



CASE: E507A
DATE: 1/30/14

SPLUNK AND VENTURE CAPITAL INVESTING IN ENTERPRISE TECHNOLOGY (PART A)

In the tech world, the sector that has perhaps been most left for dead is enterprise software. For some time now the pundits have been declaring enterprise software moribund – they argue that everything worth building has been built. And what little room there may be for innovation, will best be served by the existing behemoths, SAP and Oracle.¹

—David Hornik, August Capital

In the fall of 2013, as Managing Partner Nick Sturiale sat in venture capital firm Ignition Partners' offices in downtown Palo Alto, California, he paused to reflect on how quickly things had changed over the past year. In front of him were Splunk documents he had just finished reviewing in preparation for the next board meeting. He was about to leave his office to meet with David Hornik, a close friend and fellow Splunk board member, for coffee at University Café.

Ignition's two other managing partners were Frank Artale and John Connors. Like Sturiale, both Artale and Connors had operational experience in enterprise companies and a successful track record investing in the enterprise start-up space, having invested in companies like Xensource (see GSB case study E-267), Parse, Heroku, and Cloudera.

Sturiale was looking forward to meeting Hornik to prepare for the next Splunk board meeting and to catch up on many topics they had been e-mailing about. Both men had entered the venture capital industry around the same time and had remained close friends. They frequently referred deals to one another, sat on the same boards, and prided themselves on always being prepared for

¹ David Hornik, August Capital "Enterprise Software is Not Dead Yet," VentureBlog, January 26, 2009, <http://www.ventureblog.com/2009/01/enterprise-software-is-not-dead-yet.html>.

Tim Hsia and Professor John Glynn prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Copyright © 2014 by the Board of Trustees of the Leland Stanford Junior University. Publicly available cases are distributed through Harvard Business Publishing at hbsp.harvard.edu and The Case Centre at thecasecentre.org; please contact them to order copies and request permission to reproduce materials. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means — electronic, mechanical, photocopying, recording, or otherwise — without the permission of the Stanford Graduate School of Business. Every effort has been made to respect copyright and to contact copyright holders as appropriate. If you are a copyright holder and have concerns, please contact the Case Writing Office at cwo@gsb.stanford.edu or write to Case Writing Office, Stanford Graduate School of Business, Knight Management Center, 655 Knight Way, Stanford University, Stanford, CA 94305-5015.

board meetings. The topic for this coffee meeting was about Splunk and the sudden rise in interest among Sand Hill venture capitalists in the enterprise IT space.

ENTERPRISE IT MARKET HEATS UP

The Re-emergence of Enterprise IT as an Investment Thesis

The sudden interest from venture capitalists, entrepreneurs, and limited partners in the enterprise space was in large part fueled by the success of enterprise initial public offerings in 2012 and 2013 by companies such as Workday, Tableau, Palo Alto Networks, and Jive (Exhibit 1). In comparison to Facebook's drop in valuation in the first few months it was publicly traded, many enterprise companies (including the ones named above) had a huge first day bump in stock price and continued to maintain their upward momentum.² In 2012, eight of the top ten largest tech initial public offerings (IPOs) were enterprise companies; these included the ones above and also ServiceNow, ExactTarget, Infoblox, and Vocera.³ None of these companies were well known to the average consumer, but all of these companies achieved healthy returns for both their private and public investors. After each of these company's IPO, news articles celebrated soaring company stock value with titles like "ServiceNow Has Cured the Post-Facebook IPO Market."⁴

The success of enterprise IT companies in 2012 fueled even more interest in big data enterprise IT plays. In April 2012, Tableau Software published a study entitled "Forget About Facebook," that showed that "while business-enterprise IPOs may not get a lot of attention, they're sure doing better than often-hyped consumer tech IPOs." Based on their analysis, the average IPO return of enterprise companies was 50.4 percent compared to consumer companies which returned negative 6.5 percent.⁵ This self-produced study might have also helped Tableau when it went public in May; it followed in the footsteps of 2012's successful enterprise IT IPOs by raising \$254 million in its IPO with shares rising 64 percent on the first day of trading. Tableau's IPO was one year to the day of Facebook's IPO and coincided with an IPO of another enterprise IT darling, Marketo, whose first day of trading saw the stock jump up 78 percent. Tableau not only captured the enterprise IT wave but also the big data wave; and traders were unlikely to forget this as Tableau's ticker is "DATA."⁶

In December 2012, CB Insights reported that 80 percent of tech companies that filed for an initial public offering by 2014 would likely be enterprise companies compared to consumer ones.⁷ Among venture capitalists and investment bankers, the buzz in fall 2013 concerned the

² Marcus Wohlsen, "For Venture Capitalists, Enterprise Startups Give and Give Some More," *Wired*, January 28, 2013, <http://www.wired.com/business/2013/01/why-venture-capitalists-love-enterprise/>.

³ Jennifer Van Grove, "The 10 Largest Tech IPOs of 2012," *VentureBeat*, December 31, 2012, <http://venturebeat.com/2012/12/31/tech-ipos-2012/>.

⁴ Julie Bort, "ServiceNow Has Cured the Post-Facebook IPO Market," *June Business Insider*, 29, 2012, <http://www.businessinsider.com/enterprise-ipo-service-now-puts-facebook-ipo-to-shame-2012-6>.

⁵ Olga Kharif, "Forget About Facebook," *Tableau*, May 3, 2012, <http://www.tableausoftware.com/public/gallery/forget-about-facebook>.

⁶ Ingrid Lunden, "Big Data Analytics Specialist Tableau Software Raises \$254M in IPO, Shares Close 64% Up; Marketo's First Day Up 78% To \$23.10," *TechCrunch*, May 17, 2013, <http://techcrunch.com/2013/05/17/big-data-visualization-goes-public-tableau-software-raises-254m-as-shares-pop-58-while-marketo-raises-85m/>.

