GARNETT & HELFRICH

CAPITAL

PRESENTED TO: **Venrock Partners Meeting**

DATE: **May 27, 2003**

"IN THIS NEW ERA OF CONSOLIDATION AND CHAOS, A NEW BREED OF PROACTIVE INVESTOR IS REQUIRED TO REINVIGORATE ORPHAN IT BUSINESSES THAT CAN BE SPUN OUT OR BOUGHT OUT OF LARGER INDUSTRY PLAYERS."

[redacted]

Presentation Summary

- Venture Buyout Fund
- Venrock Sponsorship and Partnership
- Historical Background
- Investing and Operating Strategy
- Background and Accomplishments
- Fund Philosophy and Implementation
- Competitive Landscape
- Case Studies
- Fund Terms and Structure

Venture Buyout Fund

Garnett & Helfrich Capital will combine their operating skills and investment talents to reinvigorate orphan IT businesses.

- Extract – $20m - $100m businesses/product lines as spinouts from larger players.
- Embrace – Improve base business and shore up customers, build management and culture
- Extend – reestablish growth model with new product offerings (venture acquisitions and internal growth)

Venrock Sponsorship and Partnership

<u>Venrock Platform for Life Cycle Investing</u>

- Venrock Venture Funds – startups and early stage
- Granite Global – late stage passive investments
- Garnett & Helfrich – mid-tier technology buyouts

<u>Venrock and Garnett & Helfrich Partnership</u>

- Shared economics across funds (mutual incentives)
- Venrock investing as LP ($20m) in Garnett & Helfrich
- Strong sponsorship in fundraising and future activities
  - Shared deal flow (people, companies, partners)
  - Co-investment opportunities
  - Co-located operations

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Long Term Life Cycle Transitions

<u>Cottage Industry Stage (1980-1995)</u>

- Fundamental architecture changes drove new entrants (network protocols, Client/Server, Ethernet and digital communications PCs, ERP, Unix, relational databases,).
- Focus was on breakthrough technologies to open virgin markets.
- New high-growth companies (Microsoft, Oracle, Apple, Sun, Cisco, 3Com) challenged incumbents (IBM, DEC, Wang).
- Management talent typically inexperienced and overwhelmed by growth.
- $1B in sales represented a major player and $100m was still hard to achieve.
- Venture Capital was a relatively small, collegial environment.

IT Industry Becomes Worldwide Market

<u>Dramatic Growth Stage (1996-2002)</u>

- New catalysts for hyper customer demand (Internet, e-commerce, Y2K, corporate automation and ERP, mobile computing).
- Abundance of capital and significant increase in new investors (venture capital, late stage funds, IPOs, corporate investors).
- Scale becomes important and achieved at any cost (mergers and acquisitions), $100m is a small player, $1B is a mid-size player, and $10B is where you need to be.
- Infrastructure ramps up to meet demand (law firms, consultants, investment banks).
- Management pool is overstretched and results in poor and varied performance.

Industry Needs to Restructure

Restructuring Stage (2003-2012)

- All IT businesses start focusing on profitability and manageable growth.
- Customers are very risk adverse and want to buy from established and stable players.
- Large scale vendors are dropping weak product lines and shedding non-strategic divisions.
- Startup technologies are available at fire sale prices for buyers with cash.
- Limited M/A activity because vendors are worried about taking on more burden and need for transactions to be accretive.

Our Operating Strategy – Value Investing Comes to IT

- Warren Buffett style investing is our model (revenue multiples, cash flow metrics, managed growth).
- Orphaned businesses ($20m - $100m) are undervalued given their potential but need investors with operating skills to realize their value.
- Worldwide IT industry is now large enough to offer healthy flow of spinout opportunities.
- We understand how to build brands and expand customer base, which is the most expensive and valuable part of building these businesses.
- Neither traditional buyout firms nor venture funds have skill set and are focused on smaller technology buyout deals of <$100m.

Large Historical Pool of Candidates

Market Transactions (1992-2002)

M&A (>$100m transaction)

Communications	1,699
Software	861
Total	2,560

IPOs (>$20m raised)

Communications	312
Software	276
Total	588

Source: Goldman Sachs

Our Investment Strategy

- Target large companies that might “orphan” good technologies and businesses in an effort to rationalize their companies.
- We will proactively source deals from large public companies, support infrastructure (legal, consulting, accounting), management, “alumni” clubs, and other investors (VCs, buyout firms).
- Look for established businesses/product lines that have strong brand with their current customers.
- Analyze and model business prospects and build an execution plan to reinvigorate business (new management, industry partnerships, startup acquisitions, sales and marketing efforts).
- Buy “control” positions that enable us to define and implement our plan.

