Profile: Intel Capital

Building the world's largest technology venturing unit

Intel Capital is by far the world's biggest technology venture investor and has developed a platform designed to achieve its strategic and financial goals.

Venture capital is a difficult business to scale up substantially but, in less than 20 years, Intel's in-house venture capital division has invested nearly $10bn of equity in minority stakes in more than 1,000 companies.

By comparison, some of the world's largest and most successful independent venture capital peers, such as New Enterprise Associates (NEA) and Kleiner Perkins Caufield & Byers, have spent longer in the business, invested less and have smaller technology teams.

Fact box – Intel Capital

Key people: Arvind Sodhani, president; Keith Larson, vice-president; Lisa Lambert, vice-president; Lee Sessions, portfolio development and marketing.

Since 1991, Intel Capital has invested more than $9.5bn in over 1,050 companies in 47 countries.

Year	Invested ($m)
2009	327
2008	1,590
2007	639
2006	1,070
2005	265

Source: Intel Capital

Whereas Intel Capital has a declared 79 investment professionals (and 194 staff on its LinkedIn page), NEA has 32 in its technology team, separate to life sciences or other areas, and Kleiner Perkins 30.

Arvind Sodhani, president of Intel Capital, said: "Building the ecosystem to help entrepreneurs establish and grow a new business requires investment capital and expertise. As a strategic investor, Intel Capital is uniquely positioned to provide the capital, global reach, worldwide customer access and recognised brand to help drive lasting technological innovation. Intel Capital is committed to the corporate venturing approach because this is an effective way to develop new businesses and technologies, create new industries and establish new markets."

The reason behind Intel Capital's scale and success is primarily its clear strategy to be the eyes and ears of a company "paranoid" about the future. As a result, Intel Capital is fundamentally a risk management tool.

Andrew Grove, co-founder Intel in 1968 and chief executive when Intel Capital was formed in 1991, summed up the company's culture through his business motto: "Only the paranoid survive."

He said in the preface to his book published in 1996: "Sooner or later, something fundamental in your business world will change."

For him, Intel's primary worry was about understanding strategic inflection points, "a time in the life of a business when its fundamentals are about to change", as Intel had faced in the 1980s when it moved into microprocessors.

Leslie Vadasz, another Intel co-founder, formed Intel Capital and ran it from 1991 to 2003 with this culture. Following an initial period where some legacy investments did not work, Vadasz worked with George Coelho from Intel Treasury to develop a process to do better deals and eventually create a successful business unit.

Coelho, who left in 1999 and now heads global renewable energy investor Good Energies' venture group, said: "Intel was confrontational. I came from outside [Intel] and was seen as the antichrist investing for Andy's second childhood, according to some Intel veterans who were critical of what we were doing. Initially we had lost money.

"We fixed that partly by developing a process, a 17-page flowchart and a narrative, and making sure people could not go round that process by form shopping – as happens in large companies – to different managers. At least we had the chance then to have the basic due diligence filters on what we were doing as well as to employ industry-standard terms and conditions. We aligned our interests with VCs on price and had the same documentation. And we looked at deals that other VCs wanted rather than just those that only we wanted.

"In those early days we were a small coterie of people that went to lunch every day together – we went to this place we called The Club (it was just a cafeteria). We enjoyed everything about the business, the hunt, the pressure, the calamities and the failures, the negotiations, squeezing people both inside and out, whether VCs, Intel people or, more rarely, entrepreneurs. Our goal was both to gain understanding and influence strategically for Intel as well as to make money.

"Uniquely we monitored our internal business units when they were sometimes crowding the entrepreneur in a deal – something we policed – and in so doing defended the faith by protecting the little guy from being overwhelmed by a big corporation, whether Intel or others. We were proud of the way Intel acted, to Intel core values, with the highest ethics. We had many fans among entrepreneurs and internally."

Although it almost never buys its portfolio, preferring instead to build commercial relationships and increase demand for computer processor power, by 2002 Intel Capital said it had invested in more than 1,000 companies, including stellar successes in software company Citrix, chip company Broadcom and Chinese-language search engine Baidu.

Intel Capital had started developing its non-US operations from the late 1990s. It had invested outside America sporadically before this but it was only after John Miner's presidency, from 2003 to 2005, when Arvind Sodhani became head, that the company started to scale up internationally and lead more deals.

In his presentation at Intel Capital's 2006 CEO Summit in India, Sodhani said year-on-year international investment was up 60% and it was leading 40% of deals. Whereas in 1999 only 5% of Intel Capital's money was invested outside the US, a decade later more than 50% went to international companies and 35 of its 79 investment staff are outside the US.