⁷ Christina Farr, "Enterprise is Sexy! 80% of Tech Startups to IPO are B2B," *VentureBeat*, December 6, 2012, <http://venturebeat.com/2012/12/06/cb-insight/>.

advent of even more high-flying successful IPOs within the enterprise IT space: Box, Square, Github, Striple, Palantir, Atlassian, Twilio, MongoDB, and Hubspot.

As venture capital firms began looking at enterprise companies with greater interest, some of them still remarked that there were still startlingly few enterprise start-ups compared to consumer ones. Jim Goetz of Sequoia said it was “shocking we don’t see more engineers and entrepreneurs interested in enterprise.”⁸ Goetz said that at “Sequoia, [we see] upwards of a hundred entrepreneurs a week present and if we’re lucky, maybe a dozen of them are focusing on the enterprise.”⁹ He stated that in the previous decade there had been 56 enterprise IPOs that had a market capitalization of one billion dollars compared to just 23 in the consumer space.¹⁰

For Goetz and other enterprise VCs there was a belief that the enterprise IT space was not just a passing fad but one of enormous opportunity because companies spent roughly \$500 billion a year “with legacy enterprise companies and those budgets are ripe for the plucking.”¹¹ Goetz stated that two major differentiators between enterprise IT and consumer IT was that in enterprise there were fewer competitors and the existing incumbents were “large, slow, and flatfooted.”¹²

A Pandodaily article “Memo to this year’s YC class: It’s damn hard to build an enterprise company”¹³ explored how “building a SaaS [software as a service] business takes a lot of time and money.”¹⁴ And that the “average time between founding and IPO was 9.5 years and the median was 8 years.”¹⁵ Additionally on average SaaS companies raised “4.45 rounds of funding (not including seed rounds) with a median of 4.”¹⁶ Moreover, SaaS companies needed “smart, savvy sales reps” and thus 35 percent of the total companies were in “sales and marketing at the time of the S1 filing.”¹⁷

Venture Capitalists Raise Enterprise IT Focused Funds

In the summer of 2013, enterprise information technology was one of the bright spots and hottest investment areas. At the 2013 annual Techcrunch Disrupt conference, Greylock partners announced that for its 14th fund it had raised one billion dollars and that the new fund would focus on the enterprise cloud. Additionally, the firm would be adding two new partners to focus

⁸ Julie Bort, “It’s Shocking that Startups are Ignoring a \$500 Billion Market,” Business Insider, September 13, 2012, <http://www.businessinsider.com/sequoia-capital-jim-goetz-on-enterprise-startups-2012-9>.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ Ben Sesser, “Memo to This Year’s YC Class: It’s Damn Hard to Build An Enterprise Company,” Pandodaily, May 21, 2013, <http://pandodaily.com/2013/05/21/memo-to-this-years-yc-class-its-damn-hard-to-build-an-enterprise-company/>.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ [Ibid.](#)

¹⁷ Ibid.

on enterprise IT.¹⁸ Greylock's previous enterprise portfolio had several big winners including Workday and Palo Alto Networks, both of which went public. Earlier that summer, Wing Venture Partners announced the creation of a new \$111 million fund dedicated to investing in early-stage enterprise start-ups.¹⁹ Another first fund, Formation 8, headed by Joe Lonsdale recently raised \$448 million with a focus on the smart enterprise and working with conglomerates in Asia.²⁰

Not only have new funds been raised but existing funds have sought to capture the excitement around enterprise start-ups. Accel announced it would be launching its second \$100 million big data fund led by Ping Li while adding two principals: Jake Flomenberg, formerly a director of product management at Splunk, and Nick Mehta, the former CEO of LiveOffice.²¹

A Deloitte and NVCA 2013 report on a global venture capital confidence survey released in mid-August indicated that VCs are most confident about the following five areas in order of ranking: mobile, cloud computing (SaaS), enterprise software, health care IT and services, and consumer software.²²

SPLUNK

Splunk's Founding

As Sturiale and Hornik finished discussing recent trends and news around the enterprise IT space, they began to talk about the long but successful path which Splunk had taken. Unlike some consumer start-ups that seemingly overnight become successful, Splunk was forged by a team that had been working on a product for close to a decade.

The engineering cofounders Erik Swan and Rob Das first met each other in 1994 while working at Taligent, which was a joint venture of Apple, HP, and IBM to create an operating system for the Mac that would compete against Microsoft's operating system. After Taligent, Swan and Das worked on a venture-backed enterprise start-up called 280 that was named after the California highway. The two persuaded Michael Baum, then a venture capitalist from Advent Venture Partners, to join the team (Exhibit 2). As Swan and Das liked to joke, they must have made the ultimate pitch as they convinced a venture capitalist to not just invest in what they were working on but to leave his current job and join them. Das had known Baum since 1989 when Baum was

¹⁸ Dave Sze and Reid Hoffmann, "Our Next Fund and Our Path Forward," GreyLock Partners, September 10, 2013, <http://greylockvc.com/post/60853013946/our-next-fund-and-our-path-forward>.

¹⁹ Arik Hesseldahl, "Exclusive: Veteran VCs Peter Wagner and Gaurav Garg Launch Wing Venture Partners," All Things D, July 3, 2013, <http://allthingsd.com/20130703/exclusive-veteran-vcs-peter-wagner-and-gaurav-garg-launch-wing-venture-partners/>.

²⁰ Josh Constine, "Formation 8 Raises Its First Fund of \$448 M To Plug Silicon Valley Startups into Asian Conglomerates," TechCrunch, April 18, 2013, <http://techcrunch.com/2013/04/18/formation-8/>.

²¹ "Jake Flomenberg and Nick Mehta Join Accel Partners as Principal and EIR," PRNewswire, August 2, 2012, <http://www.prnewswire.com/news-releases/jake-flomenberg-and-nick-mehta-join-accel-partners-as-principal-and-eir-164745306.html>.

