Crossing the Ocean
…(not boiling it…)

Building companies in the US with an Israeli base

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Agenda

- Innovation in Israel
- Some points to consider before starting your dual-country operation
- The SLC (Sales Learning Curve) model or how to scale this baby up?
- Q&A

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nLayers in Numbers

- **Start: 7/03, Finish: 6/06 (<3 years)**
- **1st Beta: 10/03, CSFB Beta: 12/03, 1st Sale: 2/04, Launched company & product: 6/04**
- **Acquired by EMC**
- **Raised: $8.5M, Sold: ~$50, Return: 400%**
- **Investors:** Gemini & Walden
- **Customers include** The Pentagon, GE, Qualcomm, BCBS, MoMA NY, Del Monte Foods, Peoples Bank, Boise State,Brocade, Interwoven, Best Software, Netvision**...**
- **OEM Model. EMC, CA, IBM, EDS, Managed Object, Bladelogic, Opsware.**
- **US Patents 60-451788, 60-451795, 60-451797**

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Sanctum in Numbers

- **Start: 7/97, Finish: 7/04 (7 years)**
- **1st Beta: 2/99, 1st Sale: 7/99, Launched company & product: 4/00**
- **Acquired by Watchfire & F5, Later by IBM**
- **Raised: $54M, Return....**
- **Investors:** Sequoia Capital, Sprout Group, Dell, EDS, Intel, Hitachi, Fidelity Ventures, Wachovia, Gemini, Mofet and Walden Israel
- **Customers include** Yahoo!, GE, BCBS, Netvision**...** more than 400 customers by the exit!
- **Direct Model.** No OEMs. No key channels.
- **US Patents 4 issued, 3-4 are still pending. Generated Millions from litigation.**

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Dual National Operation

- It can be India, China, Romania, Russia, Finland or anywhere else eastern to Manhattan.
- You will be boxed in a category, so better know your game…

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Israel as a source for innovation

