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He Ventured Forth, Cashed In

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Investor's Business Daily

When Trip Hawkins needed someone to light a fire under him, Don Valentine did the stoking.


Valentine, now 76 and one of Silicon Valley's all-time venture capitalists, saw promise in the startup. He took Hawkins under his wing.

Valentine's maxim: "It's better to invest in a company in a market with great demand than to invest in a company that has to create it."

That philosophy led Valentine, the founder and still general partner of Sequoia Capital, to invest in Apple (AAPL), Cisco Systems (CSCO) and Oracle.

He knew video game demand was for real. Before meeting Hawkins, Valentine had invested in Atari, creator of the video game industry.

Valentine figured Electronic Arts could be another winner in video games. He let Hawkins and a small team work out of Sequoia's offices as it developed titles for game consoles and personal computers.

One day, Valentine took Hawkins to lunch and spelled out how he did business.

"Valentine told me that he was going to regularly tell me what to do. However, Don said if I was only going to do what he told me to do, he was not interested in investing," recalled Hawkins, who also founded Digital Chocolate, which sells games for mobile phones.

"He wanted to make it clear that I had better have better ideas about how to run my company than him or, to quote him, 'What the hell would I need you for?'"

Like A Rock

To motivate young entrepreneurs, the tough-minded Valentine aimed at being a kind of irritant like the grain of sand that gets inside an oyster's shell and produces a pearl, Hawkins says. "He wanted me to fight for what I believed in," added Hawkins. "He went on over the years to give me the fight of a life. Valentine and I would agree that he was my hair shirt."

By that, they meant the venture capitalist provided toughness that Hawkins could wear when needed.
In 1983, Atari posted a huge loss as game console competition came on, especially from Nintendo and Sega. Electronic Arts, though, prospered as PC and console sales took off.

Electronic Arts went public in 1989. It wasn't the first or last time Valentine hit pay dirt.

Menlo Park, Calif.-based Sequoia invested $2.5 million in data network gear maker Cisco in 1987. That was about 30% of the startup.

On Cisco's initial public offering in February 1990, that stake was valued at about $68 million, giving Sequoia a huge profit.

Some venture capitalists focus on startup people such as industry pioneer Arthur Rock. Valentine looks for market potential first.

Great markets make great companies, he says.

"My interest was investing in companies that were addressing very large markets and (were) solving a specific kind of problem," Valentine said in 2004 in "Silicon Genesis," an oral history of the semiconductor industry at Stanford University.

Valentine was a sales and marketing executive at chipmakers Fairchild Semiconductor and National Semiconductor before becoming a venture capitalist. Understanding market size and momentum is key for Valentine, says Spencer Ante, author of "Creative Capital."

"He believed it was easier to analyze markets than to judge individuals," Ante told IBD. "With a market, there's empirical data to look at. You can figure out if there's a need for a product or service."

Like many early Silicon Valley venture capitalists, Valentine came from the East Coast. Born in 1933, Valentine grew up in Yonkers, a suburb of New York City. His father, who drove delivery trucks, urged him to get a solid education. Valentine attended discipline-minded Catholic schools and graduated from Fordham University.

During a stint in the military in the early 1950s, Valentine lived in California. He returned to New York state, working for TV tube maker Sylvania Electric, but vowed to return to the Golden State.

He did just that in 1957, shifting to Sylvania's unit in California. But he saw that the future didn't lie in vacuum tubes, an old kind of electronics.

So in 1959 he joined startup Fairchild, one of the first chipmakers, as a salesman in Los Angeles.

Eight engineers, including future legends Gordon Moore and Robert Noyce, had bolted Shockley Semiconductor to start Fairchild.
Moore and Noyce gave Fairchild the brains. Valentine gave the firm savvy sales acumen. Fairchild promoted him to sales manager in its Mountain View, Calif., headquarters, working under General Manager Charlie Sporck.

In 1967, Valentine joined National Semiconductor. But his career was already evolving. At Fairchild he had begun investing on his own in small, private companies.

"That's how I progressed from the operating side of the semiconductor business to part-time venture capitalism," Valentine said in "Done Deals: Venture Capitalists Tell Their Story."

Valentine helped transform financially ailing National into a profitable chipmaker. At ease giving presentations to big institutional investors, he attracted the attention of the Capital Group, which managed American Mutual Funds.

Capital wanted in on the venture capital business. With its help, Valentine in 1972 started Capital Management, the forerunner of Sequoia.

Valentine aimed to attract pension funds and foundations that wanted to diversify their holdings from fixed-income investments.

He learned that pension funds were happy with returns of 10%, so he aimed to double that. In most years he did much better.

Having been close to Noyce, who co-founded Intel (INTC), Valentine believed that tiny computer brains called microprocessors would drive the electronics industry. He promptly steered his early investments to Atari, Apple and other firms that could take advantage of chips.

In the VC business, one investment leads to another.

While financing Apple, Valentine realized it needed a better data storage system. "The real issue was that Apple didn't do anything because the memory system was an audiocassette," he said in "Done Deals."

Sequoia bet on a disk drive startup, Tandon Computer. It made five-inch floppy disk drives. Sequoia hit a home run with that investment, though Tandon's storage business was sold in 1988 to Western Digital (WDC).

At Sequoia, Valentine sometimes took a pass on funding a startup led by a superstar. "Most people who succeed are not very objective or realistic about why," he told "Silicon Genesis." "They think it's all their personal brilliance and forget the luck factor. People who fail are sometimes desperately in need of a success. And their tremendous egos are suspended in check."

**Another Winner**

Valentine's philosophy led him to back LSI Logic, a maker of programmable computer chips, in the 1980s. Wilf Corrigan, a veteran of Motorola (MOT) and Fairchild, started LSI.
Corrigan learned from Fairchild's struggles after Noyce left the company, Valentine says. LSI hardly had those troubles, leading to a stock surge of 2,114% from 1992 to 1995.

With Cisco, Valentine realized that chip technology could revolutionize communications. A Stanford husband-and-wife team, Len Bosack and Sandy Lerner, had developed technology to whisk e-mail among computers. They built Cisco around a key standard, Internet protocol technology. Valentine knew it could pave the way for the Internet.

Valentine became deeply involved at Cisco, serving as chairman from 1986 to 1995. In mid-1988 he brought in John Morgridge as CEO, and in two years the stock started on its 81,900% stratospheric ride.

"Cisco is Valentine's blockbuster investment," Ante said. "He nurtured one of the most successful high-technology startups of all time."

Valentine's Keys

Founded Sequoia Capital, one of Silicon Valley's first VC firms, which backed Atari and Electronic Arts.

Focused on market size and customer demand for products that "solved problems."

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