

Vormetric Case Study



A detailed look at the evolution of a successful exit

Vormetric Case Study

Executive Overview

Vormetric is a California-based firm that was founded in 2001 for the purpose of commercializing a novel way of encrypting resting structured (i.e., in a database) and unstructured (i.e., sitting in a file directory) data.

The company went through a total of six funding rounds (A, B, B1, C, C1, D) and took in \$55 million of venture capital funding before being purchased by European defense giant, Thales, for incorporation into its cybersecurity business. Thales paid \$417 million for the company, which implies a Return on Total Funding (RoTF) of 658% for investors. The transaction was announced at the end of 2015 and finalized in early 2016. \$32 million of the company’s capital was invested between 2002 and 2004, implying that most investors waited on the order of 12-13 years for payout.

We have split our case study into separate periods based on our perception of Vormetric’s stage of development:

Foundation	2001-2004	<ul style="list-style-type: none"> Idea generation from a young engineer coupled with strategic vision from an experienced technologist. Positioning as a thought leader in the field of specialty. Initial technology partnerships, client wins, patents and four rounds of equity.
Struggling for Traction	2005-2006	<ul style="list-style-type: none"> Building out sales organization and linkages to established products. Total of three patents assigned to Vormetric. Recruiting a CEO to take company public.
Traction	2007-2012	<ul style="list-style-type: none"> Another equity round closed. Transformational client wins. Rapid revenue gains and consistent operational profitability. Expanding into Europe and Asia. Increase in industry events, including keynote addresses.
Exit	2013-2015	<ul style="list-style-type: none"> Building out of enterprise and industry partnerships. Another equity round closed. Negotiation of strategic exit.

This case study uses publicly-available information from sources such as LinkedIn, PitchBook, Wikipedia and PR Newswire. Because the firm was never publicly traded, the information about it is limited and we have had to make guesses and suppositions regarding client uptake, revenue growth, and personnel changes.

In this case study, we focus on the backgrounds of Vormetric’s principals, its operations, changes in its management team over time, and the issuance of equity in the case study below.

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Vormetric's Foundation (2001-2004)

Duc Pham and Phil Grasso founded Sotera Networks – the precursor to Vormetric – in November 2001. Pham served as the company's CTO from founding to 2010 and Grasso has worked on the marketing side in various positions until the present.

Founder's background

Pham's background includes a degree in Electrical Engineering and Computer Science from the University of California, Berkeley. His first major professional experience was a four-year stint at AT&T Bell Labs, where he wrote controller software for semiconductor chips. After AT&T, he moved to Diamond Multimedia, a manufacturer of video processing chips / boards, where his title was Director of Engineering.

Founder's mentor, an experienced technologist

At Diamond Multimedia, Pham met Bill Schroeder, a Harvard MBA, Marquette University M.S.E.E. (Master of Science in Electrical Engineering) technologist who was Diamond's CEO and Chairman. At this time, Schroeder was an influential technologist, who had already served as the CEO of one tech firm and the COO of another, as well as serving on the boards of directors at several other firms (that were acquired by such notables as Microsoft, Intel, and Cirrus Logic).

Pham left Diamond in 1999. Two years later, he founded Sotera / Vormetric because of an insight into an innovative method of encrypting and protecting structured (i.e., in a database) and unstructured (i.e., in a file system) data. Schroeder coached Pham through the establishment and initial funding of the company. Sotera / Vormetric had no patents when it was launched.

Sotera raised its first \$4.1 million in January 2002 by selling 12.75 million shares for \$0.32 per share. This capital represented 42.8% of the firm. Two institutional investors, QTV Capital (Quantum Technology Ventures) and Vanguard Ventures, took down the entire A-round. Pham or Grasso was likely CEO at the time the A-round was issued.

In April 2002, Sotera changed its name to Vormetric (likely due to a trademark conflict with Sotera Defense Systems, a Maryland-based company).

Strategic product development under Schroeder

After completion of the A-round, Schroeder stepped into the CEO role, where he spent his time speaking with potential clients "...in order to evolve best-of-breed architecture for protecting sensitive stored information" and planning for the B-round of funding.