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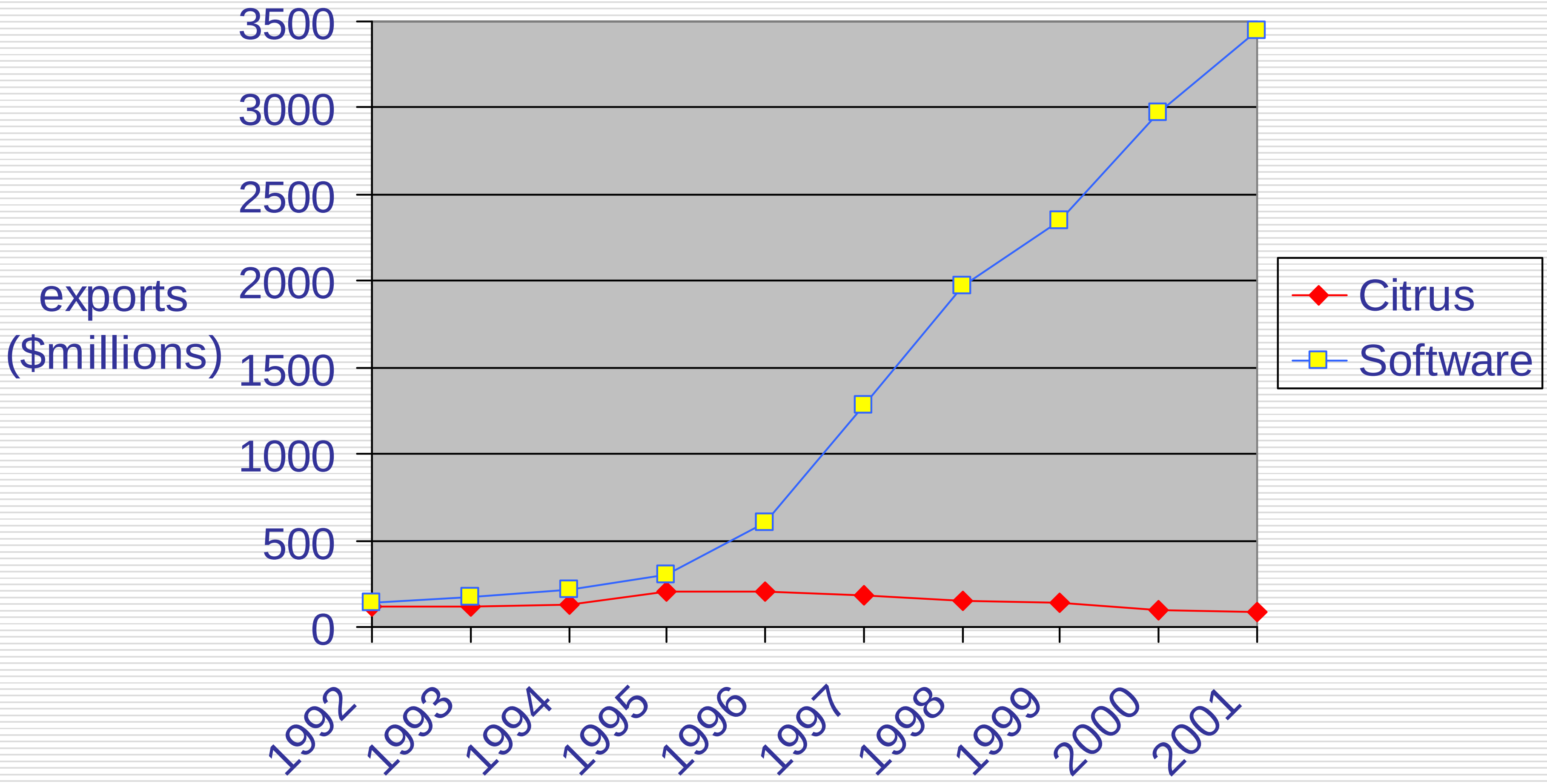
