

The MessageLabs proposition was that the modern breed of internet-enabled viruses (along with their innovative and very human transmission vectors – phishing, spoofing and so on) demanded a similarly internet-enabled response. Where viruses were previously a function of inadequate software loading processes, suddenly enterprise organisations were never more than a click away from costly and challenging assault. And anti-virus that didn't flex minute-by-minute, 24/7, to handle the latest malware was inadequate at best.

| Founded | Exited | Revenue | Valuation |
|---|---|---|---|
| 2000 | 2008 | $150m | $700m |

MessageLabs therefore launched the world's first as-a-service security business where customers simply redirected their email to a data centre, where it was scanned before being forwarded to its final destination. In technical terms, using the SaaS model gave MessageLabs' clients the confidence of active protection – identifying and neutralising threats before they hit client estates, and then using the ever expanding knowledge base of malware indicators to bolster the company's ability to protect other customers in real-time and spot future threats. In commercial terms, it also allowed the business to work on a Managed Services basis – effectively allowing clients to outsource the problem. By 2007, MessageLabs offered a graduated range of corporate online security services from protection and encryption to secure archival across web, email and messaging platforms, with a vision "to provide complete certainty in the exchange of all business information, regardless of protocol, device or location".

Indeed, just in time: featuring numbers which by today's standards are amusingly microscopic, it was MessageLabs which prophetically reported in April 2004 that the number of phishing emails had increased from 279 (yes, 279) to more than 337,000.

In October 2008, Symantec announced the acquisition of MessageLabs in a deal valued at around $700m. The management team had been pursuing a dual-track exit with both an IPO and a trade sale in the running. At the time of the sale, it was noted that – with annualised revenues of more than $150m MessageLabs was one of the most successful SaaS businesses in the world, second only in revenue terms to Salesforce.

Jos has an English degree from the University of London. He was the Chief Marketing Officer for Star Internet and then MessageLabs, before leading MessageLabs expansion in the US. Stephen, an Economics graduate from Exeter and ex UBS investment banker, was the CFO of both Star and MessageLabs and ultimately led the exit process to Symantec. Both invested a share of their proceeds from the sale in establishing Notion Capital, and both have served on the boards of and invested in a wide range of tech businesses since, including successful exits like Shutl , STH and Trustev and a plethora of high-growth technology brands in Notion's current portfolio such as Currency Cloud, Dealflo, GoCardless, Move Guides and Tradeshift.



The MessageLabs Story

# Lessons from Jos White, Stephen Chandler and Chris Tottman

**Moving to the US early was transformational – but the first salvo was fired from home.**
We knew we were facing off against a pain that was felt across the world, in every company large and small, and we moved rapidly to a market leading position in the UK. But we were ambitious from the outset, we wanted to build a big business and we knew we couldn't do that from the UK alone - even by expanding across Europe; as the markets were too fragmented.

We knew the US was the key target, and Jos ultimately moved to New York in 2002 to lead this effort. But first we secured beachhead customers from the UK.  We had signed deals with the Bank of England and the UK government in 2001 and used those as a reference to sell to the Federal Reserve of New York.

If we were good enough for Tony Blair and Eddie George (then UK Prime Minister and Governor of the Bank of England, respectively), then surely we were good enough for Alan Greenspan!

**Learn from the US.**
What we saw was an incredible market opportunity. However, also critical to our success, we also saw an entirely different way of working: more competitive, more advanced and more demanding in a range of different ways.

Our experience in the US made the whole company stronger. For a tech company to become a global leader it has to have a strong market presence in the US and we laid the right foundations to achieve that by absorbing the US culture into our headquarters in Gloucester. The US subsidiary rapidly set the pace that everyone else had to follow.

**Focus on your leading market segment.**
Across Europe we dominated by targeting predominantly professional services and government organisations, whether big or small. In the early years we realised that we were educating the market and therefore needed to sell direct to have the closer relationship with the customer. We had an inside sales team selling to companies of up to 500 people and then an enterprise sales team divided by industry. This proved to be the right strategy and enabled us to control the sales process and drive higher ARPU and lifetime values. Over time, as the brand and the delivery

The MessageLabs Story

# Lessons from Jos White, Stephen Chandler and Chris Tottman

model became more established, we moved more business across to channel partners such as IBM.

We maintained a clear focus on our go-to-market activities to ensure we targeted the most attractive and valuable segments.

**Hire for tomorrow, not today.**
Our particular strength from day one was an ability to hire incredibly well, often securing people with vastly more experience than was necessary at the time; but due to the pace of execution we would rapidly catch up.

Most of the founding team were in the biggest jobs of their lives for the full nine years, but we hired people who filled the gaps we had and we learned very fast.

**Be obsessive about exceptional people.**
Every single person in a start-up has to be incredible. Each interaction needs to drive extra momentum as every month needs to set a new record. Each month you're burning time and credibility, not just money. The search for exceptional people has to be an obsession company-wide.

At MessageLabs this obsession ran through all of the founders and became infectious across the leadership team as we scaled. Anyone could veto a hire. Many people couldn't scale up and they were exited quickly. This obsession meant we went from good to great hires faster. As a result the team became more powerful and more competitive quicker in every department and every market. We had one founder dedicating all of their free time to filtering talent. When you combine that with the mindset of raw candour, it created an exceptionally high bar in standards and a powerful culture that continued for years.

**Culture needs to be lived and breathed from the top (as opposed to being written on walls).**
We hired great people and focused on securing people with the right DNA. We didn't talk about culture so much as hiring people with a strong backbone and a "get sh*t done" DNA. We found plenty of time to forgive mistakes. So long as they weren't repeated. With hindsight, we were constantly breaking new ground. There was no rule book for SaaS - the phrase didn't even exist. We just knew were facing up to a market that was fraught with pain and unmet need. There was simply no time to waste.

**If you want options on an exit, build relationships early.**
We had been readying for some kind of exit since 2004 when we had first explored an IPO. We pulled out partly because of the market, but more because the business wasn't sufficiently professionalised in controls and governance terms for the markets.



We started a dual-track IPO/M&A process in late 2007, and we were going to pull back again due to market conditions in 2008, but then we were approached by Symantec. That long view since 2004 was critical. We had been building relationships with potential acquirers all that time. We had visited Enrique Salem, CEO of our long-standing partner, Symantec, and other members of his team regularly to brief them on progress with the business. Neither of us approached the deal blind.

**Be prepared!**
If you are selling to a large corporate expect a barrage of diligence requests and analysis. They generally have very structured and bureaucratic process which involve dozens of people from different functions and departments. And unfortunately this is rarely subject to a pragmatism filter to focus only on commercially important aspects.

We were analytical by nature so had lots of data - and we had maintained detailed diligence files across multiple events so were well prepared.

**Advisers are useful, but the final decisions are yours.**
In reality, we did most of the tough negotiation ourselves, and I do believe this is an area that many founders overlook: their ability to negotiate and hold their nerve in the biggest sale of their life. We knew Symantec needed us and there were enough precedents in the market to signal that they had to pay a reasonable price for us as market leaders.

**Loose lips sink ships.**
Acquisition rumours unsettle staff, customers and suppliers alike - and a failed process can do lasting damage to a business. Keep the existence of discussions and all diligence interactions to as small a group as feasible for as long possible.

We kept disclosure extremely tight with just four people against Symantec's 50+ until the last two weeks. Stephen didn't even tell his wife until the week before we closed.

**The big regret…**
As we were in the process of the exit, the pound fell 25% against the dollar. We had fixed in pounds, so we didn't lose out - but we could have made a significant amount more if we had fixed in dollars. Conventional wisdom is to hedge risk, but perhaps not when the pound is at a 10 year high…

**And the big take-away…**
Build relationships with potential acquirers as early as possible. It takes years of concerted effort but it is incredibly important and hugely valuable. Two big take-aways are solving major pain in a big market with a unique product that is the time to be bold and really invest in growth, which has to include a major investment in the US market.

Professional Perspectives

# Stephen Lowery

Silicon Valley Bank

For over 30 years, Silicon Valley Bank (SVB) has provided bespoke banking services to high-growth businesses, particularly in the technology and life sciences sectors. SVB provides debt financing, working capital solutions and banking services to high-growth technology companies and VC and Private Equity firms globally. It counts 50% of all VC-backed tech and life sciences businesses in the US as its clients. Stephen is Managing Director, Global Markets: with over 15 years' experience in the European VC and Private Equity industry, he is responsible for developing and managing SVB's relationships with venture capital funds across the continent.

## Building the foundations

When considering exits, I have often heard businesses assuming that if you just keep on doing good things, good things will happen; and you can think about the exit at the end. You need to be a lot more strategic than that. Value takes time to build within a company and deserves the same careful thought as is given to the other priorities: the go-to-market strategy, the product roadmap etc.

If you're launching a new product, you will spend a lot of time testing it, working on product-market-fit, developing the value case for each market segment, doing product marketing, and ensuring the team is incentivised to sell in the right way to the right people. Scale that up to selling the whole company, or positioning the company for value, and you can see that you've likely only got one opportunity do it right. Your route to exit is the sum of all these thought processes, so you must start work on the exit early.

Take time to build relationships with the people who could be the ultimate future owners of the shares in your business. Make sure you understand what is important to them. Also make sure that they're aware of you, that they understand why they would ultimately want to acquire the company and the benefit they would get from doing so. What value can you bring to their businesses in their markets? Help them to recognise that value as early as possible, and align your skillsets with their needs and challenges.

### A culture of collaboration

In venture capital and private equity, while there is much talk of an "exit", I find it interesting that there are many things that remain constant. Not everyone "exits" - The management team might stay. Even some of the shareholders might stay. However for everyone, an "exit" represents a point of change – a reshaping of the ownership and the strategy for the business.

To make this transition as smooth as possible it is essential to ensure that you have clarity of objectives for that next phase from all of the stakeholders around the table. These are people you may have to work with for some time. This is something companies should spend more time focussing on as not doing so risks divergent interests in the process, which is never helpful.