In October 2002, Vormetric raised \$10 million in its B round, issuing 74.35 million shares for \$0.18 per share that diluted A-round investors' stake to 22.13% of the firm's equity. The equity was issued in an unreported number of tranches. B-series investors – Jackson Square Ventures, Quicksilver Ventures, Sigma Partners, and an additional investment by Vanguard Ventures – owned 65% of the company.

Product launch at RSA Conference

In April 2003, CEO Bill Schroeder announced the launch of Vormetric's first commercial product, CoreGuard Core Security System at the RSA Conference in San Francisco. In June of that year, Vormetric announced the hiring of two senior sales professionals and four sales people. Five of the new employees were focused on sales to the federal government.

In September 2003, the company issued a \$3.09 million B-1 round, issuing 17.14 million shares for \$0.18 per share, worth 12.24% of the company. These shares were likely issued

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to angel investors (probably Schroeder and possibly others), as no institutional investors are recorded as participating in this funding round.

Version 2.0 launch

In December 2003, the firm released CoreGuard 2.0, and in January of the next year, announced that it had been issued patent number 6,678,828, its first. Duc Phan is listed as the primary inventor on this patent, which also bears the names of three co-inventors.

At this time, an industry journal discussed Vormetric's solution and offered this comment about pricing:

Pricing for CoreGuard 2.0 systems starts at \$39,500 per appliance, with a minimum footprint of two CoreGuard appliances in a high-availability pair and Policy Enforcement Modules (PEMs) for each server that needs to access protected data targets. Additional servers can be brought into an existing core security domain for \$1,500 to \$2,500 per server (exact pricing depends on the amount of CPUs per server and the operating system).

At the February 2004 RSA Conference, Vormetric unveiled its CoreGuard 3.0 product, a few weeks after having announced it had become part of the Oracle PartnerNetwork. In April, Schroeder announced the formation of a Technical Advisory Board which initially was comprised of three security experts and increased by one a few months later.

In June 2004, the company announced that it had formed strategic partnerships with General Dynamics, Technica Corporation and Patriot Technologies, three integrators in the federal government technology sector that the firm had been targeting with its sales and marketing efforts.

Most of the company's money raised by the 2004 C-round

Also in June 2004, the company raised \$15 million by issuing a C round of 76.92 million shares at a price of \$0.20 per share. This amounted to an ownership stake of 37.92%, leading to a capital structure as follows:

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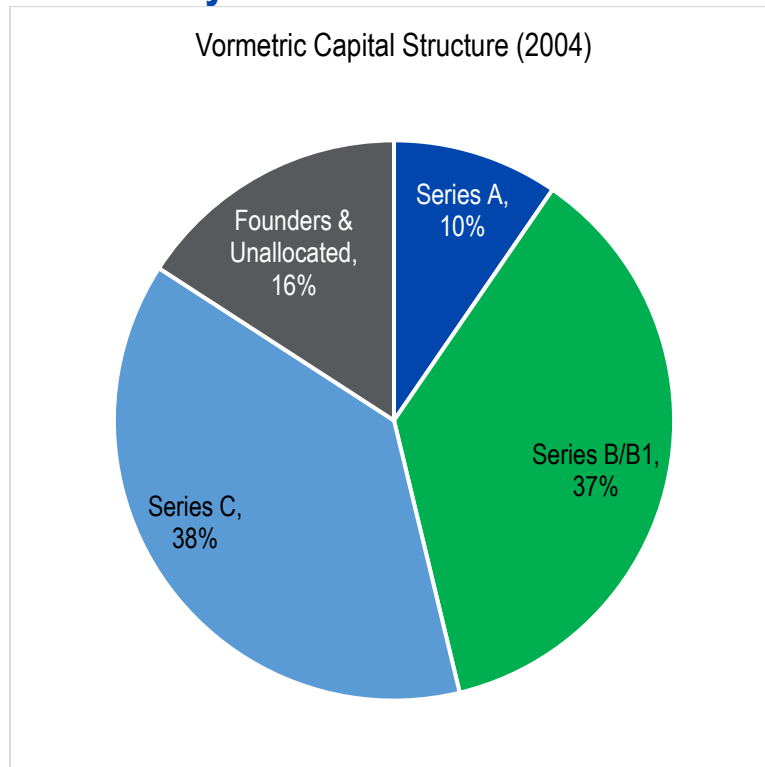


Figure 1. Source: PitchBook

First customer wins

In August, 2004, Vormetric announced its first customer win, with the incorporation of CoreGuard by Ocwen Financial Corporation (OCN) "...for the protection and encryption of non-public, personally identifiable financial information." A month later, it announced its second win, a contract from the University of Texas Health Science Center.

