



FORUM



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The survival rate of many emerging companies in today's industry is steadily declining. However, with a revolutionary CMOS solution that is bound to grab significant share in the handset market, Amalfi Semiconductor is an emerging company that has gone against the odds and is experiencing great growth. In my interview with Jim Finch, chief executive officer of Amalfi Semiconductor, we discussed the difficult criteria that start-ups must meet to secure funding in today's economy; what strategy enabled Amalfi to continue its novel product development during the downturn; what new business model must arise to sustain innovation; and much more.

— Jodi Shelton, President, GSA

Q: *Today, many start-ups focus on developing incremental solutions with the intention of being acquired rather than creating breakthrough solutions. Do you feel these start-ups will be successful in today's industry? With Amalfi now in its expansion stage, what is your vision for the company over the next decade?*

A: Incremental solutions and start-ups don't work well together, as potential customers will not take a chance on an unproven start-up unless there is tremendous value provided by the new technology. Successful start-ups will continue to be those companies providing breakthrough technologies today and into the future.

We strongly believe that CMOS technology will eventually dominate the power amplifier space for handsets as it has done many times before in other high-volume consumer applications. Historically, once CMOS outperforms the competition, the industry landscape quickly changes. As CMOS wins, we expect Amalfi to maintain its technology leadership and become a dominant supplier in this space. We offer superior performing products relative to the strongest non-CMOS competitors, and our customers enjoy bill of materials (BOM) savings by adopting our devices. Amalfi's long-term vision is to provide innovative solutions to a broad customer base in many complementary wireless and radio frequency (RF) industries, growing over time into a very large, highly profitable mixed-signal company.

Q: *According to a BDO Stoy Hayward survey, the number of technology, media and telecom companies that feel they have enough access to funding for their business to effectively operate has significantly decreased by half compared to last year, forcing many start-ups to shut down. In contrast, Amalfi recently completed a \$24 million round of funding (the largest amount raised by a fabless company thus far this year), confirming that there are still a select number of privately funded companies thriving. What qualities must an emerging company, such as Amalfi, possess to secure funding during an economic downturn? Do you see venture capital activity in the semiconductor industry improving anytime soon or must a new model be adopted?*

A: I'm surprised that the number of companies that feel they do not have adequate access to funding decreased by only 50 percent. I would have predicted it to be much higher. Everyone I speak with complains that the lack of funding will have a huge impact on their overall business plan. There are some companies significantly slowing down product development by slashing research and development (R&D) spending, hindering their chances to become an eventual market leader. And others are now heading down an acquisition path at an inopportune time with the promise of yielding very poor financial returns.

Start-ups must meet several difficult criteria to successfully secure outside funding. First, they must be developing breakthrough technology with the opportunity to become the dominant supplier in a very large, established industry (e.g., Amalfi in the cellular handset market). Second, customers must verify that the technology will win significant market share (i.e., must be shipping product to industry leaders). Third, the funding must be utilized to grow the company, providing capital to scale the business. It should not be used to prove the viability of the offering. Fourth, key members of the team must have past experience in successfully building businesses and taking companies public, and have a clear vision of how to do it again. Finally, the investors themselves must be confident to go against the grain and invest in a space that is not as sleek and sexy as many others in this environment, betting against a great deal of macro information to know which companies will beat the odds and become tomorrow's winners. These semiconductor winners will provide tremendous returns to these savvy venture capitalists who bet against the pack.

Venture capital activity will not improve quickly. Series A investments will take place, but not in great numbers. Series B investments will become more difficult, even from today's benchmark, as investors will increasingly choose not to take that risk. Series C and later stage funding rounds will dominate due to the reasons previously listed. In today's \$250 billion industry, new players will emerge over time, but the bar is definitely going to be set much higher.

Q: *Numerous analysts believe that innovation is approaching a standstill due to limited funding for start-ups. On the contrary, many say that innovation is still very much alive and will drive economic recovery. As a company that continues to introduce revolutionary products to the marketplace, it seems as if Amalfi validates the second belief. How was Amalfi able to remain innovative during the economic downturn? In today's market, who primarily drives the advancement of technology—start-ups or large companies, and will this change in the future?*

A: Amalfi weathered the recent downturn extremely well as we refocused efforts on critical R&D projects and implemented salary cuts. However, we did not cut our headcount enough to bring product development to a standstill. Many companies cut their workforce so drastically that they crippled their chances to come out of it successfully—we avoided this trap. The success of this strategy will become more evident over the next several quarters.

