

# **Startups and Venture Capital in Silicon Valley and Germany**

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# Advice for German Companies

YOU NEED A GLOBAL GROWTH STRATEGY  
GO WHERE THE MARKETS ARE  
GO WHERE THE OPPORTUNITIES ARE  
GO FOR GROWTH, GO FOR SCALE  
UNDERSTAND YOUR GLOBAL COMPETITION  
WHAT % OF REVENUE IS GLOBAL?  
CHEAP EURO IS A GIFT FROM HEAVEN

# Startup Companies that Matter

Reach \$100M (or more) in revenue

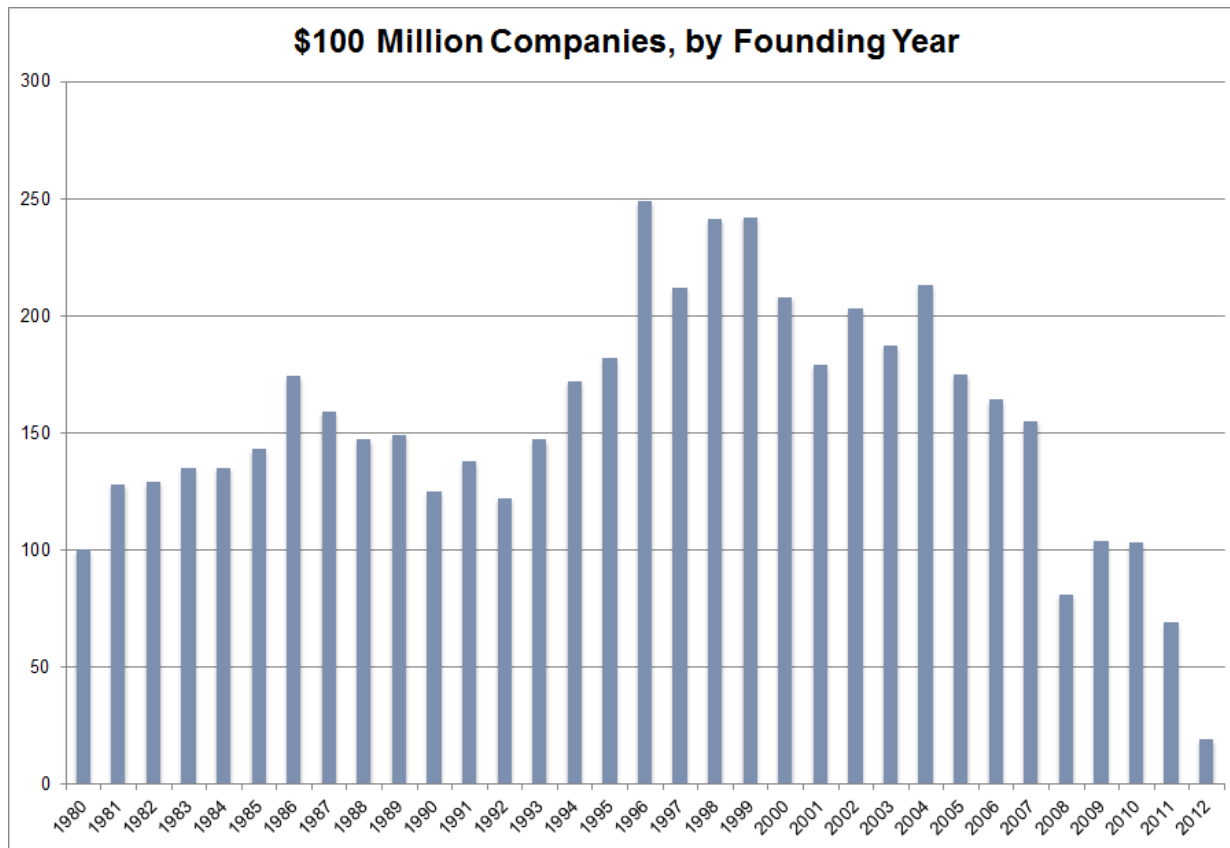
Most likely to go public or get acquired

Drive most job and wealth creation

Lower cost of capital for continuing growth

Ability to acquire other startups

# US Startups that reach \$100M Rev/Year



Between 1980 and 2010, 125-250 new companies reach \$100M Revenue/y.

