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# **Flash Memory Summit Presentation**

## **Solid State Venture Funding & M&A**

**August 13, 2009**

# Agenda

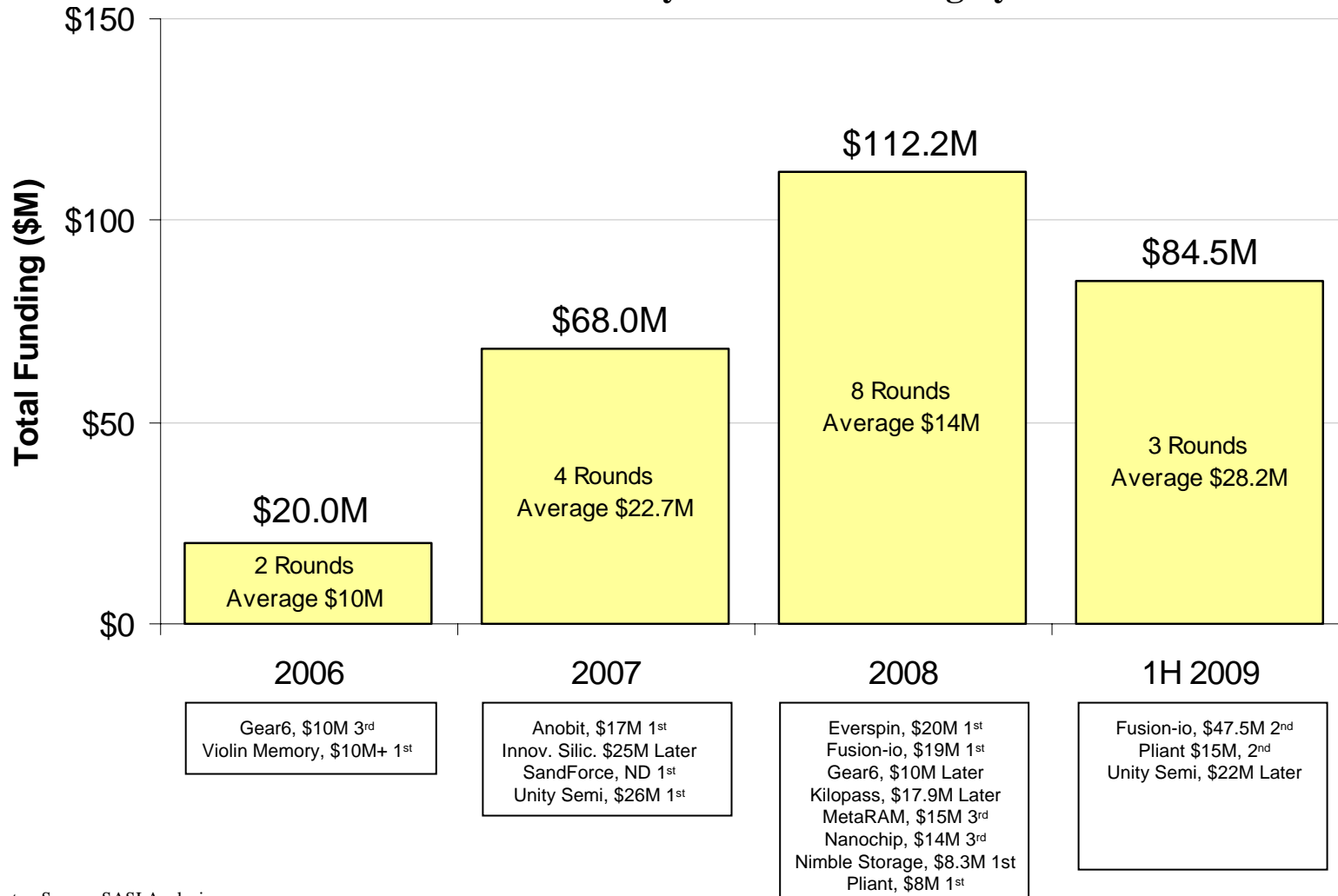
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- **Solid State Venture Funding & M&A**
- **SASI Storage Market Overview**
- **SASI Overview**

# Solid State Memory Venture Funding

Venture funding has remained strong into 2009...

## Solid State Memory Venture Funding by Year



Source: VentureSource, SASI Analysis

# Solid State Memory Private Company Market Map

Across multiple segments...

## Systems



(Caching Appliance)

## Controller



## Memory



(Next Gen NVM)



(MRAM)



(Z-RAM)



(OTP-NVM)



UNITY SEMICONDUCTOR

(Next Gen NVM)

## Solid State Drives



## Solid State Cards



## Stealth

### Anobit



# Solid State Memory M&A

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**M&A has not yet heated up, with only 5 deals since the beginning of 2006...**

## **First Half of 2009:**

- **Western Digital** enters the SSD market, paying \$65M for SSD vendor **SiliconSystems**. This is 1.3X **SiliconSystems**' trailing twelve months ("TTM") revenue of \$50M.

## **2008**

- **DataRAM** acquired the assets of **Cenatek** for an undisclosed sum

## **2007**

- No announced deals

## **2006**

- There were two large consolidation deals in 2006 with **SanDisk** paying \$1.5B for **Msystems** and **Micron** paying \$760M for **Lexar Media**. Msystems' purchase price was 2.09X its TTM revenue of \$717M while Lexar's purchase price was 1.02X its TTM revenue of 745M.
- **STEC** also acquired **Gnutek** in 2006 for an undisclosed sum.

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# **SASI Storage Market Overview**

# Storage Market Insights

## Incumbents and nimble start-ups target the pot of gold at the end of the SOHO/SMB rainbow

- EMC has made two strategic moves in this space through acquiring Iomega in 2008 and Mozy late in 2007
- VCs have recently placed bets with Data Robotics and Unitrends on the system side and with Carbonite, Steek, Drop.io and Box.net on the on-line/storage as a service (SaaS) side
- Dell, HP, IBM and NetApp have also targeted this space with various solutions
- **Keys to success include:**
  - Avoid past mistakes of “dumbing down” enterprise products
  - Solving a specific pain point vs. a swiss army knife approach
  - Disruptive pricing out of the gate with better solutions
  - Efficient channel development with superior channel economics
- **Is there is pot of gold?**
  - Past experience tells us these customers are tough to reach resulting in a high customer acquisition cost, are very demanding and unsophisticated and want it all for free (or close to it)
  - There is gold but it is more like a cup from a gross margin point of view and it tends to only get worse
  - However, storage players are finding ways to sustain margins through a mix of new technologies, better targeted solutions and innovative service models

# Storage Market Insights

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## On-line storage/SaaS/cloud storage is still the “hot” place to be

- Funding was strong in 2008 with Carbonite, Steek, Nirvanix, Drop.io, and Box.net taking in over \$40M. Box.net and Nirvanix returned to the funding “well” in Q2, 2009, each receiving \$5M
- M&A has also been busy with Caleido, Fabrik, Swapdrive, Amerivault, DocVault and LightHouse global being acquired by LaCie, Hitachi Global Storage, Symantec, PHNS, Iron Mountain and Atempo respectively
- After at least two swings and two misses over the past 8 years, this segment has found solid success and holds great promise to be even more disruptive in the future
- Keys to success include broadening services to include data/information management along with proactively deciding where to play in the value chain