Communication and trust is critical too. Recognise that these conversations, from the outset all the way through to a change of ownership, are non-linear. No matter how well you prepare, there will be ups and downs and stakeholders with differing opinions and viewpoints on preferred outcomes and acceptable valuations – plus, opinions may change over time. Again, a culture of honesty and collaboration early on, amongst a small effective group who can work with each other is critical. If stakeholders play their cards too close to their chests and recuse themselves from the debate, you won't understand their true motivations and you won't have the key discussion: what needs to happen, who's going to do it, how and when.

The hallmark of processes that have gone well has always been clear discussion up front about what the team were trying to achieve as stakeholders and shareholders. There is consideration as to whether the time and resources - cash or people – are realistically available to deliver on that ambition. Then, where the necessary skills, resources or experience are not available in-house, the group can commit to bring expertise in early and get everyone aligned, committed and adequately resourced.

Be open-minded and be prepared to ask questions. This is potentially an interesting area of divergence between the US and European models. Operators in the European market can be somewhat more reserved in their approach to businesses and how they might ultimately be acquired. In the US, people are more upfront in marketing the business and positioning it for an exit. This openness is preferable.

### The AsiaPac market

Over the last five years, the US has generally accounted for around half of the acquisitions of European companies where the sale was more than $100m. That's a significant universe, but over the past 3-4 years there has been a dramatic increase in interest from acquirers beyond the US and Europe, particularly from Asia. European technology companies must face both West and East.

As Asian markets become important, the European ecosystem must build meaningful relationships in these territories. For us, extending Silicon Valley Bank into China has been a key step towards this. VCs, large technology firms and high-growth ventures looking to exit all need to spend time on the ground there and build their networks of connections. Treating Asia as a bloc is a mistake - there are plenty of regional differences: Japan works in an entirely different way to China, for example. Irrespective of the region, whether the US or Asia, the same rules apply: relationships and face-time are critical.

### The US / Europe market

The European ecosystem has been on an entrepreneurial journey now for at least 15 years. I remember a time when industry observers would comment that European CEOs don't have enough ambition to build businesses at scale. CEOs, meanwhile, would say that European investors were simply too risk-averse to help create big businesses and truly shoot for the moon. Europe has changed immeasurably in 15 years; we continue to head in the direction of nurturing ambitious founders, experienced CEOs and growth executives, and investors who've delivered valuable companies and had successful exits.

Investors and companies are already thinking about appealing to global audiences earlier. Even if they're trying to build national or regional champions, they are doing so with a view to building something meaningful and significant in their territories to achieve a strong local position. It's a huge shift in mindset: we're already a long way down the path to closing the gap with the US.

Joe White
& Wendy Tan White

# The MoonFruit Story

The story of Moonfruit is a case of alternating serendipity and misfortune for (now) husband and wife team, Joe White and Wendy Tan White. Serendipity came first: while studying economics at Cambridge in 1995-8, Joe rode the first wave of demand for websites co-founding digital  agency, Sixzeds, which by his graduation in mid-1998 counted Disney, LSE and the nascent bank, Egg, as clients. Wendy had left software consulting firm AIT to work on Egg; in August 1999 she quit Egg to prototype Moonfruit. Sixzeds was of course commissioned to build the Moonfruit product.

Joe White
& Wendy Tan White

# The MoonFruit Story

Moonfruit was – and is – a website builder. Today, it is the number one hosted website builder in the UK, and showing impressive growth in the rest of the world: one third of its customers are in the US. It powers over 7 million sites and stores, particularly targeting SMEs by allowing users with little design expertise to build compelling websites with strong e-commerce functionality. But back in 1999, it was far less focused. Part social networking tool, part publishing tool, Moonfruit was an advertising-supported way for anyone to publish anything easily. That same year, Yahoo had bought Geocities, a similar general building tool, for $2bn.

With more serendipity, within six months, Moonfruit and Sixzeds had garnered attention from their physical hosts, Bain Lab (the incubator run by Bain Consulting). Sixzeds had produced Bain Lab's website, and Moonfruit soon took investment from Bain and Macromedia – who rightly insisted that Moonfruit and Sixzeds finally merge.

Then came misfortune: the dotcom bubble burst. The third contributor to the £8.5m invested in Moonfruit was the short-lived European tech fund, Europ@web. It's famous for funding Wanadoo (now Orange.fr), but even more famous for being the money behind flagrant overspenders, boo.com, the poster child for the dotcom era tailspin.

Moonfruit had almost half a million customers, but no revenue. Being advertising supported, it didn't even have a billing platform. The business scaled back from 70 staff to ultimately just 2 (Wendy and co-founding CTO Eirik Pettersen). Joe went to lick his wounds working with McKinsey.

Only in 2002, with Wendy at the helm, was a billing system instituted. From McKinsey, Joe was feeding back strong product marketing and pricing strategies. The SaaS/platform concept was becoming workable – and it was also becoming clear that small businesses were the keenest market for DIY websites. When Joe re-joined in 2003 (tag-teaming with Wendy who left to have their children and complete an MA in design at St Martin's), the business was risky but at last had some direction. By 2005 it had attracted private investment from The Stephens Group into both Moonfruit and a French domain name business – less risky but less exciting, an excellent hedge and strong backing for the Whites' skills.

It was 2009-10 before serendipity struck again. Tan-White had returned in 2008, and with all three co-founders back in position the business was powering forward. SaaS technologies, White's refined business models (a clear freemium model and predictable conversion rates) along with the evolution of e-commerce and marketing combined to bring Moonfruit 60%+ year-on-year growth. Aggressive marketing through partnerships with business banks was proving highly effective and these partnerships were frequently turning into acquisition conversations. The following year, Dave McClure of legendary Silicon Valley angel, 500Startups, invested; and just over a year later, Hibu plc (formerly Yell) acquired the business in its entirety for $37m. Despite exceptional ups and downs, Moonfruit had perfected the freemium model by which the upgrade path to features like shopping and mobile compatibility closely matched customer need and ability to pay. This is characteristic of successful SaaS businesses today but was pioneering at the time. The sale was also an ideal match: Hibu had a strong SME focus, was cash-rich but in need of digitalisation, and was UK-based with a transatlantic presence. Joe, Wendy and Eirik stayed with Hibu for two years after the sale, as VPs in the digital business. From March 2015, Joe and Wendy became prolific angel investors, initially through their vehicle Curious Capital, whose investments include Magic Pony Technology (sold to Twitter), OpenCosmos and Q-bot. The couple are now General Partners at Entrepreneur First, a programme and fund that seeks out the best technology talent to help them build world-class deep tech startups from scratch. They have raised a £40m EF Next Stage Fund to mentor and back those startups post programme.

They live in West London, and have two children. Joe and Wendy have both been awarded MBEs.

"Timing is important. Know where you are on the journey and look ahead."

The MoonFruit Story

# Lessons from Joe & Wendy

**The path is not always smooth. In fact, it's barely ever smooth.**
Moonfruit went through several mergers and demergers, growth spurts and collapses. We raised significant funding in the boom in 2000 and grew rapidly to 70 people - and then came the bust. We hacked Moonfruit back to ten people and then to two; just as we had just turned on a SaaS business." Moonfruit had so many phases and we learned so much about success and failure. About resilience and determination. There is a lot to be said about grit and resilience. You need to hang around long enough to get lucky.

**Run the business you want to run.**
We nearly sold the business to Lycos, which fell through. Then, after a raise, we merged with a French domain operator, which allowed us to localise Moonfruit into the French marketplace and grow the business to about £15m, selling web domains. But wasn't the business we wanted. The domain site was good but unexciting and the future multiples wouldn't be great.

We demerged the business from the domain operator which meant we owned the majority; and took in another £2m of investment.

**First mover is hard work when you have to build your own tools.**
We did a lot ourselves and frankly didn't have the analytics or technology around us - the money we were leaving on the table was crazy.

**The lack of ecosystem was profound.**
You need metrics to understand the economics of the business. I see many founders who are world class at raising money, but do they understand the fundamental economics of their business? At our peak we would have around 3,000 new sites built every day on the site, though only convert 150 to paid customers.

**There's a human story behind every business.**
Founder stories are all people stories at the end of the day. Particularly after the 2001 crash, rebuilding the business was simply a three way piece between myself, Wendy and Eirik. Eirik was the constant while Wendy and I played tag-team Chief Executive. Our lives are inextricably entwined in Moonfruit. I was 22 when we started this. We got married and had our children in this business.

**The big regret…**
That we didn't seek more support ourselves from people who'd done it before. It's web 101 nowadays, but I wish I'd known about funnel optimisation and conversion at the time.

**And the big take-away…**
Timing is important. Know where you are on the journey and look ahead.

```
mysql> USE southwind;

mysql> DROP TABLE IF EXISTS suppliers;

mysql> CREATE TABLE suppliers (
         supplierID  INT UNSIGNED  NOT NULL AUTO_INCREMENT,
         name        VARCHAR(30)   NOT NULL DEFAULT ‘’,
         phone       CHAR(8)       NOT NULL DEFAULT ‘’,
         PRIMARY KEY (supplierID)
       );
```

## The MySQL Story

## Monty Widenius

THE WORLD’S MOST POPULAR OPEN SOURCE DATABASE

```
mysql> DESCRIBE suppliers;
+------------+-----------------+------+-----+---------+----------------+
| Field      | Type            | Null | Key | Default | Extra          |
+------------+-----------------+------+-----+---------+----------------+
| supplierID | int(10) unsigned | NO   | PRI | NULL    | auto_increment |
| name       | varchar(30)     | NO   |     |         |                |
| phone      | char(8)         | NO   |     |         |                |
+------------+-----------------+------+-----+---------+----------------+


mysql> INSERT INTO suppliers VALUE
         (501, ‘ABC Traders’, ‘88881111’),
         (502, ‘XYZ Company’, ‘88882222’),
         (503, ‘QQ Corp’, ‘88883333’);

mysql> SELECT * FROM suppliers;
+------------+------------+----------+
| supplierID | name       | phone    |
+------------+------------+----------+
|        501 | ABC Traders | 88881111 |
|        502 | XYZ Company | 88882222 |
|        503 | QQ Corp     | 88883333 |
+------------+------------+----------+
```

Founded in Sweden in 1995 by Michael (Monty) Widenius, David Axmark and Allan Larsson, MySQL today calls itself “the world’s most popular open source database”. But at the time, the open source model didn’t even exist; and MySQL worked tirelessly to challenge the traditional software narrative that free software / open source would ultimately leave high-end (valuable) clients out in the cold. In a relentless drive for quality, MySQL was built to be high-performance and bug-free.