This is out of 10,000+ new companies in the US formed each year

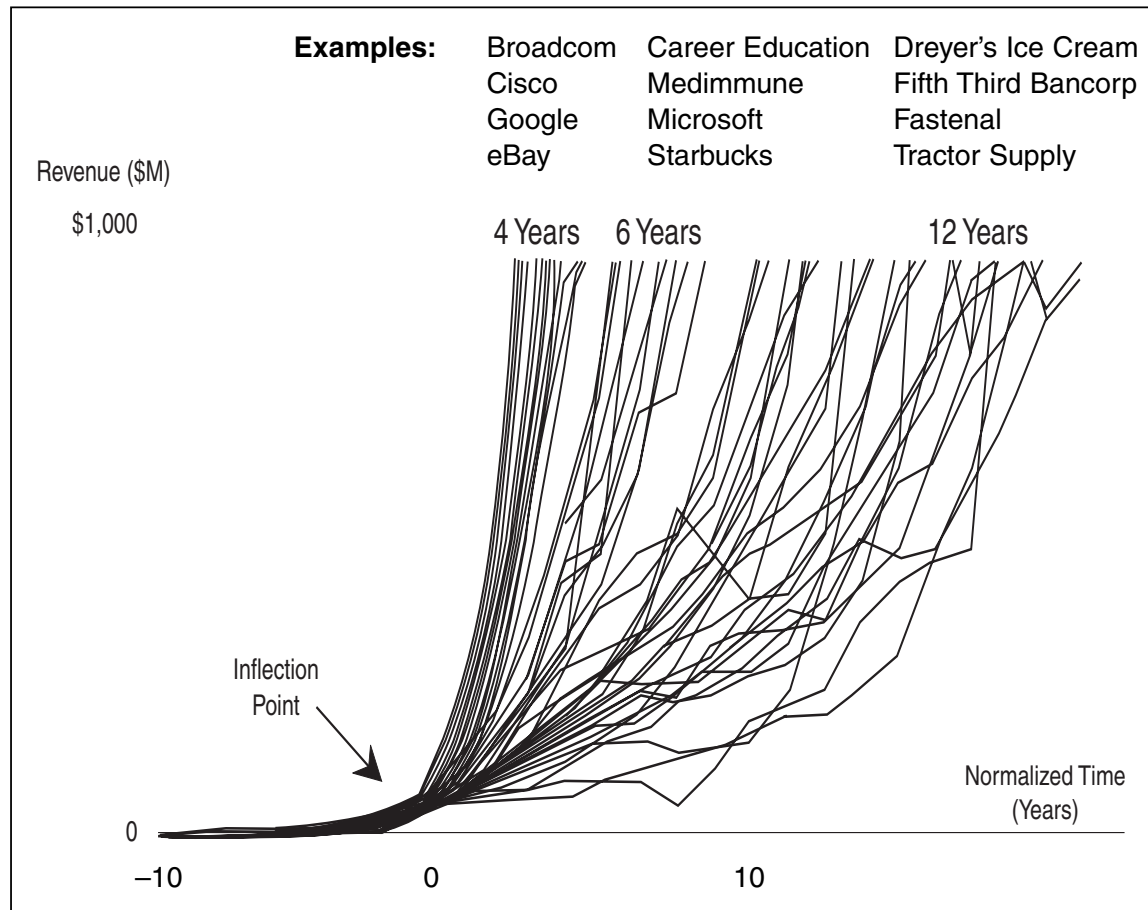
Source: Kauffman Foundation Report "Companies that Matter" May 2013

# Startup Companies that reach \$1B+

- 2010 Study from “Blueprint to \$1 Billion”
- Total 7,454 IPOs since 1980 (tech and non-tech)
- 350 or 5% of IPOs achieved > \$1B revenue
- **70 of the 7,454 IPO (1%) were Technology > \$1B**