²² Deloitte, "2013 Global Venture Capital Confidence Survey Results," August 14, 2013, http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/TMT_us_tmt/us_tmt_2013VCSurvey_081313.pdf.

working at a start-up after graduating from Wharton's MBA program. The company 280 was eventually acquired by Infoseek, a popular search engine, in the 1990s.

After 280, the three men parted ways and pursued different interests. In 2000, they joined forces again to work at Commerce Flow, an auction intermediary start-up. Baum sat on the board, Swan was the VP of engineering, and Swan had recruited Das to join the team. Commerce Flow's intellectual property was eventually purchased by Accenture. Upon exiting from Commerce Flow, Swan and Das set their sights on creating a company that would enable them to avoid working for a big tech company. Das described this six- month period as a time when they were "brainstorming, eating Ramen and rice cakes, trying to identify a big problem, how to solve the problem, and dipping into personal savings."²³

After a long search they realized that a major unresolved problem they kept hearing from friends was the problem of log file monitoring. Traditionally large enterprises had to spend a large amount of time diagnosing and pinpointing the root cause of IT problems ranging from unresponsive application programming interfaces (APIs) and website crashes to why a financial transaction was lost by an e-commerce company. The two decided to settle on Transaction Engines as the company name and began prototyping a search engine for log files that enabled enterprises to search through all of their files (database, web server, app server, or router).

After focusing on this idea, the two began putting together a few slides and talking to potential customers and investors. Swan and Das conferred with Baum who had once again joined a venture capital fund.

The Long Fundraising Path

The fundraising process was a difficult path and took close to one year from the time that Das and Swan began pitching to when they secured Series A investment. This was partially because much of Silicon Valley in 2003 and 2004 was still recovering from the aftermath of the dot-com era, but also because many VCs at the time were more interested in consumer start-ups. Baum's advising was invaluable as he knew what investors were looking for in the pitch, how to emphasize the value proposition, and how to work with certain investors.

At one point in the fundraising process, Sequoia became very interested in the team and met with the team five times. Although Sequoia ended up not investing in the team, the founders were not frustrated because they realized that they had really refined and honed their pitch while going through the courting and due diligence process. By this time, the team had begun talking to Sturiale and Hornik. Sturiale was introduced to the team by Kerry Champion, a CTO of Westbridge, where he sat on the board.

Swan recalls that the team's first impression was that "David [Hornik] was not your typical VC, and everyone on the team really liked his laid back demeanor."²⁴ Hornik met with the team at the beginning of the founders fundraising process and told them he was interested in the team but asked them to perfect the pitch and come back. The founders recalled that at the time "the pitch

²³ Interview with Rob Das, September 8, 2013.

²⁴ Interview with Erik Swan, August 18, 2013. Subsequent quotations are from the author's interviews unless otherwise noted.

was really raw and it was only after talking to several other investors did we really figure out how to really present what we were working on (Exhibit 3).” When Hornik first met the team, Baum was an investor and advisor to Das and Swan. Baum joined the company as CEO after Hornik told him he “was interested in investing but was looking for a business lead” to join the startup.²⁵ Both Swan and Das frequently joked that Baum’s wife gave them suspicious looks when either of them were talking to Baum because they seemed to always convince him to leave a safe salaried position for a start-up.

As Sequoia had done, Hornik continued to meet with the team. He met them on four occasions. During these discussions, the team and he became friends. As Swan recounts, “sometimes with some investors the relationship gets worse after each successive meeting. However, with David [Hornik], it only got better because he always gave us constructive feedback.” Another reason the team really bonded with Hornik was because he was a good counterpoint to Baum’s very intense personality. Hornik cared less about ego and more about how strong the overall team was and how well they worked together. He liked the team “because it was a seasoned group of entrepreneurs who had a lot of background in the enterprise IT space and who had faced adversity and knew how to respond to failures.”²⁶ He was also struck “by the confidence of the founders, as they were attacking the canonical billion dollar problem and it was only a matter of time before one of their start-ups would really make it big.”²⁷

Hornik was not just an atypical VC in the personality sense but his professional background also made him different from his Sand Hill peers. After graduating from Stanford as an undergrad, he attended Harvard Law School. Then he spent several years at several law firms including Cravath, Swaine & Moore, Venture Law Group (VLG), and Perkins Coie. In the late 1990s, VLG was one of the preeminent law firms in Silicon Valley that tailored its clientele and work to support start-ups. VLG experimented with different payment models and would even occasionally take equity in lieu of payment by the billable hour. While Hornik was a senior associate at Perkins Coie, several August Capital partners noticed his acumen and performance during board meetings and recruited him to the August Capital team. After joining August Capital in 2000, he started VentureBlog, the first venture capital blog and VentureCast, the first VC podcast. August Capital was a firm that invested in both enterprise and consumer start-ups. When Hornik joined the firm, he split his time between looking at consumer and enterprise start-ups.

Hornik and Sturiale were close friends having joined the venture capital industry around the same time in 2000. Both had joined older and more established funds that had long predated the dot-com era. August Capital and Sevin Rosen frequently co-invested in deals as both had partners with similar interests and both had partners with years of experience in the enterprise industry. For example, Sturiale knew David Marquardt, a partner at August Capital, because both sat on the board of Westbridge Technology. Sevin Rosen was considered one of the top VC funds as it had many successful investments in companies such as Citrix, Cypress Semiconductor, Electronic Arts, Lotus Development, Silicon Graphics, and Compaq. Prior to Sevin Rosen, Sturiale cofounded an enterprise start-up while attending Berkeley’s Haas School

²⁵ Email with David Hornik, January 29, 2014.

²⁶ Interview with David Hornik, August 15, 2013.

²⁷ Ibid.

of Business; that start-up was acquired shortly after he graduated from business school. Prior to business school, Sturiale spent 12 years in executive positions at three start-ups (Exhibit 4).

