

NETEVENTS

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*Debate III:
Unicorns and Baby Unicorns – So Adorable But Where Do
They Go From Here?*

Chaired by: Jean-Baptiste Su, Tech Columnist, Forbes

Panel:

Guillaume Arnaud, VP Operations, Anaplan

***Gregg Holzrichter, Vice President of Marketing & Chief Marketing Officer,
Big Switch Networks***

Stuart McClure, CEO/President, Cylance

David Gurle, CEO & Founder, Symphony

JEAN-BAPTISTE SU, FORBES

Hello everyone, hello, hello. Trump one, trump, oh sorry we're online. Sorry, So welcome, welcome to Silicon Valley. I'm Jean Baptiste, I'm an analyst at Atherton Technology Research here in the Bay Area and I'm the editor of a column on technology disruptions at *Forbes*. It's called TechPulse 360, so if you have to remember what I do, I cover hot and exciting tech here in Silicon Valley. Tech unicorns are a hot topic still, so just to set the stage, what's a unicorn? It's a private company that is worth a billion dollar or more. Another thing about unicorns is that they are rare and actually they are getting rarer by the month, but more on that later.

So that's why we're very lucky to have four of the unicorns here today in this room. But before we start, a couple of stats. There are about 175 unicorns for a total value of \$626 billion, \$626 billion. So just to put it in perspective it's more than the GDP of Saudi Arabia, that's a lot of oil. So some of the famous unicorns, aside from our four here, Uber \$68 billion, Airbnb \$30 billion, on the B2B side, Palantir \$20 billion, DropBox \$10 billion, Cloudera, Slack and so on.

Mostly from here in Silicon Valley two notable ones are from China, Xiaomi \$46 billion, that's crashing, and Didi \$40 billion, the Chinese version of Uber. But something happened late last year and the tech market crashed, sort of slowed down, so did investments and valuations. What really happened is that the unicorns sort of stopped spending lavishly, and that's a problem, especially if you are in hyper growth. Another consequence of the slow down, and I'll let the panellist introduce himself after that, is that there are less and less baby unicorns.

So unfortunately because investors, and there are some in the room, are getting a little bit scary about those high valuations, they are spending less and investing less in those cool start-ups. So there is so far this year four new unicorns, at the same period last year there were 22 new ones. Clearly investors are asking more from you guys, so let's see how you're responding to it. A quick intro about your unicorn, start with Stuart.

STUART MCCLURE, CYLANCE

I've never been asked to describe my unicorn. You should ask my girls, they can describe it a little better I think. I know, I didn't even want to play with that one. So, Stuart McClure and CEO of Cylance. Describe mine, we started four years ago, released product two years ago. As of a year ago I think we were at about 150 people, we just crossed 700 people this week. Cash flow positive, so not burning, and just growing the top line like crazy. I mean quite frankly I'm just trying to hang on and not screw it up. I don't know about anybody else but that's my job right now. But that's us, and last round was in May or June with Blackstone.

JEAN-BAPTISTE SU

Valuation?

STUART MCCLURE

It was [\$1.1 billion].

JEAN-BAPTISTE SU

David?

DAVID GURLE, SYMPHONY

David Gurle, Founder and CEO of Symphony. Almost two years old, we celebrate our second year in October in just a few weeks. Last round was in October 2015 at that time we close at [750]. I don't know whether we made it

to unicorn [unclear] or not because I'm not in the market, but we might speculate. So as I said we are a secure collaboration platform. We are serving regulated industry such as financial services, legal, healthcare, accounting, we enable both B2B and I call be squaring communication, be square standing for internal communications as well.

JEAN-BAPTISTE SU

So secure communications?

DAVID GURLE

Correct.

JEAN-BAPTISTE SU

Cash flow positive?

DAVID GURLE

No...

JEAN-BAPTISTE SU

So still burning?

DAVID GURLE

We are still burning and we'll cross cash flow positive according to current projections in early '18.

JEAN-BAPTISTE SU

Given your cash flow...

DAVID GURLE

We are.

JEAN-BAPTISTE SU

Cash flow almost positive?