# Storage Market Insights

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## **In the 2<sup>nd</sup> half of 2009, we are likely to see a few large consolidation deals and a moderate amount of smaller technology deals driven by:**

- While there has been consolidation among leading storage OEMs and system providers, there is still room (and pressure) for further consolidation
- SMEs to large enterprise customers are demanding integrated IT solutions that solve data protection, management, and availability
- The mature stage of the storage market dictates growth through acquisition
- Go-to-market challenges, customer lock-in by the incumbent players, coupled with the high investment requirements of global brand and channel development lead start-ups to explore OEM and M&A options earlier in their lifecycle
- Continued margin compression in the storage industry also drives M&A as companies seek to innovate products quickly through M&A

## **Disruption will likely come from outside the storage industry**

Storage's position as an island in the IT architecture is coming under attack from security, networking, enterprise software and system players that see their role as enabling enterprises to better utilize, manage and protect their information. This is also an opportunity for storage companies that have a broader vision and the leadership to act on it.

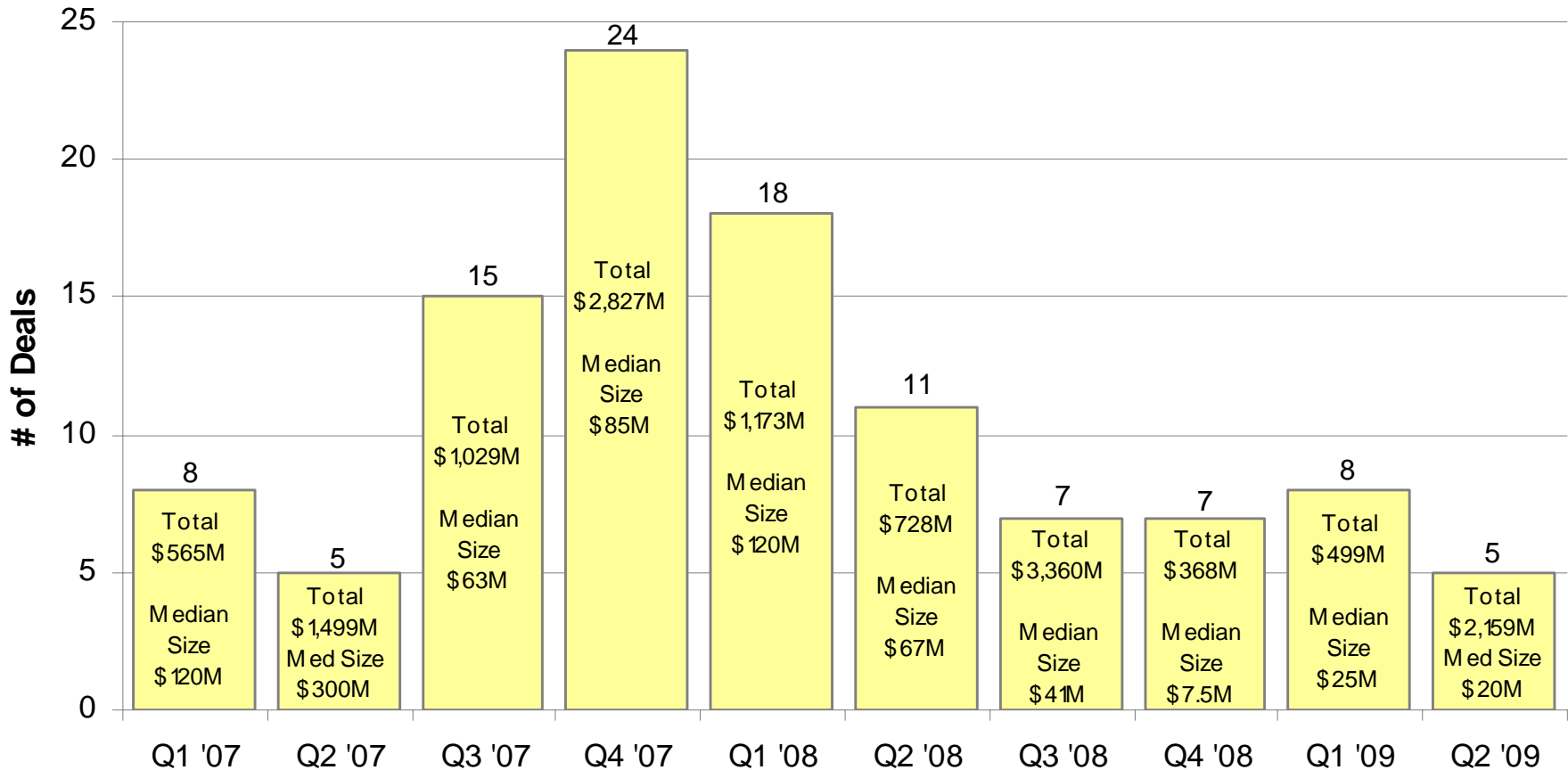
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# **First Half 2009 Storage M&A and Venture Funding Review**

# First Half 2009 Storage M&A Review

Deal volume remains low while total consideration is up due to EMC's \$2.1B acquisition of Data Domain...

## Storage M&A Activity by Quarter



Source: The 451 Group, SASI Analysis

# First Half 2009 Storage M&A Review

Deal values and corresponding price to revenue multiples remain well below 2008 levels...

	2006	2007	2008	1H '09
<b># of Deals</b>	35	52	43	13
<b>Median Deal Size (\$M)</b>	\$63.0	\$93.0	\$49.0	\$20.5
<b>Median Price/Revenue Multiple</b>	5.1X	3.8X	4.1X	1.7X
<b># of Technology Focused Deals</b>	23	33	23	8
<b>Median Deal Size (\$M)</b>	\$50.0	\$70.0	\$45.0	\$4.0
<b>Median Price/Revenue Multiple</b>	8.2	5.3X	4.9X	2.1X
<b># of Business Focused Deals</b>	12	19	20	5
<b>Median Deal Size (\$M)</b>	\$522.0	\$156.0	\$92.0	\$50.0
<b>Median Price/Revenue Multiple</b>	2.1X	3.9X	1.9X	1.3X

# First Half 2009 Storage M&A Review

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## Q1 2009 M&A Insights:

- Western Digital made a fairly bold move and enters the much hyped Solid State Storage market with its acquisition of Silicon Systems
- Fujitsu exited the HDD business, divesting its HDD unit to Toshiba
- The overall median deal size was \$25M with a median price to revenue multiple of just 1.5X. This is down considerably from the 2008 median deal size of \$49M and median price to revenue multiple of 4.1X.
- The 5 technology focused deals were hit the hardest with a median deal size of just \$3.5M, down significantly from the 2008 median of \$45M. The median price to revenue multiple for technology focused deals was also down significantly to 1.6X from 4.9X in 2008.
- The remaining 3 business focused deals had a median deal size of \$50M, down from \$90M in 2008. The median price to revenue multiple for business focused deals was 1.3X, down from 1.9X in 2008.

