

MySQL Case Study

Background

MySQL started out as an open source database management software project initiated by Michael 'Monty' Widenius and David Axmark in the 1980s. The software was developed to facilitate management of content on the internet and hence focused on speed and ease of use.

By the year 2000, the software had been downloaded approximately 4 million times and was highly compatible with Linux. According to estimates already about 40% of the world's web servers ran the software at that time. Free downloads created a major user base but very limited revenue. The open source development model, with community based developers contributing free of charge proved to be a powerful way to solve pertinent problems quickly. However, the founders employed 10 people helping out with support issues and selling database consulting, generating some EUR 1 million in revenues. No identification of users downloading the software was carried out.

Scope was one of four investors that founded MySQL AB in October 2001. The company became the registered owner of all the copyrights and IP and employed the staff of 10 working with the database.

Investment case

The investment analysis focused on the world moving on-line and that an increasing amount of applications would have to move on-line or be web-enabled and **be compatible** with each other. In this framework MySQL was the fastest and easiest to use database and was well positioned to take a significant portion of this market from incumbent database players as Oracle, Microsoft and IBM, whose products were all built on legacy databases developed in a main frame environment from the 1970s.

The technology had been analyzed, tried and tested by a large number of users and worked well in numerous live installations. Still missing was functionality required to address the profitable enterprise segment of the market, but the technical competitive advantages in the web segment were encouraging and provided a good technical platform to build on.

The task was to build a company with a viable business model on top of open source development and a license that allowed free use, although not free distribution.

MySQL is often referred to as a disruptive company. The disruptiveness comes from its ability to interact with customers in a new fashion made possible by a different development model – distributed development with an open source code. The technology is not disruptive, but it made a disruptive business model possible.

Creating the Platform

The initial focus of the board of directors was to build a management team and further develop the technology to cover additional market segments. A CFO was hired and the reporting structures were developed to appropriately monitor the business. The initial business model was an OEM model, where MySQL sold licenses to Independent Software Vendors (ISVs) to include the MySQL in software products they sold. A VP Sales was hired to build a sales process and a sales team was hired to address the target market. In addition, a partnership was formed with SAP to jointly develop the functionality required to

address the value rich enterprise market and in particular users of large business software solutions. In the same context discussions with a company called Alzato were initiated with the ambition of extending the technology platform and increasing real time capabilities. This former Ericsson initiative, managed by entrepreneurs, provided a compelling technology addition to MySQL's roadmap and the company was acquired.

Much focus was given to developing efficient reporting and decision making processes, in an effort to enhance product development and boost sales. An added complexity was the virtual company structure with no core office structure. People around the globe worked out of their homes or from small offices. This structure was often questioned and referred to as a hurdle to scale but over time it proved to be an efficient growth model for MySQL - not without challenges – but when properly managed it worked well.

From the outset MySQL endeavored to give its staff clear value creation incentives, and incentive schemes were widespread throughout the company and served as a common denominator in the work to create value. The schemes migrated from a Swedish options scheme to a global scheme managed from the US.

Scaling profitably

The board and management put a lot of time and effort into understanding the business dynamics of the open source market. With over 40,000 website visitors on a daily basis, over 4 million downloads and only 1,000 paying customers with an average deal size of USD 1,000, there was much to discuss and hypothesize about. The initial market focus was based on an OEM model and was soon complemented with business experiments into the Web market (servers to host websites) and the Enterprise market (running software with any company). The business models under consideration included licensing, service offerings on top of charged for, or free, software and subscription offerings. The challenge was to find the right combination of differentiated offers and to apply an appropriate pricing structure in order to transform free users customers into appreciative paying customers.

It was clear from the outset that at some point MySQL would be required to focus efforts on the American market and that the management team would have to establish itself in the US. In 2003 it was determined that the software development was advanced enough to start building a targeted enterprise offering based in the US. To give the US market the appropriate attention and support it required, it was decided that the CEO should relocate to the US and hire a US-based management team. To facilitate establishment of the company in the US, as well as hires, funding was sought from top tier US investors. The idea was that a top tier US investor, in addition to providing financing, would facilitate in the hiring of good people and also provide local credibility to a non-American company. MySQL received term sheets from several of the most prestigious investors in the US, and after long deliberations, the MySQL Board, chose to go with Benchmark Capital as the company's US partner.

A new CFO was hired - the former CFO becoming controller for EMEA, as was a new VP of Sales with extensive corporate experience - with the former VP sales heading up the OEM vertical. The Board was strengthened with relevant industry competence in order to address the challenges of growing an open source software company.

Following the addition of a new CFO, another round of infrastructure development was carried out, improving reporting and administration processes. It was also decided to move to US GAAP and become SOX compliant in an effort to facilitate a future exit in the form of a US publicly listed company.

Realization of Value

Open source being a new commercial phenomenon, MySQL, in preparing for an exit, sought to establish credibility in the financial community by securing industry endorsements. In 2006 the company made a pre IPO financing with a late stage investor Institutional Venture Partners IVP functioning as an anchor, joined by a number of MySQL industry colleagues – RedHat, SAP, Intel Capital. In addition, a war chest was built to weather any bad times or difficult negotiations.

MySQL spent a disproportionate amount of time and money in moving to US accounting standards to prepare for an exit. The differences between Swedish and US accounting proved very cumbersome to bridge. In addition, the SOX compliance, devised for large companies, created a questionable amount of administration for a company of MySQL's size. However, all of these efforts made it possible for MySQL to run a quasi auction between a number of potential acquirers and an IPO process at the same time. Exploratory discussions had been ongoing for a long time with large industry players. When the company filed its S3 filing indicating its readiness to execute an IPO, things moved very fast. In four weeks MySQL provided the final acquirer with over 6,200 documents, provided written answers to over 230 questions and held 22 meetings, all the while keeping other potential buyers warm and ensuring that the IPO process was moving along according to time table. The final acquirer managed to justify the price on the basis of a well organized company ready to be integrated into any public entity. This would not have been possible without three years of accounting and administrative preparations.

- In January 2008 SUN Microsystems acquired MySQL for USD 1 billion in cash consideration. Scope realized a capital multiplier of 15.5 and an IRR of 69% p.a. on a weighted holding period of 4.8 years.
- During the holding period the company grew
 - Sales from EUR 1m to EUR 55m
 - Employees from 10 to 412 and
 - Company value rose from EUR 7.5m to EUR 800m
- Scope was the only institutional investor that was a member of the board all the way from inception to the acquisition by SUN.