Build companies, not exits

Dan Avida

Isabel Maxwell

Isabel Maxwell profiles Dan Avida in her continuing series on investments and high-tech personalities.

Dan Avida has experienced superior exits – both of the IPO and M&A variety. He joined Efi Arazi's founding team at EFI - Electronics For Imaging in 1989, and was there four years later when the developer of desktop color printers made its initial public offering. Soon after, Avida assumed the post of company president and later was its CEO and Chairman.

In 2001, he co-founded Decru, a pioneering storage security company that was acquired by Network Appliance for $272.5 million in 2005. And as a General Partner of venture capital firm Opus Capital on Sand Hill Road, Dan developed insights from the VC point of view, as well as the entrepreneurial side.

The very geography of Dan's success is a key element – almost a sine qua non for Israeli companies that want to grow significantly. The market opportunities are overseas and the deepest pockets for venture capital reside in Silicon Valley.

Dan, a shy but strongly successful individual, gets right down to business: "Basically, 'the exit' for the investors is not what a company should be about. It should be about building the company – its products, the market it is serving and its strategy for the long-term. Here at Opus Capital I see at least five or six groups a day. I look for people who want to build a company, not for someone who wants to build an exit."

By way of proving his point – he adds that EFI has just turned in a spectacular quarter "even if it is 17 years old, and Decru, even under new ownership, is continuing to perform remarkably." He warms to his argument. "An IPO or M&A should be just like a milestone in the life of a company, not *the* milestone."

I inquired about the problems he had in the early days of his companies – "Well, EFI had many hair-raising moments in its first few years because the basic products that we were supposed to build the company on never worked from a market point of view." He paused to reflect and then went on: "It is very important to have several different related products. Don't be close-minded. Put a few things out in the market and listen to what the market says. Always keep your ears close to the ground and run with the product that the market wants – and always tell people (your board) what you are doing!"

"What about Decru?" I asked, and I got the entrepreneur's dream answer – "There weren't any insurmountable issues we had to deal with." While this might sound an arrogant statement, Avida backs it up – "We raised a lot of money from great investors. We were in the right spot at the right time. There were a very small number of competitors, and those were minor (we started the company in the 'nuclear winter' of 2000-1), and the market developed very quickly.

"The M&A process for Decru was not very long. We were approached, we agreed on a basic outline, and then we quickly executed the term sheet. A few weeks were spent negotiating the definitive agreement. The whole thing took only a couple of months to close."

What about the dangers regarding misalignment of interests in the exit process? "It can happen," he says "that interests get misaligned, but at Opus, we have very, very clean term sheets – none of that anti-dilution/preferred stuff!" he exclaims. "We want everyone to participate appropriately. If the deal is structured correctly, then it will be okay."

Turning to the equity-raising business in general, Dan believes that people should spend more time determining what each side really wants. "For instance, if the venture fund is really old, the VCs will not be interested in investing in anything past three years and will be looking for an exit earlier than is wise, though usually," he adds, "it's not the investors who want out, but the entrepreneurs – especially if it's a company that's had multiple 'near-death' experiences."

"IPOs are back in swing now," he says. "The drought seems to be over, but we at Opus went through the numbers on a quarterly basis and found it takes a venture-backed company, on average, six years, while raising about $50 million in equity capital, before IPOing." I wondered if Dan yearned for pre-Sarbanes Oxley days and if he would have done anything differently – IPO or M&A-wise – in his companies. "Efi Arazi said you always look forward not backward – and that's what I do – I don't spend a lot of my time thinking, what if…"

"But," he maintains, "we did do something very important, which was *right*. We spent a long time with Net App setting up a very good employee retention plan. They let our management team do the packages. Serge (Plotkin, the co-founder) and I did not take anything away from the employees in order to keep the team intact. We were also able to maintain the team's independence in its own building (so that all-important start-up feeling was kept), and Net App continued also to invest heavily in the business."

Dan then went on to say something very interesting about M&As in regard to possible culture clashes – he thinks "people focus too much on the

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Little Red Start-up Hood and the Big Bad Corporate Wolf

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Myth #5

"The quality of people in large companies is lower than those I am used to working with."

Real-World Fact #5:

Corporations are staffed by many different kinds of people with many different skill sets. True, not all of them may be exceptional. But especially at higher levels of the corporate "food chain," you are sure to find highly talented, quality people who rose up through the ranks for a reason. They demonstrate Darwin's "survival of the fittest," and they can challenge your capabilities and help mentor your growth.

Myth #6

"Our product will get lost in the corporate portfolio, gradually get marginalized and eventually die."

Real-World Fact #6:

The future of your product depends on whether it actually addresses a strong market need and is really aligned with the acquirer's business. A product that fits these critical requirements will benefit from the expertise of the acquiring company's sales and marketing forces, will be made available to a broader customer base, and will gain instant credibility as part of a market leader's portfolio. Thus, you can scale your product more quickly than you could have through organic growth, and even perhaps parlay these advantages into market dominance.

If you're supporting offerings that are not strong enough to stand out in the corporate portfolio, think of it this way: aren't you lucky you got acquired?

Myth #7

"Our company was only bought because the acquiring company could not develop our products."

Real-World Fact #7:

Generally speaking, there is no product a team of 30 engineers could not build in a year or two. That translates to mere millions of development dollars versus much higher acquisition costs. Technology is not the only issue. Acquisitions are usually about brand perception and market vision in segments where the acquiring corporate is not strong.

Don't hang on to the products that "got you in." Leverage your domain understanding and your newly found corporate resources to expand and extend your market dominance.

Myth #8

"Only by closing rank and defending our original company values, practices and norms will we be able to maintain our identity and survive total dissemination in the acquiring corporation."

Real-World Fact #8:

To borrow a phrase from Star Trek: "Resistance is futile. You will be assimilated." When it comes to being acquired, it's far better to "go with the flow." Instead of fighting the acquiring organization's culture and practices, invest in learning them and understanding the company's strengths and weaknesses. This will enable you to navigate through them and leverage them to strengthen your business unit.

Myth #9

"We will face abrupt changes upon a buyout, forcing us to change our ways and get bogged down by corporate bureaucracy."

Real-World Fact #9:

An experienced acquiring organization will insulate the acquired company from "culture shock" and will wait to initiate the more bureaucratic aspects of doing business for as long as possible. This slow adjustment process is key to maintaining acquired employees' morale.

Adopting a culture of "we can learn from each other" is very important for both organizations. Neither should go into the relationship with the attitude that their existing way of doing things is the *only* way, but rather be open to the best practices of each.

Myth #10

"The coffee will be really bad."

Real-World Fact #10:

This one is sadly true. Few big corporations grasp the value of well-crafted java beans and, in general, the quality of coffee indeed deteriorates linearly with the size of the organization. Be prepared to bring your own – along with a basketful of baked goods and your red cape. ■

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culture clashes. I don't think it's so much a culture fit issue as it's that people must have the ability to continue flourishing. Freedom of movement has a lot to do with it. And on top of that, if you give entrepreneurs economic incentive, the transaction and transition can work very smoothly."

Entre-preneurs it seems, not just in Israel, could take several leaves out of Dan Avida's books for building successful companies! ■