Sturiale instantly bonded with the founders as he “was a strong technologist with an operating background” and really researched and understood the log analysis space.²⁸ The team really respected the fact that he had done a thorough technical due diligence of the company’s prototype and potential market. Additionally, the founding team found Sturiale’s guidance around competitors to be extremely helpful. Sturiale’s understanding of the technology helped persuade the rest of the Sevin Rosen partnership to invest in Transaction Engines.²⁹ Sturiale recalled that “it helped that Sevin Rosen’s partners were all experts in the semiconductor space and thus were intimately acquainted with the complexities and problems associated with machine generated log data.”³⁰

Hornik and Sturiale were both very interested in investing in the team and agreed to syndicate the deal in December 2004 by being co-investors in the Transaction Engine’s \$5 million Series A raise.

After closing the Series A raise, the founders decided to change the company’s name from Transaction Engines to Splunk to reflect how their product enabled debugging complex IT failures by spelunking log files. To celebrate the close of the investment and the company rebranding, the founders along with Hornik and Sturiale actually went spelunking. Hornik recalls this experience in VentureBlog:

I enthusiastically descended hundreds of feet into California’s largest cave complex in support of one of my portfolio companies . . . It was all in the name of fun. But it was also very much in the name of team building. And that is serious business [because] start-ups are hard work and take a lot of sacrifice over time. They require teams of people to deeply believe in what they are building and the mission at hand. And in order to engender that sort of commitment to a company, team members have to view it as more than just a job, it has to be personal.³¹

The founders recalled that once Hornik and Sturiale joined the board they realized the value of syndication and how helpful it was to have board members who were very different yet who were both very committed to the company. Moreover, Das recalled how both helped in different ways and that it was a good thing that both had personalities and skillsets that were dissimilar because the founders were able to get a holistic view on every issue the founders posed to the board. Sturiale was insistent that founders and board members approach each board meeting in a thoughtful manner rather than have “death by board meeting.” He encouraged CEOs:

Enlist the board to help to solve the problem. Some CEOs struggle with how much to share with their board – assuming problems exposed reflect poorly on the CEO and management’s performance. Part of their ambivalence lies in a contradiction: Boards like to see that their CEOs are more paranoid than they are, but also want their CEOs to come

²⁸ Interview with Rob Das, September 8, 2013.

²⁹ Pitch deck used for fundraising.

³⁰ Interview with Nick Sturiale, July 3, 2013.

³¹ Team Building 200 Feet Underground.

up with solutions and carry an air of poise and confidence. So how a CEO discloses and characterizes a problem to his board is the problem...and the opportunity. The idea is to enlist members in helping solve the problem because when a board works on a problem it becomes invested in the outcome.³²

Building the Company

After raising its Series A, the Splunk team worked out of Sevin Rosen's offices off University Avenue. As some of the partners would joke, the Splunk team seemed to always know when the kitchen supplies had been refreshed and had an insatiable appetite for beef jerky and snacks. Although Sturiale worked in the same office as the Splunk team, he was thoughtful about giving the team enough space so that they did not feel like he was constantly hovering over their shoulders. Sturiale knew the importance of providing founding teams room to experiment and develop on their own timeline but also made it a priority to be available to the Splunk team. He would often have the founders "kick back on my couch and just talk about whatever they wanted to bring up."³³ As the team grew, it had to find a larger space. The founders joked that they really didn't want to move because they wanted to be conservative with their money and not have to pay rent or pay for all the large amounts of beef jerky they had gotten accustomed to consuming. As Swan recalled "it would be a long time until our offices were as nice as the Sevin Rosen one."³⁴

When Splunk needed to raise its Series B funding, it received mixed reactions from venture capitalists in Silicon Valley. The team was still building its core product and had very few customers. Ultimately it was able to secure funding not from a Silicon Valley venture capital fund but from JK&B Capital, a venture capital firm based in Chicago. The JK&B investment aided the Splunk team beyond just the financing because the JK&B board member, Marc Sokol, had experience running an enterprise software company at Computer Associates.

After the Series B raise in 2006, the company made significant shifts in the business model that would match its technological innovations. One fundamental decision was to decide not to be open source. While the Splunk team was building its product there were several open source successes (MySQL and XenSource) and for some time the founders debated whether to have their software be open source or proprietary. Eventually, the founders decided to make Splunk proprietary because they realized just how valuable their software was at empowering information technology workers within enterprises.

Another major business innovation was providing a freemium product. This go-to-market strategy was a consumerized IT means of acquiring customers that other enterprise companies would also come to adopt. Many Splunk users would first download the freemium product behind their company's firewalls in order to better troubleshoot issues at work because the Splunk product was much more powerful than existing troubleshooting software.³⁵ The Splunk team was then able to upsell to its clients after using Splunk software to analyze which

³² Nick Sturiale, "Death by board meeting," Venture Beat, October 2, 2007, <http://venturebeat.com/2007/10/02/death-by-board-meeting/>.

³³ Interview with Nick Sturiale, July 3, 2013.

³⁴ Interview with Erik Swan, August 18, 2013.

³⁵ Interview with Michael Baum, July 18, 2013.

companies already had a large existing user base. The Splunk go to market approach had another consumerized IT approach in that it was very focused on the individual user experience. The Splunk interface was similar to the Google search interface and thus users naturally knew how to engage with exploring big data. Additionally, Splunk empowered individual users as opposed to requiring groups or teams of customers to work together to draw insights on machine data.

Splunk also celebrated the low level IT administrators who in the early days were the typical early adopters within an enterprise. By using Splunk these IT professionals were able to better troubleshoot, identify, and fix IT issues. As a result the IT professionals often became the most vocal proponents of Splunk and thus provided the Splunk sales team with a beachhead to expand its services within companies.

