

| STARTUP FINANCING |

Silicon Beach

A hotbed for technology startups, financing, and M&A



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Jim Freedman and Tristan Snyder are senior bankers at Intrepid Investment Bankers, a specialty investment bank that provides M&A, capital raising and strategic advisory services to middle-market companies across various industry sectors. Mr. Freedman is a Founding Partner of Intrepid and its Chairman. He has more than 30 years of investment banking and corporate finance experience and is an expert on the financial aspects of corporate strategy. Mr. Snyder has completed more than 35 transactions creating in excess of \$1.5 billion in aggregate value for middle-market entrepreneurs and business owners across a diverse set of industries, including SaaS, eCommerce, and digital, Internet, social, and mobile media.

More Than a Passing Fad, a Leading Influencer

Skeptics believe that Silicon Beach is merely a “passing fad” garnering undue media hype. We think it will become a leading influencer in the global technology arena, rivaling many other hot spots of innovation. Successful businesses in the area have done more than provide unique and innovative products to market; they have adopted the local themes of media, entertainment, and fashion and fused them with a dose of technology.

Silicon Valley was the first to the scene in the 1970s, emerging in the San Francisco Bay Area in a fertile ecosystem claiming industry pioneers like Hewlett Packard, Intel, Apple, and Cisco and innovation incubators such as Stanford University. Silicon Valley ultimately became the world’s foremost technology hub. Fast forward decades later to the mid-1990s to Silicon Alley, which rose in Manhattan’s Flatiron District to put the East Coast on the technology map.

Today, enter Silicon Beach, spanning Santa Monica, Venice, and Playa Vista, and home to more than 500 tech startups such as Snapchat and Hulu, as well as regional offices for tech giants such as Google, Twitter, Microsoft, Yahoo, and YouTube.

Where Media, Entertainment and Fashion Converge With Technology

What differentiates Silicon Beach from its Northern California, East Coast, and

other lesser-known tech hotbeds is its unique location at the intersection of media and technology. One such example is celebrity Jessica Alba’s startup, The Honest Company, which raised a \$70 million Series C round earlier this year and now commands a valuation approaching \$1 billion. Honest provides an eCommerce and subscription service allowing consumers to easily order and receive eco-friendly family essentials from their desktops or connected mobile devices. They do a wonderful job of catering to new-age consumers who have an increasingly insatiable craving for on-demand, linked convenience from products and services that satisfy their wants and needs quickly and efficiently.

Another example of this distinctive convergence is Disney’s recent \$950 million acquisition of Maker Studios. Maker is a talent-driven online content production company and one of YouTube’s largest networks. Maker provides Disney with progressive technology and awareness into consumers’ discovery and collaboration with online videos, including Disney’s proprietary content. The acquisition gives Disney an increased ability to engage younger audiences seeking to digest digital content on a large scale.

Lastly, a slightly older but relevant data point highlighting this theme is Tencent’s nearly \$350 million acquisition of Riot Games. Riot is a leading developer of short-form online social games, where players use real money

in exchange for various virtual items that enhance gameplay. The acquisition strengthens Tencent's domestic U.S. presence and Web-based gaming awareness as the company continues its quest to become the preeminent Internet and mobile advertising, eCommerce, and value-added services platform.

Creative and Strategic Capital Deployment

Another unique characteristic attributable to the Southern California tech scene is the current absence of the proverbial "800 lb. gorillas". The ecosystem here has a fresh, almost nonchalant feel, where local entrepreneurs seem undaunted by the shadows of the Googles, Apples, and Facebooks of the world, an aspect that is all too prevalent in Silicon Valley. This apparent immunity effectively causes a paradigm shift in the investment philosophy of the key institutional investors that are active in the space.

The pre-IPO multi-hundred million dollar rounds are no longer the "norm." Investors are searching for more creative and often smaller platforms to deploy their capital. The changing landscape has spurred the rollout of several local incubators such as Launchpad, Amplify, and StartEngine as well as "disruptive aggregators" like Science, Inc. Unlike traditional venture funds, these firms are

focused on creating and scaling businesses by providing deep operational strategy alongside investment capital. Their advent has helped create a much more attractive investment community that fosters growth and innovation among a wide variety of media and technology sub-sectors.

Billions Raised and Counting

Southern California technology companies raised more than \$1.52 billion in capital from a combination of venture capital and private equity firms in the first half of 2014, an increase of approximately 28% over the \$1.19 billion raised in the first half of 2013. Some of the more notable H1'14 financings include NantHealth's \$135 million investment round; Swagbucks' \$60 million Series A round; and Whisper's \$36 million Series C round.

In addition to the high level of institutional financing activity, Southern California had a strong showing of media/tech IPO and M&A events, with such companies as TrueCar and its \$70 million IPO; The Rubicon Project's \$102 million IPO; Apple's \$3.2 billion acquisition of Beats; AOL's \$101 million acquisition of Convertro; and Facebook's \$2 billion acquisition of Oculus.

Local media and technology business owners seeking to raise capital or pursue an M&A event should feel comfortable that the overall sector interest level and activity will likely continue to grow.

(Source: *socaltech.com*)

A Breeding Ground for Innovation, Financing, and M&A

We find that accessing capital or achieving an exit at a premium valuation requires the entrepreneur to have a unique and disruptive idea, a scalable business model, a vision for sustained growth, and a highly capable team to execute the plan. Equally as important, the company must have an advisor who takes the time to understand the model and the vision, and can sometimes participate in defining and articulating them to the market.

Recent examples where we played such a role include raising \$65 million in growth capital for a new entrant in the wireless technology space, and the sale of a boutique, full-service creative digital advertising agency known for its work with widely-recognized brands.

We believe that Southern California, led by Silicon Beach, is well-poised for continued large-scale growth, making this region a prolific breeding ground for new digital media content and technology and disruptive business models.

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