Although it has invested in 47 countries, Europe is Intel Capital's second-biggest market, having backed more than 100 portfolio companies with eight investment staff in western Europe and four in eastern Europe. However, Intel has people in 26 countries around the world and large teams in China, India, other parts of Asia, Latin America and the Middle East.

Managing a global franchise required the development of Intel Capital's matrix of sector and geographic managing directors and a process for making decisions. Under Sodhani, as president of Intel Capital and a vice-president and board member of Intel, are two vice-presidents, Keith Larson and Lisa Lambert. Another nine managing directors cover its geographic regions and sectors in hardware, software and services targeting enterprise, home, mobility, health, consumer internet, semiconductor manufacturing and clean-tech.

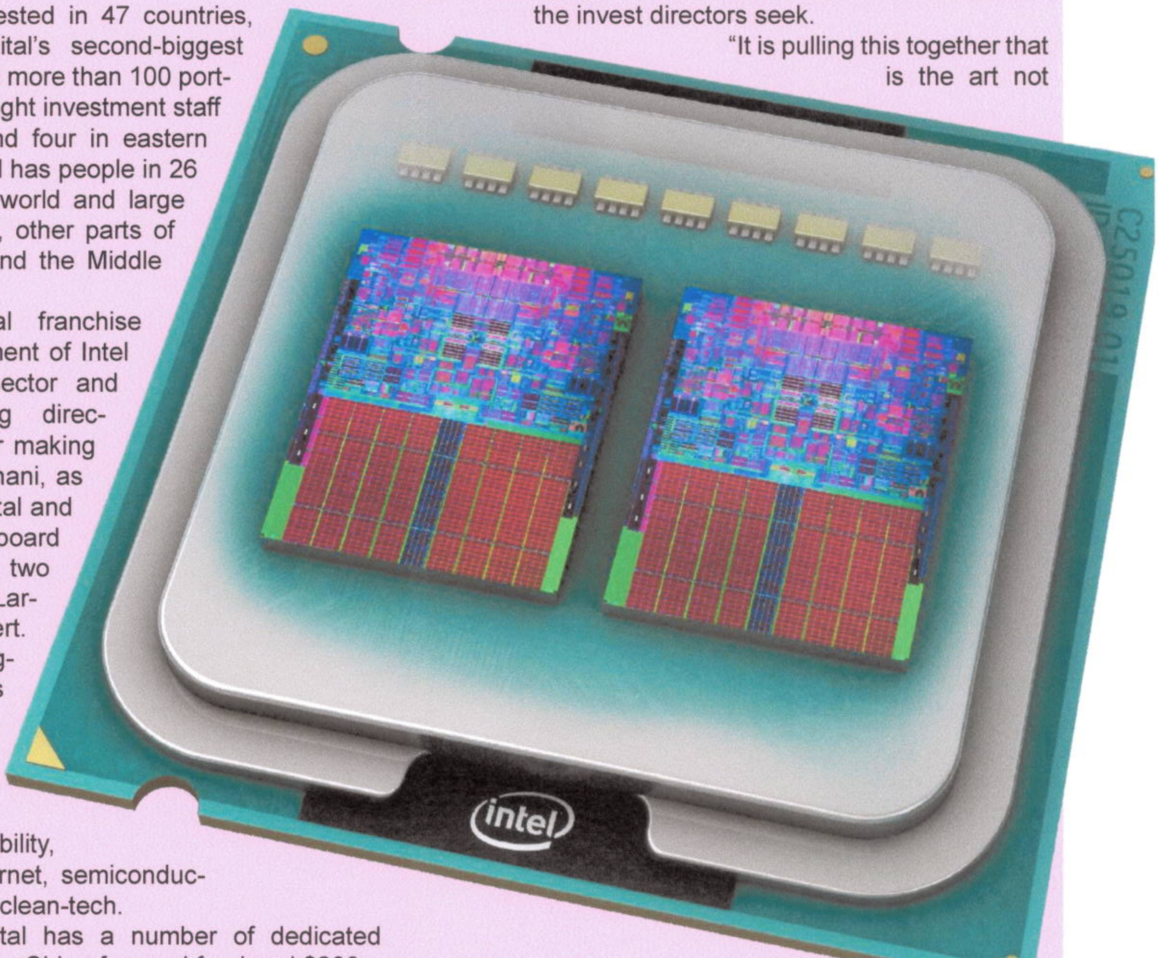
Although Intel Capital has a number of dedicated funds, such as a $500m China-focused fund and $200m for India, all its money comes from its parent's balance sheet and there is a single investment committee and remuneration policy.