The 70 IT IPOs created more Market Value than all other IPO Companies combined

# Timeline from \$100M to \$1B



Best companies grew from \$100M to \$1B in 4 years

Next best set of companies grew to \$1B in 6 years

Third best set grew from \$100 to \$1B in 7-12 years

After 12 years, few startup companies got to \$1B+

# **Characteristics of \$1B Companies**

- 1. Large and Growing Market Opportunity**
- 2. Sustainable Value Proposition**
- 3. Acquire Large Marque Customers**
- 4. High Growth Profitable Business Model**
- 5. Experienced Management and Leadership**

# Why Start a Company?

Think of businesses that can grow  
to \$100M to \$1B in revenue



# Why do Startups Succeed?

1. Right Product
2. Right Time
3. Right Market
4. Right Amount of Funding
5. Right Team

# Why do Startups Fail?

1. Not building the right product
2. Not enough customer contact
3. Insufficient value proposition
4. Lack of execution
5. Insufficient funding

## **Key Question:**

**Why is it so much easier to start successful companies in Silicon Valley than in Germany, and what can we learn from this?**

# Comparison Silicon Valley vs Germany

Factor	Silicon Valley	Germany	Comments
Right Product	Green	Green	New ideas and R&D can be done anywhere in the world
Right Time	Light Green	Light Green	Timing is an issue of getting started at the right time
Right Market	Light Green	Red	Key difference #1
Right Funding	Light Green	Red	Key difference #2
Right Team	Light Green	Yellow	Key difference #3

# Key Difference #1: Market Size

The US Market is huge

US population ~ 4X Germany, IT spend ~ 10X

Revenue acquisition cost much lower than in Germany

The EU is *not* a single market

Each country has significant compliance and setup cost

Long sales cycle for startup companies with new products

As a result, it is much easier to grow revenue and get to break-even in US than in Germany

# Key Difference #2: Funding

Much easier to raise funding in the US

US Venture Capital per year ~ 16X Germany

Silicon Valley VC alone is ~ 8X Germany

Reason is higher success probability

Much easier and faster to raise growth capital in the US

Growth capital is very difficult to come by in Germany

Being able to raise sufficient money by itself significantly reduces risk for a new startup

# Key Difference #3: Right Team

There are smart people all over the world

This is not a difference between SV and Germany

In particular, there are very good engineers in Germany

Silicon Valley based startups have higher success probability, making recruiting easier

This is true for recruiting people in the US and in Germany.

Smart people want to understand the realistic path to success

Very difficult to create a successful startup without being able to attract smart people

# Silicon Valley Venture Capital

Q2'2015 Venture Capital in Silicon Valley:

**\$9B**

representing 33% of Global VC  
and nearly 50% of USA VC



# Brief History of US Venture Capital



Started flourishing in the 1970's  
Coincided with the growth of Silicon Valley  
Initially focussed on semiconductors  
Expanded into Systems and Bio-Tech  
Drove the Internet Boom 1995-2000  
New Boom Emerging 2010-2015  
Focus: Software, Internet, BioTech

