

THE STONEWOOD PERSPECTIVE

A S T O N E W O O D G R O U P I N C . B U L L E T I N

StoneWood Interview Series

An Interview with Sandvine Corp. CEO David Caputo

Founded in 2001, Sandvine Corp. is the second runaway success for a talented group of entrepreneurs whose first company, PixStream, was sold to Cisco in 2000 for \$545mm. When Cisco unexpectedly closed the Waterloo facility the following year, the founding group of Brad Siim, Marc Morin, Tom Donnelly, Don Bowman and Dave Caputo started Sandvine Corp.

Despite lacking a business plan, technology or target market, the founding team still attracted \$19.5mm in start-up funding and set off to create yet another innovative organization. In only 6 years, Sandvine has become a global leader in intelligent network management software with over 90 customers in 40 countries. Revenues this year for the TSX listed company are expected to top \$60mm. In September, Sandvine Corp was named the fastest growing technology company in Canada with a five year revenue growth rate of 42,120%.

StoneWood Group's Sal Rocco and Bob Hebert sat down with Sandvine CEO Dave Caputo to discuss the company's tremendous success.

Both PixStream and Sandvine were team efforts with a core of people common to both founding teams. Can you speak about that team?

We are different than many other startups which are founded by a single individual. We are a group of five, a band of brothers if you will, who complement each other and share the collective load in guiding the business. Most of us have been together since

PixStream and even Hewlett Packard before that so we know each other well and more importantly trust each other. When I say brothers I mean that in both the positive and negative sense in that we get along, we fight and challenge each other but we do so with a core respect for each other that enables it to work extremely well. We also are five people who bring different, though equally important qualities and skills to the table which allows each of us to focus on our core capabilities. That is not to say that we don't challenge each other's domain, because we do, but once a decision is made we throw all our energy behind it.

Core teams such as ours are culturally self-selecting. We believe we have a high quality group of synergistic people and this has allowed us to attract a lot of similar people who share our values. Together, we have managed to work our way steadily forward in building the company that Sandvine has become.

What was most important for your founding group from the outset of Sandvine?

Actually, in our very first meeting we decided that we were going to build a company that believed in certain things. We have come to call it the 'Sandvine Way' and these core tenets continue to guide this organization. They are written everywhere, on key chains, door passes and inside work folders. We mean each and every one and live them to the best of our ability.

For example, we understand that as a start-up, anyone who chooses to buy our equipment is taking a risk with their career. The reality is that it is a lot safer for a customer to wait until Cisco or some other large company comes out with a similar product to ours than to risk their career on a start-up's new technology. We recognize and respect such personal career risk and do everything possible to deliver beyond our client's expectations and thereby reward the risk these individuals took by working with us. This is what 'Customer First' means to us and it drives how we work with each and every one of them.

We also have very strong views on teamwork, flexibility, knowledge sharing, and risk-taking. Each of these, as defined by us, is very important and we talk about them all of the time. One of the most important things that we were committed to was a total lack of politics. This has become a credo here, where even today with 300 employees, we work very hard to cultivate a culture free of the politics which most of us have experienced in one form or another in previous companies.

What this means in practice is individuals don't take credit for someone else's work and functional heads or groups don't protect or over-estimate budget requirements to build personal empires or silos. Politics are a demoralizing drag on both individual and overall corporate performance so we work hard at ensuring that it does not creep into our actions and behaviour. At Sandvine we have created an environment in which everyone is empowered to make the right decision because the overall success of the company is the sum of these individual decisions. For us, it is all about doing the fundamentally right thing not the most politically expedient thing.

We live by these principles and continue to build an organization that shares these beliefs with us. As I said, we strive hard to do the right thing and to treat each other properly. It has been a big part of the success we have experienced to date...

Can you speak to the lessons from PixStream that you were able to apply to Sandvine?

Probably the biggest thing was that focus is the genesis of strategy and not the other way around. Focus is what you do not what you say you are

going to do. You can spend a lot of time as a tech start-up developing innovative technology when in reality success lies in their application to specific markets and problems. Our biggest breakthrough at PixStream was the moment we focused on a specific set of customers and their problems. We became dedicated to solving those problems and to helping specific telcos enhance relationships with their end customers. Everything flowed from the focus.

We had an unusual situation at Sandvine in that we started with \$19.5mm in funding and had the luxury of starting from scratch. We started with 30 engineers and organized ourselves into four work teams, each with a mandate to explore opportunities in a different area. These were storage, VOIP, fiber to the home and internet value-added-services. We had a set of criteria and looked at each sector carefully. After a few weeks we eliminated one and then focused on the other three and went on until some 11 weeks later we had narrowed in on the internet opportunity.

Focus was critical for us and we have remained locked on broadband service providers' opportunities since. That is not to say that the market hasn't thrown us a few curves along the way. For example, initially we were a largely hardware play and had visions of charging our clients millions for these big boxes. But the market and competitive offerings shifted and we quickly shifted into a more flexible software architected solution. We are still solving specific network level problems it is just how we do it that has changed.