Ashish Patel, head of Europe for more than a decade before leaving in May to become a board member of one of Intel Capital's portfolio companies, Czech Republic-based anti-virus software company AVG Technologies, said: "Intel Capital is the eyes and ears of Intel to look for trends and themes on a global basis.

"Intel Capital has survived being so big because it has invested millions of dollars in its web-based IT system to share data and performance anywhere, it has a single investment committee with on-the-ground managers and sector expertise, a shared goal and one pot of money.

"The investment committee needs a process that can allow a member in a sector or region to evaluate a deal in another region or sector. This means having data points where the financial model has been put together based on assumptions made in a consistent manner, a number of businesses have been looked at and where the local team has evaluated the management all based on global themes. Investment themes, whether emerging technology or emerging markets, drive what portfolio companies the invest directors seek.

"It is pulling this together that is the art not



the science. It is difficult to run a global, matrixed organisation except by the will of the people to make it work. Intel Capital was built on Intel culture, which is robust. Everyone has a say in constructive confrontation where decisions are based on consultation and data points, rather than consensus and intuition, and then executed. This culture is behind the success of Intel.

"The ingredients that have made Intel Capital the most successful technology investor ever and survive being so big has been its methodical approach. It has been more successful in hardcore technology than internet investments because of it. Intel can better drive a portfolio company's business plan with intellectual property and use its business know-how. Intel is good at evaluating these as its people have financial and operational backgrounds and a robust relationship with business units at Intel.

"Intel Capital now has significant capital and a platform where it can do what it wants to find strategic investment possibilities around the world, which is a unique situation [among venture investors]."

After Patel's departure, Intel Capital split the management of Europe, Middle East and Africa between Marcin Hejka and Marcos Battisti. This was part of a more general shift by the company to divide countries between emerging and developed markets.

Battisti, head of western Europe and Israel, said: "We are looking at funding innovation with companies from emerging markets as regional plays and in developed countries as best in class for global application, which is why we separated western and eastern Europe.

"We are interested in finding knowledge that will influence how we as a species are going forward. That is my biggest remit and it is incredibly exciting as the list of successful companies from here includes ARM, CSR, MySQL, Skype and Silicon Hive.

"Intel Capital is at the top of its game and growing. We are stage agnostic and whereas we initially were always part of a syndicate, we can now lead or do deals alone.

"For entrepreneurs, the question they should ask a potential investor is whether they can prove they have the spirit to grow their company and not just make financial engineering for their benefit.

"The key value-add of Intel Capital is to be able to open doors inside the company and with customers and suppliers as one of the biggest companies in the world."

Lee Sessions, a managing director, heads the portfolio development and marketing function, which includes its CEO summit and 69 Intel Technology days last year where an average of 10 portfolio companies met Intel suppliers and other technology firms to discuss opportunities.

He said: "We provide connections back to Intel to help our portfolios grow, but that is just the tip of the iceberg. One of the value propositions of any VC is the ability to introduce the entrepreneur to customers. Intel Capital has a team devoted to making relevant introductions on a global scale. These efforts result in well over 1,000 relevant introductions that result in valuable leads and real business for our portfolio companies."

Hejka, managing director for eastern Europe, Middle East and Africa, said this collaboration between Intel's business units, portfolio companies and the broader technology industry was possible because of Intel's size and breadth of activity.

Hejka said: "We are looking for companies that can facilitate the entire technology ecosystem and the demand for processing power.

"We cooperate with Intel business units for due diligence on deals and help after investment, and we offer portfolio companies marketing and technical support to optimise their products and sales as well as help expanding internationally.

"Innovation happens in good times and bad and Intel supports it because it invested in difficult times."

Last year, at the nadir of the credit crunch, Intel Capital invested $327m in 82 of its existing portfolio companies and 25 new deals. Much of this activity was below the public radar – Intel Capital said it had invested in 59 US companies last year while a major data provider said it had invested in just 26.

The investment total was nearly 80% down on the previous year's $1.6bn in 169 investment rounds, including 62 new deals, and just above the $265m invested in 2005 when Sodhani took over.

Since 2005, Intel Capital has floated 25 companies, a sixth of its total since 1991, and sold 81, out of 241 since it was started. Mergers and acquisitions have became increasingly important as an exit route in the US while initial public offerings allow Intel to follow Asian companies after they become public.