

MIT Enterprise Forum UK

November 2008 Event

What: What does the current economic crisis mean for European entrepreneurs and investors?

Who: Abdul Guefor, Managing Director, Intel Capital EMEA

When: 6 pm Wednesday 26 November

Where: Morrison & Foerster offices, CityPoint, One Ropemaker Street, London, EC2Y 9AW

Event Sponsor: Morrison & Foerster

After a brief introduction to Intel Capital, Abdul said that they always try to invest in companies which they can actively help to win. He went on to explain a little about what is happening to Intel Corp. – 2007-8 restructuring with ≈15% redundancies. They have seen a significant fall off in Q4/2008 demand never experienced before, which has led them to cutting discretionary expenditure, whilst maintaining R&D & product development. The key message is that companies, large and small, must innovate their way out of a recession.

Where does Intel Corp think technology changes will happen?

- Global, ubiquitous, mobile broadband will become commonplace, and will not be tied to locations (office or home). Intel's WiMAX plans are a key part of enabling this to happen.
- This will lead to new devices - Mobile Internet Devices (MID) – that will initially appear to be hybrids of existing technologies (e.g. something between a small laptop and a mobile phone) but will help bring the full internet experience to many people for the first time.
- Energy efficiency will have to be addressed in the whole technology chain. Silicon chips will continue their recent trend towards consuming less electrical power. People will be able to control power – hungry equipment in smarter ways (remotely or via more in-built sensors) to reduce energy usage in homes, offices, data centres, etc.
- Graphics processing units (GPU) – many believe GPUs may start to cross over into the world of CPUs by performing more computations, not only the graphics processing. Intel does believe greater graphics performance is needed as we will interact with technology more graphically in future
- Healthcare efficiencies – Remote monitoring of patients and telemedicine will grow

What about the slowdown

How is it affecting the VC world? VCs are closing down and some Limited Partners in funds are not meeting the existing commitments that they have made! The reduction in discretionary spend by large companies is affecting start-ups. IPOs are almost non-existent (Qtr 2/08 - 3 IPOs in EU, 0 in US), and those investors that one would normally expect to invest in IPOs are more concerned with working out what the assets they *do* hold are worth, rather than concerning themselves with new investments. M&A deals are also reduced in volume and value.

Is the same as 2000-1 crash

Abdul believes this time it's much worse. Last time, those affected were mainly telecom, dot.com and related sectors. This time it is the whole economy: financials, capital goods, consumer goods... In addition banks are *exploding* left, right and centre – the lack of liquidity is very marked at the moment.

Bright spots

Firstly, nobody is in denial about how serious the downturn will be. Last time Tech stock were extremely overvalued, this time the drop in the NASDAQ, and other markets has been more restrained (80% fall v 50%

fall) – still marked but not as much as 2000. Also we have the experience from the last bust to make better and more rational decisions.

Hope for entrepreneurs

In downturn things in general cost less and are more plentiful (resources, good people, acquisition targets, etc.); in addition bad management teams will be weeded out, with the good performers surviving. This will make the industry leaner and faster on the other side of the downturn, therefore better able to make the most of the upswing. Less able competitors will retrench to their home markets, leaving the markets they vacate to be exploited by companies that have the necessary capital available. Finally, long-term investors do best because they will be around to pick up the pieces from overpriced deals that have to be offloaded or refinanced.

Great companies can be built in a downturn – Google was founded in 1998 and was still small in 2000/1 – by the time the bust ended it was clearly the most valuable internet company. For companies with the right strategies, now is a good time to build their businesses. He used an analogy from a story about Stirling Moss – it is said when Stirling saw an accident on the racetrack ahead he would put his foot on the gas whilst his fellow racers braked to avoid the danger - he realised that such events were the best chance for him to overtake many competitors fast. Thus, have belief in your own abilities and double down your bets!

Practical advice for entrepreneurs

A good place to start is to have a *save the company* plan. Assuming half a company's customers disappear and that many investors cannot inject further funds, could the company survive? Cutting costs needs to be done in a smart way rather than across the board. It is also important that the company's board pulls its weight and that it has the right mix of skills for this environment.

VCs might be able to put more money in, but the company needs to be viable built on realistic forecasts of sales and tightened expenditure. The secret is to raise funds when you can, not when you need the money!

Entrepreneurs in EU have been said to be not as skilled nor as successful as their US counterparts; but that's also true of the VC community in EU... Thus it is very important to pick the right investors for the business. They need to add value and help their companies to win customers and recruit good people – there should be no automatic choices based on brand name – entrepreneurs need to be more discerning and do their due diligence on VCs.

And Finally

It took 3 years after the last down turn for the first IPO to come to market. Hopefully it won't be that long this time, but there is no guarantee – it could be 2010 before we see new life in capital markets. We have learnt some positive lessons from the last bust to help us in the next few months – there are fewer investors, who are taking decisions in a more rational manner which should mean that more good companies will survive.

The bottom line is that it is innovation, not indiscriminate cost-cutting, which will get us through the downturn. Hibernation is not a viable option – continue to build market position and great products.