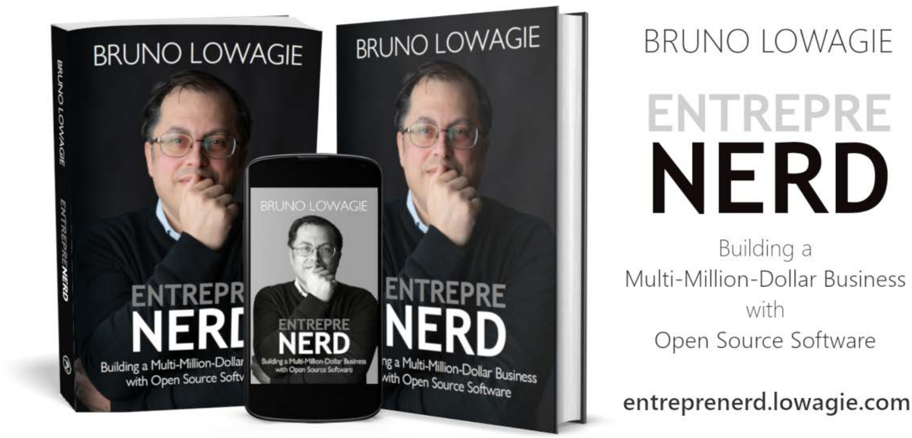
Extracts from the book Entreprenerd

by Bruno Lowagie



"Bruno wrote an incredible book on his COSS journey.
Mandatory reading for technical founders!"

—Joseph "JJ" Jacks, Founder at OSS Capital and Open Core Summit

"This untold-saga about a developer and his project is
a significant contribution to the open-source ecosystem."

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"Entreprenerd is a great case study on how to develop
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—Leonard Rosenthol, Senior Principal Scientist and PDF Architect at Adobe Systems

"Bruno shares his profound experiences as a technical founder ...
you will discover the life stages of an entrepreneur and his business."

—Dilip Thomas, Founder at Wurreka and Developer Summit

Entreprenerd

Building a Multi-Million-Dollar Business
with Open Source Software

Bruno Lowagie

entreprenerd.lowagie.com

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FOREWORD

There are many books and business school case studies available today that describe the founding and ascent of the major software companies. While undoubtedly inspiring, they fail to really communicate what it's like to build a company in its early stages.

The start-ups they examine inevitably rely on venture capitalists to provide the direction and nominally expert advice to the founders. That so many companies fail completely when embracing this model is not seen as a limitation of the model, but rather the inevitable culling by the "invisible hand of the market."

It is a wonder that decades later, potential entrepreneurs are still wowed by the unicorns that succeed but don't view their rarity as a caution against adopting that model.

This book is about a company that succeeded by using a very different model. iText was entirely self-funded, never accepted venture capital (VC) money, and built a successful company on a completely open source product. Moreover, the initial author of the software, Bruno Lowagie, became the co-CEO of the company through diligent work, despite having no business experience, and together with his wife—the other co-CEO—built a company that went from $300K in earnings its first full year to a corporation with more than thirty full-time employees, offices on three continents, and a valuation in tens of millions of dollars at the time of its sale. In my view, this model represents a much more attainable success for many developers than the pie-in-the-sky venture capital lottery.

In this book, Bruno explains his transformation from self-described nerd in the administration of a local university to CEO of a successful company that was eventually acquired by a conglomerate. He also describes the many decisions he and I had to make in the early stages and how we were able to solve unexpected problems quickly and effectively enough to continue the self-funded journey of iText.

Some of those decisions worked really well, others led to costly dead ends. They're explained here in Bruno's always candid and entertaining style. You get to see how certain principles helped iText not veer off the tracks—and how all the work eventually led to success.

This model of building a thriving business is more approachable than those of VC-backed highfliers. It is particularly suitable for software developers and other nerds who want to commercialize their inventions and build a company. Not only does Bruno unfold the business aspect, including the innumerable small decisions, but he carefully explains the transformations that he and his wife, Ingeborg, had to undergo to be able to fulfill their new responsibilities.

As such, this book is both a handbook and an autobiography in which developers can place themselves easily. In this sense, it is a comparatively rare book, which should be especially useful to all aspiring "entreprenerds."

—Andrew Binstock

MILESTONES

"Life is short, you have to perform all the miracles that you can."

