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EDA firms good investment, says VC executive

G.J. -- *Electronic Business*, 6/15/2003



Although the high-tech sector as a whole seems mired in the financial doldrums, EDA has remained a bright spot, especially when it comes to venture capital. Hardly a week or two goes by that an EDA start-up doesn't announce new funding, according to Jonah Schnel (pictured), managing partner at the VC firm ITU Ventures, Los Angeles, CA. His firm recently put together a \$4.5-million coinvestment deal with **Cadence Design Systems Inc.**; **Xilinx Inc.**, San Jose, CA; and

Innotech (a Kanagawa, Japan-based distributor of Cadence tools in Japan) to fund Santa Clara, CA-based EDA start-up **Hier Design**, a maker of analysis software for field-programmable gate arrays (FPGAs). ELECTRONIC BUSINESS asked Schnel about the uncanny resilience of EDA within the venture capital community.

EB: Why is EDA so hot?

JS: The underlying economics of the electronics hardware market are characterized by wild fluctuations in growth and decline. However, the market for the software that drives those industries has had a consistent revenue growth rate over a 20-year period. In addition, although the market's domination by a couple of gorillas—Cadence and Synopsys—might otherwise discourage competition, those two companies have grown by acquisition. Because EDA demands constant innovation, there's still opportunity for a few engineers to get together, build a product, launch it and then be purchased by one of the bigger firms. This means that a venture firm can earn a reasonable return on its investment without the hassle of taking the company public.

EB: Many of the venture deals in the EDA world are in the \$1-to-\$5-million range, tiny amounts compared to the big VC money that was thrown around during the dot-com heyday. Why the small potatoes?

JS: The dot-com bubble put extraordinary pressure on venture firms

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with large capital bases to push more and more money into the market, which led to numerous investments that were questionable at best. You can't just slap a bunch of high-visibility executives together and try to market some vague product concept. What we're trying to do is get back to the roots of venture funding and provide relatively small amounts of funding to help start-ups grow. Another reason for the modest funding is that these are software companies, which traditionally require less capital to bring products to market.

EB: What are you looking for in a potential EDA investment?

JS: First and foremost, we want great technology. Beyond that, we like to see a management team with the technical ability to solve a real electrical-design problem in the form of a commercial product. It's also important that the management understand the future plans of the larger EDA firms and how its company's products will fit into those plans. The management should be able to articulate why there is either currently (or soon will be) a big demand for the kind of technology that it's building. Finally, the business plan should have a clear exit strategy, either acquisition or (more rarely) a plan to go public. By contrast, we're wary when the management team thinks it has all the answers but it doesn't have a good grasp of the commercial market.

EB: Will EDA start-ups continue to get venture funding?

JS: Yes, unless the fundamental dynamics of the market change. The EDA sector is unique within the tech market. You're talking about constant innovation in a sector in which early acquisitions are still commonplace. If a start-up has something that's real, that works, and that fits into the road map of the bigger players, the chance for success remains very strong.

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