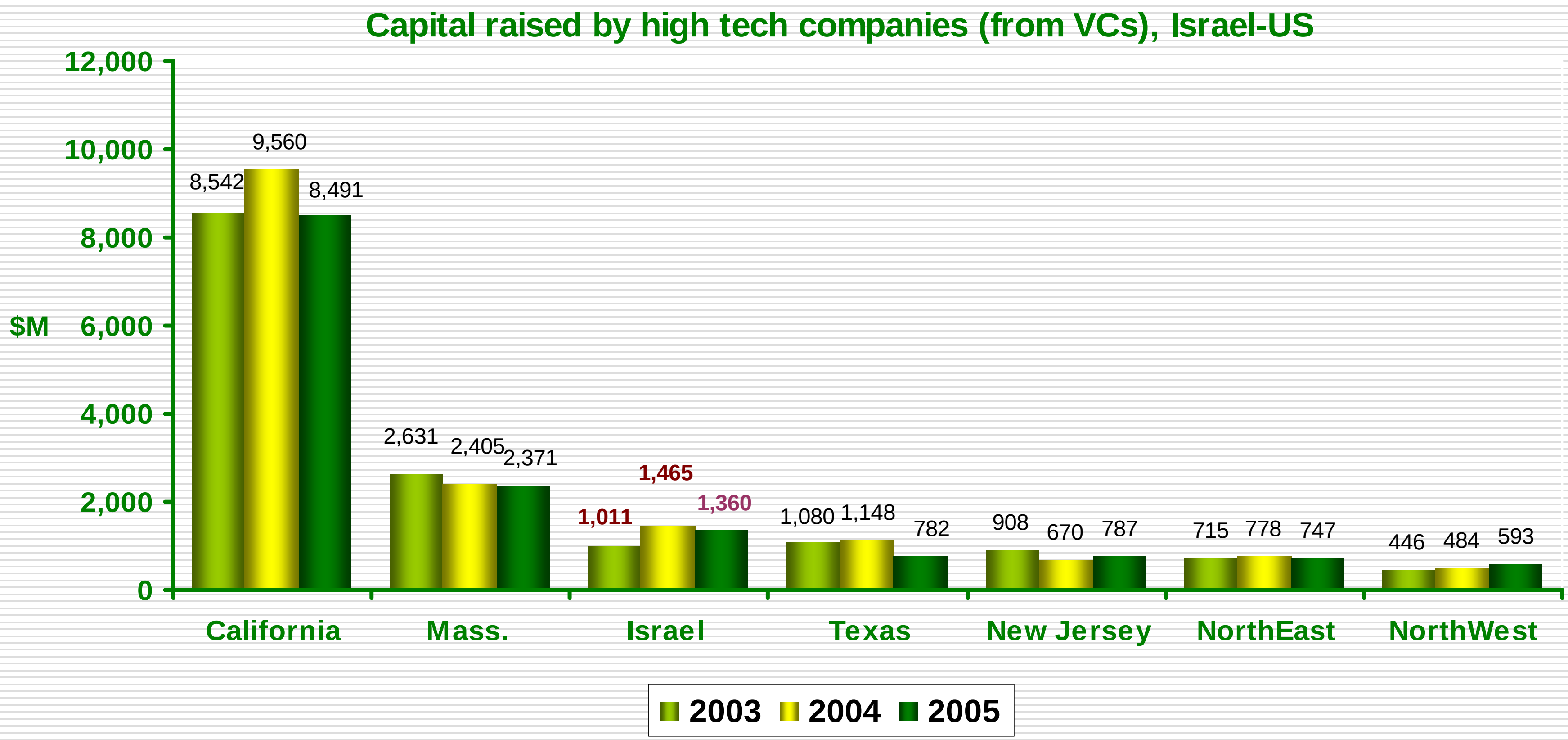
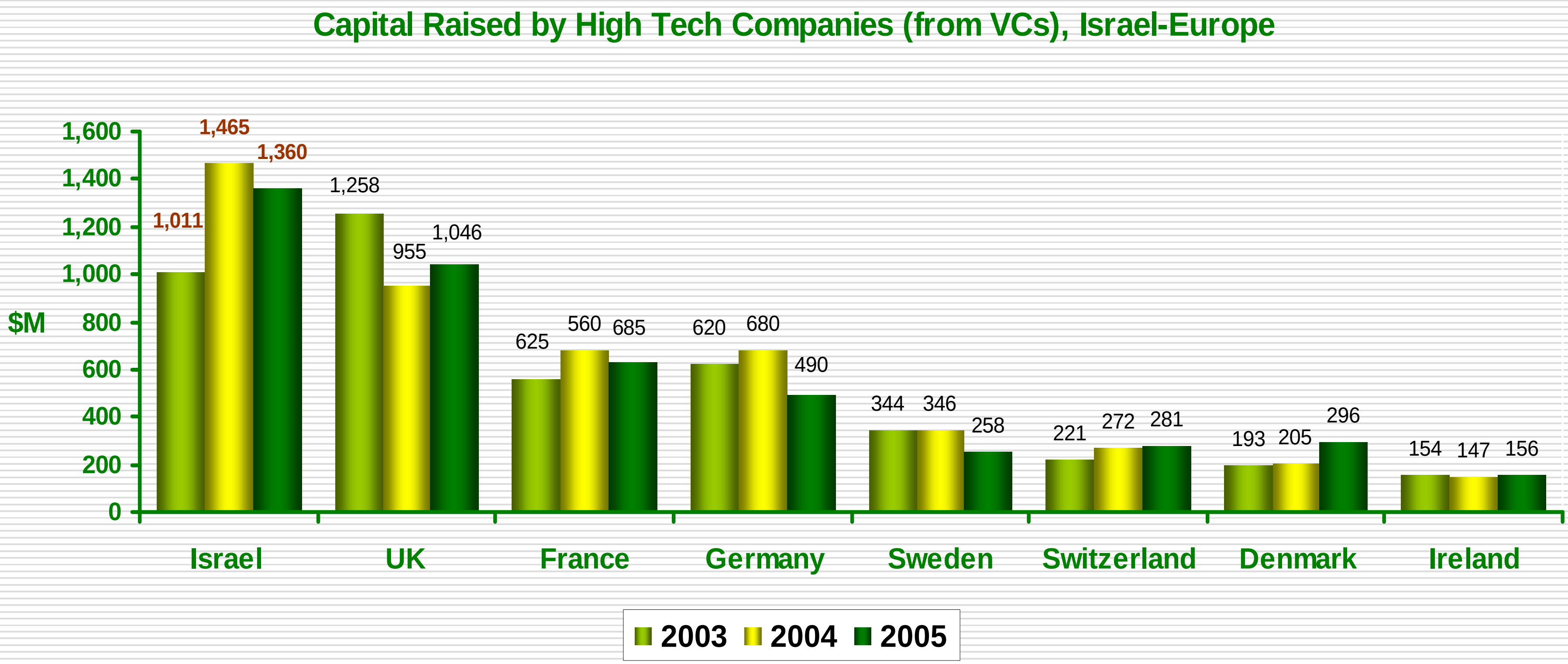
Jaffa Oranges vs. Software