Reed Taussig hired as CEO

Struggling for Traction (2005-2006)

On October 12, 2004, the board representative from Sigma Partners, Mark Pine, announced the hiring of Reed Taussig as CEO.

With the establishment of the strategic partnerships, the formation of the Advisory Board, the successful C-round, and two publicly-announced customer win, we believe Schroeder stepped down leaving the firm with a good foundation for growth and that the CEO transition was orderly.

The new CEO, Taussig, had spent the previous seven years as President, CEO, and Chairman of Callidus (now CallidusCloud, CALD). Taussig was Callidus's founders' second hire (after the Chief Architect) and guided the company since 1996 before taking the company public in November 2003. It is worth noting that, while Taussig had worked in the technology field, he was not a technologist. His degree from Arizona State University is in Economics.

Board angling for an IPO?

We believe that this CEO selection suggests that even as early as 2004, Vormetric's board may have already been planning an IPO exit.

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October 2004 also saw the announcement that Vormetric had been certified compatible with McAfee's Enterprise Data Center Security Suite. The company was also assigned two more patents, one in 2005 and one in 2006. The company eventually was assigned 15 patents in all.

2005 was surprisingly quiet and it seemed as if the business momentum Vormetric had been building ebbed. Its only major news after Taussig's ascension was the April 2006 announcement that Vormetric would support Oracle's Database Vault product.

Gaining Traction (2007-2012)

Switch to
interim CEO,
Mark Pine

By June 2006, Vormetric's board decided to change executive direction and Reed Taussig was ousted as the firm's CEO. In his place, Mark Pine – the board representative from Sigma Partners that originally announced Taussig's hiring – stepped in as interim CEO.

In December 2006, Vormetric announced that it had "...entered an OEM agreement with Symantec Corp. to incorporate Vormetric's patented encryption technology into Symantec's Veritas NetBackup solution for enterprise-level data backup and recovery."

OEM
agreement
with
Symantec

In Duc Phan's bio, the partnership with Symantec, and one announced a year later with IBM (discussed below) are specifically called out, so we believe this partnership to have been a crucial one for Vormetric's growth and eventual business success.

Richard
Gorman hired
as CEO

In July 2007, Mark Pine stepped aside as CEO after hiring Richard Gorman, an MIT-trained technologist who had worked as a Senior VP of Products for Seibel Systems, and as the VP of Worldwide Marketing for Apple/Claris before that. The company did not issue an announcement regarding the CEO transition from Pine to Gorman, which we think is a hint that the board wanted to minimize emphasis on the previous year's separation of Taussig.

In August 2007, the company closed an extension of the C-round of funding, selling 38.90 million shares for \$0.20 per share to receive \$7.59 million. After this issuance, Vormetric's cap table was as follows:

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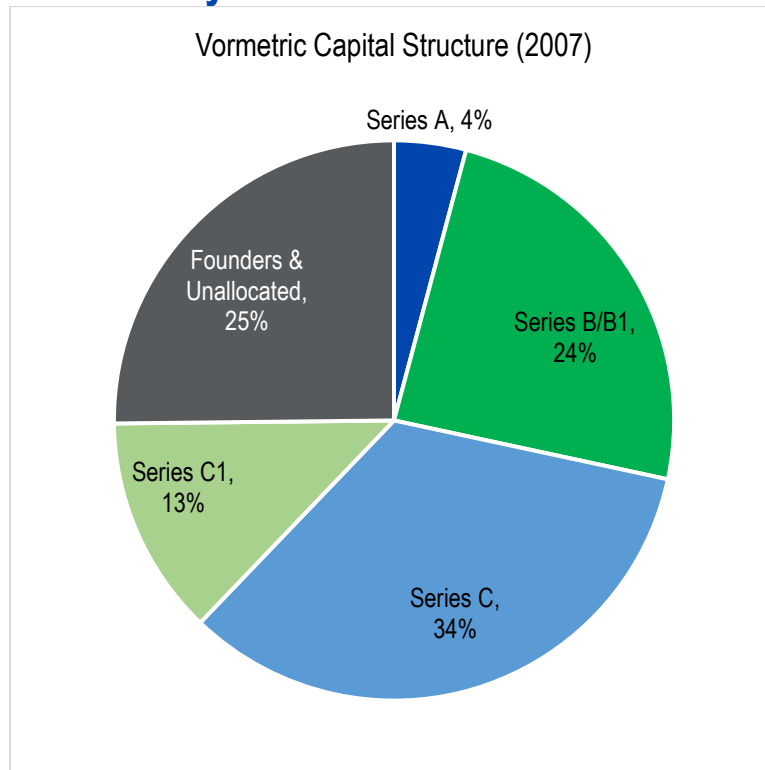