—Andrea in *Any Way the Wind Blows*

As the founder of your company, you typically encounter three types of milestones:

- The goals you set yourself: You decide what you want to accomplish with your business, and in what time frame. Failure to achieve your ambitions can cause disappointment, regret, and even pain. The good news is that those feelings are almost always temporary. Either they fade away or they are eclipsed by success—as was the case with me and my own aspirations.
- The deadlines set for you by other people: Investors who have put money in your company, customers who depend on your product and service, and last but not least, your family who counts on you for both emotional and financial support. If you miss one or two of those targets, you can get in trouble. If you keep missing them, you might eventually have to say goodbye to your business.
- The accomplishments you only see after the fact: Quite often, you're too busy to notice them in real-time. It's like climbing a mountain for the first time. The path ahead is visible but unknown. Only when

> you reach the top can you truly see the ground you've covered. In my opinion, those are the most rewarding achievements.

In a career that spanned a quarter of a century, I have reached many milestones of each type. The short overview in the next handful of pages should give you a fair idea of what to expect from this book.

Attention: Spoilers ahead! If you don't want to know how the story ends, you might want to skip this introductory chapter and move straight to Part I.

Creating iText

I began my professional career by changing jobs three times in two years. At the age of 28, I succeeded in landing my dream job. In November 1998, I was hired by Ghent University to build a suite of applications for the student administration of one of Belgium's finest universities. I made a commitment to my employer that professors would be able to enter the grades of students by the end of the semester, and that administrators would be able to calculate the final degree of every student before the end of the academic year.

Additionally, I promised that the system would produce reports in PDF (portable document format). In December 1998, I cursed myself for making that promise. Creating PDF wasn't trivial. None of the tools I experimented with met the requirements of my project. During the holidays, I started reading the PDF reference manual and decided to start writing a new PDF library from scratch. The result was an unplanned milestone that would lead to the creation of iText in the year 2000.

iText is PDF software used under the hood of many applications to produce, manipulate, and process PDF files.

If you have ever created a wish list on the IKEA website and downloaded a PDF with the items of your choice, you have used iText. The bank statements you receive from your financial institution and the documents sent to you by public services such as the Internal Revenue Service (IRS) or Social Security Administration (SSA), may have been created with iText. There's a high chance that iText is involved when you digitally sign a PDF online. iText is software that nearly everyone uses, but hardly anyone notices.

Creating a Business Model for iText

Call me crazy, but I was convinced that if I didn't ask for money for iText, I wouldn't have any worries. I decided to make the library available as FOSS (free and open source software), making it easy for developers to use the product without having to pay me anything.

Less than two years later, iText was used by companies such as IBM, Google, and SAP, but my assumption that I wouldn't have any worries turned out to be extremely naïve. The imbalance between companies using iText for free in their commercial products and applications—and me working after hours to support and maintain the software forced me into creating a business.

If I wanted iText to survive, I would have to start a company and generate revenue, but how do you create a business with something that is perceived as a free resource?

The first iText company almost went bankrupt before I could answer that question. Six weeks after my wife, Ingeborg, and I started our first business, our son was diagnosed with cancer.

We were saved when a friend in Silicon Valley heard about our ordeal. He founded a second company for iText in San

Carlos, California. After long debates, I agreed to switch to a more restrictive FOSS license for iText. In December 2009, I released a new iText version under the AGPL (Affero General Public License). This felt like a bad choice in the short term, but it turned out to be one of the best long-term business decisions I ever made.

Growing the Business for iText

In 2013, Deloitte designated iText Group as one of the ten fastest growing technology companies in the Benelux. One year later, we won the first Belgian edition of Deloitte's Technology Fast 50.

Ingeborg and I bootstrapped the business without any external capital. We owned 100 percent of the company, keeping full control over the organization. That was a blessing and a curse at the same time; a blessing because it gave us total freedom, but a curse because the more the business grew, the bigger the personal sacrifices we had to make. In December 2013, we installed a board of directors. This allowed us to off-load some of our responsibilities.

The members of our board were chosen with an ambitious and unambiguous goal: we would consider the board a failure if we didn't succeed in realizing an exit in three years.

Selling the iText Business

On December 29, 2015, Ingeborg and I took the train to Brussels. We walked from Central Station to the posh offices of a renowned law firm. We were welcomed by a handful of lawyers and a South Korean delegation representing an Asian vendor of productivity software.

There was an atmosphere of nervous cheerfulness in the room where a dozen binders were waiting for us on a long table. Ingeborg checked our bank account on her smartphone and shook her head: “Not yet!”

The tension grew. Phone calls were made, and Ingeborg checked our account once more. I don’t remember how many times this scene was repeated, but I can still hear the sigh of relief that went through the room when she finally said: “It’s there!”