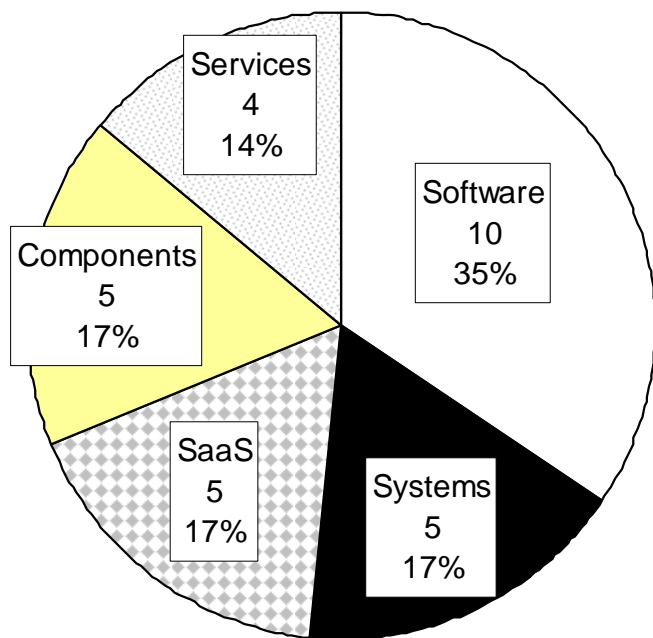
## Q2 2009 M&A Insights:

- EMC made its second acquisition of the year, outbidding NetApp with an impressive \$2.1B bid for Data Domain
- After completing a long effort to bring its financial filings up to date, BakBone ramped up its M&A activities by making two acquisitions. The purchases included the continuous data protection assets of Asempra and ColdSpark for its email transport and management software.
- The overall median deal size remained depressed at \$20M while the median price to revenue multiple improved slightly to 2.1X. Both metrics remain well below the 2008 levels of \$49M and 4.1X respectively
- The median deal size for the 3 technology focused deals improved to \$21M and the median price to revenue multiple improved to 4.2X. Both metrics remain well below the 2008 levels of \$45M and 4.9X respectively
- The median deal size for business focused deals was hammered, dropping to \$18M, while the median price to revenue fell to 1.2X, both well below the 2008 levels of \$92M and 1.9X respectively.

# Storage M&A Comparison by Segment

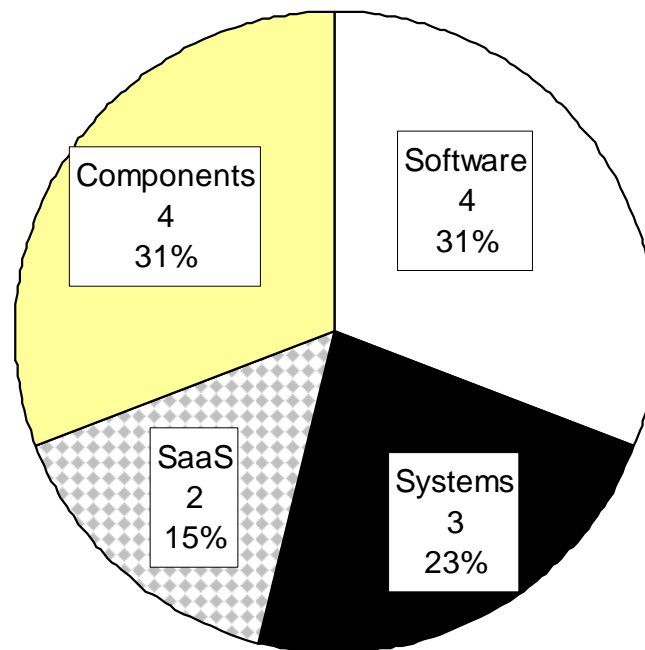
Software and Components related deals dominated the M&A landscape in the first half of 2009 while Services related deals were noticeably absent...

**First Half 2008  
M&A by Segment**



**Total = 29 Deals**

**First Half 2009  
M&A by Segment**

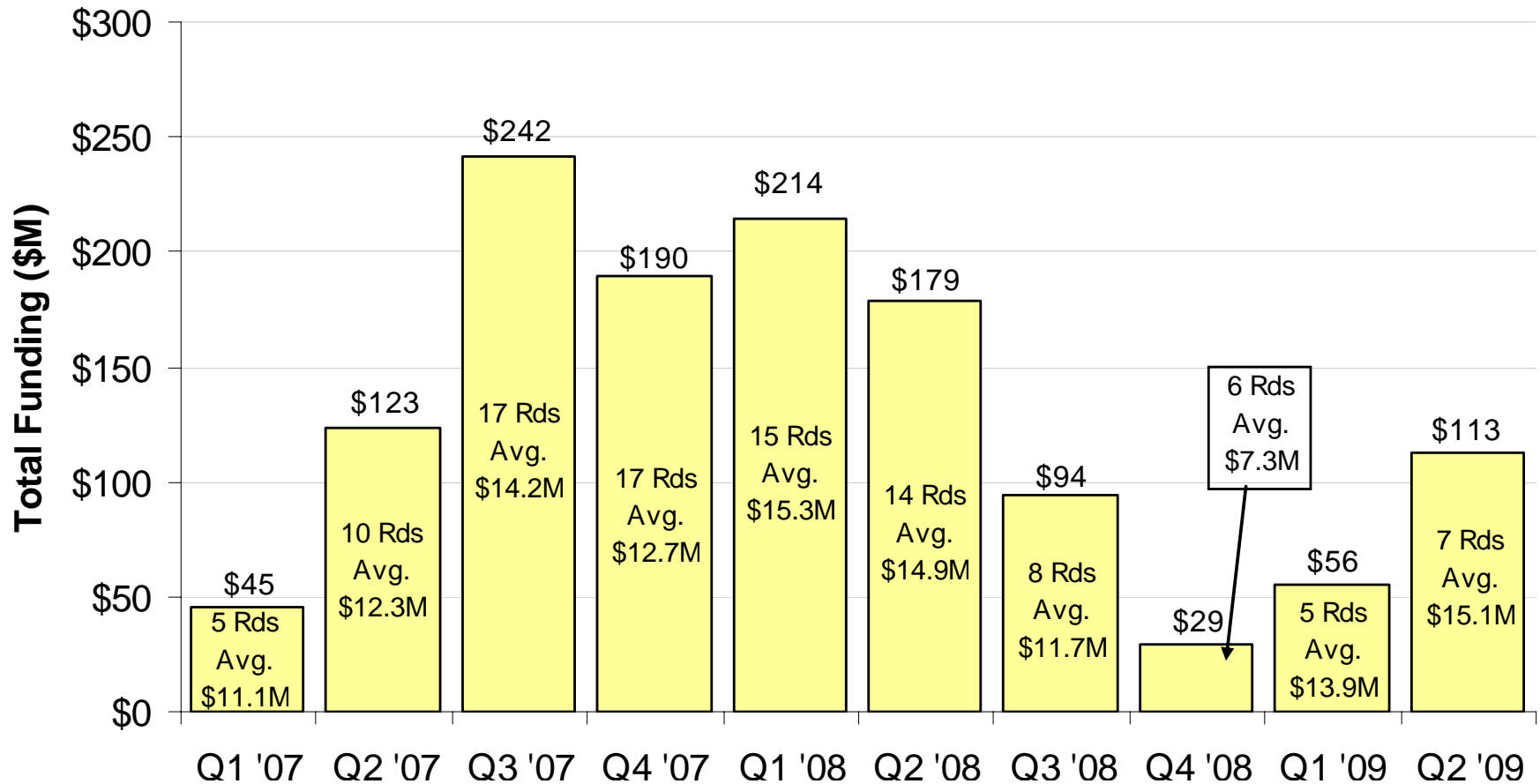


**Total = 13 Deals**

# First Half 2009 Storage Venture Funding Review

The first half of 2009 saw consecutive quarterly growth in storage related venture funding. However, total funding remained well off the first half 2008 levels...

