What VCs like about Open Source

Dr. Jörg Sievert
SAP Ventures
Why would a VC support a company that is giving away its products?
Because VCs invest in companies they believe will generate a substantial return.

- **redhat.**
  - Public, market cap: ca $ 4Mrd
- **suse**
  - Acquired by Novell: ca $ 210m
- **JBoss**
  - Acquired by Red Hat: ca $ 350m
- **XenSource**
  - Acquired by Citrix: ca $ 500m
- **Zimbra**
  - Acquired by Yahoo: ca $ 350m
DONE!
Why does Open Source happen at all?

- Maturity of categories, Products being commoditized
- Switch from product selling to solution selling needed but very hard
- Cost of Globalization
- Speed of innovation

Market dynamics lead to challenges for perpetual license companies and an opportunity for alternatives.
What makes Open Source happen?

- Acceptance by Customers
- Proven Business Models
- Investments
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Open Source is being accepted by Customers and is evolving to become a Standard...

<table>
<thead>
<tr>
<th>Year</th>
<th>Open Source As Revolution</th>
<th>Open Source As Business Model</th>
<th>Open Source As Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>Develop alternative to monolithic code</td>
<td>Distribution over commoditized IP</td>
<td>Interoperability between Open Source stack (including Java enabled products) and others</td>
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<tr>
<td></td>
<td>“Liberal left” in the technology community rebelling against IP</td>
<td>Significant investment in public markets and private equity</td>
<td>OS ubiquity in enterprise &amp; seamless integration</td>
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<td>Operating System</td>
<td>Cost – lower TCO</td>
<td>Large public companies driving market adoption</td>
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<td>Developer tools/languages</td>
<td>Operating System</td>
<td>Emerging market use (China)</td>
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<td>Web and email servers</td>
<td>Database</td>
<td>Ubiquitous – permeates everything</td>
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<td>Internet</td>
<td>Middleware</td>
<td>SOA/ESA/Web 2.0</td>
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<td>Large “shareware” community for developer tools</td>
<td>Applications</td>
<td>Cross pollination from consumer internet technologies</td>
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<td>Community Programming</td>
<td>Standard programming languages</td>
<td>Open Source as second nature – no debate</td>
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Drivers
- Develop alternative to monolithic code
- Operating System
- Web and email servers
- Internet
- Large “shareware” community for developer tools
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Where in the stack
- Operating System
- Developer tools/languages
- Web and email servers
- Internet
- Large “shareware” community for developer tools
- Community Programming

Enabler of Change
- Operating System
- Database
- Middleware
- Applications
- Standard programming languages
- Rich infrastructure
- Changing economic models
- Feature rich applications
- High scale consumer services on OS backbone
- Business & Open Source mix

Evolutionary idea
- Distribution over commoditized IP
- Significant investment in public markets and private equity
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... and OSS companies are actually very commercial ...

- **Annual Subscription**
  - Usually Support and Maintenance

- **Professional Services**
  - System Integration
  - Training
  - Either based on a product or as an SI pure play

- **Dual Licensing**
  - Free Community Version
  - Commercial Enterprise Edition
… although not all business models have proven themselves yet

Hypotheses based on available data

Open Source companies have significant subscription revenue, which may be attractive, but...

- Significant subscription revenue
- May be attractive
- But perhaps because they have not yet achieved scale thresholds

Limited number of open source companies with available financials – too few for a valid statistical sample; Apollo supports these hypotheses based on available data

Acceptance by Customers

Proven Business Models

Investments
... and VCs have invested heavily in Open Source

OSS VC Investments (in $m)

2001 2002 2003 2004 2005 2006

76,7 138,6 115 300 307 504

Source: Matthew Aslett on CBR Open Source Weblog
Open Source Software Status (just a selection)

- **Adoption by Enterprises**
  - MySQL
  - Postgres
  - Virtualization
    - Virtual Iron
    - XenSource
  - Collaboration
    - SocialText
    - Zimbra
  - System Management
    - Groundworks
    - Hyperic
  - Storage backup
    - Zmanda
  - Mobility
    - Funambol
  - Desktop
    - OpenOffice
  - Vertical Apps
    - Adaptive Planning
    - ERP
      - OpenBravo
      - Compiere
    - Content Management
      - Alfresco
      - Drupal
    - ESB
      - eMule

- **Project Stability and Activity**
  - Solution Certification
    - SpikeSource
    - Sourcelabs
  - Business Intelligence
    - JasperSoft
    - Pentaho
    - Jedox
  - Virtualization
    - Virtual Iron
    - XenSource
  - System Management
    - Groundworks
    - Hyperic
  - Collaboration
    - SocialText
    - Zimbra
  - VoIP
    - Fonality
    - Digium
  - Content Management
    - AlFresco
    - Drupal
  - ERP
    - OpenBravo
    - Compiere
  - Development Tool
    - Zend /PHP,
    - Blackduck
    - Java, Eclipse

- **Linux**
  - Red Hat
  - Solaris

- **Web Server**
  - Apache

- **App Server**
  - JBoss

- **Database**
  - MySQL
  - Postgres

- **Security**
  - Clam AV

- **Legends**
  - Portfolio Companies

So what works?

- Open Source as business model
  - OSS is disruptive to existing perpetual license based companies
  - Only in established, standardized markets, where products are being commoditized
  - Only if customers/community finds the SW by themselves and just touch the OSS company to ask for conditions and to sign contracts
  - Only if the company is very frugal and capital efficient

- Open Source delivered as SAAS

- Leveraging the Community
  - Testing
  - Porting, to other platforms, other languages
  - Extensions
  - Sales & Marketing
... and what may not work?

- Leveraging the Community
  - to develop your core product

- Tournament Economics
  - Due to the very nature of community selecting and recommending to each other, it is highly unlikely that there will be more than two key leading companies in each category

- Open Source as a last resort
So what makes a great OSS company?

- Entrepreneurs, Management, Execution
- Technology
- Product
- Market

So, what’s new?

- Community!
A bit about ourselves...

SAP Ventures
**SAP Ventures** – Part of a Broader Strategy

<table>
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<tr>
<th>SAP Ventures</th>
<th>SAP Corporate Development</th>
<th>NetWeaver Ecosystem</th>
<th>SAP Corporate Finance</th>
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<tr>
<td>- Invest in start-ups to drive a financial return</td>
<td>- Identify partners for resell, OEM, joint “go to market” to create and drive revenue streams for SAP</td>
<td>- Cultivate a broad partner ecosystem around the NetWeaver platform</td>
<td>- Execution arm for M&amp;A</td>
</tr>
<tr>
<td>- Provide window into innovative and disruptive trends in both technology and business models</td>
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<tr>
<td>- Active sourcing strategy with dedicated investment professionals</td>
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**SAP Ventures** – Longer term, strategic view of market and opportunities; not constrained by short-term, tactical priorities

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Representative Current and Past Investments
Conclusion

- VCs look at OSS as mostly a go to market / business model innovation
- Works great for established categories, which are being commoditized
- Needs a strong community
- Needs to be very capital efficient
- Only 1-2 players will be leading in each category
Thank you

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