Naser Partovi

Interview conducted by

Caroline Simard, PhD, and Joel West, PhD

April 15, 2004

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Naser Partovi

Naser Partovi serves as a Managing Director and Partner of Enterprise Partners VI, L.P. Mr. Partovi served as the Chief Executive Officer and President of Sky Mobilemedia, Inc. He served as a Managing Director of Enterprise Partners Venture Capital, where he managed a portfolio of companies in the telecommunications industry including Ascendant Systems, DragonWave, Inc., Quorum Systems, and ReliOn, Inc. Mr. Partovi served as Vice President of Strategy and Business Development at Nortel Networks Corp.'s optical networks business and was responsible for investments in startup companies, acquisition of optical companies and a broad range of partnerships. Mr. Partovi has over 20 years of management and operating experience in telecom. He began his career at Bell-Northern Research, where he helped develop the first large-scale object-oriented program for outside plant planning-technology that has been successfully deployed by several large carriers. He served for Northern Telecom as Senior Manager of its DMS evolution unit. In that capacity, he was responsible for re-architecting and restructuring 25 million lines of code for the main line of Nortel voice switches. He serves as Chairman of the Board of Solus Micro Technologies. Mr. Partovi served as the Chairman of Dragonwave Inc. He serves as Director of Avista Laboratories Inc., Ascendent Systems Inc., Gigabit Optics Corporation and Ascendent Telecommunications. Mr. Partovi served on the Boards of GoBeam Inc., which was acquired by Covad Communications, WIDCOMM, Inc. which was acquired by Broadcom, and Gigabit Optics which was acquired by Oplink. He served as Director of SKY MobileMedia, Inc. He served as Director of NP Photonics, Inc. He served as a Director of Ensemble Communications, Inc., Soapstone Networks Inc., Quorum Systems, Inc., Relion Inc., AirFiber, Inc. and Avici Systems Inc. He serves as Co-

Chairman of Capital Markets Special Interest Group and Board Advisor at CommNexus San Diego (formerly San Diego Telecom Council) and previously served as its Director. Mr. Partovi holds a Masters degree in Electrical Engineering from Canada's McGill University.

Source: Bloomberg Businessweek

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INTERVIEWEE: **Naser Partovi**

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DATE: **April 15, 2004**

LOCATION: **San Diego, California**

WEST: I've spent a lot of time in the telecom industry, and I could gather that you're going to become a VC. You have very deep technical knowledge. I'm kind of a little curious about that because I haven't really run across any other VCs who are quite as deep as you are, at least on the technical side. There are some people like Bill Stensrud, who have operational experience, but not really on the technical side.