## Storage Venture Funding by Quarter



Source: VentureSource, SASI Analysis

# First Half 2009 Storage Venture Funding Review

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## **Q1 2009 Venture Funding Insights:**

- Pliant, Ocarina and Copan led the way, each bringing in large rounds of \$15M, \$20M and \$18.5M respectively. This helped bring the average round size up to \$13.9M
- The funding mix by segment was relatively evenly distributed with Software representing 36%, Systems representing 37% and Components representing 27% of the total funding
- The funding mix by round was dominated by later stage and 2<sup>nd</sup> round funding. There were no 3<sup>rd</sup> round funding events and only one 1<sup>st</sup> round funding event of an undisclosed sum.

## **Q2 2009 Venture Funding Insights:**

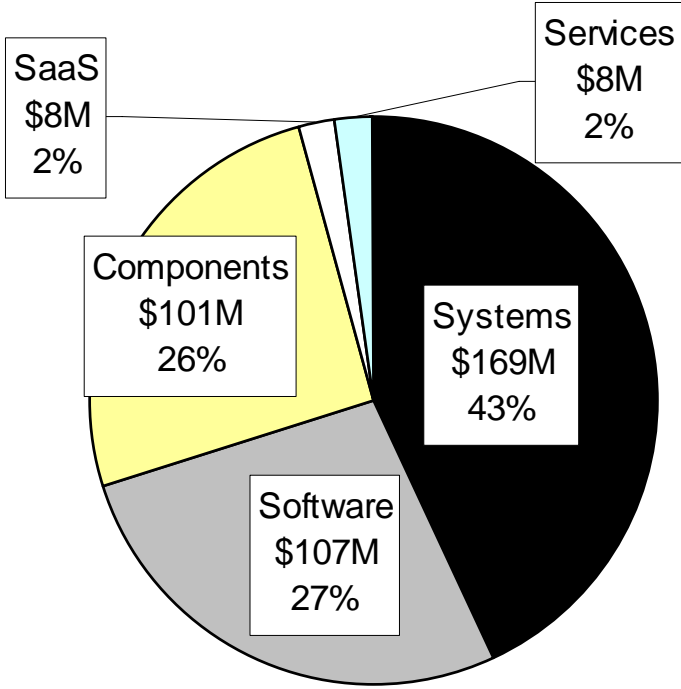
- Quarter to quarter growth in storage related funding continued with \$113M in funding at an average round size of \$15.1M
- The funding mix by segment was dominated by Components companies bringing in 62% of the total funding. Funding for Box.net and Nirvanix represent the first SaaS related funding events for the year
- The funding mix by round continues to be dominated by later stage and 2<sup>nd</sup> round funding events, representing 89% of the total funding.



# Storage Venture Funding Comparison by Segment

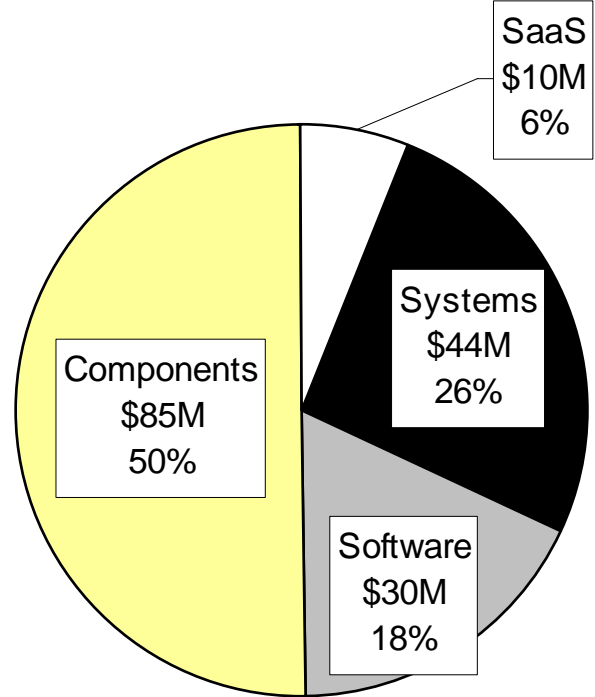
Components related funding dominated the segment mix in the first half of 2009, representing 50% of the total funding. This was largely due to Fusion-io's \$47.5M round of funding...