Israel is the Third Largest “VC State” in the US



Israel is the Largest "VC Country" in Europe



Some of Israel's "Star" Companies

Shopping.com™

amdocs

Orbotech

Lipman
TransAction Solutions™

Gilat™

EMC²
where information lives®

GIVEN®
IMAGING

MERCURY™

COMVERSE

optibase
Video Innovations

VERITAS™

Precise

ZORAN

M-Systems
Flash Disk Pioneers

scitex®

Check Point®
SOFTWARE TECHNOLOGIES LTD.
We Secure the Internet.

creo™

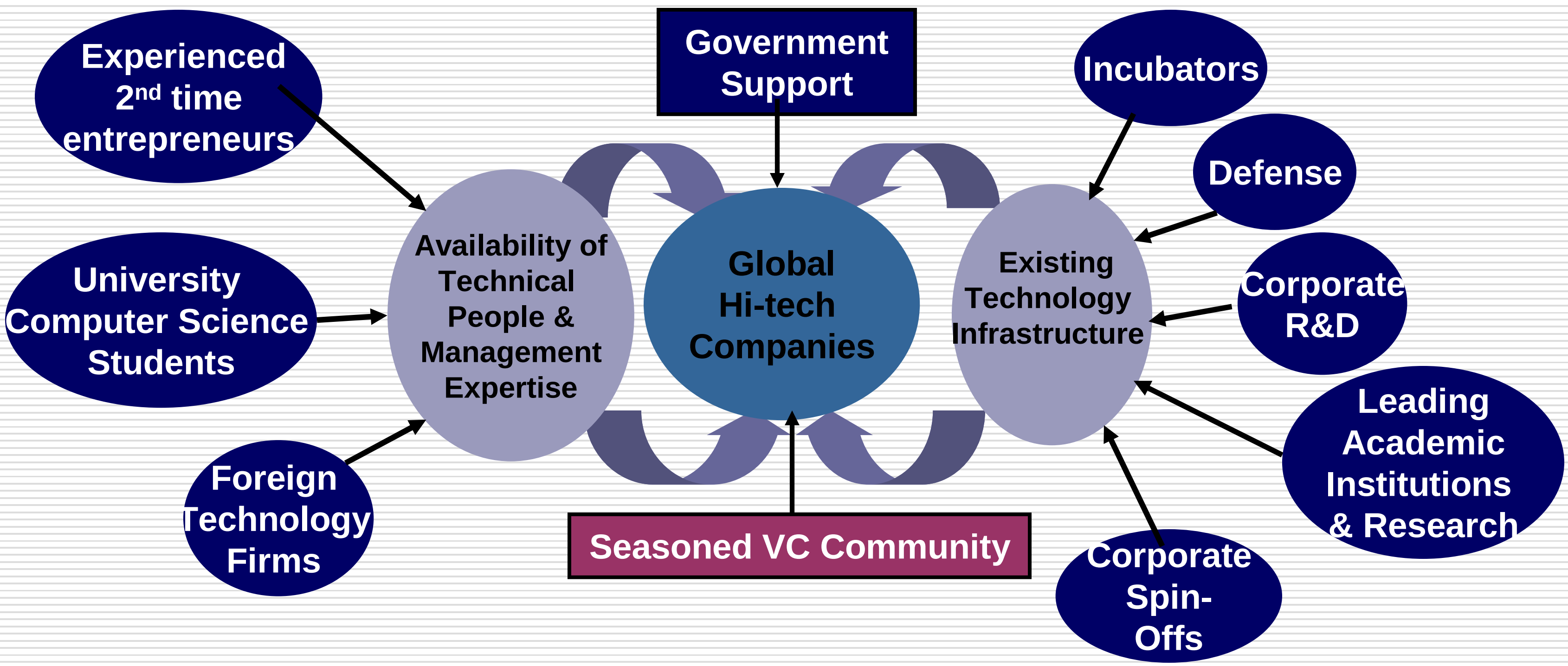
alvarion
We're on your wavelength.