Figure 2. Source: PitchBook

OEM agreement with IBM

In October 2007, the company announced that IBM had chosen Vormetric’s solution to provide database encryption capabilities for its flagship DB2 database product running on Windows, Linux and Unix. This collaboration was mentioned as a key turning point for the company by Phan, along with the prior year’s collaboration with Symantec.

In April 2008, the company presented again at the RSA Conference, boasting that its “...more than 150 customers represent the world’s most trusted brands in financial services, retail, manufacturing, healthcare, media, energy and telecom industries as well as highly security conscious government agencies.”

Major client wins and record revenue growth

In June 2008, the company issued an announcement of a major client win at Prudential, and for the remainder of the year, announced several other client wins with listed and/or notable companies. In November 2008, the company issued a press release claiming two back-to-back record quarters for revenues and profits. Less than a year later, the company issued a press release stating:

Vormetric achieved record breaking bookings, revenue and profit in the second quarter with an overall bookings increase of 39 percent year/year Trailing Twelve Months. New customer attainment in the second quarter included Fortune 500 customers in manufacturing, financial services, business process outsourcing and media. Existing customers’ expanding deployments also strongly contributed to the successful quarter.

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This snippet suggests both a widening and a deepening of the company's sales pipeline and increasing momentum. The press release for the fourth quarter 2009 characterizes operating profit at 30%.

In Richard Gorman's bio, he characterizes revenue growth at Vormetric during his tenure as at 47% year-over-year with results that were strongly profitable; triangulating this claim with the above snippet suggests that if Gorman's characterization is accurate, Vormetric's sales momentum continued to increase during Gorman's stint as CEO.

Vormetric supports AWS, etc.

Momentum continued to build in subsequent years, with support announced for Amazon Web Services, and various ERP and HR systems. The company claimed eight consecutive quarters of profitability in the quarter ended March 31, 2011 and that it had doubled the number of systems protected by Vormetric technology during the preceding fiscal year.

In looking through company announcements in 2011-2012, we noticed that Vormetric greatly increased the numbers of industry conferences (computer security, cloud security, etc.) at which it was presenting, including a keynote addresses presentation for at least one conference. In addition, the company began expanding overseas, opening a branch office in London and expanding its business in Korea.

Exit (2013-2015)

Board hires Allen Kessler, an executive from HP with deep storage and marketing experience

In October 2012, the company announced that it had hired Allen Kessler, a technology marketing executive who had held positions at HP, 3Com, and Palm. At HP, Kessler had served VP of worldwide sales and service for enterprise security products.

At 3Com, he had run the worldwide sales organization, responsible for roughly \$3 billion in annual turnover. After that, he worked as the President and COO of Palm and was instrumental in taking Palm public at the height of the dot-com boom. He came to HP upon the company's acquisition of 3Com, at which time, he was running an enterprise security business called TippingPoint.

Considering the momentum Vormetric had generated under Gorman's tenure, it might seem unusual for the company to switch horses. However, Kessler brought with him a long history of very senior positions specifically within the enterprise security space. Kessler left a position responsible for \$3 billion of global sales for a company that was likely generating revenues in the \$25 - \$30 million range. We think that the board was looking for a leader that could build the company into a much larger company and possibly set it up for a successful IPO exit.

The company issued another equity round in June 2013 totaling \$15 million. Its post-transaction valuation totaled \$120 million. After issuing this D-round, the firm's capital structure was as shown below.