It delivered results too because unlike the protectionist approach of the big software manufacturers of the time, you could download and install MySQL in minutes with all the support you would expect from a traditional provider. Offering commercial support from day one was critical to success. The free-to-use model was ideal for generating scale in the emerging internet era, and MySQL was enterprise-grade: perfect for high-growth online services. Today, MySQL has continued to grow with its market. It is shipped natively with thousands of IT products, supports a rich ecosystem of third party services and there are now flavours of MySQL for cloud/SaaS-specific technologies.

The team waited patiently and learned from the market until the business was ready to scale and take investment. By 2001, the company had over 3m users, and some profitable support contracts; yet only had 15 employees and €1m in revenues. Mårten Mikkos was hired as CEO. A sales and marketing specialist, he had already led a number of Nordic companies to success – and his job was to deliver and extract more value.  We waited patiently and learned until ready to scale and take investment. November 2001, the company took its first round of investment, a $1.8m Series A led by ABN Amro. Series B followed in mid-2003 ($19.5m from tech VC staples, Benchmark Capital, Balderton Capital and Index Ventures) – interestingly, in true open source style, a redacted version of the company’s pitch deck for this round is still available online. (When MySQL was ultimately sold, Mikkos was to continue

"There is nothing wrong with planning to make the world a better place and there is nothing wrong making money doing so."

his relationship with Benchmark Capital, becoming entrepreneur-in-residence). 2006's Series C ($18.5m) included Red Hat, the Linux brand, as an investor.

Along with Mikkos, Widenius credits a strong team (particularly Larry Stefonic, Mark Burton - first and second VP Sales) with maintaining MySQL's growth trajectory, but the heart of the business remained its ability to leverage the needs of its community, responding rapidly to demand and designing products to suit. The product offering was built out to not only include support and licensing, but critically enterprise consulting and responsive services. The user community was also the natural source of leads: by analysing members' usage patterns (downloads, reading white papers, asking queries), the business was able to profile hot leads – a simple process which scaled perfectly and yielded a steady stream of business. The team came up with ways to build open source and support, thereby creating a huge following (free for most, not free for all). Widenius says "Most importantly we were extremely helpful to our community. We helped people to use our product for free. Our model allowed us to work full time on open source. We wanted to change the world and made it possible to build real scale and commercial success, even though we didn't expect it. There is nothing wrong with planning to make the world a better place and by the same token there is nothing wrong making money doing so."

Enterprise competitors showed frequent interest. By 2008, MySQL had grown to $70m in revenues, doubling in each of the previous two years. It was snapped up by Sun Microsystems for $1bn. In December 2009, Oracle went on to buy Sun. Widenius and his team joined Sun to ensure they took good care of their baby and secure a home for the vast majority of engineers.

Founder Monty Widenius was the original co-author of MySQL. He dropped out of Helsinki University of Technology and in 1985 founded TCX DataKonsult AB, a data warehousing company, with Larsson. He remained CTO of MySQL until the sale to Sun Microsystems. Since leaving Sun, Monty funded a number of companies that then joined to form MariaDB Corporation and its attendant non-profit organisation, the MariaDB Foundation.



MySQL

# Lessons from Monty Widenius

**Technology businesses need commercial leaders.**
Even in 1996, we had started to sell support services and we were pleased to see cheques coming in. It started to dawn on us that our product was actually very popular. We started brainstorming on how to commercialise properly, but we were fundamentally technical specialists. Even so, we were profitable until 2001 which was important for raising investment.

It was a big decision to get Mårten [Mikkos] into the business as I felt he was the ideal 'face for the company'. Mårten was our moderator, spokesperson and evangelist. And there were two others who made a huge difference. Larry Stefonic was an incredible start-up sales guy, bootstrapping the sales organisation. He was succeeded by Mark Burton, who joined MySQL from Informatica and developed an effective sales organisation for us.

I had no problem hiring Mårten above me. His commercial skills were critical to us, understanding what it means to take in venture capital and leading the development of our commercial strategies, but without losing our passionate technological foundations. Don't promote yourself to your own level of incompetency.

**Take care of your people post acquisition.**
When we needed to find a buyer we wanted to find a buyer who would treat our employees properly. We didn't just want to take their word, we put agreements in place to give them a future that gave them security.
I hoped to be able to create trust with Sun so that they got what they wanted and my team got what they expected.

**With passion comes conflict.**
Our biggest challenge was understanding how to create an effective subscription business. With tens of millions of users, we had grown to $70m, but that was still quite small, given the number of users. The issue was how to be bolder in our commercialisation ambitions and understanding how to draw the line between open source and paid. This created conflict, as we had a lot of people who had joined the business because of the open source philosophy. Should we have been more aggressively open source, which many employees and some of the founders wanted, or more commercial, which our investors wanted?

There was a strong feeling for open source from the team, and then on the commercial side some of our backers were saying, let's close that down.

**And the big take-away…**
Don't be afraid to do things differently, no matter what people say. What I believed that even though no-one else was doing what we were doing, we could still build a big business and make money with open source. I was right. And never give up - you only lose when you give up.

Professional Perspectives

# Mark Heraghty

The buy-side viewpoint

Mark Heraghty is a highly experienced senior executive in the European technology sector with over 20 years experience acquiring and integrating dozens of technology businesses across Europe. He has also worked at the sharp end of high-growth expectations, specialising in building business development approaches which deliver rapid B2B revenue growth. He has served as MD of Virgin Media Business and now operates as a Chairman, a Non-Executive Director and a Strategic Advisor to technology and infrastructure companies in the US and Europe.

There are, to my mind, three fundamental pillars of value that apply to all companies: people, processes and systems – and the people discussion is by far the most nuanced. Working on the assumption that a company looks sound financially, interrogating these three areas helps determine whether it's a good investment decision.

### People

I look for leaders who can share their vision and take their stakeholders – customers, employees, investors - on a journey. It doesn't matter how good you are as an individual; if you can't persuade the people around you to join you, you'll never get there at all. It's important to take a highly critical look at the leadership team and its capabilities: what is their mission? Are they capable of delivering on it? Are they willing to listen, change and adapt?

I equally look for leaders who are humble enough to recognise and accept they might not have all the answers. Many first time CEOs, especially those coming from a technical background, can be somewhat dismissive of the "softer" side of business - brand value, culture and HR.

The dynamic of a team growing to scale from 1-100 people shifts significantly. When you have a small team, you know everyone intimately and you can make good instinct-led hiring decisions based on meeting everyone in person. As the team grows, especially when you start to operate over multiple locations, more robust processes must be put in place. What might have worked fine in the past simply won't scale.

You also need to consider the second and third tiers of the organisation, below the senior leadership. There's often a significant gap here in skills, in-house knowledge or resources; and it can present a real worry for an acquirer. This happens for a number of reasons, largely cost-based. For example, the spending discipline instilled in companies in the early days can mean that anything not directly impacting sales is seen as a lower priority. The focus on building exceptional leadership teams can mean that the next tiers down – from VP to line management – become sidelined. There's a real lack of appreciation for the importance of building a strong team under the upper management, and a similar underappreciation for how hard it can be. It is not something that happens organically: it needs to be engineered. But it's not impossible. Small companies absolutely can hire and retain great people at all levels with the right mix of money, equity, brand value and culture. You just need to try harder.

There's also a lot to be said for hiring to bring in experience - youth has many advantages but a few grey hairs are of equally significant value.

Culture is a broad-brush term, but it's very important. I want to get under a company's skin to look at the fundamental building blocks of its values, and then ask whether it can truly execute on that vision. Starting with the leader, I want to know whether they are capable of delivering. Do they have high emotional intelligence? Arrogance is a particularly red flag. But, even if the leader has the right soft skills, I also want to know if they have successfully instilled a similarly aligned culture. If the chemistry isn't there, if the team isn't going to be a great fit, then the business is not going to work. A cultural alignment between the company vision, its leadership and its team are simply indispensable. By the way, first instincts are almost always correct, so trust them.

It's also obvious that an acquisition is a transformative event. The acquirer must therefore realise that the carefully constructed culture that they find so attractive is also delicate – and in their hands. An acquirer should rapidly clarify what within the business aligns with their needs and what doesn't. Then be explicitly clear, with rational justifications, about what will change and what won't. If I have to make tough decisions and have difficult conversations to manage expectations around team, brand and reporting lines etc., I make sure that those conversations happen early on in the process.

### Processes

Scalability is the number one challenge. Many businesses have poor processes in place that may have worked fine for a 10 person company but are not fit for purpose in a 100+ person organisation. Even with the best technologies and systems in place, if these are built on weak, non-scalable processes, the business has a problem. Companies must ensure that they have a clear, actionable vision for cost-effective scaling across all business functions. In the SaaS sector, this mindset is often second nature, with businesses set up to scale as a primary objective from day one.

### Systems and Technology

A detailed audit of IT systems speaks volumes. I'm particularly keen to see the intelligent application of industry standard systems and platforms rather than the use of technologies developed in house. As you build a business, you need to build processes and systems that are ever more independent of people.

### Finally, be realistic

Sometimes, the top level financials look sound, but digging into the numbers it becomes clear that, say, the five year projections bear no coherent connection to the past five years. I would never judge a company for presenting their numbers in as positive a light as possible, but unrealistic ambitions are a serious red flag that will result in me interrogating those numbers particularly hard. I need to be able to understand exactly how - aside from cash – the management team intends to achieve its dramatic change in outcomes. I would much rather see sensible, achievable projections (which also take into account the disruption of the transaction period) than overly rosy and ambitious claims.

| | |
|---|---|
| Founded | 2001 |
| Acquired | 2013 |
| Revenue | $58m |
| Valuation | $600m |

# The Neolane Story

## Stephane Dehoche

Founded in Paris 2001, Neolane was a conversational marketing technology provider, providing marketing automation and cross-channel campaign management software and services to business-to-business and business-to-consumer marketers.

The discipline is complex and multi-layered, with multiple competitors providing a patchwork of enabling tools for the enterprise marketing function; like other successful plays Neolane built its reputation by providing broad coverage of the marketing discipline augmented with a set of standout key features.