# Popular View of Venture Capital



**Step1: Go to Menlo Park. Find a tree.**

**Step2: Shake the tree. A venture capitalist will fall out.**

**Step3: Before the venture capitalist regains his wits, wave your hands and shout out the following:**

***"Internet commerce! Big Data! Cloud Computing!"***

**Step4: The Venture Capitalist will give you \$4 Million.**

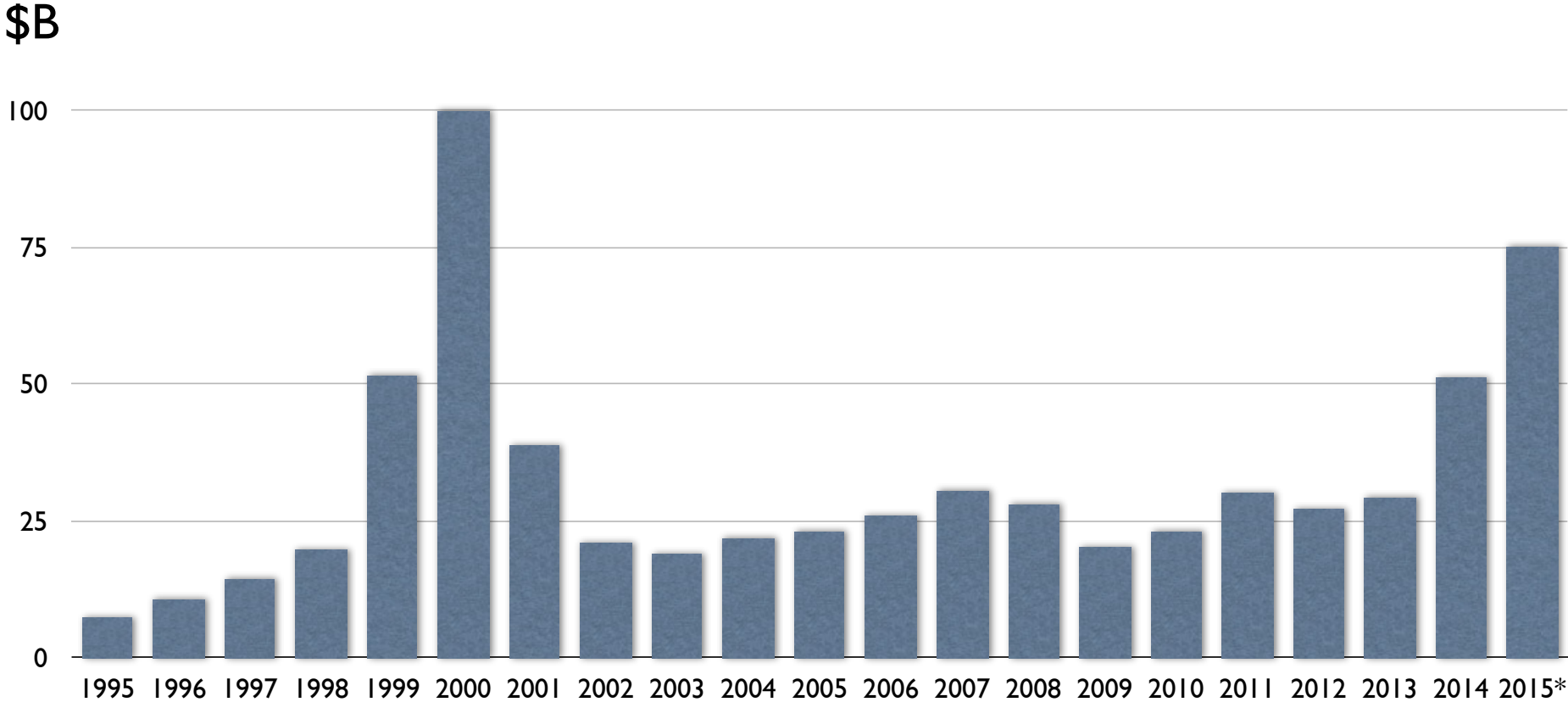
**Step5: Hire lots of people, publish lots of hype, go public.**

**Step6: After you receive your money, go back to Menlo Park and find a tree.**

**Step7: Climb it. Wait.**

Written by Laura Lemay for the  
New York Times, 1996

# US Venture Capital 1995-2015



\* Based on 1H2015 Runrate

# Most Popular Areas in 2013

Area	\$B	% Total	# Deals
Software	11B	37.4%	1523
Internet Related	7.1B	24.1%	1059
Bio Technology	4.5B	15.3%	470
Medical Devices	2.9B	9.9%	308
Top 4 Categories	25.5B	86.7%	3360
TOTAL	29.4B	100%	3995