Many enterprise companies at the time were beginning to move to subscription pricing via software as a service (SaaS), where enterprises were charged by number of users on a monthly basis. However, with Splunk, companies were charged by usage, specifically the size of the data they wanted to analyze. The more data companies wanted to understand, the more they would have to pay for Splunk's product. The more data that Splunk analyzed, the more insights users would gain from existing data. The freemium model worked well with this pricing structure because it enabled users to quickly understand the power and utility of Splunk which then fueled further demand by the customers to analyze even more data.

Splunk also capitalized on "fortuitous marketing springing from the strength" of the product when someone imported leaked AOL Search Data and used Splunk to analyze the data.³⁶ The Splunk product was able to navigate the data by "search term, by user ID, by time sequence, etc. What was otherwise pretty impenetrable data became searchable and navigable and, as a result, the Splunk service got the company a whole lot of marketing bang for the buck."³⁷

Picking the Right Investor

By the time Splunk raised its Series C funding, some investors in Silicon Valley had begun hearing of the company's traction and during pitch sessions could tell that the founders were confident in their company's trajectory and product (Exhibit 5). The founders had multiple term sheets from several notable VC firms on Sand Hill after finishing pitching to many VCs. While the founders were excited at having investor interest, they were cautious because they knew it was essential to capitalize on Splunk's momentum. As they discussed with Sturiale and Hornik which term sheet to accept, they factored in not just the valuation and capital investors were willing to pay but also strategic questions as to who would be the best board member and who could best help the company grow the business.

Early in the Series C fundraising process, Sturiale suggested the founders meet with John Connors of Ignition Capital. Sturiale had worked with John Connors when they were both board members at XenSource, an enterprise company that was sold to Citrix for \$500 million in 2007. Connors was the former CFO at Microsoft and had a great amount of respect for the founders and for their traction within the enterprise market. The founders not only respected Connors'

³⁶ David Hornik, "VCs are Marketing Geniuses," VentureBlog, September 20, 2006, <http://www.ventureblog.com/2006/09/vcs-are-marketing-geniuses.html>.

³⁷ Ibid.

expertise in the enterprise space but his calm and thoughtful demeanor really resonated with them. They were torn because another venture firm had offered a higher valuation. After much debate the founders decided to take Connors' and Ignition's investment. The decision ultimately rested on the founders belief that they needed to excel in the Windows environment and that Connors—unlike the other investor— had the connections and know-how to really assist with developing Splunk's business within the Microsoft ecosystem.

The Acquisition Offer

With Connors on board, the company was able to quickly navigate the Microsoft ecosystem and continue to land Fortune 500 customers who wanted their data analyzed in order to ease the workload on their IT teams. Splunk was also able to attract new customers as more companies began to analyze machine generated data connected to networks in order to better position themselves in the developing internet of things space. For example, the Splunk product enabled companies to understand machine-generated sensor data from elevators that then indicated which floors in a building were being frequented at what time of the day and how often. Thereby providing companies with the ability to price differentiate its customers. All of this data analyzed by Splunk enabled companies to understand their big data and derive better insights as to how to better serve existing customers and what additional products their customers might be interested in.

Throughout Splunk's meteoric rise there were several big tech companies that became very interested in acquiring the company. The founders were not interested in a quick exit because by now they were able to see month over month the hockey stick growth that they had forecasted long ago to Sturiale and Hornik. However, they did confer with the board after a very large and established enterprise company proposed acquiring Splunk for over a billion dollars.

Exhibit 1
Snapshot of Enterprise IPOs in 2012 and 2013

Company	Product	Founded	IPO	First day trading	VC firms
Tableau	Data visualization	2003	May 2013	64% increase	NEA, Meritech
Marketo	SaaS marketing	2006	May 2013	78% increase	InterWest, Storm, Battery, Glynn Capital Management
Workday	Human and financial management SaaS	2005	October 2012	72% increase	Greylock and NEA
Palo Alto Networks	Network Security	2005	July 2012	27% increase	Greylock, JAFCO, Northgate, Sequoia, Globespan
ServiceNow	IT service management SaaS	2003	June 2012	37% increase	Greylock, JMI, Sequoia
ExactTarget	Email marketing	2000	March 2012	32% increase	Battery, Greenspring, Scale VP, TCV
Guidewire Software	Software for insurance companies	2001	January 2012	32% increase	Battery, Bay, USVP, Gabriel Partners
Infoblox	Network infrastructure automation software and hardware	1999	April 2012	40% increase	Chess, Dillon, Focus, Paradigm, Sequoia

Sources: Jennifer Van Grove “The 10 Largest Tech IPOs of 2012,” VentureBeat, December 31, 2012, <http://venturebeat.com/2012/12/31/tech-ipos-2012/>, and Tomio Geron, “The Top Tech IPOs of 2012 and the Venture Capitalists Who Invested,” Forbes, January 3, 2013, <http://www.forbes.com/sites/tomiogeron/2013/01/03/the-top-tech-ipos-of-2012-and-the-venture-capitalists-who-invested/>. Accessed November 26, 2013.

Exhibit 2
Bios of Splunk's Founders

Erik Swan

Erik M. Swan co-founded our company and has served as our Chief Technology Officer since 2003 and a member of our board of directors from 2003 to 2012. Prior to joining us, Mr. Swan served as Chief Technology Officer at CommerceFlow, Inc., an information technology and services company, from 2001 to 2003. Previously, Mr. Swan served as Vice President of Engineering at Disney Internet Group, a division of The Walt Disney Company, from 2000 to 2001. Mr. Swan studied computer science at the California Polytechnic State University, San Luis Obispo.

Rob Das

Robin K. Das co-founded our company and has served as our Chief Architect since 2005. He also served as our Vice President, Product Development from 2003 to 2005 and as a member of our board of directors from 2003 to 2004. Previously, Mr. Das has been a large-scale, distributed software architect and engineer for both early-stage ventures and large companies, including Avolent Inc., an application software provider, Lotus Development, a software company, and Sun Microsystems, Inc., a computer systems company. Mr. Das studied computer science at Indiana University.