DAVID GURLE

Cash flow positive for the first half for Anaplan. So my name is [Gium Arno], I'm running special operations at Anaplan in customer success department. Just a quick reminder Anaplan is a leading platform for planning and enterprise performance management. So yes indeed, Anaplan founded in 2006 in York in UK, not New York, the York in UK.

JEAN-BAPTISTE SU

The old York.

GUILLAUME ARNAUD, ANAPLAN

The old York in the UK, by Michael Gould, a mathematician who founded Anaplan. Anaplan became commercial in 2011, so we really started the commercial at that time. So now we are cash flow positive for the first half of the year which is great, it's a year ahead of the plan and it's following a crazy growth that we have over the last four years. I joined in 2012 but when I joined we were like 30 people in the company, today its 600 people. We had maybe five, 10 customers, today is 600 customers and is the top of the market customers, big ones, which is always great when you are a growing company to have customers like that.

We raised a total of \$240 million in four rounds, last one was [\$90 million] end of last year. Yes we had a tremendous growth because we had a tremendous market, which is the enterprise planning market. We were able to turn this growth into a profitable gross first half of the year, which was a great effort made by everybody in the company, every department to control the growth. We're still hiring, so we're still hiring, 35 per cent growth year over year and the revenue is still growing 80 per cent year over year. So we are doing pretty good I can say.

GREGG HOLZRICHTER, BIG SWITCH NETWORKS

Gregg Holzrichter, I'm CMO at Big Switch Networks. We are a next generation networking company, one of the premier SDN players. We came out of Stanford University back in 2010 and have been one of the leaders in SDN ever since. I come through the way of infrastructure companies, I was at Siebel Systems and then early at VMware, so I have experienced the tornado going through that very hyper growth phase. Went to Big Switch about a year and a half ago as CMO because I saw that in terms of infrastructure there are over 30 plus software defined storage players, far fewer companies in the software defined networking space that are really trying to challenge the incumbents, Cisco in particular.

So we actually we're very lucky in terms of raising out Series C round before the market started to get a little choppy, announced at \$48 million round back in January.

JEAN-BAPTISTE SU

Almost at unicorn valuation.

GREGG HOLZRICHTER

Getting closer, yes, baby unicorn.

JEAN-BAPTISTE SU

Just to talk about hyper growth, just going through the panel what's your growth right now? Growth level?

STUART MCCLURE

Well the trailing 12 months is about a little over 800 per cent growth.

JEAN-BAPTISTE SU

Eight hundred per cent?

STUART MCCLURE

Yeah.

JEAN-BAPTISTE SU

David?

DAVID GURLE

It's about 1400.

JEAN-BAPTISTE SU

All right, again okay, Anaplan?

GUILLAUME ARNAUD

We are maybe a bit bigger so the percentage is a bit less, so year-over-year it was 80 per cent.

JEAN-BAPTISTE SU

Okay, that's almost back to earth, and GreGg?

GREGG HOLZRICHTER

Two hundred and fifty per cent.

JEAN-BAPTISTE SU

All right, it's almost, you know, Anaplan used to be triple digit growth so that's hyper growth.

GUILLAUME ARNAUD

Yeah for the first years yes, but then as you go in your third or four year you don't do 1000 per cent anymore.

DAVID GURLE

Is this the bad news that I...

JEAN-BAPTISTE SU

So with this hyper growth you need to hyper spend. So with this slow down of the tech economy what was the impact on your strategy?

STUART MCCLURE

Well for me we said we were always going to flirt with profitability. Even if we don't hit it for a particular month we should be pretty close. Where if we really had to push off a big AWS bill or do something else to stay that we could. So that's been the guiding principle for the company is keep track on the top line and try and stay as profitable as you can based on the top line and that's been working out so far so good.

JEAN-BAPTISTE SU

Any impact on this from investors asking you to do anything, David, special?

DAVID GURLE

No, but the first thing that we've done is when we went to our second round it was October last year, we were only going to raise [50] but we were offered [150].

JEAN-BAPTISTE SU

You know you have to take the money.