At its heart, Neolane simplified and automated the management of direct marketing campaigns for brands, connecting channels from email and SMS to traditional direct mail. Response is improved through the effective use of customer information across the engagement lifecycle and a rich analytics platform. In 2011, Neolane launched one of its key features: a social marketing service which added tools like Facebook and Twitter to the channel opportunity. Its success across multiple channels led the company to be positioned as a "conversational marketing provider", allowing brands to sustain lifelong dialogues with consumers. The business was also favoured for its integrations with popular CRM systems like Salesforce, Microsoft Dynamics and Oracle's CRM On Demand.

Neolane received three rounds of funding. An initial €2m Series A came from Auriga Partners, who participated in future financing rounds throughout Neolane's development. Series B came in 2006 (€5m from Paris' XAnge). In 2012, Auriga and XAnge were joined for a Series C by Battery Ventures, in a round totalling $27m. In a fevered environment for marketing automation businesses, Neolane was sold to Adobe in 2013 for $600m, bringing together Neolane's social and data expertise with Adobe's cloud and technical reach. Neolane is an entrepreneurial family. It was the third successful business to be founded by Dehoche with colleagues Stephan Dietrich and Thomas Boudalier, who had met at the Ecole Centrale, Paris. Of the first ten staff, nine were still in role when the business was sold to Adobe 12 years later. Furthermore, unlike so many exits, most chose to remain in the new owner's organisation.

Having served as CEO of Neolane, Dehoche was one of the team who chose to stay at Adobe; he served as Vice President Solution Adobe Campaign until 2016. He has 20+ years' experience in building enterprise software businesses, serving as President and co-founder of AGDS and co-founding Cubicsoft. When AGDS and Apsylog were sold to Peregrine Systems, he remained as VP, R&D, Europe. Peregrine is now owned by HP.

The Neolane Story

# Lessons from Stephane Dehoche

**Build a great team and have fun.**
The initial team was ten people and I knew most of them from previous ventures. We always had a serious side and a fun side to our DNA: we hired people who were driven and committed but we also had a great time together. We enjoyed working together which remains important to me.

In 2008, with the financial crash, revenue growth slowed to 20% but we were confident it was temporary. Many US companies stopped hiring , but we took the opportunity to bring some great people on board.

We worked hard and shared success, taking the entire company away on trips to Kenya, Martinique, Cuba, Iceland ... This was incredibly powerful in creating bonds that lasted. And today our alumni in countries around the world still get together." Every time we hit a target, we took the whole company away. One year we took 300 people skiing in Val Thorens (French Alps).

**SaaS is non-negotiable.**
We hit €700k of revenue in first 18 months and from then on it was strong growth all the way. But by the time of our exit, we were almost exclusively focused on recurring revenues. Over 70% of our income was a SaaS model.

We had to focus on SaaS. By 2013, capex budgets simply no longer existed.

**Problems are usually people problems.**
Our main challenges were always human. The middle managers in particular were a difficult transition. We grew with a single tier structure until each of the four leaders with area of responsibility had ten people each and then we had to put in a middle layer - and that was hard.

Hiring the right people is important, but letting them go when you make a mistake is even more important.

**European enterprise software companies either get stuck... or snapped up.**
A lot of European companies get stuck at €10m revenue. When you get to that stage, there is clearly demand and a big market to address; and that can create a middle management leadership crisis. They fail to put in place the management teams that will enable scale and they fail to keep an eye on maintaining a culture which will bind everyone together through the tough years of growth. We have a long way to go to catch up on the US – they have built many giant technology businesses, so they have the buying power to drive consolidation.

If a European enterprise technology company does achieve scale, there is a good chance that it will be acquired.

**The big regret...**
I've already talked about hiring – we did well, but I would still give it even greater priority. Aside from that, I would pay more attention to design and graphics; to strive for the best content and user experience. In a software business, it is essential to pay attention to the image that is carried through from concept and brand through to the products.

**And the big take-away...**
The VPs you hire matter. All our VPs played an incredible role. They put in place the right processes. As you grow, you change a lot, and you need people who can ride that change and build the business.

Måns Hultman

# The Qlik Story

"Qlik was modern BI... before modern BI"

Perhaps the best way to describe Qlik in one sentence comes from one of the company's recent blog posts: "Qlik was modern BI... before modern BI". The business was founded in Lund, Sweden, way back in 1993 – at the birth of the modern internet, and long before databases could be easily connected or SaaS models became commonplace.

Its product was QuikView, a desktop software tool which today would straddle Business Intelligence (BI) and Enterprise Resource Planning (ERP), and for several years it was sold only in Sweden. The product development cycle was understandably long and revenues were minimal. But Qlik's ace card was 'In Memory Analytics', a BI methodology to improve the speed and reliability of scenario planning which made the business analyses produced by BI much more valuable to customers.

Måns Hultman invested in Qlik in 2000 and stepped in as CEO, growing the business and refining the model until it was investor-ready. From 2004 to 2009 he also served as Chairman. In 2004, Qlik attracted a $12.5m round of funding led by Accel Partners (Sweden's Industrifonden and Jerusalem Venture Partners also participated).

Not wanting to serve as CEO of a quoted company, Hultman stood down in 2007 (with his CFO taking the helm), just before an IPO slated for 2008. The financial crisis intervened, but Qlik Technologies continued to post exceptional growth into 2009. By the time of its IPO, now headquartered in the US, the business had grown to $200m having raised only $25m in capital along the journey.

Qlik finally went public on the NASDAQ in July 2010. It had expanded its portfolio of products to include the breadth of corporate analytics; including data visualisations. In its latest turn, the business went private again in June 2016 thanks to a $3bn acquisition by the Thoma Bravo private equity house, which specialises in enterprise software plays.

Hultman studied Economics at the University of Lund, Sweden. A management consultant, he has over 30 years' experience in technology businesses and founded Sweden's Sundet Investment AB in 1992. He sits on the boards of several businesses in executive and non-executive capacities, including Itslearning (one of the largest learning management systems in the world), Industrial and Financial Systems AB (ERP software) and Ikano (Real Estate, Retail & Financial Services conglomerate owned by the IKEA founders). In 2012 he cofounded Zobito, a growth capital firm "with a twist", the twist being hands-on guidance and counsel. In Zobito's words, "Ideas are King but Execution is King Kong". He is also a Special Advisor to 83 North, formerly Greylock, the venture capital firm.

"It still amazes me that people don't understand that just like a house, you build a technology business brick by brick."

**You have to narrow focus and learn fast.**
When I joined in 2000, the technology was all we were hoping for and more, but the business had been poorly run. I rationalised our sales activities – initially with no more than chance and a sense of curiosity – and narrowed our focus to 400 mid-sized Swedish manufacturing companies, for which the product was a good fit. That gave us a clear target group where we could generate repeated sales, speeding up the sales cycle and showing results. With that focus we managed to achieve a network effect so sales became easier and easier.

**Everyone can be responsible for sales if they know what to aim for.**
We built a solid sales process based on this narrow market. When you define a market, you can learn how to attack it, because the nature of the customer is no longer so variable: it's something predictable, and so you can refine your sales process. One of the big breakthroughs for us was discovering the compelling event in the process. For us, it was the moment when the customer saw their own data. They would immediately stop asking about the tool and start talking about their own business. Then it stopped being a discussion about our product and became one about where it could add value to the customer's operations. We taught everyone in the company and every single new employee how to get a new customer to that compelling event. The sales process is not something you run with your teams to help them sell. It's something you run with your customers, to help them buy. A "buying process" would be a far better definition.

When we raised money in 2004, we built a spreadsheet that modelled the number of sales per salesperson. In 2007, we were no more than 10% off plan. So we had an entirely validated, repeatable sales model and buying process.

**Never lose sight of your Spirit.**
The Accel funding kicked off a growth plan that had been ten years in the making. We were on track to double the size of the organisation, but I was worried about losing the essence of the business that had helped us survive and achieve success so far. So I started a project to capture the 'Qliktech Spirit' which was fully embedded in our performance culture.

Visualise a road. In the distance is the lodestar that guides the way. Our lodestar was a four-word vision statement: "simplify decisions for everyone". Simplification would apply not only to the product but also the whole customer experience. And decisions weren't just for executives: we wanted to reach staff across our clients' organisations, from the boardroom to the factory floor.
On one side of the road are signposts with our shared values – the way we work with our customers and with each other. Ours were:

**Challenge:** set challenges, meet challenges, challenge decisions, always aim to exceed the status quo.
Take action: we empowered people to get things done fast, even if there would be a few mistakes along the way.

**Transparency:** be open and honest with each other. Sometimes it can be a little painful, but it will generate quicker results.

**Responsibility:** always take responsibility for what you do. If you make a mistake, you'll be forgiven, but only if you take the responsibility to fix it.

**Teamwork:** work as a team to achieve results. Together we are stronger!

**On the other side of the road were our cornerstones; the sacred cows we won't sacrifice:**
**Simplicity:** in the product, in our processes, in our contracts and in the way we interact with customers and stakeholders.

**Tangible results:** we deliver tangible results to our customers; in fact, our customers should always get more value than we do. We had a simple mantra: we deliver in a quarter of the time, at half the price, and deliver twice the value of any of our competitors. Seeing is believing: instead of just making promises, show prospects what we can do for them.

**Stick to the product:** we are a software company, not a professional services company. If the client wants professional services, they can work with a partner.
**Focus:** we build our market brick by brick, and instead of spreading our resources too thinly, we focus on each brick until we are ready to move to the next one. It may look like a slower path to success, but it's much faster. All of this can be expressed on less than a page of paper. When everyone is running as fast as possible towards growth, keeping sight of the goal is essential. When we scaled into the US from 2005, we made a lot of mistakes. It was only when we refocused on hiring to our core values that we broke America.

**The big regret…**
If we had moved earlier to a recurring revenue model, which we discussed in 2001, I think it would have added $3bn to the market capitalisation.

**And the big take-away…**
In the late 80s people thought sales was an art form; now they know it's a science. Today, people have the same challenge with culture; a lot of people think building culture is an art form, but it's very mucha matter of setting goals and working methodically towards them.