Michael Baum

Michael's entrepreneurial journey has spanned 25 years, six start-ups, five acquisitions and the recent IPO of Splunk (SPLK). In addition to being a Partner at Rembrandt, Michael is Chairman & CEO of FOUNDER.org, a foundation working to inspire students to chase big ideas and become founders of high impact companies that drive innovation and economic growth. FOUNDER.org works with leading universities to support innovation and entrepreneurship programs, write \$100K grants to student founders and provide a twelve-month post-graduation founder skills education and mentor program.

Michael also co-founded Collation (acquired by IBM), dotBank (acquired by Yahoo!) and Reality (acquired by Reuters). In addition to Internet and IT infrastructure, Michael has been a pioneer in ecommerce serving as VP e-Commerce Services at Yahoo! and VP eCommerce at InfoSeek/Disney where he oversaw the development of the Disney Internet Group shopping platform and services.

Michael is a Computer Science graduate from Drexel University where he worked as a co-op student and software engineer on the original IBM PC at IBM's Entry Systems Division and on advanced compiler technology at IBM's Silicon Valley lab. He is also an MBA graduate from The Wharton School of the University of Pennsylvania where he played hooker with the Wharton Rugby Club.

Sources: Splunk and Rembrandt Capital Websites. Accessed November 26, 2013.

Exhibit 3
Splunk's Series A Pitch Deck



Transaction Engines Investor Presentation 2004

1

transactionengines
the transaction search company | see through the complexity



transactionengines.com

- > Michael Baum, CEO – Arthas, Collation, Infoseek, Yahoo!, Advent Intl., Crosspoint Venture Partners, Prism Venture Partners
- > Rob Das, VP Technology – Avolent, CommerceFlow, Data Broadcasting, Lotus, Sun Microsystems, Taligent
- > Erik Swan, VP Product & Engineering – Apple Computer, The Automation Group, CommerceFlow, Disney, Infoseek, Taligent
- > Ray Scursa, TAB – Chief Architect Opsware, Inc.
- > Jin Woo Shin, TAB – Systems Architect Franklin Templeton Investments
- > Vinu Sundaresan, TAB – CTO Collation Inc.
- > George Jathas, CAB – Senior VP Sales Cybersource
- > Bob Roblin, CAB – CEO Collation Inc.
- > Steve Ryan, CAB – VP Corporate Development, Arcot Systems

Transaction Engines Investor Presentation 2004

2

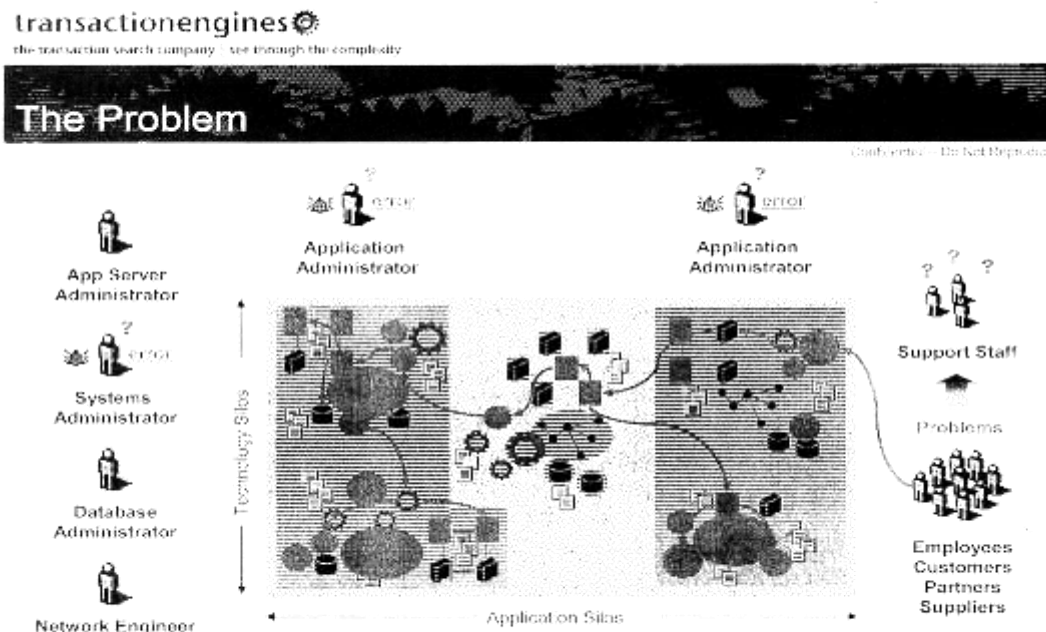
Exhibit 3 Splunk's Series A Pitch Deck (continued)



- > Imagine navigating the Internet without a search engine.
- > IT infrastructure is also a complex web with thousands of interrelated components and terabytes of system logs.
- > Identifying, prioritizing and solving problems requires wading through massive amounts of event data consuming 25 to 50% of IT Opex budgets.
- > Technical staff are overwhelmed trying to find and follow transactions traversing layers of systems, processes, applications and technologies.

Transaction Engines Series A Pitch Deck 2004

5



Transaction Engines Series A Pitch Deck 2004

6

Exhibit 3 Splunk's Series A Pitch Deck (continued)

transactionengines®

the transaction search company | see through the complexity

The Solution

A real-time transaction search engine to:

- > Find and follow transactions – the hidden glue dynamically binding infrastructure components.
- > Find the business impact of alarms, errors and events in real-time.
- > Find the problems undetected by component and performance monitoring solutions.
- > Find transaction relationships to services and processes.
- > Coordinate problem detection, prioritization and resolution across the organization.