TEVA®
TEVA PHARMACEUTICAL INDUSTRIES LTD.

NICE®

RADVISION

Israel - Sum of all Parts



Before you start the company…

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Does a company need to register as an Israeli or US company? What are the differences?

- US should be the default
  - Tax on exit event
  - M&A considerations
  - More flexibility on stock transactions
- Unless…
  - Critical to get money from Heznek, CSO
  - You live & plan to stay in Israel…

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When does a company should reach the market ?

- Use your instincts and then inverse them…
- ASAP in enterprise / SP markets
  - Nobody really expects a start up product to work… and you will learn so much from any customer engagement
- When ready in Web business
  - Nobody returns to a bad web site

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Company Structure

- Israeli R&D can work only if…
  - There is a strong local leader
    - Humble & listening leader & team
  - They are really great at what they do… otherwise it doesn't worth it
  - There is a true QA leader & process
  - Strong PM in USA, that is ready to speak with Israel daily after 10pm, and take calls on Sunday

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How should the board be structured ?

- BOD greatest role is to elect the right CEO, and then fire the CEO if it doesn’t work
- BOD should add
  - Credibility
  - Governance & audit
  - Review of strategy & execution… but not driving it
- Make sure this group of people works well with each other.

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Do the VCs influence the success of a company?

- YES
- Not always positively…
- It is all about people… not brands
- Lack of US based VC will make life harder on recruitment of a strong US executive team & vendors
- If all VCs are Israeli there must be few strong & known US BOD members

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Does a company need to be in the US even if its target market not entirely in the US

- No
- Unless, main partners & technology is driven from the Silicon Valley
- Unless, key sub-contractor is based in US

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What are the three things that will make a company successful in the US

- Strong & well compensated Sales team, which starts with a strong VP Sales
- Service
- Unique technology with clear value & ROI

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Starting the company

* Borrowed from Mark Leslie

The Sales Learning Curve - Optimizing the Path to Postive Cash Flow
By Mark Leslie

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Traditional "Plan for Risk"

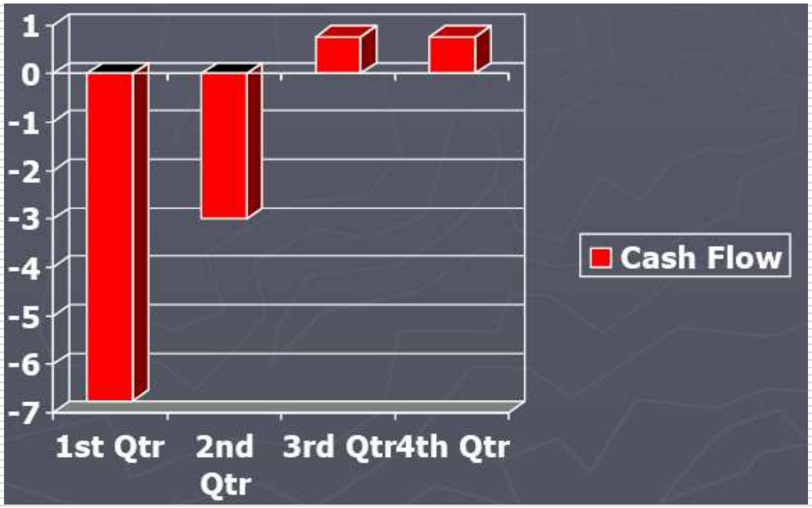
- Successful beta
  - Conversion of Beta's to Clients
- Recruit new VP of Sales
  - Typically Regional mgr. in related industry
- VP of Sales hires sales team
  - Based on "Capacity Model"
- Go for it…it is an exciting and optimistic time…

The Capacity Model

- Revenue: per each sales rep assume:
  - Quota
  - Productivity ramp up
  - Attrition
- Expense:
  - Number of sales managers per reps
  - Number of SEs per reps
  - Number of Inside sale per reps
  - Field locations