Post Acquisition Activities

- Assume Chairman role of acquired business to provide strategic direction to CEO and new management team (significant time at company).
- Define short-term financial goals for year one, which includes cash flow breakeven target.
- Strong emphasis on improving customer relationships and expanding worldwide sales, support, and marketing programs.
- Implement business development programs to partner with industry leaders (OEM, distribution, co-marketing/development).
- Explore opportunities to acquire other related businesses (startups, overseas distributors, products).
- Explore moving development and support activities to lower cost regions (India, China) to improve margins.

New Growth Strategy Builds Premium Exits

<u>Ideally take $50m spinout and grow to $150m</u>

- Great management teams build great companies, so we will shoot high in who we bring into companies.
- We will provide venture-type equity incentives to motivate management team.
- We will keep a stable of operating executives that we have worked with in the past that we can parachute into new investments.
- Improving operations of base business from money losing $50m entity to cash flow positive entity will provide currency to buy other properties.
- Venrock assistance in identifying startup technologies to acquire or distribute.
- Develop international sales channels and distribution to expand revenue base.
- Larger public companies are looking for growth engines to expand their business.

Grew Up in the Industry (1980-present)

<u>Garnett & Helfrich Capital</u>

- 30 years of senior management experience with both startups and major industry players working in all corporate disciplines (sales, marketing, development, executive management).
- Deep industry knowledge and corporate relationships within communications/networking, internet infrastructure and enterprise software fields.
- We are recognized industry leaders in marketing, partnership formation and sales channel development.
- Personal history of identifying large new markets and developing leading edge technology and applications.

Success in All Cycles of the Industry

<u>Garnett & Helfrich Capital</u>

- 15 years of venture capital experience (Venrock and ComVentures) in making investment decisions, raising capital, working with management, and defining strategy.
- 15 years of experience as members of both startup and public boards of directors (audit and compensation committees).
- Participated in a number of major M&A transactions as principals, investors, and management.

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COMVENTURES

Investment Track Record

David Helfrich

- Started ComVentures with Cliff Higgenson and Roland Van der Meer in 1997.
- Successfully raised and invested 4 venture funds (CV II-V) with a total of $1.2B capital under management.
- Second highest GP return over life of ComVentures (1997-present).
- History of co-investing with leading VC groups (Venrock, Kleiner Perkins, Matrix, Accel, Mayfield and Norwest).

Investment Track Record

<u>David Helfrich</u>

- Led ComVentures investment in three of the most successful companies.

CoSine Communications — $2.3 billion IPO

$7.0 billion Peak Market Cap

entera — $440 million Acquisition by CacheFlow

IntruVert — $100 million Acquisition by Network Associates

Operating Experience

David Helfrich

- Extraordinary value creation as technology entrepreneur (1989-1997).
  - AVP Marketing at Newbridge Networks Inc. (Employee #15).
  - Founding Team/VP Sales and Marketing at Ascend.
  - Founding Team/VP Marketing at Centrum Communications.
  - VP Marketing/Operations Committee Member at 3Com.
  - Founding Team/VP Sales and Marketing at Copper Mountain.

ASCEND COPPER MOUNTAIN NETWORKS, INC.

NEWBRIDGE 3com Centrum COMMUNICATIONS

Investment Track Record

<u>Terry Garnett</u>

- Venrock Venture Partner (1995-2000) and General Partner (2001-present).
- Selected #22 on the Forbes Midas List of best VCs (2001).
- Generated cash-on-cash Venrock returns of 6.6X and absolute $ gains of $310m on Venrock capital invested during the period of 1995-present.
- Led Venrock's investment in the single largest $ return of any deal in its 30-year history (Niku IPO, $145m LP distribution).
- Personal investments resulted in $155m in cash returns and 4.26X cash-on-cash performance.

Operating Experience

Terry Garnett

- Participated in day-to-day management of Crossworlds from founding (1996) to IPO (2000) to sale to IBM (2001).
- Incubated Niku ($ 5B peak market value) and Neoforma ($ 2B peak market value) from conception to IPO.
- Participated in turnaround of Oracle (1990-1994) as Sr. VP, Marketing and Business Development. Member of 8-person Management Committee reporting directly to Larry Ellison.
- Prior management experience at McKinsey & Company, Tandem Computers, and startup Founder/CEO of Lightyear Inc.

New Winning Culture Is Critical

- We only acquire “control” positions in on-going businesses so we can instill new management and value system on our terms.
- Culture drives behavior and success so we spend concentrated time at each investment (1-2 days per week).
- Industry relationships come from “alumni” club model:
  - Oracle: Peoplesoft, Veritas, Siebel, Salesforce.com.
  - Networking: Juniper, Cisco, 3COM, Newbridge, Ascend.