PARTOVI: Bill has quite a bit of technical experience, if not more than me, simply because he started at Bell Labs. I started at Bell Northern Research, which is the Canadian version of Bell Labs. We both started getting our fingers dirty in the labs, initially, and then migrated to more operational stuff and then to running businesses. Perhaps I spent more time in my latter years running Nortel's Advanced Technology Labs, and as such had more exposure to the technologies. Things like 10 GB Ethernet were some of the things that came out of our labs that are now becoming standards after all these times. We pushed for standardization of that because Nortel owned a big part of the optical world at the time and we couldn't benefit from standardizing on that. I had to sell more here. As you mentioned, I never dreamed of becoming a VC. Most probably I didn't know what a VC was when I got to my first job, which was research oriented. One of the things that distinguishes Enterprise Partners is that every partner has very, very deep domain knowledge, in terms of technology. For each of us, this is our second job. It's not our first job. We have a tremendous amount of both technical and business knowledge about our domains. Bill has started many companies and run them. Bob Conn, of course, coming from academia, has a very deep technical knowledge. Drew Senei, our partner, was an M.D. He has thirty-two patents to his name. My neighbor here, Tom Clancy, has very deep domain knowledge. He used to build huge software systems. So, we all come with understanding the technology that we're investing in, but also having run businesses that were using those technologies. I think that gives us two advantages. Number one, we do get the respect of the entrepreneurs, because we are not talking to them through some intermediary. We talk to them directly. We can discuss the technology directly with them, and that gives a lot of credibility. We use that a lot. In the last two deals that I closed, we were not the first VC that the company had visited. They actually were in deep discussions with other VCs. But, when they came and talked to me, they said, “You actually understand what we are doing and you understand the issues. You know what to look for.” That gave us a big advantage. They turned around and said, “We want to work with you.” The second one is understanding the dynamics of the environment, which is even more important. We are not in the ‘90s where the tide is going up all the time and as such, everything comes up with that tide. We are in, if I use the least dramatic word, very turbulent times. Things are changing a lot. Understanding all the forces that make these changes is very important not only for making a decision on what to invest, but also how to turn the companies around as they grow. There are a very small percentage of companies that end up being what they came up with in the first day. The life of a company is very tortuous. They change a lot. We took a company public last year, called Accredited Home Lending, LEND is the ticker. That was our most successful IPO last year. They grew 270% over the year, from IPO to December 31. They are in the business of giving mortgages to people who can’t get mortgages anywhere else. As such, they can charge exuberant rates, because these people don’t have good credit history. But, the way the company started was as a software company, who was trying to build software to sell to other mortgage companies, software to manage people who don’t have credit history or who have bad credit history. Instead of selling the software, they ended up becoming a lender themselves. Understanding the environment and making sure you put these companies in the sweet spot is extremely important. Another example, I started a company out of University of Arizona, and they’re called NP Photonics. They had done twenty years of research on government money and on university grants by working on specialty fiber, and they came up with the idea that they had invented a new fiber that was very efficient to build amplifiers. They said they had reduced the cost of amplifier fiber from $40 to pennies. I said, “That’s great, but at the end of that fiber you’re going to put a pump that’s $3,000. So, you have reduced the cost from $3,040 to $3000 [Laugh] and a penny. Who cares?” But as the researchers, they didn’t see that picture that way. So, I said, “Go and invent; now you can use much cheaper pumps with this because it’s smaller. Can you do that?” They went, and after a few months, they came back and said, “Oh yes, we can do that. We can use a $500 pump." [Laugh] I said, "Now you make a difference from $3040 to $500." We started doing that and then the telecom crashed. We turned this around and said, "We can use the same fiber expertise to build lasers." Now, they're building some of the most successful lasers.

WEST: Whatever happened to the fiber pump idea?

PARTOVI: The fiber pump idea died because the telecom market doesn't need those things anymore.

WEST: Because there's too much dark fiber?

PARTOVI: No, not because there's too much. There is not a lot of demand today for those amplifiers. If and when the amplifier market comes back from becoming a few-million-dollar market to being a few-hundred-million-dollar market, then I have a product sitting on the shelf.

WEST: You have patents to protect it?

PARTOVI: We have patents to protect it and everything. We have put it on the shelf. But, we could use the same fundamental technology for something that has a lot of application. The government is prepared to pay a few hundred thousand dollars for each of those lasers, and most industries are prepared to pay $20,000-$30,000 for lasers with less stringent requirements. So, instead of fighting in the telecom market, where I have to sell this for a few hundred dollars, now there are specialty markets. It's a smaller market, but I can sell it for $10,000-$20,000 and have ninety-five percent gross margin. Understanding the dynamics is very important. If you look at what makes a company successful, there are four elements to the success of a company. The first ingredient is making sure you picked the right problem to solve. Now, there are two elements to that making sure that you can pick up the right problem. Number one, you need to understand what environment you're solving the problem for.

WEST: Are you saying the business environment or the technical environment?

PARTOVI: No, the business environment. For example, are you solving this problem for a market that is $50 million or $50 billion? Are you solving a problem where there are a lot of other competitors or you are the only one? The second one is that you are actually solving a problem, meaning that this is not a marginal issue. This is a main issue. Is this vitamin or is this aspirin? A vitamin you can skip, but aspirin and some other drugs you cannot skip. Once you have found that you are solving a growing market problem, then you have solved issue one, that it is the right thing to solve. The next one is, do you have the right team? This is extremely important, because a lot of great ideas die because there's not the right team. The third element is making sure that having chosen the right problem and the right team, you actually get it done. A lot of times, you get a brilliant technical team and a very good problem, but you fall short of execution and the company dies. Partially this is the right team issue, but there are other issues around it. You may be able to solve your problem, but you depend on a hundred other people and they may not execute that. One of our companies had a wonderful idea, excellent team, but they were waiting for a chip to come from another company, a big company, and that company cancelled the chip. What do you do? You have spent already $20 million and what do you do? You have to completely redirect the company and that's a new start.