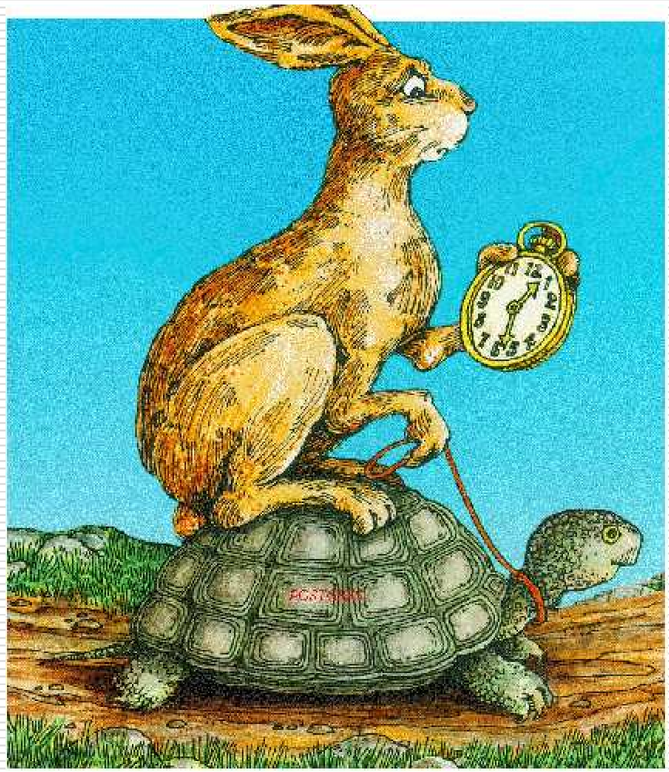
The Model & Reality

- The Hope



The Last Mover Advantage

- The last man standing with cash



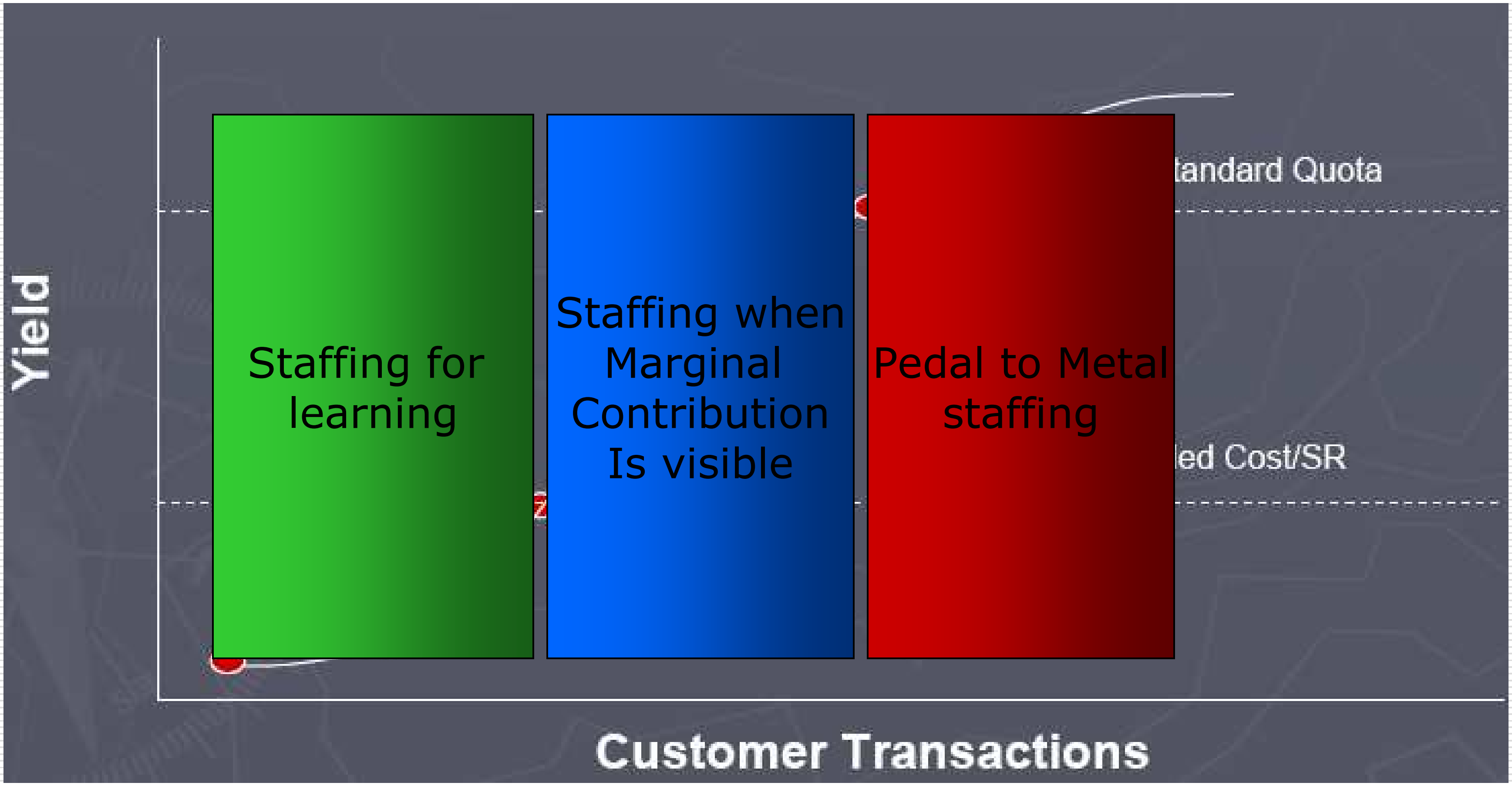
Would you invest in this company?