DAVID GURLE

So we took the money, we took [100] and the reason we took 100 is because we expected that there will be a little bit of downturn and the raise of the capital might be challenging months ahead, and that was I think a very good decision. So that's number one, and so if there is any founder or entrepreneur here who is looking for to raise money and if you're offered more, take it, you never know, lesson one.

Lesson two is pretty much what Stuart has said, be always cautious. I always spend money once we have it rather than once I don't have it, and yeah we suffer. We have to work long hours, we have to work weekends and we sacrifice some features, we sacrifice some growth here and there. But I think having a disciplined growth is perfect for the current timing that we are in. Having said that, there is lots of available capital. I have received...

JEAN-BAPTISTE SU

A lot of...

DAVID GURLE

A lot of it.

JEAN-BAPTISTE SU

A lot of money.

DAVID GURLE

Over the course of the last 18 months I mean more than a dozen inbound requests to our company, I'm assuming others similarly. So capital for growth is available but you just have to prove it and you have to prove that what is the past is a good indication of tomorrow. If that is true then you will still be able to negotiate the right valuation at the right terms and continue on your growth.

But public markets are no longer favours from a capital raising perspective. Why do you want that scrutiny if you don't have to?

There is a big debate raging about this as you know. So private markets are looking for offer and that's where you're going to get the offer, so there is money.

JEAN-BAPTISTE SU

I guess Anaplan got a little bit pressured with this downturn and so your CEO left. What's - your strategy sort of changed a little bit, you're growing a little bit slower?

GUILLAUME ARNAUD

Not really, so we were growing very fast and even last year, a year ago from now we already started the turn to have a profitable growth. So we didn't wait for the market to crash and then all of a sudden say oh we need to be - no it wasn't like that. We quickly started thinking at this profitable growth which is we have made decision to carefully invest in what R&D project we want to invest on, what do we prioritise? Prioritisation was a key driver for decisions in every department, R&D, marketing, sales. So we were hiring carefully. So yes our CEO left but not for those reasons, he was already pushing for profitable growth.

As a matter of fact those decisions have been successful right, because we are now as I said not profitable yet but cash flow positive for the first year. Yes it's been anticipated, that's what I meant. It's true that at the beginning when we had the first round, our investors were asking for growth. They didn't ask for profitability at all the first year right, they wanted - because we had this huge market to address there was this huge customer still working on Excel for planning their business, that was crazy right. So we did the hiring in R&D, in sales, in marketing to get to this market, to get those customers successful.

It has to be a big growth and an expensive growth. But very quickly our investors were telling us you know what this company has at some point to become profitable, so don't get to crazy, be reasonable and that's what we did, starting from last year as I said. So we didn't get caught by surprise with this market split.

JEAN-BAPTISTE SU

It turned out. So Gregg, what are your investors asking you, still grow-grow-grow? Or be careful and don't burn too much?

GREGG HOLZRICHTER

Actually so our investors have asked us to double down on growth and try to get as large of a footprint as possible. One of the things that we're riding is a very interesting time in networking where the trends are around network disaggregation or this concept of some of the large hyper scale players not buying the traditional switches anymore, they're going straight to Taiwan and then creating their own software to run these very large Facebook and Google type environments. So what Big Switch offers is that strategic software layer that rides on top of merchant silicon. So you can be a regular enterprise and not have to go out and develop your own software layer, you can buy it off the shelf from Big Switch.

I think one of the reasons that we're growing so quickly is through partnership. For example Dell has an open networking initiative where they have merchant silicon based switches but they've opened up that platform to several different flavours of network OS, and we're one of those. That's a force multiplier for a small company where you can actually train up 2000 of Dell's sales and SE organisations and then they can effectively start to compete with the Cisco's of the world with a smart software layer. So our investors have said double down, go after that data centre networking environment which is one of our products and also next generation network monitoring. So there's sort of a two solution...

JEAN-BAPTISTE SU

So when do you actually have to flip the switch and actually start making - not burning that much money?

GREGG HOLZRICHTER

Well so at this point because we are well funded and we raised \$48 million back in January, the determination was there are a few SDN players and so to the earlier comment about continuing to have investors come and be interested in investing in the company, we're very lucky in that it's not a space where there's 35 different players. There's really four or five SDN start ups that are going and are viable, and we happen to be the leader of those, which is a great place to be.