Professional Perspectives

# Kevin McGovern

Advisor

Kevin McGovern is an FCA with over 20 years experience managing technology companies. Kevin's had an interesting journey taking Exec, Non-exec and advisory roles in public and private companies as well as investing himself and buying and completing an IPO with his own business. Now he works alongside entrepreneurs and their investors developing strategy, management and financial models for companies that need to make a step-change or are going through, or hope to go through a transaction.

Depending on the situation he acts as a consultant, advisor, non-executive or executive director. His expertise spans strategy, management recruitment and team development, M&A on both buy and sell side, turnaround, commercial due diligence, IPO, MBI, MBO, buy and build, business and cash planning and fundraising.

If you think that one day you'll be selling your business my advice is prepare and prepare early.

There are many types of factors affecting the value of a SaaS company and perception is as important as reality. The tangible factors include data-points such as your customers, revenues, pipeline, EBITDA and standard SaaS metrics. The intangible things relating to your technology's ability to scale someone else's business, the quality of your management and how well run your business is are much harder to define, but equally as important. A well run business can receive a valuation many times more than a less well run business that is fundamentally the same so don't underestimate the importance of preparation and presentation.

Getting this right starts with basic housekeeping. Not having your house in order is a big red flag for acquirers and can be hugely detrimental to the deal and can even cause an acquirer to walk away. US acquirers, in particular, are extremely risk averse and the diligence process can be exhausting. Issues can be avoided with good preparation and you can minimise deal fatigue and the loss of momentum while things get fixed. Examples include; statutory legals, cap. table and waterfall, employment contracts and key IP clauses, licence and code inventory, up to date filings, tax submissions, share option plans, good management accounts and board packs are all examples.

Know the playbook about deal stages and what tactics to employ as you go through; Positioning, long list, short list, LOI, diligence, legals, post completion conditions etc. You need to bring as many people to the same place at the same time before choosing your partner and that's hard. Then knowing when to negotiate hard and soft is key to maximising value. The buyer is undoubtedly more experienced than the seller at this so if you don't know the game find a peer, board member or advisor who does.

Work through the preparation quarter by quarter to get through the amount of work that needs to be done. Ensure clear ownership and make this preparation an ongoing agenda item in your board meeting. Maximising valuations is as much about the right market as it is about having great technology so knowledge and timing is everything. Too many board meetings are internally focussed and a review of historic management accounts rather than externally focussed and forward looking.

Monitor the market, follow trends closely, who's doing what and why, when does their roadmap intersect ours, why would they buy us rather than a partner, what are we worth to them are the questions you should be asking. Keep an eye on peer group activity and valuations. Timing is everything, when to sell is as important as what you are selling. I remember buying Telecoms businesses in 2002 and 2003 while the owners were crying at the astronomic valuations they'd turned down in 2000!

Constantly think about the strategy and the value proposition of your business but in the context of a buyer. Be honest and don't believe your own PR hype. Then think through positioning, what information and data do you need to gather and present to back that up? Tie everything back to that vision.

Think about how you can get the balance right between technology and financial factors to show as much value as possible. Package up and show both technology and revenue-based KPIs. Include KPIs around your management team as well as the market, your peer group and who you compare yourself to. Ensure you're covering a depth and breadth of your business, not just financial. Strategic valuations are paid for technology that can scale. Revenue is important because it proves the technology has a market but non-revenue generating scale factors are important too.

Many businesses are bought by organisations they already know so make sure you're leveraging all of your existing relationships from early on - this includes competitors, customers and partners.

Finally, founding CEOs can be very cost conscious and in a sale process look to keep costs down. The sale process is about maximising the capital value, net cash in your pocket, that's rarely achieved by scrimping on the opex. Get good advice! Pick your advisors carefully - always take recommendations and work with people that have successfully navigated within your marketplace.

# The Thunderhead Story
## Glen Manchester

Thunderhead is a privately owned British software company founded by Glen Manchester in 2001. Since launching its first generation of technology Thunderhead has become a recognised leader and innovator in the enterprise technology space.

Glen built Thunderhead from innovative start-up to established market leader in both the customer engagement and customer communications markets. Until September 2016 Thunderhead was comprised of two divisions, the ONE customer engagement division, which provides brands with the ONE Engagement Hub, a pioneering cloud-based technology for customer engagement and the Smart Communications division, which delivers enterprise-class customer and business communications software. Smart Communications was very much the precursor to Thunderhead's ONE business.

Glen is unique having self-funded Thunderhead from the start. The business was formed in the ashes of the .com crash and the Y2K panic, a time when investing in tech companies was counter intuitive to many in the market. Glen realised that his idea for Thunderhead, while powerful, would be too radical to gain backing from investors and against this recessionary backdrop he took the decision to back the business alone.

Glen's confidence paid off, Thunderhead's sale of Smart Communications now holds the record for the UK's largest trade sale for a business still 100% owned by its founder. However, the enterprise technology development approach goes somewhat against the consumer tech ethos summed up by Mark Zuckerberg as "Move fast and break stuff" – Thunderhead is characterised by a long game of rigorous product development, very considered design and usability, all backed up by considerable research: it took three years to build the Smart Communications enterprise B2B platform, with the product going to market in 2004. Self-funded from previous successes (Glen sold his first company Geneva Digital to North American technology group Xenos in 1999 - Geneva created a new set of customer communications solutions which helped direct banking and insurance companies like Egg and Virgin Direct deliver a better customer service).

From 2004, Smart Communications scaled in the enterprise space by leveraging two factors: referenceability and technology superiority. The company quickly found early adopters in the banking and general insurance sectors, bringing deep subject-area specialisation in-house. And because Smart Communications multichannel

approach was new, and a replacement for legacy customer communication systems, it represented both an improved user experience and demonstrably delivered better ROI. In 2005, again against prevailing wisdom at the time, Glen established a US team. It was an early risk with a long-term plan and it allowed the business to accelerate growth. The move paid off and by 2012 Thunderhead had transformed from a British start-up to a market-leading global company with operations and customers throughout Europe, North America, Asia Pacific and Australia.

Then came the cloud, and again Glen staked the business on technology without compromise. Glen saw that in the modern digital economy the requirements for enterprise software were changing and the big inflection point would come with the cloud. He decided to invest heavily ahead of the market to leap ahead of the more traditional players and offer a new and more powerful cloud-based solution.

To do this Thunderhead had to disrupt its own business, re-engineering the technology, business model and organisation from the ground up to enable a clean shift to the cloud. Unlike competitors who found themselves handling the complexity of legacy solutions, Smart Communications worked with customers offering a clear migration path to the cloud in exchange for which they got a customer communications solution completely redesigned for the cloud, world-class SaaS infrastructure and a robust architecture that would meet even our banking clients' rigorous security standards.

Smart Communications became the first SaaS-only enterprise-class customer communication management system; incredibly, it remains the only one today. All of its competitors remain hamstrung by legacy structural challenges, whereas Smart Communications has just one mode and has future-proofed its offering to customers along the way.

The business received a steady flow of offers from trade players throughout 2010-16, but Glen wanted to grow Smart Communications through its cloud transformation. By 2016, Smart Communications was outperforming its sector,

Smart Communications became the first SaaS-only enterprise-class customer communication management system; incredibly, it remains the only one today.

recognised as a leader by Forrester and Gartner, and had rich integrations to other platforms like Salesforce. The trade approaches were replaced by more significant offers from Private Equity institutions who saw Smart Communications cloud infrastructure and pre-eminent market position as scalable and therefore laden with value.

Glen commissioned EY to manage a sale process, which attracted bidders in double figures for what became a beauty parade and due diligence followed by an auction of validated players. That said, whilst the management team had a long-standing relationship with EY, Glen highlights that that there is no substitute for maintaining a constant in-house understanding of the market, in addition to their advisers. The market interest, valuable optionality and maximised sale price were above all a function of excellent market knowledge and diligent research. Smart Communications was sold to top-tier Private Equity firm Accel-KKR in Autumn 2016 for over $200 million. Today, Glen remains CEO of Thunderhead, concentratingon the next generation of Thunderhead technology, the ONE Engagement Hub, its latest innovative solution that provides brands across a variety of industries with a unifying hub for customer engagement.

Leveraging powerful machine learning and AI capabilities, ONE is a light-touch cloud solution that provides an engagement layer that joins up channel, department and technology silos of an enterprise. ONE enables businesses to have connected conversations with customers across any and all touchpoints in real-time, providing customers with a completely seamless and joined up experience throughout each individual journey.

True to form, analysts and commentators have already recognized it as another ground-breaking market leader from Glen and the Thunderhead team.

The Thunderhead Story

# Lessons from Glen Manchester

**Enterprise tech takes time to build and sell.**
It took three years to develop the initial Smart Communications platform. We never rushed and we didn't take short cuts; because when you're dealing with large enterprises for whom there is a cashflow implication for using your product effectively, you can't afford to take those risks. So I incubated our product over a longer period so that we could stand behind it with confidence when it came to market.

A lot of people underestimate how long it takes to build an enterprise B2B platform

**SaaS is more than technology.**
Deciding to migrate to a SaaS model was a big, bold move. The business was successful; it was scaling effectively. But I knew we had to change. I disrupted it completely, by which I mean I didn't just change the technology: I changed the whole ethos and organisational design of the company. SaaS is a different business model, a different financial model, it's completely service oriented.

To be successful as a true SaaS operator, we needed new people and a complete rebirth of the business. And if you're still languishing with a transitory on-premise solution, you're probably dead.

**Go big or go home.**
Some companies approach things in phases, but I like to commit. We went wholeheartedly into the cloud. One reason we could do that was that we weren't dependent on other ecosystems. We weren't an extension of someone else's platform: we were the platform. Moving to the cloud caused disruption for our business. But it was the right thing.

**Think from a global perspective.**
I moved the business to the US very quickly, but not without planning. I was simply passionate from the start that we were a global player, so when we designed the product, we designed it with the US in mind.

I figured it was strategically critical to succeed in North America. It was our best chance to impact competitors which might emerge, and it's a homogenous marketplace which means you can scale effectively – which we did.

We became anchored in the US, even though the product was developed here in the UK.

**Advanced features mean you're defining the solution customers need.**
We adopted attractive approaches that outflexed the older US legacy players. We offered trial/pilot deals that are the norm today in the cloud. But that wasn't just generosity. Yes, it inspired confidence; but more importantly it unsettled the traditional buying process. We were interjecting our narrative into the RFI process for customers.