- I just built a device for $10,000
- Unfortunately the market would pay only $100 for that
- The good news is my team tells me if we ramp up volume to 1,000,000 we can manufacture the device for $10.

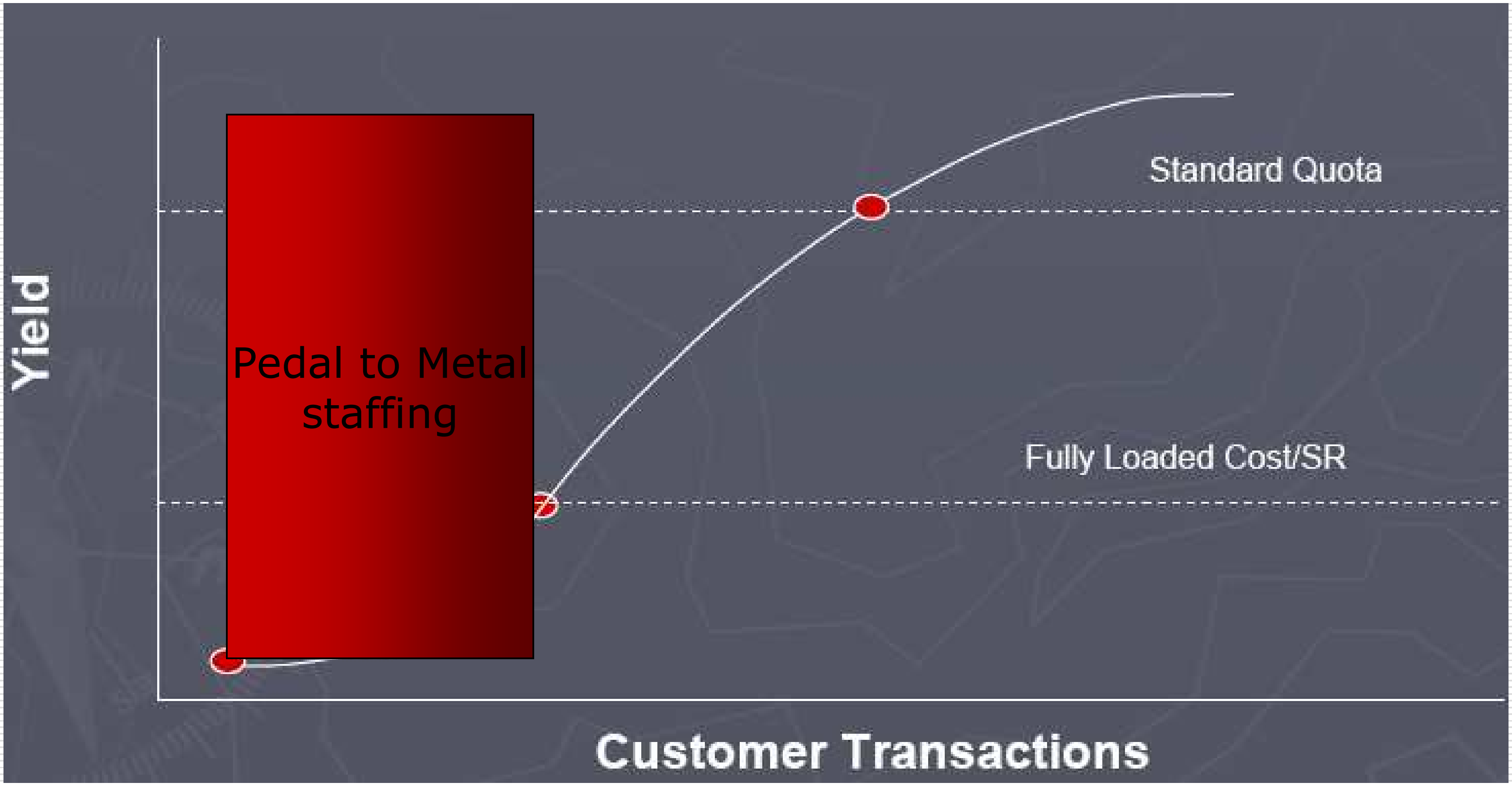
SLC vs. MLC

- MLC – Decreasing cost to produce units over time.
- SLC – Achieving breakeven is reasonably independent of sales force staffing.
- SLC key – How well and how quickly the entire organization learns what it takes to sell the product / service