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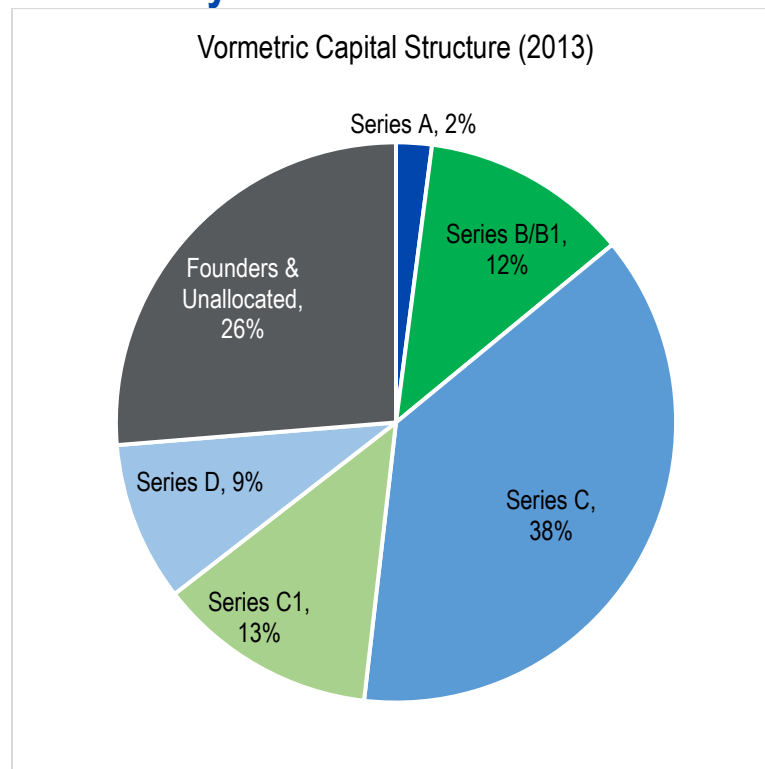


Figure 3. Source: PitchBook

Tech partnerships increase

Sources suggest that year-over-year revenue growth had fallen to the 20%-30% year-over-year level, suggesting that the pipeline was beginning to mature somewhat. It seems that the company was focusing most of its efforts on building out its technology's capacity to serve large clients, and to protect data in the Cloud and on mobile devices. The company announced partnerships with such tech luminaries as Cisco, EMC, SAP, and FireEye.

Thales buys Vormetric

In October 2015, three years after hiring Kessler, the European defense giant Thales announced it would acquire Vormetric for \$400 million to be incorporated into its cybersecurity business. The acquisition price was negotiated in euros, so the ultimate price paid for Vormetric was \$417 million, per PitchBook. PitchBook recorded Vormetric's trailing twelve-month revenues at \$57 million, implying a price-to-sales ratio of 7.9x.

Thales made this mention in its acquisition announcement:

“San Jose, Calif.-based Vormetric has approximately 200 employees, more than 1,500 customers, and company revenues on pace to reach \$75 million for the current fiscal year.”

The company had been capitalized with a total of \$55 million from investors and sold for \$417 million; this works out to a Return on Total Funding of 658%. \$32 million of the company's capital was invested between 2002 and 2004, implying that most investors waited on the order of 12-13 years for payout.