Ideally, start-ups should continue to drive major technology breakthroughs. However, due to the lack of funding discussed earlier, it is becoming increasingly unclear if they will have the means to do so. Historically, large companies will not choose to spend R&D dollars on inherently risky, new technology. I don't believe this will change, thus a new model becomes necessary. This new model will emerge over time with industry-leading semiconductor companies taking a more active and earlier investment role to creatively fund technology development. It is already becoming evident that there will be a large hole in the near future for new technology offerings, as VC-backed start-ups are increasingly unable to fund these efforts. Semiconductor leaders won't be able to wait for the dust to clear to buy the best companies in a given space, as the venture community has chosen not to invest at historic norms. Something must change or the amount of new technology offerings will greatly decrease. I believe large companies will see this over time and begin to take proactive, creative actions.

Q: *At the beginning of August, Avago Technologies successfully priced the first semiconductor IPO since December 2007. Do you feel Avago's recent success in the revived IPO market will spur more high-tech companies to go public?*

A: The IPO market will open and close depending on macro events worldwide. We don't spend time worrying about those issues, as we know that large, highly profitable and revenue-generating semiconductor companies will eventually have many exit options. If you build a very successful company, the financial rewards will take care of themselves.

Q: *As innovation hubs and science parks become prevalent in various regions around the country, it is clear that Silicon Valley is not the only area generating creative ideas and housing world-class companies. Innovation in the high-tech industry has globalized. While this proves good for the industry as a whole, it creates more competition for each company. What impact does the increasing inability of the world's brightest talent to work in the U.S. due to the country's immigration policy have on Amalfi?*

A: Amalfi continues to search worldwide for the best and brightest technical and business talent. In the past, we have moved employees internationally as required and have not had an issue with immigration policy slowing us down. However, larger companies are certainly feeling the impact today, and these policies will force more globalization of the workforce.

Q: *Today's industry is seeing many suppliers strategically partnering, widening the doors for an open innovation culture. How does Amalfi approach collaboration efforts? From a fabless perspective, what benefits does collaboration provide?*

A: Today's industry increasingly requires collaboration to meet customer needs. No single company can offer all the solutions required, thus collaboration, even with historic competitors, is a way of life. We work toward a very open model outlining upfront areas of partnership and areas of potential competition so there are no surprises.

For a start-up company, potential partners may provide additional sales channels into larger well-established customers. Partners might also provide much needed capital in exchange for a differentiated opportunity to integrate or otherwise utilize the technology to their commercial advantage.

Q: *With high demand for energy-efficient electronics, there is great opportunity for Amalfi's CMOS-based transmit module. Tell us about the solution and how it can contribute to creating an energy-efficient society. What aspects of the technology give handset manufacturers the confidence to transition from GaAs to CMOS?*

A: We are very excited to be offering a truly "green" product, as the Amalfi transmit module provides very significant power savings (up to 40 percent in many Global System for Mobile Communications (GSM) applications). If Amalfi's solution was adopted worldwide today, the power savings would be enough to provide electricity for a large city, such as Washington, D.C., for over a month. As energy efficiency becomes increasingly important, customers around the world will look to Amalfi technology to help solve these issues.

Handset manufacturers are extremely excited about the availability of CMOS technology. Nearly all their semiconductors procured today are CMOS. They understand that supply chain very well and are looking forward to the day when their entire power amplifier needs will be provided in CMOS. This technology enables superior price performance offerings, with the >\$250 billion industry driving the most aggressive cost-reduction curves available.

Q: *At the end of 2008, Amalfi was nominated for GSA's Start-Up to Watch award, which identifies the semiconductor company that has demonstrated the potential to positively change its market or the semiconductor industry, in general, through the innovative use of semiconductor technology or a new application for semiconductor technology. How has Amalfi continued to demonstrate its potential and gain the respect of the semiconductor community in 2009?*

A: Amalfi's recent significant round of funding shows that we are still a "start-up to watch." I believe it is certainly premature to expect we have earned industry respect from our peers. However, during the course of 2010, Amalfi will have several significant developments to announce, so stay tuned. We are working very diligently to grow into those very large shoes.