WEST: Obviously this is a risk factor you're considering when you're making the investment. How do you factor that into the decision making? If Intel or CISCO or Nortel has announced a chip and you say, "If we don't have this chip, there's no market. Should we launch? Should we wait for the chip?"

PARTOVI: It's a risk.

WEST: That dependency is out of your control?

PARTOVI: It is a risk that you have to take into account, and you can mitigate the risk by building what I call "scenarios." Scenario number one is that, "This chip is coming and it's going to work, and I'm going to go happily ever after." Option number two is, "The chip is going to come but it's not going to work the way they advertised. How am I going to work around it?" The worst case is, "The chip is never going to see the light of day, and what am I going to do then?" If you really do your homework and do the scenario planning upfront, you know how you're going to respond. In a fast-moving world, you don't always foresee all the scenarios. You just then have to be reactive. Now we are more deliberate in our discussions and in making sure we do all of the scenario planning. But, I think a few years ago, we were not, because everybody was rushing to the goal line very fast.

WEST: You're saying that one of the advantages of today's less 'go-go times' is that you have a little more time to plan, map out, strategize, and anticipate, whereas at the height of the bubble or the height of the boom you didn't really have that opportunity?

PARTOVI: Yeah. Absolutely. Things were moving too fast. You didn't have time to go through everything in due diligence, and as a result sometimes you suddenly hit the wall. The last element of a successful company is being able to react to the unpredictable. The world changes a lot. For example, when we were investing back in 1992 to early 2000, we didn't expect the world to fall on its head the way it did. One of the reasons I personally don't invest in businesses that have a hundred percent of their business dealing with the Defense Department or the government is because the flavors change. Today, we are spending a lot of money in that area. The next administration may suddenly say, "No, this is not the focus anymore." You have to take those into account and react quickly. Things change very fast. For example, we have a biotech company that is doing everything right. They are building a tool that significantly improves the diagnostics of cancer, months and sometimes years in advance of what the present tools do. Suddenly, California decides that they don't have enough money, so the number of inspectors they have certify the labs is reduced from fifty to two. Now, you have to sit there. You're ready, and for two years, you keep feeding the company waiting for this inspector to come and certify the lab. You can't do that. That's going to cost you $10 million-$20 million, to sit idle. You have to be able to react to unpredictable elements like this.

WEST: What do you do? Move the lab to Boston?

PARTOVI: Move the lab to another state to have it certified. You have to react to these kinds of unpredictable elements, and one of the wonderful things about the VC world is that you get that all the time. You get ten times what you see on National Enquirer in terms of people dynamics every day. You see governments reacting. You see other things happening. You see your suppliers going bankrupt. That's a day in the life of a VC. You have to react. So, those are the four elements that you have to be cognizant of and be able to respond to.

WEST: I want to take your four elements and map it onto some of the interviews I've done. I must admit, Caroline's more familiar with all the companies in the cluster, but I can recall a couple of interviews we've done. Obviously I know the Linkabit story. We did an interview with PCSI. Those are two that come to mind. And Primary Access with Jim Dunn. Here are three companies that violated your first rule, which is having any idea at all about what they were going to do, but it seemed like they did have the right team. They kind of stumbled across the right problem, and they certainly were able to execute and react to the unpredictable. It seems like all three companies—Primary Access, PCSI, Linkabit— started without a clear vision, but nonetheless they had everything else that you're talking about.

PARTOVI: That's why you have to weigh these. If you have the smartest people on the planet as your team, both technical and business, then you can come with shortcomings in the other three. Because even if you don't have the greatest product idea, if you have the right team they'll figure out what to build. That was the notion. But, if you come to my shop and say, "I have a bunch of really smart people, but I don't know what the hell I'm going to build," how am I going to fund you? We've done that before.

WEST: So, why did you fund them? [Laugh]

PARTOVI: Because, the environment was different. Primary Access was a perfect example of one that we funded. But, today I would have a lot of concern funding a company that doesn't have a clear idea of what they're going to build, even though they're the smartest people. I'll work with them and I'm sure we'll come up with a very definite product idea and then fund it. As I said, life in a company changes a lot. We may start with Problem A and then end up solving Problem B. I don't think Irwin had the slightest idea Qualcomm was going to be what it ended up being. He worked it out through it. He's a very smart man. He surrounded himself with very smart people and they figured it out. Yes, one of the main ingredients is the people, both the people who are working in the company and the people that you are surrounded with at the Board level as people that you interface with. That's an extremely important part.