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Appendix

Vormetric CEOs

Name	Period	Experience
Duc Pham?	Founding (2001)-2002	<ul style="list-style-type: none"> • MTS, Tandem (1985-1990) • AT&T Bell Labs, Technical Staff (1991-1995) • Diamond Media, Dir. Of Engineering (1995-1999) • Vormetric, Founder / CTO (2001-2010) • DEGOOROO, CTO (2006-2007) • Mobivi, Founder / CTO (2007-2009) • OniPal, Founder / CTO (2009-Present) • Valley Center of Innovation – Blockchain, Founder / CEO (2016-Present) • FundCru, CEO (2015-Present) • IDLogiq, President / CTO (2017-Present)
Bill Schroeder	February 2002- October 2004	<ul style="list-style-type: none"> • McKinsey, Consultant (1972-1976) • Memorex, Manager (1976-1978) • Priam, Co-founder / President (1978-1986) • Conner Peripherals, President / COO / Vice-Chair (1986-1994) • Vxtreme (acquired by Microsoft in 1999), Board member (1996-1999) • Diamond Multimedia, CEO / Chairman (1994-1999) • Xircom (acquired by Intel in 2001), Board member (1998-2001) • ShareWave (acquired by Cirrus Logic in 2001), Board member (1998-2001) • Vormetric, CEO / Advisor (2002-2004) • AlphaSmart (acquired by Renaissance Learning in 2005), Board member (1999-2005) • WatchGuard (acquired by Francisco Partners in 2006), Board member (2002-2006) • Oxford Semi (acquired by PLX Technology in 2008), CEO / Chairman (2007-2009) • Omneon (acquired by Harmonic in 2010), Board member (2001-2010) • Con-way (acquired by XPO Logistics in 2015), Board member (1996-2015) • Vormetric, Board member (2012-2016) • Xirrus (acquired by Riverbed Technology in 2017), Board member (2004-2017) • Nimble Storage (acquired by HP in 2017), Board member (2013-2017)

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Name	Period	Experience
Reed Taussig	October 2004- June 2006	<ul style="list-style-type: none"> • Unify, VP Sales (1987-1991) • Gupta Corp., Senior VP (1991-1994) • Inquiry.com, Founder / President / CEO / Chairman (1994-1997) • Callidus, President / CEO / Chairman (1997-2004) • Vormetric, President / CEO (2004-2006) • E2open, COO (2006-2007) • Jam Metrics, President / CEO (personal project) (2007-2008) • Mitrstech (acquired by a PE firm), Board of advisors (2007-2011) • Xactly, Board of advisors (2006-2015) • ThreatMetrix (acquired by LexisNexis in 2018), President / CEO (2008-2018) • Got It, Inc., Board advisor (2018-Present)
Mark Pine (interim)	June 2006-July 2007	<ul style="list-style-type: none"> • Sybase, Senior VP (1990-1994) • OnDisplay (top 10 IPO in 1999), CEO (1996-2000) • Sigma Partners, Managing Director (2000-2008) • Vormetric, CEO (2006-2007) • Ubokia, CEO (2011-2014) • Rady School of Management, Dean's Council (2008-Present)
Richard Gorman	July 2007- October 2012	<ul style="list-style-type: none"> • Borland, VP / GM of Database Products (????-1992?) • Apple / Claris, VP Worldwide Marketing (1992-1994) • Siebel Systems, Senior VP Products (1998-2004) • Vormetric, CEO (2007-2012)
Allen Kessler	October 2012- Exit (March 2016)	<ul style="list-style-type: none"> • Analytica, Product Manager / Director of SQA (1983-1985) • 3Com, GM / various leadership positions (1985-1993) • 3Com, Senior VP Global System Sales (1996-1998) • 3Com, SVP Global Customer Service (1998-1999) • Palm (took Palm public), President / COO (1999-2001) • Intransa, President / CEO (2001-2003) • Attune Systems, President / CEO (2003-2009) • TippingPoint, President / GM (2009-2010) • HP, VP Enterprise Network Security (2010-2012) • HP, VP Worldwide Sales and Service, Enterprise Security Products (2012-2012) • Vormetric (acquired by Thales in 2016), President / CEO (2012-2016) • Thales e-Security, CEO (2016-2017) • Manifest, Mentor (2016-Present) • Jackson Square Ventures, Advisor (2017-Present) • SpyCloud, Board member (2017-Present) • Thales, Digital Business Executive (2018-Present)

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Vormetric Investors

Name	Location	Round	Contact
Ceres Venture Fund	Northfield, IL	C1	N/A
Jackson Square Ventures	San Francisco, CA	B, C1	Robert Spinner
JK&B Capital	Chicago, IL	D	Mark Sokol
QTV Capital	Saratoga, CA	A	Steve Schlossareck
Quicksilver Ventures	Saratoga, CA	B, C, D	Steve Schlossareck
Sigma Partners	Campbell, CA	B, C, D	Mark Pine
Split Rock Partners	Eden Prairie, MN	D	James Simons
Vanguard Ventures	San Jose, CA	A, B, C	Dan Eilers