JEAN-BAPTISTE SU

If there is any questions just raise your hands and we'll take it as we go. The four unicorns here, the four start-ups that are here are all from Silicon Valley, although we have two Frenchmen here but no it's not part of the French tech, not quite. But is it possible do you think to create a unicorn outside of the valley, in China, I mean China maybe but...

STUART MCCLURE

Also officially our headquarters are down in Southern California, so LA, so Orange County. So the answer is yes.

JEAN-BAPTISTE SU

So the large Bay Area.

STUART MCCLURE

There's a lot of them that have built outside, I mean Workday is a great example in Utah. A lot of people don't realise a lot of these companies are out of the Bay Area. So I think absolutely you can and I think you can get recognised in the private markets for the value that you're providing, especially as you can just demonstrate high growth and customer success and retention and things of that nature. I think you really can and in fact I think it gives you a competitive advantage to be honest, to be outside of the Bay Area. I don't have to compete with the Google's and the Facebook's and all the rest for talent, the money that they throw at them, I just don't have to compete at the social hours and things of that nature, it's quite liberating. So for me it's worked out brilliantly.

JEAN-BAPTISTE SU

So it's possible outside, well at least down in LA.

DAVID GURLE

It certainly is. I mean I used to run Skype for Business, and Skype is a European company and it's one of the well known unicorns, one of the few first ones. I think the question of growth is not based on the region, it's based on the idea and the team that supports the premise of the market you are after. So the challenge in European markets is the capital that comes is way more restrained than the capital that comes on the West Coast. When Europeans raise money the type of scrutiny they do always they start with the very strong bias that oh we don't believe in unicorns or we don't believe in these high valuations or we don't believe in hyper growth.

So when you already start your filter with that kind of I'm going to say blinders, you are very likely to go to the companies who also have that kind of blinders. That kind of self feeds in itself and it becomes I'm not going to say a vicious or a [virtuous] circle, but it's a circle that kind of feeds on itself. That is what sometimes blocks some of the European companies that transcend that

mentality and to be frank they come here in order to find a different mind-set in which sky is the limit, we can take over the world and if you can grow in the case of Big Switch, build your platform from which you are going to be able to have massive further growth.

So that's the difference between the European and I'm going to say West Coast investors.

GUILLAUME ARNAUD

It's the same for us, I mean we...

JEAN-BAPTISTE SU

It was a UK company.

GUILLAUME ARNAUD

Yeah, it didn't start here, it started in UK in York as I said where we started the R&D centres and the first teams were here. So what's maybe different for us is that we started global, we didn't grow in one country and then tell ourselves all right let's go to France, let's go. No, we started York then San Francisco at the same time Paris and APAC, so we started globally very, very quickly. The first year we already have I don't know the numbers exactly but at least 10 offices and now we are up to 20 different offices. So yes we put the headquarters in San Francisco, it helped with finding the VCs to [unclear] but the last VC is not from the valley.

JEAN-BAPTISTE SU

Where are they from?

GUILLAUME ARNAUD

India. So yes for us it's important to be here to have the visibility of being here but it's not that important. We have our R&D centre here because there is a lot of engineering talent here for some specific areas of our platform, the other big R&D centre is in York and we have a big one in Paris too where we have very, very talented developers and product managers there.

JEAN-BAPTISTE SU

So Gregg, just a word on outside of the valley, outside of the West Coast maybe?

GREGG HOLZRICHTER

I would just go back almost to business school and Michael Porter and the focuses of, kind of centres of excellence. I do think if you look at the numbers of unicorns there is something happening here in the valley that has all of the different infrastructure. You have the research institutions, you have the capital and I do think that it's a pretty special time and place that has engendered pretty incredible growth. So I think while there is incredible competition for talent there is something that you're having a nexus of capital and entrepreneurial spirit, it does give Silicon Valley a competitive advantage.

JEAN-BAPTISTE SU

Solange?