**First Half 2008  
Funding by Segment**



**Total = \$393M**

**First Half 2009  
Funding by Segment**



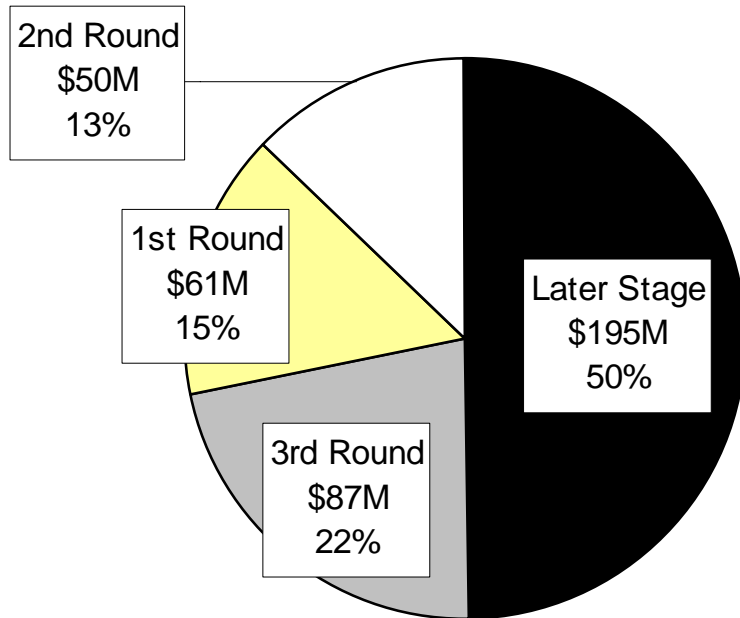
**Total = \$169M**

Source: VentureSource, SASI Analysis

# Storage Venture Funding Comparison by Round

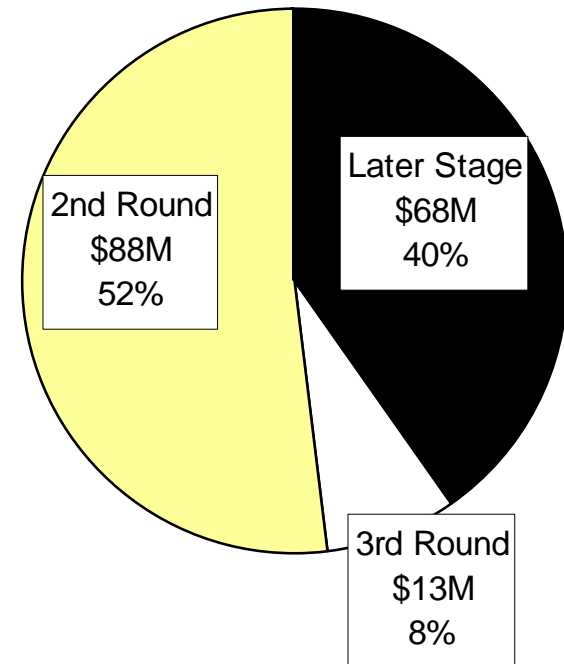
2<sup>nd</sup> round funding dominated the first half of 2009, largely due to Fusion-io's \$47.5M round of funding. Later stage funding remained healthy while 1<sup>st</sup> round funding was noticeably absent...

**First Half 2008  
Funding by Round**



**Total = \$393M**

**First Half 2009  
Funding by Round**



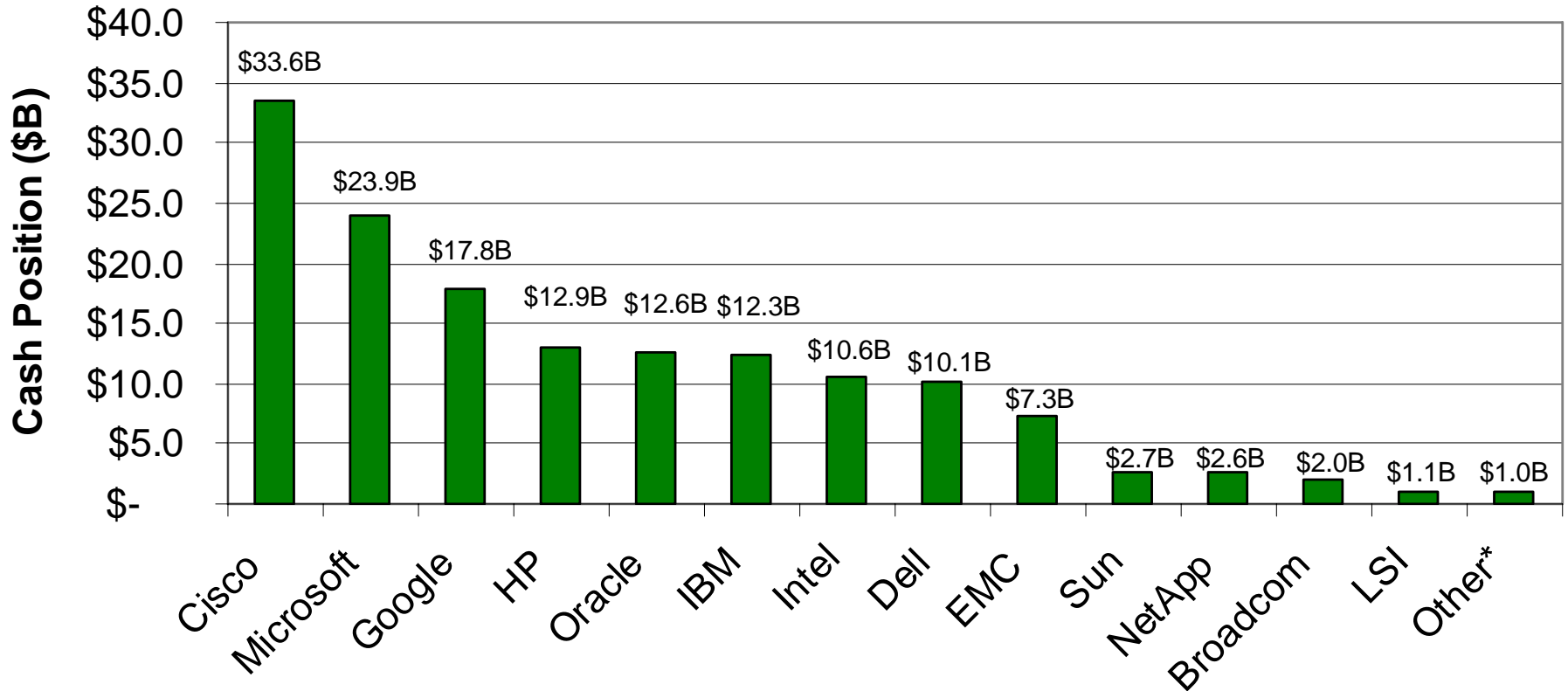
**Total = \$169M**

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# **2009 Storage M&A and Venture Funding Outlook**

# Storage M&A Outlook

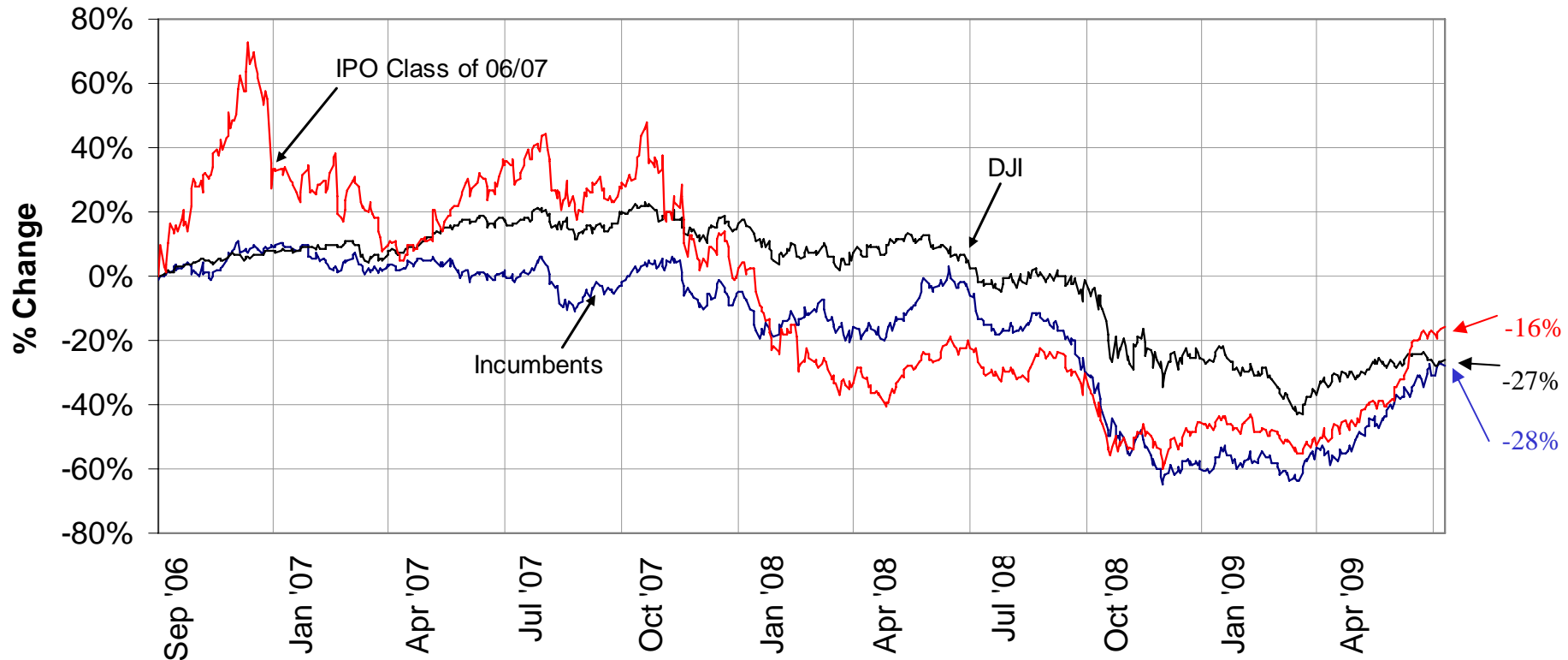
There is certainly plenty of cash out there to fund acquisitions, over \$150 billion...