You sold PixStream while electing to take Sandvine public. How have the two rides been different?

PixStream came to an abrupt end shortly after its sale to Cisco. It was the right thing to do and no one could have foreseen the dramatic change in environment with the Internet and Telecom equipment market meltdown.

Sandvine on the other hand has been driven by an intense curiosity in the founding team to see how far we could go in building a company. Our objectives, our goals are different in this organization and we are building it for long-term sustainability. We really see Sandvine as having a terrific future and want to see that through.

The other big difference is simply that PixStream remained private throughout while we have gone public. The pressures are completely different. I thought I understood the demands of serving shareholders when we were private but those demands are nothing compared to those placed on us as a public company. And it is everything from the frequency, quantity and unrelenting nature of those demands. It has been a fun learning curve.

Many will say that what gets a firm to \$10mm doesn't get it to \$20mm and what gets it to \$20mm certainly doesn't get it to \$100mm. Can you talk about your observations of how the leadership requirements change as a business grows?

Thus far we have worked hard to remain guided by the fundamental question of what is the right thing to do to get to the next stage. We have built a solid team who work well together and we face the challenges as they come along. As mentioned above, we believe that people have to feel empowered to make the right decisions. If you have the right people in place along with the right culture then you need to trust people and empower them to make the right decisions. We start from the premise that no one sets out to make the wrong decision. We foster an environment that encourages risk taking – we prefer that people do the right thing 3 out of 4 times instead of 2 out of 2 times. Such an environment can only arise where people feel that they will not be punished if they make the wrong decision.

There is no doubt that as we grow the business, it becomes more complex and the demands on all of us increase. But we have tried to anticipate them and make the changes that we believe are the right ones. So far so good.

Can you talk about how you personally have had to evolve as your businesses have grown? How have you managed that? Are you proactive, do you have a mentor etc?

Learning is very important for me and everyone here. I do a number of things to remain current and to learn from others. For example, I am a member of the Young President's Association (YPO) which I believe is a superb organization. I get to meet regularly with groups of CEOs who have similar issues and we hash them out in a supportive environment. I am

also a member of Communitech here in Kitchener-Waterloo and more specifically their 20/20 peer group of CEOs who also get together on a regular basis to discuss issues. I attend conferences and am not shy about asking others for advice. Just last week I ran into the COO of RIM who had some wonderful insights into the challenges of managing high growth organizations.

Finally, our board of directors has been transformed in the last couple years from predominantly investors to a majority of operationally focused individuals. This has been a natural evolution from VC backed startup to public company, because our growth issues are operational and we wanted people who had lived these in their careers and could share those lessons with us.

In speaking to young entrepreneurs, what counsel do you provide them? What mistakes or wrong assumptions do you think people bring to the start-up game?

Well, there are a few things. First, get the team right because everything flows from the team. Hire the very best people that you can find and then trust them. We are a perfect illustration of such a team. Trust is difficult for a young entrepreneur and I remember myself as quite the micro-manager when I was first leading teams. But few entrepreneurs can do it all and you have to involve and entrust others if you are going to be successful.

Second, I would say focus on the one thing that you have a chance to be most successful in. Too many early stage companies start off as technology plays looking for the right problems to solve. This is so dangerous as resources are almost always limited and to spread them out across multiple market initiatives is dangerous. While the temptation to try to hedge one's bets by pursuing multiple paths is understandable, in my experience it is a rocky and curvy road to nowhere.

Third, I would say that once you have picked that one thing that you can do, you have to become unwaveringly execution and customer focused. Talk to customers, listen to them, work with them to develop an imaginative roadmap going forward. The first few customers are key and you simply cannot work hard enough to make them successful and those relationships real. And finally, have fun.

You have to do this because you love it and you have to infuse that into others. You are going to work long days and the attitude you bring and exude will energize or wilt those whose Herculean efforts you need.

Can you provide advice to start-ups on navigating investor waters?

We simply do not have enough early stage investors in this country and so you have a limited pool to leverage.

All I would say is keep the ball in the investors court. By that I mean, if you want funding and they have questions for you, get them the information as soon as possible, get rid of objections, and put the ball back in their court by asking them if they have everything they need to make a funding decision. You need a response, and time is never your friend so make sure you always have the ball in their court.

Do you see yourself as a serial entrepreneur and if so what is it about you that is attracted to this life?

I am thoroughly enamored by the life I am living at this time. It is exciting, challenging and tremendously rewarding in so many ways. For me it is such a thrill to build teams, watch them grow and do amazing things. We started from nothing here and have built a community of wonderful, bright, committed people all pursuing the same goals. Building a company is all about the journey. There are no endpoints. The ride itself is the thrill.

Finally, I would say that when you have a chance to work with friends, your best friends, then it is not really work is it?