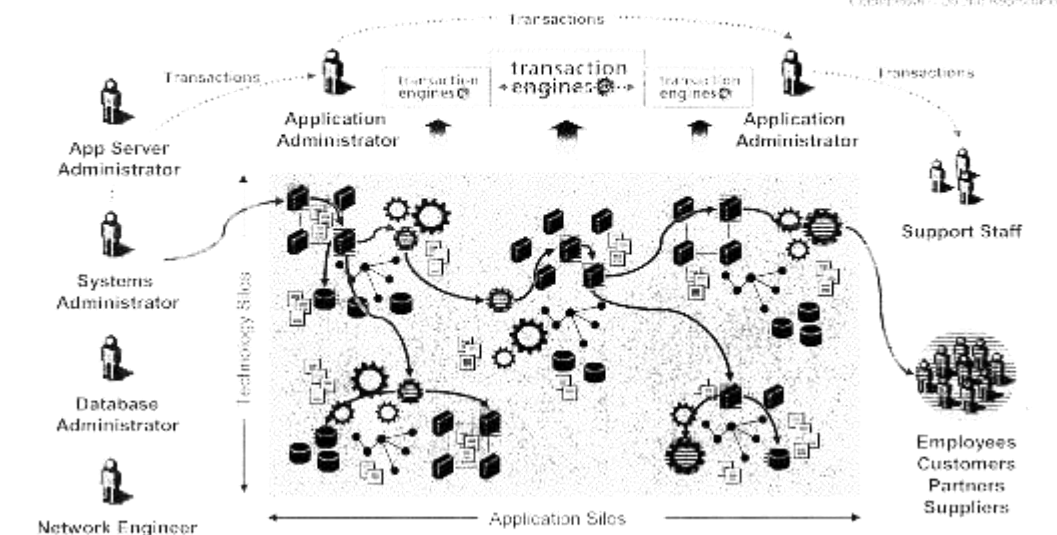
Transaction Engines Investor Presentation 2014

5

transactionengines®

the transaction search company | see through the complexity

Introducing Transaction Engines



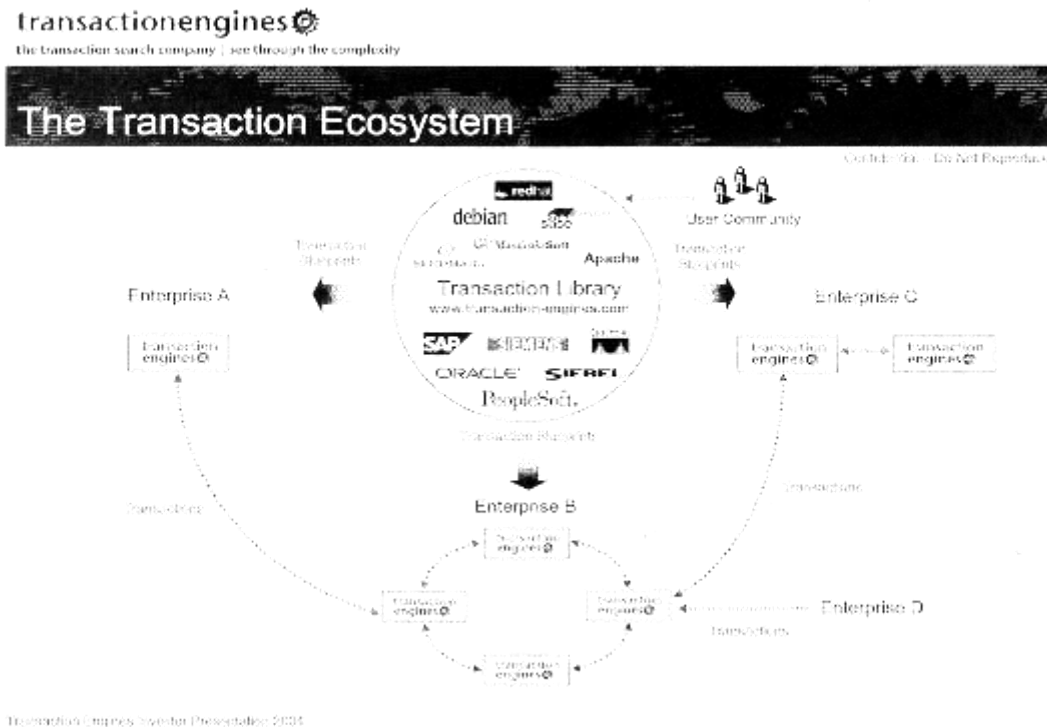
Transaction Engines Investor Presentation 2014

6

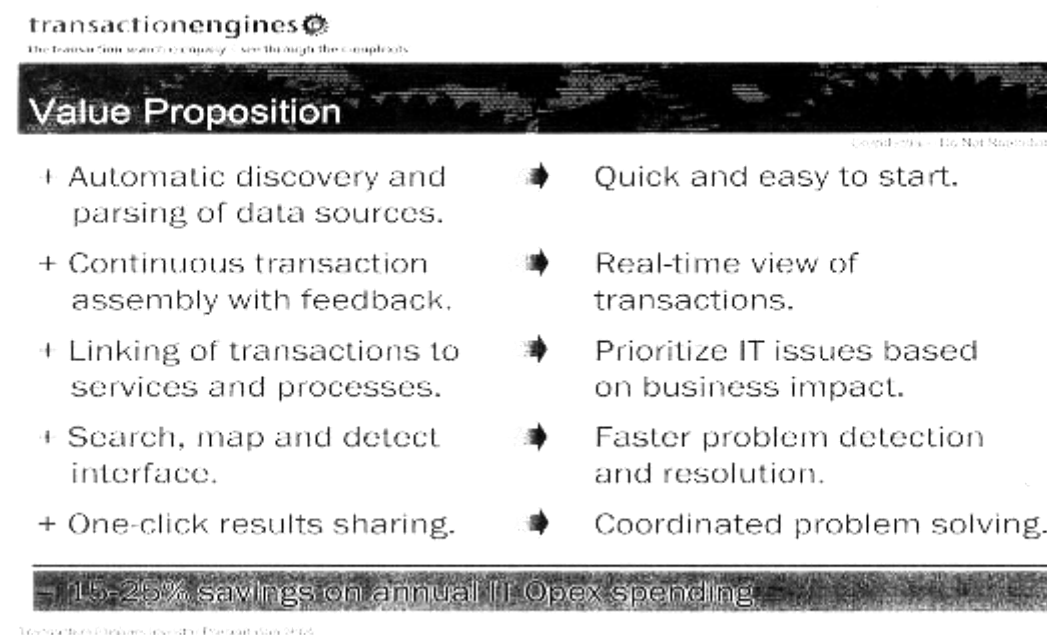
Exhibit 3

Splunk's Series A Pitch Deck (continued)