WEST: You said you funded a company like Primary Access and you're not sure you'd do that again. Have you changed or has the environment changed?

PARTOVI: Number one, I don't know the full history of Primary Access. I think you should talk to Jim Berglund, who owns Primary.

WEST: Let's just say that twenty years ago, you would have funded a company like that. Today, you say you wouldn't. So, is it because Enterprise, in terms of its strategy and environment has changed, or was it because back then that was how things were done overall in the industry and now you can't do that?

PARTOVI: I think today, in this environment, 2004 environment, we are very careful on the picking. The picking, again, has both the element of the business, what problem you're trying to solve, and the team. If either one of them is weak… The bar has risen quite a bit in terms of what passes over the bar and gets funded.

WEST: Is that just because we're in a down cycle or is this because the industry is more mature?

PARTOVI: No, I think because the memories of the bubble are too fresh in our minds. I think we will change again in a few years and we will hit another bump and then we will get wiser again. That's my take. We are very, very conscious of what happened and the bar is very high right now. If you look at what we have put our companies through in the last two years, in terms of being able to pass the bar and get funded, compared to the previous six years, you will see a significantly higher bar. I think it's the right thing to do, if we can keep the support.

WEST: I'm not as familiar with the San Diego VC industry, but certainly in Silicon Valley, there was the feeling in '98-'99 that if you put the bar high and you had long due diligence, the companies say, "Forget it, I'll go down the street to this company where it isn't so hard."

PARTOVI: Absolutely. It was the same here. If you took too much sweet time doing the due diligence, entrepreneurs had a hundred other options. They would walk across the street to another VC and get the money.

WEST: So, it's a supply and demand issue of money?

PARTOVI: It is. You can't be the only one. You can be, but you're going to lose some deals if you are the only one who's doing that. The industry is disciplined right now, as a whole. We still see people, once in a while, who are undisciplined. They put term sheets before me and they haven't even done due diligence to look things up and do things. But, those things get filtered out. In every industry you have some abnormalities.

WEST: A lot of people have talked about the San Diego VC industry as being sort of Snow White and the Seven Dwarfs. You're the big enchilada, or Snow White, or whatever [Laugh] you want to use for a metaphor, and the other companies have a much more minor presence. How is Enterprise different from the rest of the San Diego VC industry, other than, as you said, you have your domain knowledge?

PARTOVI: There are several things about Enterprise. Number one, it's the history. We are on our sixth fund. We have shown that we have performed over six funds, otherwise we wouldn't be here on fund number six. Our investors have been very consistent, and most of our investors have been with us from fund one. At the end of the day, it's performance. They don't like us because we look better than others. They like us because we have shown over and over that we have delivered results. How do you deliver results? It takes a lot of ingredients. I think you're hitting on two different things. Number one is, why is there only one big fund here versus Silicon Valley or any other area? When you look at the metrics, it's amazing, and I guess we are lucky, and we are happy, and we are not going to advertise otherwise. If you look at Silicon Valley, eighty percent of the Californian investments are concentrated in Silicon Valley.

WEST: That's the source or that's the recipients?

PARTOVI: That's the recipients. But, if you take the real winners, which from the investor's perspective, the real winners that they count are 10x plus. San Diego has a disproportionate amount of returns, more than the percentage of the money that flows in. Yet, there is not direct presence, meaning an office here, of the major Silicon Valley firms. That doesn't mean they don't do deals. They're always looking at deals here, but we're the only one who is located here.

WEST: You wouldn't count Sevin Rosen Fund as being here?

PARTOVI: No. Steve Dominic spends four and a half days up in Silicon Valley. He lives here, but I'd like to see it when is he here.

WEST: All right. But you're not part of the Sand Hill Road gang? You're essentially your own company here. You're a homegrown company, so why aren't there other locally homegrown VCs? Is the industry not big enough to support more than one?

PARTOVI: No. I think there is a big enough… Southern California gets almost ten percent of the venture money across the U.S., and it's been growing.

