Building a Startup: Why Europe?

Oscar Buset
President, Kimotion Technologies
Why Europe?

- World-class hi-tech startups do exist in Europe
- Maybe not as many, not a big, as in the US
- Why the disparity?
- Part of a broader question:
  “...why is one nation often the home for so many of an industry’s world leaders?” – Michael Porter, The Competitive Advantage of Nations (page 1).
<table>
<thead>
<tr>
<th>Heaven</th>
<th>Hell</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italian Design</td>
<td>Italian Administration</td>
</tr>
<tr>
<td>French Cuisine</td>
<td>French engineering</td>
</tr>
<tr>
<td>British Police</td>
<td>British Cuisine</td>
</tr>
<tr>
<td>German Engineering</td>
<td>German Fashion</td>
</tr>
<tr>
<td>Swiss Precision</td>
<td>Swiss Passion</td>
</tr>
<tr>
<td>American Hi-Tech Startups?</td>
<td>European Hi-Tech Startups?</td>
</tr>
</tbody>
</table>
What Is EDA?

- Electronic design automation software
  - Software to help design microchips

- Relatively few customers
  - Most popular programs sell a few 10s of thousands of copies.

- Very complex, high-value added software
  - Optimization/verification problems involving millions of variables.
  - Often takes days to run even to produce a sub-optimal solution.
  - Commands prices in the hundred of thousands of dollars.

- Quality of results determines company’s success/failure
  - A program that consistently produces chips that run 10% faster or consumes 10% less power or is 10% smaller will dominate the market

- 4 Major companies: Cadence, Synopsys, Mentor and Magma
  - All headquartered in western USA
Why are there no big European EDA companies?

• Technology? No.
  • Many popular programs / algorithms can trace their roots to Europe

• Lack of startups? Maybe.

• Lack of customers? Maybe.
  • Europe accounts for ~20% of EDA market (USA-40%, Japan-25%, ROW-15%)

• Lack of employee pool?
  • More difficult to recruit within Europe than within the US
  • Bay Area universities are 1st level recruiting tool
    • 50% graduate engineering students in US are foreign (at Stanford, 44%)

• History?
History of EDA

Programmed Disruptive Change

Early 70’s - computer aided layout
Calma, Applicon, Computervision
100’s of transistors

Late 70’s - computer aided engineering
Mentor, Valid, Daisy
1’000’s of transistors

Early 80’s - digital autolayout
SDA, ECAD, Silvar Lisco
100’s of 1’000’s of transistors

Late 80’s - logic synthesis/optimization
Synopsys, SiLC, Trimmer
1’000’000’s of transistors

Early 90’s - routing
Avant!, Everest, CCT, Gambit
10’s of 1’000’000’s of transistors

Late 90’s - physical synthesis
Magma, Silicon Perspective
10’s of 1’000’000’s of transistors

Moore’s Law
Case Study 1: Lisco

- EDA pioneer started in 1977 in Leuven Belgium selling place and route software (PhD thesis work) – sold 6 copies in 1st year
- Sold 1st licenses in US in 1979 to Digital Equipment Corp
- Started looking for venture capital in Europe to finance sales/support in US
- Instead merged in 1981 with Silicon Valley Research
- IPO in 1983 – revenues of $28M made them (temporarily) the EDA “gorilla”
Case Study 2: Snaketech

- Spin-out of PhD work completed in early 90s in DE-LEG under Prof. Michel Declercq
- Incorporated 01/01/1996 in France, bootstrapped during 1st 2 years, grew from 2 to 30 employees in 4 years before acquisition in 2000.
Why France for Snaketech?

1. At the beginning
   - One co-founder was already operating a business there.
   - Proximity to EPFL.
   - Better chances for funding within Europe.

2. Why we thrived
   - Support from the EPFL, CTI, Esprit in the early days.
   - ANVAR loans.
   - 1st round venture capital entirely from French VCs.
   - Lower-costs than in Silicon Valley

3. Why we tried to leave
   - To interest US investors
   - To get noticed
   - Even European customers go to the US to “shop” for their software
     - Opposite was not true.

4. Why we’ll think twice next time
   - French tax laws almost scuttled our merger.
   - French companies are unattractive to acquire
In retrospect

• Starting in Europe was a good thing

• EPFL support and government subsidies allowed us to delay bringing in venture capital
Case Study 3: Kimotion

• EDA spin-out of PhD work completed in early 00s at KU Leuven (Belgium) under Prof. Georges Gielen

• Incorporated May 2003 in Delaware USA, and Leuven, Belgium.

• Is Kimotion European?
Why Belgium/US combination for Kimotion?

- Technology was developed in Belgium.
- Key founders live in Europe.
- US corporation facilitated raising venture capital.
- Belief that a US corporation would facilitate an eventual exit.
Case Study 4: Geox

- Started in 1995 by Mario Moretti Polegato
- Leveraged family owned shoe production facility
- Obtained €1M loan from a local bank to launch
- Today revenues exceed €600M
- Market cap today exceeds €3B
- Founder still controls > 70% of the company!
Migrations – Europe’s Hi-Tech Startup Model?