\*Other includes Adaptec (\$377M), Emulex (\$303M), Riverbed (\$258M), and Commvault (\$105M)

# Storage M&A Outlook

Competing bids from NetApp and EMC for Data Domain coupled with strong performances by CommVault, Compellent and Riverbed helped the IPO class of stocks surge past the DJI and larger storage incumbents...



Source: CapitalIQ, Yahoo! Finance, SASI Analysis

# Storage M&A Outlook

The EV/TTM Revenue multiple for the 2006/2007 IPO class grew to 3.0X, a healthy improvement over the 1.6X multiple at the end of Q1, 2009...

As of Market Close 6/30/09, \$M except per share amounts

Public Companies					Valuation				Financials		Multiples	
	Share Price	Open Sh. Pr.	% Change	Shrs. Out (M)	Market Cap.	Cash	Debt	Enterprise Value (EV)	TTM Rev.	TTM N.I.	EV/TTM Rev.	EV/TTM N.I.
3Par (PAR) Nov, '07	\$12.40	\$16.00	-23%	61.4	\$761	\$104	\$0	\$657	\$185	(\$1.0)	3.6	NM
CommVault Systems (CVLT) Sept. 06	\$16.59	\$16.00	4%	41.6	\$690	\$105	\$0	\$585	\$235	\$12.3	2.5	47.5
Compellent Technologies (CML) Oct. 07	\$15.25	\$13.50	13%	30.8	\$470	\$75	\$0	\$394	\$101	\$2.2	3.9	178.4
Data Domain (DDUP) June 07	\$33.38	\$20.01	67%	61.3	\$2,046	\$247	\$0	\$1,799	\$301	\$20.1	6.0	89.5
Double-Take (DBTK) Dec. 06	\$8.65	\$13.50	-36%	22.0	\$190	\$79	\$0	\$111	\$91	\$15.5	1.2	7.2
Isilon (ISLN) Dec. 06	\$4.24	\$13.00	-67%	64.1	\$272	\$76	\$0	\$196	\$117	(\$25.4)	1.7	NM
Mellanox (MLNX) Feb. 07	\$12.03	\$17.00	-29%	31.9	\$384	\$183	\$1	\$202	\$105	\$19.9	1.9	10.2
Riverbed (RVBD) Sept. 06	\$23.19	\$14.60	59%	68.5	\$1,589	\$258	\$0	\$1,330	\$349	\$10.9	3.8	121.6

Source: CapitalIQ & Yahoo Finance

High	6.0	178.4
Low	1.2	7.2
Mean	3.1	89.4
Median	3.0	68.5

# Storage M&A Outlook

Profitability is proving to be a noteworthy problem for the incumbents with only 5 out of 16 companies showing positive net income for the trailing twelve months...

As of Market Close 06/30/09, \$M except per share amounts

Selected Public Companies	Valuation						Financials		Multiples	
	Share Price	Shrs. Out (M)	Market Cap.	Cash	Debt	Enterprise Value (EV)	TTM Rev.	TTM N.I.	EV/TTM Rev.	EV/TTM N.I.
Adaptec (ADPT)	\$2.65	120.7	\$320	\$377	\$0	(\$56)	\$115	(\$14.0)	NM	NM
Brocade (BRCD)	\$7.84	398.3	\$3,123	\$237	\$1,170	\$4,056	\$1,700	(\$33.3)	2.4	NM
Dot Hill (HILL)	\$0.79	48.4	\$38	\$54	\$1	(\$15)	\$274	(\$23.0)	NM	NM
EMC (EMC)	\$13.10	2,010.0	\$26,331	\$7,250	\$3,020	\$22,101	\$14,560	\$1,290.0	1.5	17.1
Emulex (ELX)	\$9.78	82.6	\$808	\$303	\$0	\$505	\$412	(\$38.4)	1.2	NM
Falconstor Software (FALC)	\$4.75	44.6	\$212	\$41	\$0	\$171	\$86	(\$1.0)	2.0	NM
LSI (LSI) <sup>1</sup>	\$4.56	648.9	\$2,959	\$1,070	\$595	\$2,483	\$2,500	(\$171.2)	1.0	NM
Micron (MU)	\$5.06	813.3	\$4,115	\$1,310	\$3,120	\$5,925	\$4,950	(\$2,090.0)	1.2	NM
Network Appliance (NTAP)	\$19.72	335.5	\$6,617	\$2,600	\$1,260	\$5,277	\$3,540	\$86.5	1.5	61.0
Overland Storage (OURL)	\$0.47	12.8	\$6	\$4	\$6	\$8	\$112	(\$31.4)	0.1	NM
Qlogic (QLGC)	\$12.68	118.8	\$1,507	\$343	\$0	\$1,163	\$634	\$108.8	1.8	10.7
Quantum (QTM) <sup>2</sup>	\$0.83	210.2	\$174	\$87	\$408	\$495	\$809	(\$17.1)	0.6	NM
Seagate (STX) <sup>3</sup>	\$10.46	491.5	\$5,141	\$1,480	\$2,350	\$6,011	\$10,350	(\$480.0)	0.6	NM
STEC (STEC)	\$23.19	48.5	\$1,124	\$63	\$0	\$1,061	\$240	\$5.5	4.4	192.9
Western Digital (WDC)	\$26.50	222.9	\$5,907	\$1,580	\$502	\$4,829	\$7,520	\$487.0	0.6	9.9
Xyratex (XRTX)	\$5.00	29.5	\$147	\$27	\$0	\$120	\$945	(\$73.7)	0.1	NM

Note 1: Excludes one time goodwill impairment charge of \$541 million

Note 2: Excludes one time goodwill impairment charge of \$339 million

Note 3: Excludes one time goodwill impairment charge of \$2.37 billion

Sources: Capital IQ and Yahoo Finance

High	4.4	192.9
Low	0.1	9.9
Mean	1.4	58.3
Median	1.2	17.1

# Storage M&A Outlook

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- Deal volume could reach 30+ deals in 2009, about 20% off of 2008.
- However, deal consideration may be off 50% or more unless there is a large public to public or go private transaction
- While there could be large transactions similar to SASI's predicted acquisition of Data Domain, smaller public or go private deals are more likely. Possible targets include:
  - Quantum
  - Dot Hill
  - Overland Storage
  - 3Par
  - Isilon
  - Double-Take
  - Riverbed
- Leading private company segments for M&A include systems and selected software areas where revenue ramps have not materialized