Our Reputations Are Our Key Assets

- Over the last 20 years, many industry leaders have been investors and partners with our operating companies and portfolio investments.

ORACLE

ERICSSON

hp invent

NOKIA CONNECTING PEOPLE

CISCO SYSTEMS

DELL

Lucent Technologies Bell Labs Innovations

EDS

SAP

ERNST & YOUNG Quality In Everything We Do

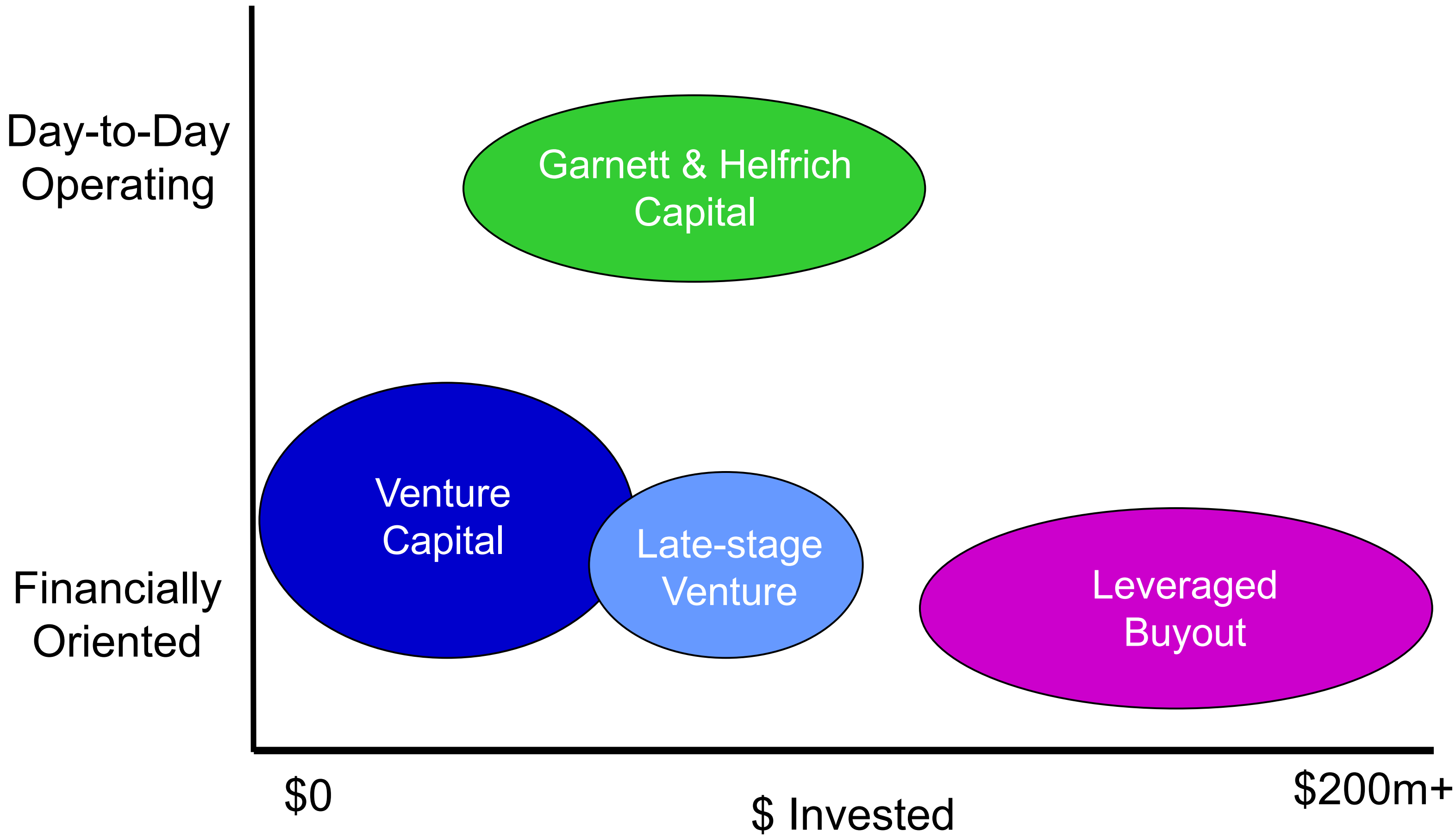
3com

COMPAQ

intel

IBM

Competitive Landscape



Venrock Spinout Case Study

PGP Corporation

- Security Software Division (PGP) was purchased by Venrock and Doll Capital from Network Associates (Nasdaq: NETA) in July, 2002 for $2m.
- Garnett helped structure this buyout, led Venrock's investment, and joined the PGP board of directors.
- New entity acquired 15 software products, patents, 3m user customer base and associated maintenance contracts, 15-person development team from Network Associates.