# Comments about US Venture Capital

- 2014 was \$51B, up 75% from 2013 at \$29.4B
- 2015 is on a run rate of \$75B, highest since 2000
- 2009 was the slowest recent year at \$20B
- IPO activity has increased since 2009
- These are great times to raise venture capital

# European Venture Capital

- Growing, but still small compared to US (about 10%)
- UK is #1, Germany #2 in VC investments
- Valuations are significantly lower than US
- Economic outlook in Europe does not help
- Few exits => not enough Venture Capital

# One Model: US + Germany

- 33% of all IPOs 2006-2012 included immigrant founder
- Easier to raise money and go-to-market in the US
- In addition, the US is a much larger market
- Consider setting up US presence early
- Foreign entities are less attractive for US investors

# When to setup shop in the USA?

## Legal Structure

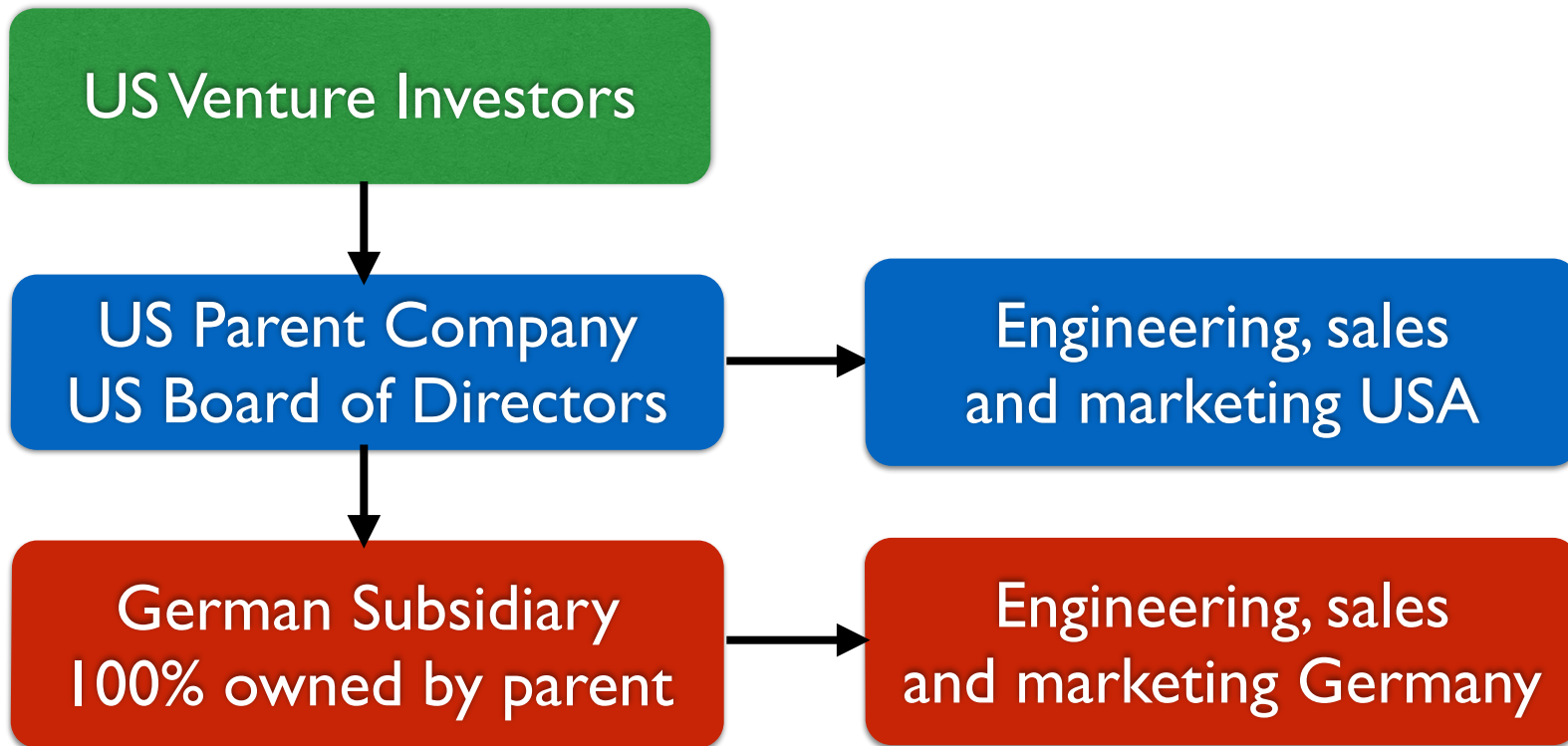
As soon as possible  
Difficult and expensive  
to move an operating  
company from Germany  
to the US (“Exit Tax”)