# Venture Funding Outlook

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- Funding in the second half of 2009 may be around \$100M bringing the total for 2009 to around \$250M, down roughly 50% from 2008
- Later stage funding should continue to dominate the funding landscape during the 2nd half of 2009
- We may also see an increase in private to private business combinations as VCs seek to scale companies quickly
- Key drivers for this downturn include:
  - Broader economic conditions and lack of visibility
  - VCs scrubbing portfolio's and only funding top prospects
  - Limited partners pulling back venture allocation
  - Likely “right sizing” of the venture community

## **2010 and Beyond:**

- The clean up in 2009 should set the stage for growth in 2010
- Fewer VCs, a higher investment bar, but plenty of capital available
- The IPO window is likely to open up in late 2009 and into 2010
- Candidates for a 2009/10 IPO include BlueArc, GlassHouse, Nexsan, and Sepaton

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# SASI Overview

# Outline

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- SASI Overview
- Market Expertise
- Service Offerings
- Strategic Buyer Relationships
- SASI Transactions & Valuations
- Team Profiles

# SASI Overview

**SASI is a boutique M&A advisory firm focused on serving investors and entrepreneurs in the IT industry. We represent leading venture backed private companies who are exploring strategic M&A options.**

SASI was founded on the belief that stakeholders in private companies have a need for a new class of M&A advisor. They require a banker that brings not only transaction and financial expertise but also has intimate knowledge of the industry, the strategic buyers and the customer, technology, competitive trends shaping the industry.

## SASI Core Competencies



**Provide an Integrated Approach to Sellside M&A**

## With the following benefits

**Highest likelihood of creating a competitive bidding situation with a successful outcome due to:**

**Targeting:** SASI is able to quickly identify A list buyers, avoiding wasted calls and meetings

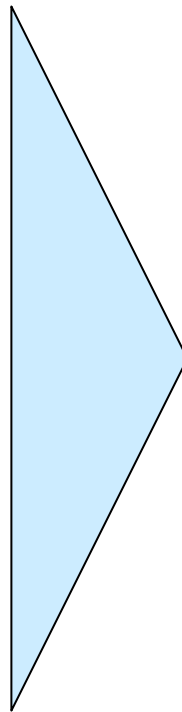
**Timing:** SASI tracks M&A windows by sector and is able to advise on the optimal timing for maximum deal value

**Positioning:** Each possible buyer has a unique set of characteristics and reasons for acquiring the target. SASI understands this and tailors the messaging to each buyer.

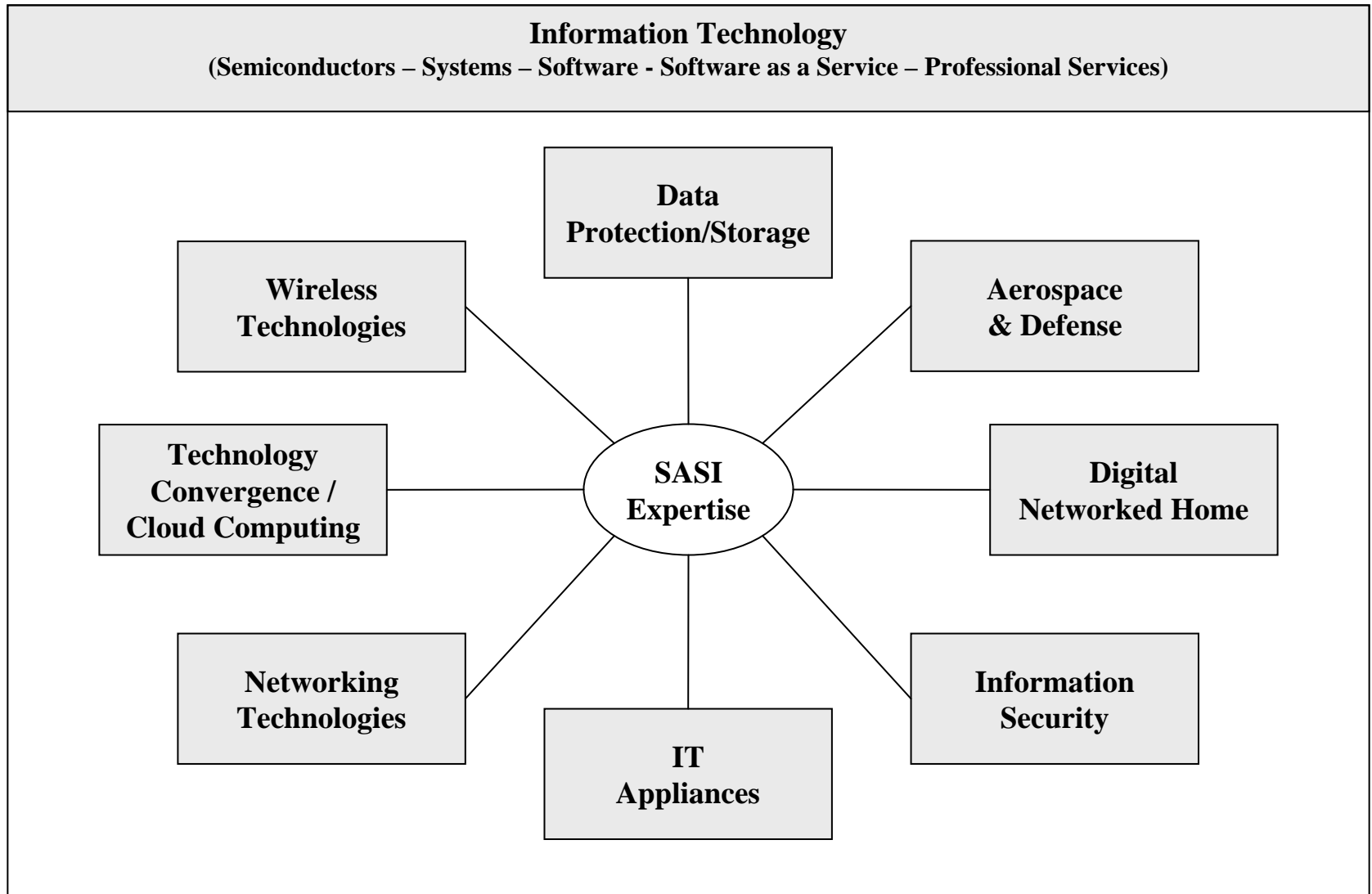
**Negotiating:** In depth knowledge of the buyers and the industry positions SASI with insights that are critical to a successful negotiation