You're trying to take the unique sets of features and requirements that you offer and embed them in the mind of the buyer; if you do that well your proposition becomes the ideal fit. You have to redefine the marketplace to the extent that you impact the buyer's thinking.

**Put effort into R&D and innovation.**
I have always reinvested heavily in R&D. When we were small, it was innovation that pulled us through. Staying successful is all about innovation, and in fact, as a business we've built Thunderhead around that central theme. Building a culture of constant innovation is central to our success.

**Keeping your promises goes a long way.**
When we started Thunderhead in 2001, nobody was interested in technology. It was the nuclear winter after the dotcom bubble! But I figured that was the ideal time to innovate: a long list of failed companies and the recession led me to think – correctly – that there would be a dearth of innovation for a few years; just long enough to shelter me enough to build a team and create Thunderhead's first product.

And it inspired me to make sure that we always delivered clear value. Many of the enterprise failures of that period were because companies made false promises and believed in their own hyperbole. I saw the scorched earth and wreckage of the tech industry, and I realised we had to deliver operational value.

I knew that we needed a compelling ROI. The functional value of Smart Communications was a personalised experience for customers. But we backed that up with a strong ROI: compliance, efficiency and tangible delivery of value.

**The big regret…**
Learn from your mistakes and move forward. That said I don't really have a big regret. A British company that managed to build the bulk of the business in North America, self-funded, a market leader in its category, first to the cloud, a successful sale and creation of the next generation of Thunderhead innovation in North America with the ONE Engagement Hub which is defining the Customer Engagement space. That's a good outcome.

**And the big take-away…**
I believe in research. You can fall in love with your idea without triangulating enough. I like to understand the competitive landscape, to sandblast an idea as much as possible. We incubate disruptive products over three or more years – we're building ahead of the market, not optimising an existing system - so it has to be right.

Wargame it. Research it.

Eldar Tuvey

# THE SCANSAFE STORY

Founded in London in 2004 by brothers Eldar and Roy Tuvey, ScanSafe was one of the world's first SaaS online security business. Eldar had had the idea for ScanSafe back in 1999, but only in 2004 were SaaS technologies sufficiently advanced and the complex circumstances of their careers (of which more below…) resolved enough to develop the product and build the business.

It wasn't their first commercial venture. Eldar had worked in investment banking at Goldman Sachs, Roy at Merrill Lynch and Private Equity firm, Compass Partners. They therefore found it reasonably easy to connect with Chase Capital, who invested $5m into Mailround, an email marketing business, in 1999. The company was not really growing as hoped and rather than have unsatisfied investors on board, the brothers bought Chase out. From the ashes of Mailround, and via a managed service offering, the phoenix of ScanSafe was ultimately to rise.

The SaaS model allowed ScanSafe to revolutionise web protection in two ways. Firstly, the flexibility of SaaS meant that the company could design products and billing for companies of all sizes, from global enterprises to SMEs, whilst maintaining the economies of scale of cloud delivery. Secondly, it effectively pioneered the concept of real-time protection which is now expected by all businesses and essential in today's fast-moving threat environment.

ScanSafe offered the breadth of online security services, including blocking malware and spyware, protecting the many channels and formats of messaging, and monitoring web usage and enforcing employee fair use policies. ScanSafe went on to secure two further rounds of funding. Series B in 2007 was led by Scale Venture Partners and a Series C in 2009 which was led by Greenspring Associates. The company was acquired by Cisco in 2009 for $200 million, and whilst ScanSafe has always been fairly circumspect about key metrics, this is conservatively believed to be around 10x revenues.

Interestingly, the Cisco acquisition may have represented a uniquely one-off opportunity: the FT reported at the time that "Cisco's acquisition of ScanSafe is intended to allow it to offer customers a better package when they move from traditional workplace-based computing to the cloud, a shift that paranoia about data security can impede." In other words, ScanSafe was a tool to drive Cisco's cloud to take up when they needed the leverage most. Meanwhile, ScanSafe got access to the client list and infrastructure of a technology titan.

Born in Israel but raised in London, Eldar has a BSc from the University of Bristol and an MBA from INSEAD. After the sale, he stayed for a year as General Manager of Cisco Systems. 18 months later, he founded Wandera (again with brother, Roy), the world's first mobile data gateway, "ensuring a productive and secure mobile internet experience for businesses". Headquartered in San Francisco and London, Wandera is backed by Bessemer Venture Partners and 83 North Venture Capital.

# Lessons from Eldar Tuvey

**Build a strong brand and be patient.**
We didn't chase an exit; and only really started to focus on it in the six months prior to the sale. But we had laid the foundations. We had built a good business, focused on creating value and executing well.

By the time we wanted to exit, we had a good reputation in the market and were well known by all the potential acquirers.

**Potential buyers want a 'clean' business.**
Building a great business is about getting a lot of moving parts to stack up. We were careful to build a clean business: when buyers would check us out, there were no inconsistencies or skeletons in the closet; no weaknesses. We had a great name in the market as innovators, but as well as being creative and cutting-edge, our fundamentals were sound: we had strong sales momentum and an A-class team. We worked closely with some great channel partners like MessageLabs and Postini who gave us clout and reach; and our tech could really scale. Everything we claimed about the business was just as good or better to anyone conducting due diligence.



Negotiate honestly: if the deal goes through, you will most likely have to work with these people for a significant period, so you don't want any black holes or dirty laundry to gloss over. If the deal doesn't go through, your reputation is still of value.

We were also very clean financially, with strong underlying economics and simple financial models. With a background in investment banking, this part came naturally to us.

**Know your position in the market, and play fair to grow in stature.**
When we went for the trade sale, we had more than one offer on the table; although one was in cash and one in stock. When you have more than one option, it certainly puts you in the driving seat. To do that, you need to know everyone in your game. Get to know your competitors and partners and ecosystem players, and build a reputation with them; as any of them may have a role to play in your future.

**The big regret…**
I would not have done anything differently. But it's hard to see your company change post-acquisition…

**And the big take-away…**
Build a great brand and be patient.

# Paul Watson

# The Star Story

In 2007, Paul Watson was a member of the management buyout team that spun Star out from the MessageLabs Group. Star Technology Services, freed from traditional IT, grew rapidly with the aim of offering the broadest suite of ICT solutions to the broadest definition of the UK midmarket.

Star Technology Services started life as an Internet Services Provider and over time evolved into a Managed Services technology provider and incubated the technology giant that went on to become MessageLabs, which is covered separately in this report.

In 2007, Paul Watson was a member of the management buyout team that spun Star out from the MessageLabs Group. Star Technology Services, freed from traditional IT, grew rapidly with the aim of offering the broadest suite of ICT solutions to the broadest definition of the UK midmarket.

Many of these customers would previously have been priced out of the market for tech-enabled tools, services and transformational IT; and Star grew the overall marketplace.

Watson served initially as Chief Commercial Officer, leading everything from Sales & Marketing to Product Management and Solution Architecture. In January 2012, Watson stepped up to the CEO role, to prepare the business for sale. In 2012, the business booked an EBITDA of £6.1m and the business was sold to ISP Claranet in a deal valued at £55m in November of that year, creating "the largest mid-market provider of integrated hosting and network services in the UK and continental Europe."

Educated at the University of Leicester, Watson was no newcomer to the SaaS landscape, or to entrepreneurship. In 1999 he had founded 4th Contact, one of the UK's first SaaS services, delivering HR services and employee benefit tools to a blue chip client base including Fujitsu Siemens, Volkswagen and Walt Disney.

During a three-year stint at MessageLabs (2003-5), he was responsible for developing the SaaS model and applying it to the company's suite of messaging, collaboration and security applications – hence his understanding of both the technology and marketing challenges for growing a platform business; and the emergence of the Star brand. Today, Watson is CEO of Volo, an enterprise-grade e-commerce platform which enables retailers and manufacturers to manage a single inventory across the ever-growing number of channels, including eBay and Amazon.

Star

# Lessons from Paul Watson

"We were profitable, so there was no reason to sell unless we got the price we expected. This was the biggest factor in getting what we wanted."

**Profitable businesses can dictate terms.**
The biggest card we had in terms of negotiating a sale was that we could carry on. There was a range of offers with cash and equity for the business, and we went for a pure cash offer. We were absolutely prepared to walk away.

**Back several horses to exit.**
The sale process was only two quarters but it felt like it took forever - running the business, hitting targets and managing an exit at the same time. EY drew up a book for Private Equity to take a majority stake in the business, which we kicked off in March 2012, we got some high-level interest, and it generated competitive tension to spur on a trade sale.

The Private Equity book created a competitive tension and put wind in the sails of the process. It was effort and expense which didn't give us direct results but it garnered interest and opened doors.

**It takes more than money to tempt a trade acquisition.**
We were focused on top line and could have had a better bottom line. But there has to be something in it more than money for the acquirer - and what Claranet wanted was synergies. It was a time of dramatic consolidation in the market and the services and client base of the two businesses were a good match. It's never just about immediate earnings.

We brought Claranet the right solutions, the right business models, the right clients and the right opportunity.

**The big regret…**
Had we known the exit would have been to trade, we would have taken out some costs to get a better outcome from an EBITDA perspective.

**And the big take-away…**
When you're profitable, you hold all the ace cards – you can take your time.

Professional Perspectives

# Ian Milbourn

Notion Capital

Ian Milbourn is one of the founding partners of Notion Capital and serves as Chief Financial Officer. He manages the day to day financial operations of Notion's funds but is also the essential barometer of investment quality for the Notion team. He has a hand in all of Notion's deals, spending time with portfolio companies to make in-depth assessments and conducting standardised financial reviews to assess the health of each opportunity. Prior to Notion Capital, Ian worked in corporate finance for EY (then Ernst & Young) and then MessageLabs, where he was involved in several corporate transactions including the ultimate sale of the business to Symantec in 2008.

There are three core areas that companies heading toward acquisition should consider:

- Building key relationships
- Operational readiness
- Understanding the rules of the game

---

### Building key relationships

Start to think about possible exits early, and then get on with building the relationships that are going to be so important later on. Maybe you already have some of those relationships, for example with partners and customers. A worthwhile exercise is to map out your potential buyer universe. What does it look like?