Sales Learning Curve (SLC)

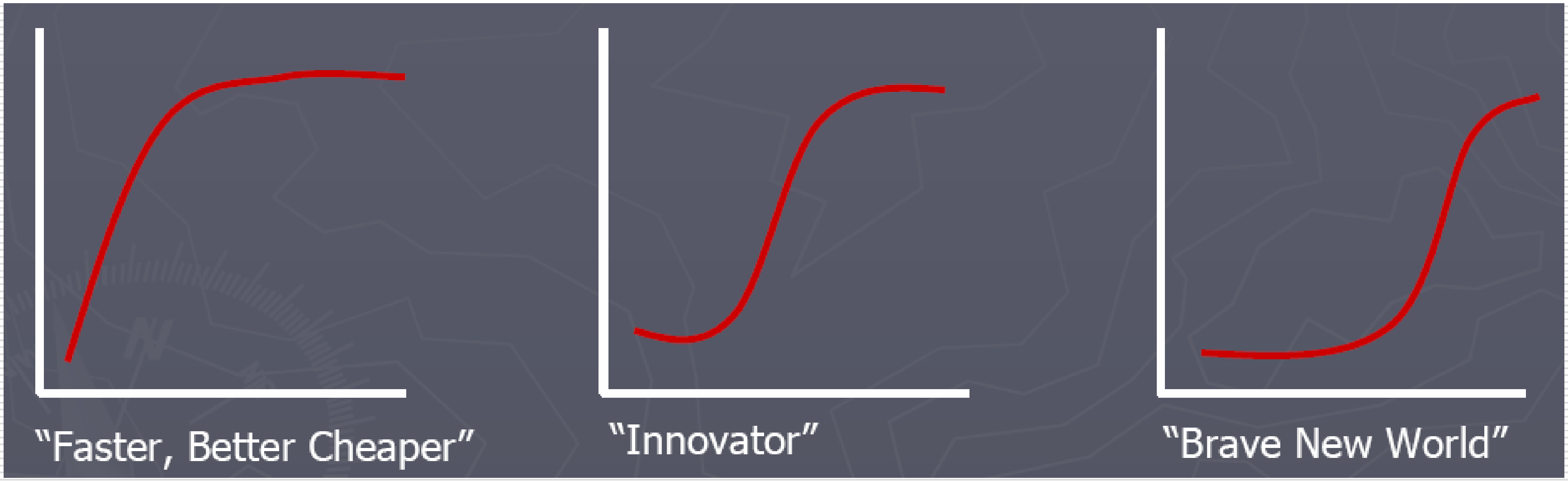


Staffing too early



Tracking Sales Yield

- Often few data points
- Often random data points
- However, any data is better than no data
- You will know it when you see it…



Planning for Learning

- Select initial sales team to enhance corporate learning
  - The “renaissance” sales rep type
- Do not ramp up expenses
- Set expectations (R&D) for uncertainties

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