SOLANGE BELKHAYAT-FUCHS, CNIS MAGAZINE

Solange Belkhat-Fuchs, CNIS Magazine, France. I have got a little question, so because you told us that, Guillaume Arnaud, that they are a lot of money and a lot of investors propose you David Gurlle propose some money to invest. There is no problem of money but aren't you afraid that it may be like the bubble around the 2000 years that for a few years today you have some money and suddenly nothing? Just it's you have to make, to take some precautions. To you, Gregg Holzrichter you say that you've got a lot of investors too but 30 people is the end competition, it's a lot. So the competition is very fierce in one hand and on the other one you have got so many money, so I wanted to know if somewhere you have to take some precaution to find a real good strategy to...

GUILLAUME ARNAUD

So for us we are not focused on the valuation to be honest with you, we don't really care about being a unicorn, not unicorn. I think what's maybe specific to Anaplan is that even if the market crashes our customer still needs us, they still need to plan. If it goes very well they need to plan because they need to optimise. If the market goes very poorly or very bad they better plan not to crash. So we are not that dependent of the market fluctuation right now, that's really the feeling that we have. So yes we are super careful with the spending of the money we get from investors, we are very aligned with them on what we invest on. It's always done in true collaboration with our board, so that is very important.

Yeah, we are not too worried about those fluctuations, it doesn't really impact us. We're not public yet so once we will be public one day I don't know, that might be a different story but right now customers are what matters, we make them successful regardless of how the market is doing.

DAVID GURLE

I just want to say every company is a formula, is an equation that takes a set of problems and transforms into a value that generates benefit for our end users and that becomes the formula to value the company. So when investors look at companies, whether it's us or any other people, they are trying to validate that formula and they are trying to understand the variables and the fixes on this particular equation. So companies become successful when we know that the result of that formula is within plus or minus five per cent of the expected business plan.

When this is understood, that money pours in because we know that the formula is going to keep working for as long as you are ahead of the game. Investors want you to be ahead of the game because they assume that if you are not ahead you are behind. So the whole investment thesis that people are going in into companies like ours is pretty much predicated upon that formula that they want to understand and it is sustainable. So considering that now as you think about from the investor perspective, who are the investors? They are pension funds, they are big governments, they are wealthy people and they are private investments from public companies.

They are all looking to allocate a few per cent of their portfolio to those as LPs to those VCs and PEs in order to take risk because they don't get the returns they want on the public market. So they are taking the risk in a very mathematic way and they are pouring in money where they see the formula being successful and that they can enhance the constant and reduce the risk of variables for the success of that formula. Most of the time one of the most important resource for that is money. You give money to people, and the management team is wise enough to spend it correctly like Gium's team is doing, then you can improve the formula and be successful for your returns.

So that's kind of what's going on in the game of investment, in the game of return and in the game of building a successful company.

GREGG HOLZRICHTER

I'll just build on that and answer your question, so to be specific the comment I made was software defined storage. So I think that the storage category has about 30 different start-ups, and I think there you actually do have a lot of risk of consolidation and you're starting to see some M&A activity and some of those business models not working out. To David's point investors are looking for winners, and I think in the software defined networking space you have a smaller number of viable players, so there's more market opportunity and I think that again it's reduced risk. But I think that we all went through the dot bomb and are looking at the investment environment and are being cautious.

But I think that the investors that we have at Big Switch have asked us to put our foot on the pedal and try to take more share. So that's our strategy, at least in the short term.

JEAN-BAPTISTE SU

We have one more question, one last question.

ANTHONY CARUANA, FREELANCE JOURNALIST

Thank you, Anthony Carunana. This time I'll pretend I'm from Lifehacker Australia, because I freelance.

JEAN-BAPTISTE SU

Down under.

ANTHONY CARUANA

Governments obviously have a role in supporting start-up environments. Silicon Valley happened organically but certainly in Australia the government keeps talking about trying to create its own Silicon Valley type environment, not the TV show but the one that actually makes money. What can governments actually do to help you guys to create environments where companies can thrive? Governments are very risk averse traditionally but you guys are in the risk business, particularly when you're trying to pursue that kind of growth. So what can governments do to help you?

JEAN-BAPTISTE SU

Get out of the way.

