

The \$100M Revenue Club: Cortina, Powered By Intel

by David Barry

When Intel Corp. contacts you about buying one of its subsidiaries, you listen.

Still no one would likely have blamed Cortina Systems Inc. CEO Amir Nayyerhabibi if he had walked away from the chance to acquire Intel's optical networks components unit.

After all, Cortina, a start-up chip maker, was generating less than \$10 million in annual revenue, while the Intel unit had more than \$100 million in annual sales. More importantly to do the deal, Cortina would need to raise \$132 million in outside financing, and then figure out to integrate the unit's people and products. In fact, the Intel unit employed some 200 people, had over 300 products and 1,800 customers around the globe.

Nayyerhabibi, however, was undeterred, mainly because he saw the acquisition as a "transformation" for Cortina.

Today, nearly four years after the deal was completed, it's hard to argue with the decision. While declining to get specific on Cortina's revenue figures, Nayyerhabibi indicated the company had revenue in the neighborhood of \$150 million in 2009. Equally important, the company, he said, has been profitable for the past 12 quarters. The recession did delay Cortina's growth by roughly a year, but both Nayyerhabibi and Cortina board member Norm Fogelsong, a general partner with IVP, suggest that the company is on track to go public, perhaps within the next year or two.

Nayyerhabibi co-founded the company with Zino Chair, who is Cortina's vice president of marketing and business development, and Hojjat Salemi, who is the company's vice president of engineering and CTO. All three had impressive backgrounds.

Nayyerhabibi held executive positions at Silicon Graphics, MIPS Computer Systems and Intel before becoming a serial entrepreneur. Among the companies he helped create was StratumOne, which was acquired by Cisco Systems in 1999. Chair also was at StratumOne, having co-founded the company. After Cisco's acquisition, he ran Cisco's metro Ethernet marketing team. Chair also spent time at Nortel and AT&T Bell Labs. Salemi, meanwhile, worked at Nortel as well before joining Mitel and then Ottawa, Canada-based Skystone, which was Cisco's first acquisition outside of the U.S.

In creating Cortina, the trio's main goal was to create the next great fabless semiconductor company. More specifically, they wanted to remove the infrastructure bottlenecks and deliver efficient bandwidth across the network.

They also felt that as consolidation swept across industries there would inevitably be consolidation within the chip industry. There was, they felt, a need for chip companies that could provide end-to-end solutions and have products for an array of sectors.

Between its founding in the fall of 2001 and August 2005, Cortina raised nearly \$86 million to develop its products and also to seek out acquisitions. Among the venture investors lining up behind Cortina during that period included Canaan Partners, El Dorado Ventures and Redpoint Ventures.

Cortina's first acquisition came in 2004 when it purchased Azanda Network Devices, a highly touted fabless semiconductor company in the traffic management sector. Azanda had raised \$53 million from a group of investors that included Bessemer Venture Partners, Goldman Sachs, Highland Capital Partners and Newbury Ventures.

That, however, was only a warm-up act for the Intel deal. The unit that Cortina ultimately acquired had been put together through a series of acquisitions, but it was a sector that Intel was pulling back from. Despite generating over \$100 million in revenue, the unit was reportedly losing money.

Intel shopped around the unit to a number of buyers before coming to Cortina, which it had worked with in designing several chips. IVP's Fogelsong still is not sure exactly why Intel was willing to sell it to Cortina, but speculates that the chip giant might have felt better with the unit in the hands of a non-competitor.

There were, however, a series of obstacles to pulling it off, the biggest being finding investors who felt comfortable backing such a deal. Fogelsong said he first heard about it from Cortina board member Gary Little while the two were attending a performance of the San Francisco Ballet with their wives.

IVP had not invested in the company up to that point, but was familiar with Nayyerhabibi, having seen him work at two other companies in which IVP was an investor.

"We knew he was very smart, but we hadn't seen as a CEO," said Fogelsong.

There also was the matter of the fact of a small company acquiring a big division from Intel. "That's a tall order," he said. "Could this work?"

To figure that out, IVP and other would-be investors embarked on an extensive due diligence process, specifically looking at the comfort level that Intel customers would have in having their

needs serviced by a start-up. Overall, customers seemed OK with the deal. One thing that may have helped is that Intel ended up retaining a nearly 15% interest in the company at the time of the acquisition.

The company's existing investors signed on to the deal as did IVP and such other investors as Alloy Ventures, Bridgescale Partners, DCM, and Sofinnova Ventures.

Once the deal was completed, Cortina and Nayerhabibi faced an equally important issue: What to do with the 200 employees within the Intel unit. It was, said Fogelsong, as if Cortina was the proverbial fisherman who had caught a whale and needed to figure out what to do next.

What Nayerhabibi decided to do was to pick 50 employees out of the Intel unit and add them to Cortina's 70 employees. (The remaining 140 were reassigned within Intel).

"We couldn't afford 300 people so we picked the best and the brightest," Nayerhabibi said.

One reason why the integration worked, says Nayerhabibi, was because many of the employees that joined Cortina were themselves with start-ups before being acquired with Intel. In other words, it wasn't a big leap for many of them.

The company was able to handle the integration and servicing of customers on its own, other than bringing in consultants to help it move to a financial system from Oracle.

"Everyone was surprised at how great they did in pulling it off," Fogelsong said. "There was an idea. There was a vision. There was a financial discussion. It's a wonderful feeling" to see what the company has become.

Cortina has done two additional deals since, acquiring Immenstar, a Santa Clara, Calif., provider of passive optical networking system-on-chip technology, and Storm Semiconductor, a Mountain View, Calif. provider of semiconductor solutions for distributing digital multimedia content in wired and wireless networks.

With the acquisitions and its own innovation (the company has more than 25 patents), Cortina has become a supplier of communication hardware for the core, metro, access, digital home and enterprise network management segments.

And while Cortina may never do another deal like the Intel deal, it remains on the prowl for acquisitions, said Nayerhabibi.

"That's it's DNA," he said.