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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