## Operational Structure

When it makes sense  
No point to incur  
sales, marketing or other  
expenses before there  
is a product to sell



# The “Standard” Org Structure



# Working in the US – Visa Question

## Temporary Visas

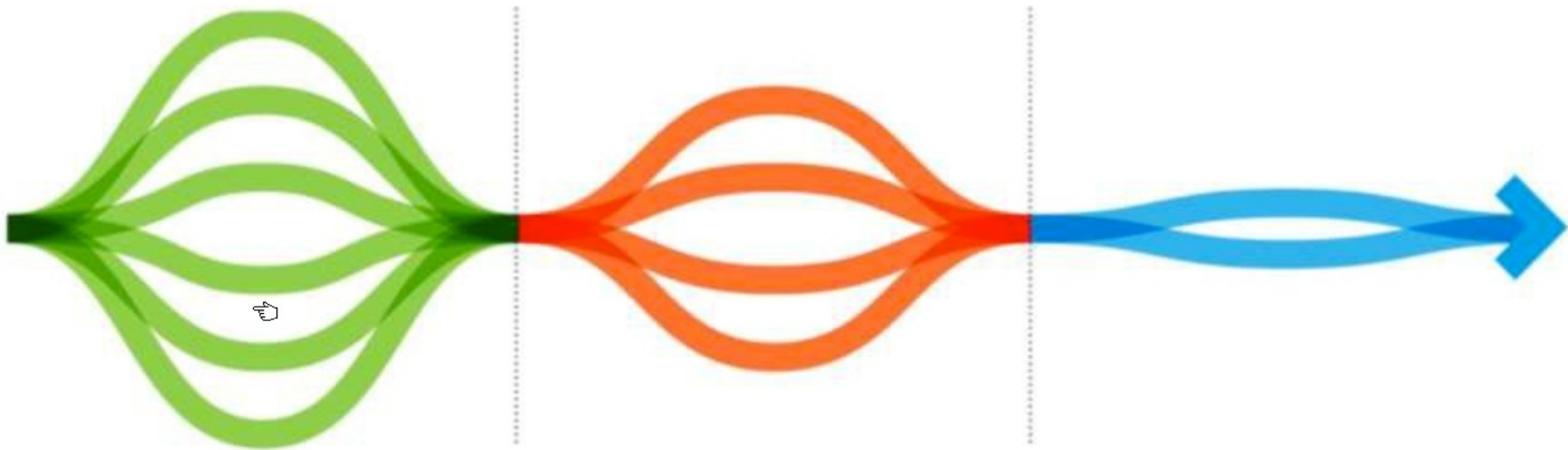
Visitor Visas allow to attend business meetings but not to work in the US

Intercompany Transfer Visa enables key employees to work for US parent

## Immigrant Visa “Green Card”

An immigrant Visa allows to stay and work in the US on a permanent basis but is a lengthy process that can take several years