**Efficiency:** Knowledge of the industry helps avoid “teaching the banker”

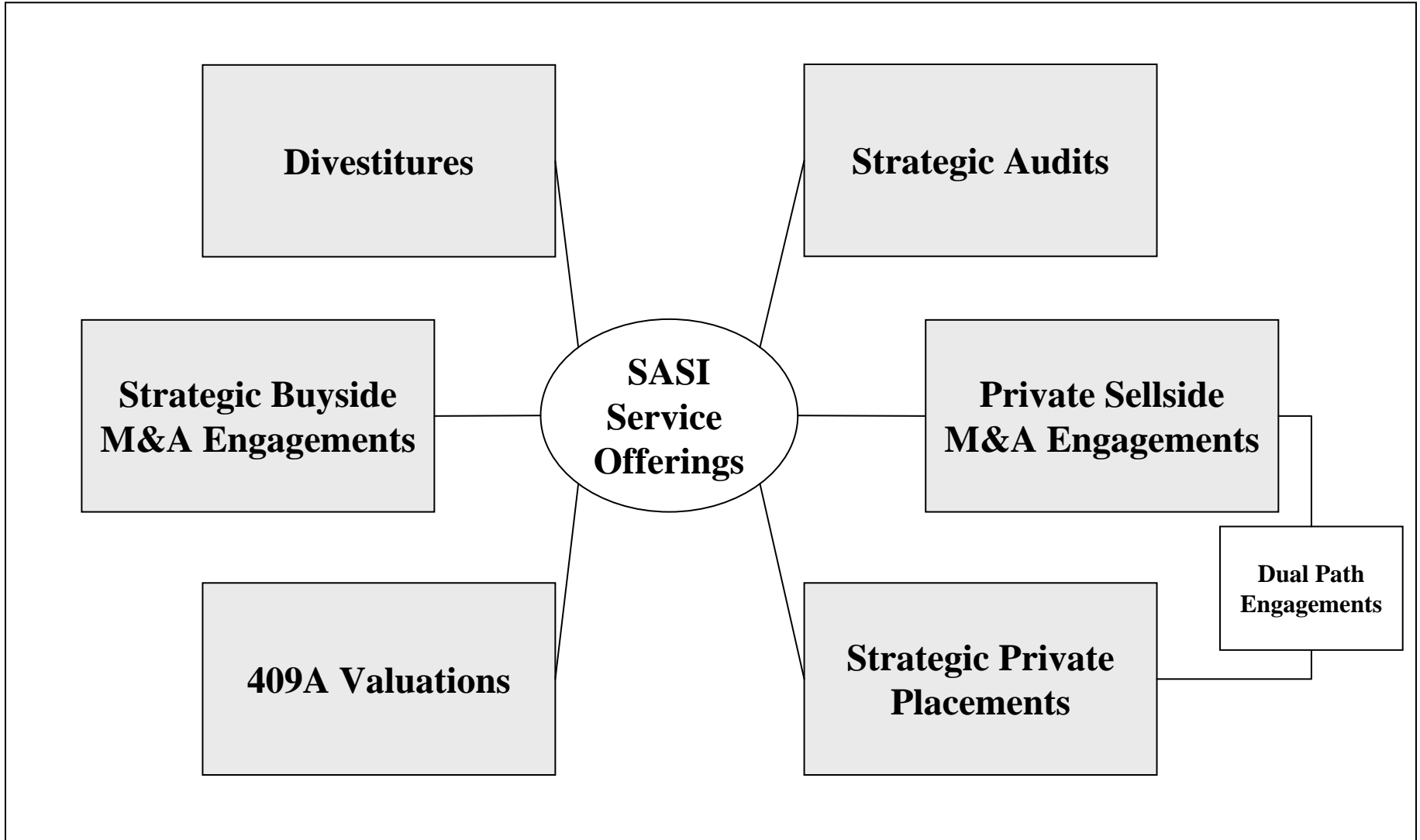
**Contacts:** SASI knows the leading acquirers and has built solid relationships over the last 18 years



# Market Expertise



# Service Offerings



# Strategic Buyer Relationships

SASI is currently in discussions with or has worked with following selected strategic buyers...

## Industry Leaders



## Storage Industry



# Strategic Buyer Relationships

## Networking/Security



## Semiconductor & Other





# SASI Transactions

**Akonix**  
has been acquired by  
**QUEST SOFTWARE**  
August 2008

**adaptec**  
has sold the  
**snapserver**  
NAS business to  
**Overland STORAGE**  
June 2008

**BIDSTORK**  
has been acquired by  
**Sabre Holdings**  
May 2008

**time)spring**  
has been acquired by  
**Double-Take Software**  
December 2007

**WiDeFi**  
has sold certain assets to  
**QUALCOMM**  
October 2007

**QuickTree**  
has been acquired by  
**CITRIX**  
August 2007

**MIRRA**  
has been acquired by  
**Seagate**  
September 2005

# SASI Valuations



409A  
Valuation

2008



409A  
Valuation

2008



409A  
Valuation

2008



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Valuation

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# Team Profiles



## **John Rotchford, Managing Director**

Prior to founding Strategic Advisory Services International, LLC in May of 2005, John co-managed the information technology practice area and opened the Southern California office for SVB Alliant, the former investment banking division of Silicon Valley Bank. John is a 20-year technology industry veteran with a unique blend of investment banking, strategy consulting, corporate development and start-up experience. At Iomega, John was responsible for strategic planning, M&A and new investment activities. Before Iomega, John handled public and private sell-side transactions at Broadview International LLC and focused on enabling broadband technologies, digital networked appliances, information security, semiconductors and storage systems. Prior to Broadview, John was director of corporate development at Compaq where he managed strategy projects covering broadband communications, the digital networked home, Internet services, and corporate direction. At Compaq, he was also active in M&A including the Tandem Computer and Digital Equipment Corporation mergers. John spent the first part of his career at an aerospace and defense management consulting start-up that was acquired by Electronic Data Systems. John earned a B.S. in Finance and Accounting from Babson College.



## **Christine Tosney, Principal**

Christine joined SASI in October, 2005 with over 13 years of market and competitive research experience covering a broad range of IT areas such as information security, enterprise software and personal computing. Prior to joining SASI, Christine was head of market research and competitive intelligence at Sonicwall, a leading provider of security solutions to small and medium businesses. She also spent two years at Ensim, a leading provider of hosting automation software. Prior to Ensim, Christine spent seven years in a variety of market research roles. She spent two years at Compaq Computer Corporation in market intelligence with a focus on competitive intelligence, market segmentation and sizing, and trend and database analysis. Christine started her career at Management Ventures, a market research based consulting firm specializing in the Consumer Packaged Goods Industry. She led all phases of primary and secondary research engagements at Management Ventures. Christine has a B.S. in Finance from Babson College, Wellesley, MA

# Team Profiles

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## **Alex Barnes, Analyst**

Alex joined SASI in May, 2007 and has played a key role in BidStork's sale to Sabre Holdings and Adaptec's divestiture of the Snap Server NAS business to Overland Storage. Prior to joining SASI, Alex interned at Yorkville Advisors, a private equity fund and leading financier in the small-cap sector. His responsibilities consisted of researching potential portfolio companies and providing transaction support. Prior to interning at Yorkville Advisors, Alex worked in operations management at the San Diego Union Tribune. Alex holds a B.A. in Economics from the University of San Diego.