10/11/2014




10/11/2014



10/11/2014

Exhibit 3

Splunk's Series A Pitch Deck (continued)

transactionengines 
the transaction search company. Use through the complexity.

Product Plan

Downloadable | No New Capabilities

	Updates	Support	Features	Pricing
Free Download	no	PKB	> Discover, index, map and search.	free
Basic Subscription	yes	Email	> Discover, index, map and search. > Basic system manager.	\$2.5k annually per machine
Enterprise Subscriptions	yes	Email/ phone	> Discover, index, map and search. > Enterprise system manager.	
- Statistics			> Statistical data included in search results. > Search language extended with statistical query capabilities.	\$25k annually per machine
- Alerts			> Search persistence. > Real-time search monitoring. > Messaging-based notifications.	\$25k annually per machine
- Remote Gateway			> Remote event collection. > Remote transaction graphing. > Remote transaction assembly.	\$25k annually per machine

Transaction Engines Investor Presentation 9/04

Source: Documents provided by Nick Sturiale of Ignition Partners.

Exhibit 4
Bios of Splunk's Investors

David Hornik

For nearly two decades, David has worked with technology startups throughout the software sector. In 2000, David joined August Capital to invest broadly in information technology companies, with a focus on enterprise application and infrastructure software, as well as consumer facing software and services.

Prior to joining August Capital, David was an intellectual property and corporate attorney at Venture Law Group and Perkins Coie. In his legal practice, David represented high tech startups in all aspects of their formation, financing, and operations. Before that, David was a litigator in New York City at Cravath, Swaine & Moore.

David has an eclectic educational background. He holds an AB in Computer Music from Stanford University, an M.Phil in Criminology from Cambridge University and a JD from Harvard Law School.

David is currently a lecturer at the Harvard Law School, where he teaches entrepreneurship and venture capital, and previously lectured at Stanford's Graduate School of Business, where he taught intellectual property. He is the author of VentureBlog, the first venture capital blog, and VentureCast, the first venture capital podcast, and is the founder and executive producer of The Lobby conference, an annual gathering of the thought leaders of the digital media ecosystem.

Nick Sturiale

Nick Sturiale joined Ignition as managing partner in 2013, after more than 25 years of experience developing startups, both as venture capitalist and entrepreneur. Prior to Ignition, Nick spent three years at JAFCO Ventures as a general partner, where he invested in companies such as Reputation.com, Bill.com, and Delphix.

Prior to JAFCO, Nick spent eight years at Sevin Rosen Funds, where he incubated and led first investments in companies such as XenSource, which was acquired by Citrix Systems (CTXS) for \$500 million; Splunk (SPLK), the leading public company in "big data"; and Hightail (formerly YouSendIt), a leading SaaS vendor in file collaboration. Nick also worked at The Carlyle Group as a managing director and co-head of its Silicon Valley office.

Prior to venture capital, Nick spent twelve years as a software entrepreneur. He was founding CEO of Timbre Technologies, a manufacturing-analytics software company, which won the 1999 UC Berkeley Business Plan Competition and was acquired by Tokyo Electron for \$138 million in 2001.

Currently he serves on the board of directors of Splunk, YouSendIt, and Vuclip.

Nick holds a BS degree in economics from California State University, Chico, and an MBA with distinction from the University of California, Berkeley, where he is a frequent guest lecturer.

Exhibit 4 (continued)
Bios of Splunk's Investors

John Connors

John Connors is a managing partner at Ignition, joining in 2005 after lengthy career as a software-industry executive, principally at Microsoft.

John spent sixteen years at Microsoft in several high-level, strategic roles. From January 2000 to April 2005 he was senior vice president of finance and administration, as well as the company's chief financial officer. He also served as vice president of the Worldwide Enterprise Group and vice president and chief information officer (CIO). Before becoming CIO, John held a number of positions within and outside finance, including corporate controller; general manager of worldwide financial operations; director of business operations at Microsoft's European headquarters in Paris; and director of business operations for the Worldwide Sales and Support Strategy Group.

John is a member of the board of directors of Nike (NKE), [FiREapps](#), [Scout Analytics](#), [Datasphere](#), [Motif Investing](#), [Splunk](#) (SPLK), [Opscode](#), and [Tier 3](#). He was also a board member of Heroku, which was sold to Salesforce.com in 2010, and Xensource, acquired by Citrix in 2007. John was named to the 2013 Forbes Midas List, a ranking of the world's top venture-capital investors, and to Business Insider's 2013 list of top enterprise-technology VCs.

John received his BA in accounting from the University of Montana. He also received the Distinguished Alumni Award from the University of Montana.

Sources: August Capital and Ignition Partners Websites. Accessed November 26, 2013.

Exhibit 5
Splunk's Funding Rounds

Investment	Date	Amount raised	Venture Funds	Investors
Series A	Dec-04	5 million	Sevin Rosen and August Capital	Nick Sturiale and David Hornik
Series B	Jan-06	10 million	JK&B	Marc Sokol
Series C	Sep-07	25 million	Ignition partners	John Connors

Source: CrunchBase profile of Splunk, <http://www.crunchbase.com/company/splunk>. Accessed November 26, 2013.