# Bringing Startup Ideas to Reality



10,000s of Ideas

1,000s of VC Funding events

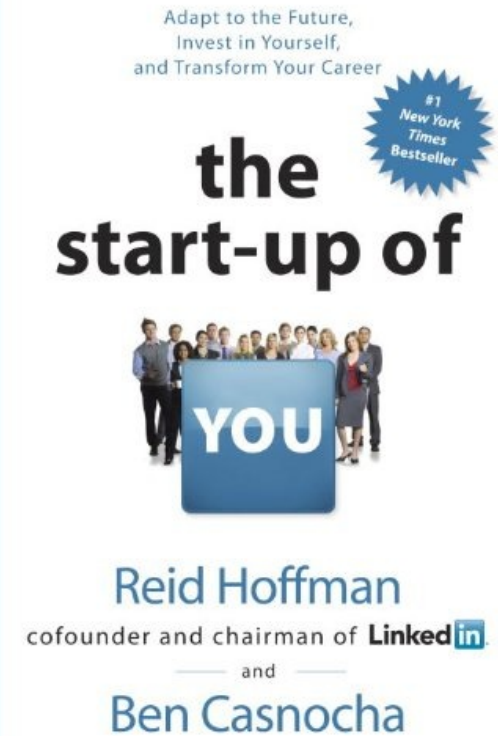
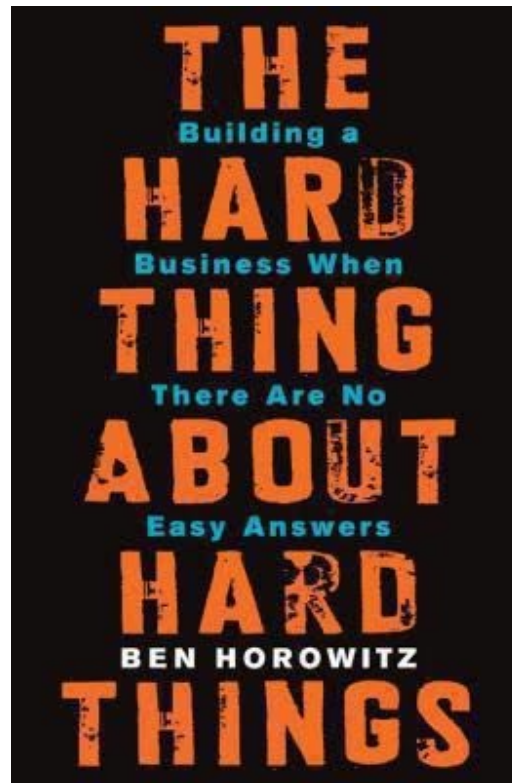
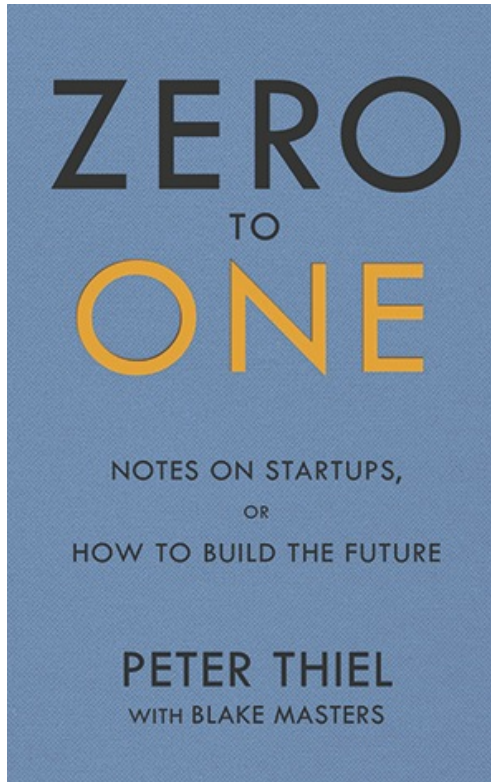
100s of Successes

Can be anywhere

Much easier in the US

Much easier in the US

# Recommended Reading



# Stanford Startup School

## How to Start **a Startup**

WELCOME, AND IDEAS, PRODUCTS, TEAMS AND EXECUTION **PART I**

**SAM ALTMAN**

President, Y Combinator

 @sama

sam@ycombinator.com

<https://www.youtube.com/watch?v=CBYhVcO4WgI>

# Summary

Goal is to build a large business

Need to go to where the market is

Think global, not local

US is the best market to enter

Easier to raise money in the US