WEST: Ten percent of the U.S. venture or California money?

PARTOVI: I think it's close to ten percent of the California money. I'll give you this. This actually has it. [Retrieves paper] Sorry, San Diego gets five percent of the U.S. money, and it's growing. This is just San Diego. Southern California is ten percent. That's what I was talking about.

WEST: Okay. I can certainly get that. Great.

PARTOVI: Overall it's been growing. But, if you look at the percentage of the 10xers, it's much bigger than ten percent of the 10exers across the U.S.

WEST: Because there's less competition for the money and so you spread it out?

PARTOVI: I don't have an explanation why, but certainly, percentage wise, the number of success stories are higher. Going back to your question. Number one, why there is such a huge concentration in Silicon Valley and not here? I don't have an explanation. We like it that way, [Laugh] but I don't have an explanation. Two, you said we are not part of the Sand Hill Road. I don't think that's accurate. We have a great brand in San Diego and a good brand in Southern California, south of L.A. I don't think we have a great brand, but we're working very hard to make it a great brand all across Southern California. We see lots of deals. I would say eighty percent of the deals. We do keep metrics. How many companies got funded last year in San Diego and how many of them did we see and have the opportunity to invest in? We see at least eighty percent of the deals that get funded in San Diego. I think we see about fifty to sixty percent of all the deals in Southern California.

WEST: Including L.A.?

PARTOVI: Including Southern L.A. I certainly don't want to deal with Northern L.A., because Northern L.A. is much further away from me than Sand Hill Road. But, we have done deals in Santa Barbara. Let's count just Southern California, meaning south of L.A, Orange County, and San Diego. I think we see between fifty and sixty percent of the deals there. We would like to move that to eighty percent as well.

WEST: Would you open an office up there at some point?

PARTOVI: No, I don't think that's useful for us. We want to be very active in there and do that.

WEST: So, you want to see eighty percent of the Southern California deals, if possible?

PARTOVI: Right. What happens to the deals we don't see? They go to Sand Hill Road. There are a lot of people who wake up in the morning, and before they talk to anybody here, they will go to Sand Hill Road. We have shown to our friends in Sand Hill Road that we are good partners for them if it's a Southern California company. Often, they pick up the phone and call us when these people go down there. The last three deals that I have closed, all of them, before they came to me they went to Sand Hill Road, they redirected them to me, and we ended up doing the deal together.

WEST: All three of those deals started at Sand Hill Road and ended up back up here?

PARTOVI: Yeah. That's not a good indication. It's not that a hundred percent of my deals do that, but the last three deals I did in the last three months happened to be that way. We are trying to dominate Southern California, both by working with our friends up in Sand Hill Road, who always want local and adult supervision, as well as the ones that we capture right here ourselves. I just closed a deal with Kleiner. That deal went to another Sand Hill Road first and they said, "Go talk to Naser, because Naser is there and if he likes it, then I would want to play with it." Another one came to me, then went to Sand Hill Road and then we ended up doing it together, because we were both looking at the company and I said, "It makes sense to look at it together."

WEST: So you were talking about partnering with Sand Hill Road. What about partnering with any of the local firms, or are they just really not big enough to be partnering with?

PARTOVI: No. We do a lot of deals, especially in the biotech area. My partner works with Forward Ventures, with Domain, and others. We have done deals with Mission Ventures. We have done deals with other VCs.

WEST: What about Avalon?

PARTOVI: I don't think we have one, but that's not because we don't want to. There's nothing that excludes any of the local VC. We like to include them as well. We have always syndicated our deals, and we will continue to syndicate our deals.

WEST: But, syndicating would normally be to get bigger players with less area knowledge to just kick in money while you do the adult supervision. Isn't that syndicating?

PARTOVI: No. Exactly the opposite. I want people who can actually do work. Bringing up companies is a lot of work and I don't want to be the only one doing the work. The deal I have done with Kleiner, Russ Siegelman, is wonderful. We are both working very, very effectively together on a lot of stuff. If I were the only one doing it, it would be twice the amount of work. I think right now there is enough money that I can go to other VCs and get money. It's mostly working with the people that you know you can work with. Like any other industry, a small percentage of the people qualify, because a lot of VCs are absent investors. You discover that very fast, and you don't want to deal with them anymore.