Validate each target on the list. Why would they buy your company? What's in it for them? Make sure the fit is amply clear, and don't waste your time and effort (both of which are easily eaten up) pursuing relationships where the fit is more doubtful.

Once you have built your list of potential buyers, identify and connect with the relevant stakeholders. Nurture your sponsors and visit them regularly - even if this means trips overseas.

---

### Operational readiness

Once a formal process is underway, the sheer volume of paperwork and requests can become overwhelming very quickly. Whilst you may have two or three of your executive team working on the exit, your acquirer may well have a department full of M&A specialists all focussed on executing the deal. Pre-empt as much of this as possible. The mechanics of a deal are nearly always the same; which means that you can build a data room early and populate it pre-emptively. This shows maturity and credibility and will demonstrate to your acquirer – or potential acquirers - that you have a certain level of understanding about the process.

### Understanding the rules of the game

If this is your first time going through an acquisition or exit, you can't be expected to know all rules of engagement – whether formal or unwritten. It's therefore essential that you bring in support: an advisor or bank that knows the process and how to play the game.

Having an advisor on board also has benefits beyond practical advice and support. An advisor can take on the role of "bad cop" when needed, providing any hard messaging required. This lets you focus on ongoing relationship development within the target organisation, keeping you one step removed from the hard edge of the deal which otherwise might risk sullying important relationships. It also means you can share the increased burden and keep one eye on continuing to run the business.

To a certain extent, for the very best companies, the path to exit will unfold clearly and take care of itself. In reality however, most companies require plenty of guidance and support. One of the most important things we can do to help support our portfolio companies on this journey is to help them find the right advisor to assist them through the process.

As an entrepreneur, founding, growing, pivoting and scaling your company, you have the benefit of the opportunity to test and iterate. If you make a mistake, that's OK - you learn and you try again. With an exit, you only get one shot.

**There's no second chance to get it right.**

Unruly is an iconic British tech start-up success story. What started out as an idea on a commuter train, fleshed out in the coffee shops of Brick Lane and grown in trendy Shoreditch offices was acquired ten years on with a sale to Rupert Murdoch's News Corp for $176m after founder Sarah Wood was wooed in person over a casual lunch by Rebekah Brooks, former editor of The Sun.

# The Unruly Story

Sarah Wood

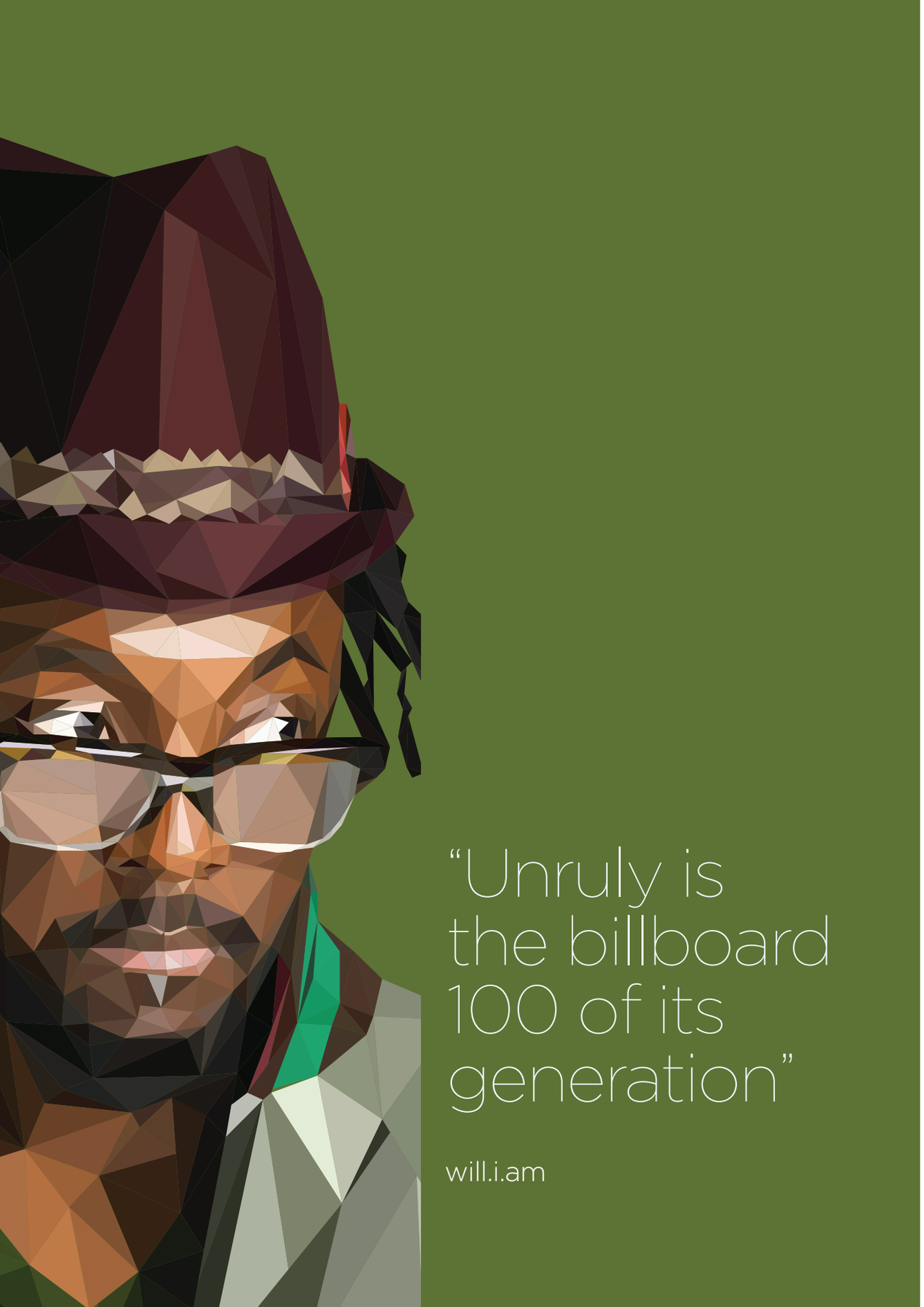
The three founders — partners Sarah Wood and Scott Button, together with university friend Matt Cooke — started off Unruly in 2006 in classic start-up fashion. They say: "The three of us were living in East London at the time, so we set up in a small shared office in the Truman Brewery, Brick Lane. There was no running water and the coffee table was a plank of wood balanced on traffic cones, but hey the rent was cheap, the best coffee in Brick Lane was just downstairs and we were ready to break new ground."

The idea was simple: given the popularity of the social web and user-generated content – including millions of user-uploaded videos, Unruly would build a blog-scanning engine to seek out the most popular videos, and rank them. The spark of genius was to rank them not in terms of views, as YouTube and others were doing, but by the number of shares. Unruly was measuring what went viral and how quickly, tapping into the zeitgeist of the new social media consumer — an incredibly important demographic for brands and their agencies. The Unruly Viral Video Chart was described by rapper, TV presenter and influencer will.i.am as "the Billboard 100 of its generation". Leveraging it to advise brands and agencies on how to promote paid placements was the next step.

This led to the birth of Unruly Activate in 2007, and the trio now proudly boast that they have delivered in excess of 10,000 video campaigns for 91% of the Advertising Age 100 brands. Since then Unruly has utilised the deep insight gleaned from its distribution to inform the development of a suite of emotional intelligence products, including Unruly Custom Audiences and Unruly EQ - emotional targeting and testing tools which help brands to maximise and predict emotional and business impact of their ads.

In January 2012, the company raised $25m from lead investor Endeit Capital, with Amadeus Capital Partners and the Business Growth Fund. By September 2015 the News Corp acquisition was complete. Wood and her company enjoy autonomy within the News Corp structure and still work out of their Shoreditch base. The number one task facing Unruly, Wood has said, is to find a way to reach consumers now that so many install ad-blocking software on their computers and devices. Her solution is to produce content that consumers won't want to block; says Wood, "more than ad-blocking, the biggest challenge is to overcome the psychological ad-blockers in consumers' heads."

In November 2016, Wood and Button were awarded OBEs for services to innovation and technology by Prince Charles in a ceremony at Buckingham Palace.



"Unruly is the billboard 100 of its generation"

will.i.am

Unruly

# Lessons from Sarah Wood

**People are everything.**
Unruly already has over 300 employees in 20 countries, and they are superheroes. When we sold the business, we had a party on the roof with a caricaturist drawing pictures of the staff. Because every one of them has influenced our success.

We have great co-founders, we've built a strong team of 'Unrulies' and also grown an influential network of external partners.

**You don't have to go to the Valley.**
Unruly was founded in London, has grown from London and –with the help of the brilliant Terry Kawaja of LUMA Partners - was sold with a multi-million-pound price tag in London.

We never had to set foot in Silicon Valley, and that's great news for the UK tech industry.

**The best way to sell is to not need a sale.**
The business was founded in 2006 and we were routinely approached by suitors almost from the off. But we enjoyed being independent and we knew we could get the business into a dominant position without giving away too much too early. By the time we sold to News Corp, we were already working with 84 of the UK's top 100 brands.

Not being for sale puts you in the best position to negotiate a deal.

**You are responsible for building the culture.**
One of the great things about being an entrepreneur is that you create the culture. We have built a culture that is open to people of any background and where being female just isn't an issue. 44% of the Unruly board, 46% of management and 48% of our workforce are women.

Despite the sale, Unruly still lives in the heart of Tech City – enough distance from News Corp HQ for us to maintain our independence of mind.

**The big regret…**
I wouldn't do anything differently- we sold to scale and that's exactly what we've been doing in the 18 months since acquisition. I always look forwards, not backwards. But I wish I'd known how long it takes to scale. Entrepreneurship is definitely a marathon, not a sprint.

**And the big take-away…**
Choose your co-founders carefully! I've been very lucky but there are plenty of war stories out there.

# The Zeus Technology Story

## Jim Darragh

| | |
|---|---|
| Founded | 1995 |
| Exited | 2001 |
| Valuation | $140m (10x revenues) |

Zeus was founded in 1995 in Cambridge, UK. The business developed traffic management software for cross-network applications, improving the reliability, scalability and speed of web-enabled services. This also made client operations more secure, easier to manage and therefore more profitable. In this sense, Zeus powered many 'Internet 1.0' success stories.

