

The market might taketh away, but HP and LeftHand giveth

[Posted on November 20, 2008 - 12:06 AM]



Investors both private and public are getting batted around by the economy lately, but someone forgot to tell Hewlett-Packard Co. [HPQ] The Silicon Valley tech giant this week offered a rosy fourth quarter outlook that surprised Wall Street and sent its shares skyward, thanks in large part to the strict cost diet CEO Mark Hurd has put the computer maker on. The company's acquisition of Electronic Data Systems Corp. in August didn't hurt either -- the acquired company accounted for the overwhelming majority of the revenue increase at HP compared to the year-earlier period.

HP is also spreading the wealth to private investors, most recently the backers of Boulder, Colo.-based network storage startup LeftHand Networks Inc., which HP **acquired** for \$360 million in cash Oct. 14. Investors include include Appian Ventures Inc.; Boulder Ventures Ltd.; Epic Ventures; Garage Technology Ventures Ltd.; Ironside Capital Group; Katalyst Venture Partners; New World Ventures; Portage Venture Partners; Sequel Venture Partners; Sprout Group; Vista Ventures Partners; Valhalla Partners and JP Morgan Chase.

Boulder Ventures invested in LeftHand's Series A in May 2001 and every subsequent funding for the company. All told, it invested \$9 million and recognized a \$27 million return. Not a blow-out return, but these days just getting out with one's original money is something to celebrate. Indeed, says Boulder Ventures general partner Kyle Lefkoff (pictured), every investor who backed LeftHand earned a return on their investment.

The company was one of three successful startups founded early in this decade to create enterprise-class Internet protocol storage devices: Compellent Technologies Inc. [CML], EqualLogic Inc. and LeftHand.

Compellent is the **last independent** of this crop, as EqualLogic was sold last year to Dell Inc. [DELL] for \$1.4 billion -- an event that was nothing but good news for LeftHand, Lefkoff says.

"EqualLogic was sold for a really crazy number to Dell, which historically has overpaid for all of its storage assets," he says. "It set an unbelievable bar, as they paid 10-times forward revenue for the business. HP could pay us a higher-than-average industry multiple and both sides could still make out well."

When the EqualLogic deal was **announced** in late 2007, LeftHand soon hired Merrill Lynch & Co. to proactively look for a buyer of its own, Lefkoff says.

"When your competitor gets sold for a lot of money, you're in play."

The LeftHand sale marks the third major networking deal out of Boulder, Lefkoff says. In 1996, McData Corp. was acquired by EMC Corp. [EMC] for \$250 million (only be spun out in 2000 and acquired two years ago by Brocade Communications Systems Inc. [BRCD]), and Cisco Systems Inc. [CSCO] acquired Compatible Systems Corp. for \$300 million in 2000. Boulder Ventures was an early investor in both McData and Compatible.

Certainly these deals span a big stretch of time -- twelve years to be exact -- but it should nevertheless dispel the misconception that big successful tech companies can't flourish in the Boulder area, Lefkoff says.

"When we're out raising money for funds, LPs will say you can't build big companies in Boulder," he says. "You can't build just any company here, but networking companies, you can."

He also says that big technology players like EMC, HP, Cisco and IBM Corp. [IBM] are comfortable acquiring companies in the region because they already have established presences there.

Lefkoff also argues against those who say that difficulties in raising money or finding exits stem from a broken venture investing model.

"If you find a serial entrepreneur, you are right about the market and you finance properly, you make money," Lefkoff says. "If you do that, you can get a venture-like return, even in a crappy market." -- *Olaf de Senerpont Domis*