PGP – A New Company Within One Year

PGP/Venrock

- Seasoned CEO (Phil Dunkelberger) and complete management team installed into new company.
- Company ahead of revenue plan ($16m in sales in 2003 and $25m in 2004) and major industry players are looking to partner with PGP.
- Worldwide sales channels, Internet e-commerce and corporate sales are in full gear.
- Company will achieve CFBE on Series A funding round of $14m.

PGP CORPORATION

VENROCK ASSOCIATES

Other Industry Reference Points

BUSINESS	SELLER	BUYER
LANDesk SOFTWARE	intel	VECTOR CAPITAL
KENTROX	ADC	Platinum Equity
PARADYNE	AT&T	TEXAS PACIFIC GROUP
CORNING Optical Fiber	CORNING	AVANEX
ALCATEL	ALCATEL	AVANEX

Intel Spinout Case Study

LANDesk Software, Inc.

- Investor-led buyout consortium (Vector, Blueprint) invests ~$17m for majority ownership in LANDesk Software, an award-winning provider of desktop and device management solutions.
- Lead investor Vector Capital spent one year of effort and $650k in expenses to lock up the deal.
- Founded 1985, acquired by Intel 1991, spun out of Intel 2002.
- Five mature products generating $40m in revenue.
- Broad international distribution channel.
- Blue chip customers: Coke, GE, GM.

LANDesk Software, Inc.

- $17m buyout from Intel for majority ownership in LANDesk in Q4 2002.
- Seasoned CEO (Joe Wang) and senior executives added to management team.
- Grew sales from ~$40m in 2002 to $60m (forecast) in 2003.
- EBITDA positive Q2 2003.
- Cash flow positive by Q4 2003 (forecast).
- Goal: IPO in 2004.

ADC Spinout Case Study

- Platinum Equity acquires Access Products Division (aka Kentrox) from ADC Telecommunications in September 2001.
- ADC motivation: reduce operating expenses by $50m per quarter and reverse operating losses.
- Kentrox manufactures and sells high-speed wire area networking (WAN) access devices.
  - 20% T1 market share
  - 25% T3 market share

Kentrox Buyout by Platinum

- Kentrox annual revenue run rate was $50m at the time of the acquisition and was generating positive cash flow.
- Acquisition price (gross) is estimated to be $10m with the net price significantly less.
- Operating expenses were slashed and jobs eliminated as Platinum quickly recaptured their invested capital.
- Other interested parties were precluded from bidding for lack of audited financial statements.

"I could have turned this from a $50m business to a $150m business with my hand tied behind my back."
(Industry veteran and networking CEO)

Value Investing Applied to Technology Segment

How do we measure success?

Spinout Sales Revenues	$20m to $100m
Profitability	Yes, or within 12 months
Total Purchase Price	$10m to $100m
Our $ Investment	$10m to $50m
Purchase Multiple	.5X to 2X
Exit Multiple	2X to 10X

(Exit multiples will rise as company growth and profitability improve, as well as overall market conditions.)

Multiple Exit Paths for Our "Finished Product"

<u>Mature but growing business are very valuable</u>

- Build buyouts into $100-150m profitable growth companies within 3-4 years from investment.
- Invigorated buyouts become candidates for sale to larger industry players looking to build bulk and scale in new markets.
- Take best companies public as leaders in key segments.
- Great management is valuable to acquirer and increases value of sale.

Garnett & Helfrich Capital

Terms and Fund Structure

- $250m fund size ($20m Venrock commitment).
- 25% carry and 2.5% management fee.
- Targeted to complete 8-10 buyouts/spinouts within 3-4 years.
- Each partner will complete 4-5 transactions in this time period.
- Deals may be solely financed by Garnett & Helfrich/Venrock or with the support of additional high quality VC and/or buyout groups.

Summary – Value Investing in IT

- Market is moving into a long-term period of restructuring and consolidation that makes this opportunity timely and compelling.
- Garnett & Helfrich have the right mix of executive operating experience and venture capital investing track record to make this fund successful.
- Fund size is reasonable to complete significant transactions; fewer transactions of higher quality is the order of the day.
- High quality resources (talent, technologies, customer demand, partnership opportunities) are readily available in marketplace.
- Support of Venrock and other industry players is a key differentiator.

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