WEST: When I talked to some of the VC-funded firms, they complained rather bitterly about that. Essentially, the VCs talk a good game, they claim they're adding value, they have oversight to protect their money and they give you money, but in terms of actually helping you work through problems, a number of the VC-funded firms said, "No. The VCs weren't much help."

PARTOVI: Yeah. That's what separates the boys from the men in this business. I strongly encourage you to talk to all my companies. You will see the value that we think we can bring there, and hopefully get value at the same time.

SIMARD: Hello. Nice to meet you.

PARTOVI: Nice to meet you.

WEST: You would reject that the model, as a matter of policy for Enterprise Investments, is to just give the money, no value added. You always try consistently to be a high-value-added investor.

PARTOVI: We do not take passive positions. We are not passive investors. We do take Board positions. But, for me, a Board is a formality. The way I compare board meetings is, I say, "The Board is like if there's a two-hour movie and every fifteen minutes you come and they show you two still pictures of the movie, and you're supposed to understand what's happening [Laugh] and give advice based on the two pictures you see." For every single one of my companies, I actually participate in their operating reviews. I don't want them to do special work for me. I want to sit there and see how the management is doing. I often sit in on their sales calls, Friday sales call or Monday sales call, whatever they have scheduled. Not always, but randomly I participate in those. Not because I want to interfere, but because often without their knowledge I can help them. They were trying to find an interface to get to Global Crossing, and I said, "Here's the VP of Operations." I make a call and I can introduce them. Between Bill and myself, we at least know every single carrier and every single equipment provider and major executive. We can get them there. This company I was telling you that we just funded with Kleiner, for six months they wanted to get to TI to talk to them for the chip they're building. While we were meeting here, I produced the head of TI's Wireless Group, brought him here and said, "Here. Talk to them."

WEST: Rick Kornfeld?

PARTOVI: Right. Rick is working with us and he happened to be in the building at that time, and [Laugh] I said, "Here is Rick. Why don't you talk to him?"

WEST: We've actually been trying to get to Rick at TI. So, we should be talking to him when he's starting his next company, rather than trying to catch him out the door at TI?

PARTOVI: Yeah. Actually Rick will be here next week sometime. We should try to get you together with him. Those are things we actively do. We make introductions.

WEST: How many companies can you manage with that sort of labor-intensive approach?

PARTOVI: We watch that. That's one of the metrics we watch all the time. We have internal targets of never having more than eight companies per partner.

SIMARD: In Silicon Valley, there has been an assertion that it moved from this deep hands-on relationship, but then it became so big that they have a much more arms-length relationship?

PARTOVI: There are some VCs who have twenty companies. There's no way you can participate even in board meetings in twenty companies, unless they're meeting only once a quarter. It depends on the stage. You can't have more than two or three very early-stage companies out of eight. If you have eight, the ideal situation is to have two or three early-stage companies. You have two or three who are in the middle stage.

So, you're watching them, but you don't need to have weekly interactions. And you have one or two that are in later stage, which are not on autopilot, but you need to get them to-market type help. You always have one in intensive care. [Laugh] That's the way it works. But, you're absolutely right. It's extremely time-consuming and time-intensive activity. There are companies that, as I said, I spend a lot of time with right now, because they're in the early stage. I'm bringing new executives to the team. To give you a perspective, in the first quarter I started the year with six companies. I sold three of them, because I had decided the last quarter that, "These are not going to be the 10xers I want them to be, but they will return decent returns at this time." So, I worked very hard and I sold all three of them. They're either pending or done. I changed the CEO and the top management on the other three [Laugh] because they were not going where I wanted them to go. They have been terrific, but it takes a lot of time to bring new executives in. And, guess what? I did not use a single search firm for all those. They were people I knew. And, I have closed two new deals and the third one is pending. So, it takes a lot of work on the portfolio.

SIMARD: I'm curious, when you have a company in intensive care, how do you decide when to pull out the respirator?

PARTOVI: It's the biggest mistake most VCs make, including us. Because . . .

WEST: Which direction?