STUART MCCLURE

They can buy us, that's another way. But simple things like you know, I don't know if you heard about the ITT Tech story and debacle that happened there. But supporting education on educating our world and their population would help out a lot so that we could hire them and we could build. Because talent is the life blood of the organisation and if we don't have people that are talented and education then we can't possibly expand and grow, so I think all three of those areas.

The big problem with government that I see, and we got, the last two weeks we got the report out from OPM on the OPM breach and talked about us and

our involvement in protecting them. I mean it took years, they had our technology in their hands but they could not pull the trigger because of procurement delays. So they couldn't get us actually deployed out there until it was an emergency. Once their artery was breached with this problem of a major attack and we said great just install it everywhere, only then were they able to actually get the product on, find the attackers and kick them out immediately but it took a year and a half to get that done.

So it's the slowness of the government, I mean there's a lot of things I think that we could get from them more.

DAVID GURLE

I constantly receive from European and the Asian governments, invitations to actually open an R&D centre in one of those places. I haven't received anything from Australia yet so I'm looking forward to that. There are a number of economic development board programs I see around here, tax breaks, special zones and et cetera. But as Stuart said there's a value chain, the value chain of hiring people, so for that we need education. The value chain of firing people is as important as that and the reason for this is that we take risks and those risks are happening because we make big bets and sometimes the bets are successful and sometimes they are not.

When they are not you need to have flexibility to rise from the ashes. Sometimes companies can pivot successfully and sometimes it goes to a very difficult phase to pivot. Majority of the investments are very much people based and when this happens the governments should understand that churn is a necessary part of the innovation cycle. Just taking the drama out of that, and that is a very important step that we all have to go through. We all know that for any successful company there is nine which is not successful, and if it is true here it's true elsewhere too.

The [low] of work should understand that and give flexibility to the entrepreneurs and the founders to do so. Last but not least to have the investment framework so that people can create wealth for the investors, for the employees, for the shareholders. Because that's kind of what drives the sacrifice that people are making day in day out to work seven days a week for how many numbers of years to achieve that milestone. If you do not have that then a huge chunk of motivation is taken away and therefore you can't really create an environment in which people want to go beyond themselves. So I believe those things are very important ingredients for governments to be cognisant of and anchorage in their policies towards any sort of company, not only start-ups here but in any dimension anyway.

JEAN-BAPTISTE SU

So Guillaume and Gregg quickly what can government do?

GUILLAUME ARNAUD

Not much, I mean I don't think that applies.

JEAN-BAPTISTE SU

Good, okay thank you, Gregg.

GUILLAUME ARNAUD

They are not in the way which is good, no I think when we started this R&D centre in France I don't believe the government was any time involved in that. We hired people there because of the talent that we found there, it was pretty unique.

JEAN-BAPTISTE SU

That goes back to your point on the education.

GUILLAUME ARNAUD

Yeah, exactly education is really the key driver here more than government.

JEAN-BAPTISTE SU

Gregg?

GREGG HOLZRICHTER

I would agree that government doesn't have a great history of industrial policy and picking winners and losers. But I do think that there are some interesting innovation or innovative focus areas that the government is doing. So one example is in the intelligence community In-Q-Tel has a venture arm and that they are looking at promising technologies investing in some of these start-ups and then helping those technologies get purchase into the government sector. In the US at least that's 30 per cent of the GDP.

So if you can bring technologies into government that can lower costs or do things in a more efficient way then that allows government to get more out of tax payer dollars. So there are some innovative examples but in general I would agree it's better to not try to pick winners and losers and just try to set an environment that allows the overall ecosystem to grow.

JEAN-BAPTISTE SU

Okay great, so we're out of time. Thank you very much, and key takeaways of this session about money, there's plenty of money in Silicon Valley so while you're here go to Palo Alto and grab some. Thank you.

MANEK DUBASH

Merci JB. Time to move onto the next session which is going to be introduced by Tam Dell'Oro who's going to talk to us about the internet of things and about money. There you go.

TAM DELL'ORO, DELL'ORO GROUP

I'm going to come back and introduce my panel but I'm going to first give a little frame of reference on perhaps why there is such a big focus right now on the internet of things. Dell'Oro Group, we're a quantitative...

[End]