By 2000, Red Herring had called it one of the "Fifty Most Important Privately-Held Companies in the World". In November 2001, the business took its first round of venture investment, $5.1m from Cross Atlantic Capital Partners, DFJ Esprit and Cazenove Private Equity. Institutional investors in the business included UBS, Sumitomo Corporation and Durlacher.

But progress was bumpy – the next raise in March 2005 (£3m from Scottish Equity Partners and continued support from Cazenove) was a recapitalisation, not a growth injection.

(£3m from Scottish Equity Partners and continued support from Cazenove) was a recapitalisation, not a growth injection.
Zeus's 'intelligent traffic management' solutions now boasted a client base which included eBay, E*Trade, Cable and Wireless, NEC and BT. The partner/reseller network also included some of the world's largest technology companies like HP and Sun Microsystems. The company had consistently delivered cutting edge technology - but the underlying metrics were challenging and the 2005 raise also featured significant changes in management.

Jim Darragh joined Zeus in December 2010 and whilst he was not given the explicit objective of leading the business to a high-multiple exit, he was tasked with consolidating and professionalising it. By June 2011, the business had acquired Art of Defence, a German distributed web firewall business. The purchase delivered new leverage in the German market, stronger product integration and renewed credibility in the security field. A month later, Zeus itself completed a trade sale to network management specialists, Riverbed Technology in a deal worth $140m. Nic Brisbourne, Partner at contributors to the 2001 funding round, DFJ Esprit, commented that over the last 7 years Zeus had gone "from restart to category-defining global leader", and the deal won Darragh recognition for leading the 'Venture Capital Exit of the Year, 2011'.

Darragh is recognised as a consistent leader in high-growth SaaS, software and infrastructure businesses; with over 20 years' experience and management credits across Intel, CA Technologies, BMC Software and SAP before taking the helm at Zeus. He has five M&As under his belt and was a finalist for the Investor All Stars "Entrepreneur of the Year" accolade in 2012 for his tenure at Zeus. He remained at Zeus under the Riverbed banner as General Manager for a year after the sale completed, then going on to take CEO roles in a range of high-growth technology and telecoms businesses. Today, he is CEO of Belfast's TotalMobile.

The Zeus Technology Story

# Lessons from Jim Darragh

**Get a clear and differentiating narrative to the marketplace.**

The move to a virtual SaaS model for our growing lines of business was a key decision. Positioning around 'virtual' in a market traditionally dominated by hardware platforms was a key differentiator and allowed us to establish our name and space. Following through with defined customer targets and reference selling also played important roles in driving a high-value exit.

Good timing and clear messaging around our highly differentiated virtual offer to the market was crucial in our success. Of course, that then needs to be backed up with a demonstrable execution of strategy.

**Be visible, be seen, be talking to your ecosystem.**
We had other buyers circling all the time, and our buyer knew that. There was exclusivity, but it was also clear if this sale didn't happen, there was a queue of other bidders just waiting to step in. I think that's hugely important; that the company is 'wanted' and has already spoken to other potential buyers. We had a continual process of alliance discussions which might or might not develop into something more substantial.

We didn't really plan for an exit, but we always had partnerships and alliances always in our line of sight.

**Hold your nerve.**
Every deal will die a couple of times before it actually happens and you need to hold your nerve. The buyer will re-emerge if they are real. It helps to know your 'opposite number' and have a good open relationship with them so that you can pick up the phone day or night and talk through any thorny issues.

We stuck to our guns throughout and achieved all the earnout.

**Get advisors who add value.**
We used Arma Partners, and I think they did a great job. They added huge value around managing the process and buyer groups, covering every eventuality and making sure that the price was maximised.

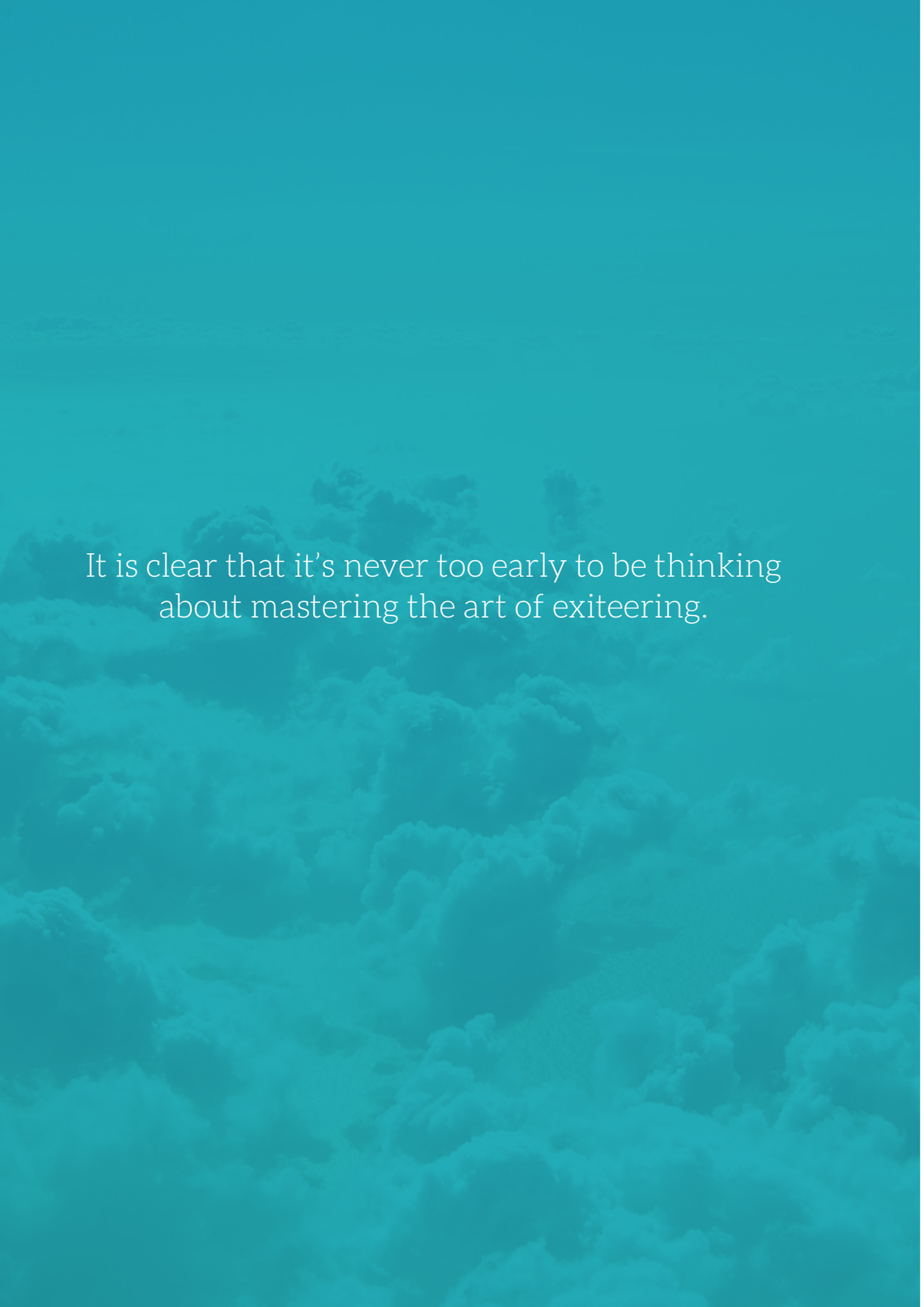
We had excellent advisors throughout the process. They ensured we could resist any price challenges.

**It's different after the deal.**
I stayed for 12 months as a CEO after the deal and the company still operating as a standalone division. It was the first non-US business that Riverbed had bought and I felt as though I was a long way from the hub of the decision making – I guess that is a pretty natural outcome…

Having run a business, it's difficult to follow someone else's lead…

**The big regret…**
I don't have any regrets – but I'd advise you to maximise cash deals if possible!

**And the big take-away…**
Make sure the timing is right, that you can support all of your plans with clear metrics on execution and that you have a plan B in your pocket!




# Closing words from Notion Capital...

The companies and founders profiled in this report by no means provide an exhaustive list of Europe’s SaaS success stories to date, however they do represent an interesting and varied cross section of many of the region’s highest profile SaaS and tech exits over the past 10 years.

Interviewing each of the founders who generously offered to share their personal stories and compiling their experiences, advice, regrets and lessons learned has given us an unprecedented view into the journeys and challenges facing European tech companies as they head towards exit. Whilst each founder, company and the challenge they set out to address are very different, there are a few key themes that run through each story we have shared:

1. Each business set out to solve a massive problem from the outset
2. Every founder was obsessive about building an extraordinary team
3. All the exits involved a tremendous amount of administrative preparation

   There were also two other very common factors:

4. Many called out the importance of US expansion
5. And for most the exit was to a buyer with whom they had a long standing relationship

Based on the many conversations we have had as part of this project, along with our own experiences founding, scaling and exiting companies (both as operators and as investors) it is clear that it’s never too early to be thinking about mastering the art of exiteering.

Solve a big problem and do it fast; obsess about the quality of the people you hire; build solid foundations from day one; build key relationships with potential buyers as early as possible; move purposely into the US;  and think big. Really big.

Across Notion’s portfolio and beyond, the enterprise technology ecosystem in Europe is a hugely exciting place to be right now. The extent to which it has matured over the past decade, and continues to do so, highlights the raw energy, world-class talent and global market dominating potential we have here in Europe. We’re immensely proud to be working with many of the region’s most exciting high growth technology businesses as they scale, navigating their own paths to global success.

We hope you found this a valuable and insightful resource and as interesting to read as we have found creating it.

**Stephen Chandler**
Managing Partner, Notion Capital

EY

Building a better working world

# What's the right path to accelerate your growth journey?

EY's Fast Growth Platform takes emerging tech companies to the next level

© 2017 EYGM Limited. All Rights Reserved. EYG No: 03834-164GBL

The better the question.
The better the answer.
The better the world works.

**ey.com/uk/FastGrowth**
**#EYFastGrowth**

Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

Notion Capital

TECH CITY

© 2017 Notion Capital. All rights reserved.