PARTOVI: Number one, it takes a lot of your time. It's very time consuming. In terms of opportunity for us, it is very expensive to continue. Number two, usually companies in intensive care consume a lot more cash than companies that are running. So, you end up getting hit in many directions. First of all, you put a lot more of your money. You lose the opportunity of investing that in another company. It uses a lot more of your time. Over the last six months we have been developing a set of tools—we haven't perfected them because we are still playing with them— but we are arriving at a set of tools that would help us make a decision to say, "Enough is enough. We're going to pull the plug." I'm not talking about the rest of the industry because I don't have the authority to, but we have been very bad in pulling the plug and letting it go.

WEST: This relates to one of the things that we're having trouble interpreting, and maybe you could help us. From the outside, it's kind of hard to find out how a company ends. It's clear when a company gets bought. It's a successful exit as a purchase, and we maybe don't know the purchase price, but it's obvious that it's a successful outcome for all involved. There are some companies who clearly die, they're liquidated, and presumably the assets are sold for pennies on the dollar. And then we see some things that are in between those two that we can't really tell. A company's in trouble and it gets bought, but we sometimes can't tell if the company, as you say, "pulled the plug." You pull the plug by saying, "Hmm. This company wants to buy some of the assets. We'll sell the assets off to them and it'll look like an acquisition, but effectively, we're pulling the plug with maybe a little more residual value." Do you have any suggestions of what distinguishes those three cases?

PARTOVI: There are lots more levels of gray in that. When we're pulling the plug, step number one for us means to stop putting more money into it. We hired a terrific COO last year, Carl Eibl, who has a lot of experience in working out companies who get into trouble. He has a terrific record, both in biotech companies as well as high-tech companies. Ideally, the second step for us means, "Naser, you're done with this company. Hand over to Carl."

WEST: So, the company remains an EP VC company but it's no longer managed by one of the partners?

PARTOVI: Carl needs to work with me to decide, "Do we want to sell this right away and get whatever we can out of it? Do we want to just leave it there, let others finance it, and see what comes out of it?" Or a whole variety of scenarios in between? But, first of all, it relieves me to go and invest in something else. We don't put any more money into it and we try to maximize the return at that time. One of the companies I sold recently, we made the decision back in September or October of last year that we were not going to put more money into the company. We did not hand over to Carl, but I worked with Carl to liquidate the company. We sold it and we got twenty cents on the dollar, but it's better than zero cents on the dollar. That's the kind of decision that we have to make in a disciplined manner, using some metrics to get the emotion out of it. Because you work for years on these companies, it's very difficult to say, "I want to pull the plug."

SIMARD: Because you're part of their top management team and you're hands-on.

PARTOVI: The wonderful optimistic view of VC is always, "I'm going to be able to turn this around." That's really bad.

WEST: From the outside, how can we distinguish the sale that's the twenty cents on the dollar from the sale that's zero cents on the dollar?

PARTOVI: Why do you need to distinguish?

WEST: We're trying to say, "These fifty firms were founded in San Diego in the '90s. Some of them were big successes and some of them were moderate successes, some were failures." Is there anything we can do, by looking at the companies, to explain what's different other than the roll of the dice?

PARTOVI: For me, there are three layers of gray. It's either successful. That means 10x plus. It's moderately successful. That means somewhere between one and 10x, and failed. So, I don't care. I do care whether I get twenty cents on the dollar or zero cents on the dollar. Let's get out of it. This is venture business. If we don't have enough failures, we're not taking enough risks. But, at the same time, it's better for me to take a hundred dollars, invest it in thirty companies and have ten of them fail, than invest in ten companies and have four of them fail. I don't think you will be successful if you try to categorize exits. Anything that's not returning money to the investors, or me, is an exit of one form or the other. But, I don't think there are any meaningful steps in that to distinguish it. What are we gaining by distinguishing something that's returning ninety cents on the dollar or fifty cents on the dollar?

WEST: But, how do we tell the 1x from the 10x?

PARTOVI: Oh, that's very easy. When it's 10x, everybody will say, "We've got 10x."

WEST: Oh, okay. [Laugh] They'll be bragging?

PARTOVI: They will be published everywhere and you will know.

SIMARD: They'll attract more interest?

PARTOVI: Yes.

WEST: So, if I go to the website of the VCs, the ones they list as their success stories are the ones that . . .

PARTOVI: That are at least four, five, 6x. It depends on the quality of the VC. Sometimes they may list their success as 2x.

WEST: Early on, you were talking about how a lot of companies start with good intentions, and a good team, and a good plan, and stuff happens. Things change. We're trying to get a handle on how much of the eventual success of any given company is sort of predetermined, or obvious, or likely when it starts, versus how much of the success is the execution, or a team that's good at execution, if it has a track record, and whatnot. So, if we were just trying to look at all the companies that get funded… I know this is exactly your business problem, of all the companies that get funded or started, which ones will succeed? How much is faith at that point versus how much is just stuff that happened along the way, such the chip getting cancelled or various other things? Is there any way you think about what you know at the time when the company started versus what you have to learn as it goes on? Is there a way to separate those two influences on whether it's going to succeed?

PARTOVI: A friend of mine compares this to, [clears throat] excuse the language, having sex and having children. Always, when you're making the investment, it's very good, [Laughter] except that right after the child is born they become teenagers. [Laughter] And, they misbehave. I don't think anybody makes an investment intentionally, saying, "This is going to be a bad investment." They do take into account a lot of things. So, how much of it is preordained? I don't think it's preordained. You can significantly increase chances of success by picking the right problem, by picking the right team, and then picking the right area to invest in. But, even at that, you can fail. You're just increasing your odds of success if you pick a problem that's really hard to solve. Even if you have a great team that you have worked with, you know they can execute, and you're in a growing environment rather than a declining environment, you cannot really preordain that this is going to succeed. Some of the most successful teams have been put together that started on the right idea and then it exploded. People didn't get along. Industries change, and so on and so forth. I think you can put up a huge list of those failures. Why is it that Google became the success story in search engines when there were 500 different search engines that didn't become that? There are a lot of elements working into that. There was the right team. They were supervised properly. They were promoted properly. And, they ended up squeezing through the cracks. I don't think Kleiner would have said, when they made the investment, that that one had a bigger success than many other companies that Kleiner itself has funded that did not succeed. So, hindsight is pretty good in our business, but all you can do is increase the chances of success.

WEST: You said that you invest money in companies and you think all of them are going to succeed, and some do and some don't. Are there any deals you passed up that, in retrospect, turned out to be companies that either had a better chance than you thought, or just got lucky, or whatever?

PARTOVI: I think it was Dan Valentine who said, "You will never lose money on companies you didn't invest." [Laughter] Yes, there are always companies that you look at in retrospect and say, "Should I have invested in those?" But, I think we all have more regrets on the companies that we invested than the ones we did not.

WEST: How long have you been at Enterprise?

PARTOVI: Four years.

WEST: Is there anything that you learned from, a company you passed over because you didn't see something or you didn't use the right metrics, or something that you didn't understand that changed how you looked at companies in the future?

PARTOVI: I don't think there has been something like that. But there have been instances where a company comes and in the interest of time or something I pass on it without having spent enough time to understand the problem area they were solving. I don't regret not having invested in that company, but I think if I had to spend time in the space I might have come up with other insight and invested in another company in that space. That's more likely than specifically this option came to me than I didn't invest. As I said, I think most VCs, if they become really honest with themselves they have more regrets in companies that they invested than what they did not.

SIMARD: Do you see the region coming up with a new generation of startups?

PARTOVI: Yes. I think we are. This is the decade of wireless and Southern California is the top place in U.S. to invest in wireless because of the expertise in wireless. In certain areas, like everything else we have overinvested. Last time I saw, there were $2 billion invested in Wi-Fi companies.

WEST: Yeah. [Laugh]

PARTOVI: We have not invested in a single Wi-Fi company, simply because we think that's going to be a commodity. We are going to use Wi-Fi for other things, but it's going to be a commodity. But there is tremendous talent in Southern California on RF engineering, which nowhere else they have. That's why Nokia has offices here, Siemens has offices, Ericsson. Every top wireless company has an R&D office here, and that's because of the concentration of talent.

WEST: When we talked to Joe Markee we were trying to understand this a little bit. He was saying, "It really wasn't just RF, because RF is just a small piece of the puzzle."

PARTOVI: It's the mixed signal and everything else.

WEST: Yeah. You need all the software, and the firmware, and the digital, and the A to D, and you need the industrial design. You need the integrator. And, you kind of need the entire system.

SIMARD: Thank you so much for your time.

PARTOVI: Thank you.

END INTERVIEW


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