What followed was a strange spectacle. We were guided to a binder on the table and asked to sign the pages marked with tape. As soon as the documents in one binder were signed, we moved to the next one. After every stakeholder had made the full tour of the table, a large sliding door opened to a dining room where we all had lunch.

That evening, Ingeborg and I took the train back to Ghent as if what had just happened was the most normal thing in the world, but I bet we were the only commuters on the train who returned home €20 million richer than they were that morning.

Ingeborg had sold all her shares representing 50 percent of the company, and would leave the business. I had sold half of my shares, 25 percent of the company. I made a commitment to stay on board for at least three more years.

Leaving the iText Business

Four years later, on December 27, 2019, we found ourselves in the same offices of the same law firm. Again, there was tension in the air. I had been forbidden access to my own company in September 2018 and I had almost been forced to sell the remainder of my shares at a price I didn’t agree with. I went to court and was countersued, but I won all the lawsuits that mattered. After fifteen months of legal battles in different courts, all parties were ready to settle.

On March 2, 2020, I signed the shareholders' register to transfer the remainder of my shares to the new owners of the company, three private equity firms backed by serial entrepreneur Peter Thiel.

About This Book

In this book, I share my personal experience in technology and business, hoping to inspire you on your journey as a developer, technical cofounder, and entrepreneur.

- "Failing Forward" covers my not-so-successful track record before I created iText. I considered myself a little genius in high school, but I was the worst student you can imagine in college. It took me more than a year to find a job after I graduated, and another two years before I secured a job that kept me interested. I created my first PDF library by accident.
- "Building Free and Open Source Software" spans more than four decades of FOSS history, starting with the emergence of the first affordable hardware and the first software licenses. I describe how the philosophy that brought about free software transformed into a business model based on open source, and how I underwent a similar metamorphosis from FOSS developer to FOSS entrepreneur.
- "From Start-up to Exit" explains how my wife and I further developed the business. I can't—and won't—tell you how to run your company, but I'll help you make your own decisions by sharing tips and tricks

about defining and executing a business strategy, creating value for your company, starting a mergers and acquisitions (M&A) process, and so on.

This book is also a cautionary tale for readers who want to make a lot of money. Be careful what you wish for, as you might just get it!

Personal Testimonial

The movie *Citizen Kane* starts with the death of wealthy publishing magnate Charles Foster Kane. A journalist is sent out to discover the meaning of the deceased's dying word, "Rosebud."

When the reporter interviews Mr. Bernstein, the general manager of Kane's business empire, they talk about Mr. Thatcher, the tycoon's childhood guardian and bank manager. Mr. Bernstein tells the journalist that the banker was the "biggest darn fool" he ever met.

Surprised by this remark, the journalist argues:

> *"He made an awful lot of money."*

But Mr. Bernstein isn't impressed.

> *"Well, it's no trick to make a lot of money . . . if all you want is to make a lot of money."*

My interpretation of this witty reply evolved over the years. When I wrote the first lines of the iText code, I was convinced that I was pursuing a higher ideal. I smiled in disbelief when people told me that I could—and should—make money with my work.

My smile disappeared when I realized that generating revenue was an essential prerequisite if I wanted my ideal to survive. It took me years of blood, sweat, and tears to perform my miracles. When iText eventually made me a millionaire, I gained a better understanding of what Mr. Bernstein meant.

This book is a personal testimonial. My account of the sequence of events is colored by my personal experience and my singular point of view. For instance, you'll notice that I felt betrayed on different occasions. Betrayal probably wasn't always the intention of the people who allegedly misled me. Sometimes, they just made a business decision that went against my interests or values. I'll never be friends with the antagonists in my story, but I've tried to be mild while writing about them.

I created a PDF library to solve a specific technical problem, and I further developed iText to help other software developers with the same challenge. When looking back, I'm happy to see that I met those goals.

The balance is positive.

Chapter 18:

DILEMMAS

"I'll adapt."

—Seven of Nine in *Star Trek: Voyager*

In July 2012, we hired an M&A consultant to assess our business in the context of a possible exit. We became aware of some dilemmas and how these affected the decisions we had made in the past.

The best way to know if we could sell our company was to try selling our company. That's usually not something you do on your own.

Unless a buyer contacts you because they've identified your business as a target for acquisition, you typically hire an M&A consultant who puts your company on the radar. If you've never sold a company before, you'll need help anticipating and understanding the many questions from a potential buyer. Going into "M&A mode" also requires a lot of energy. You might want to off-load some of the work to a third party because you don't want to jeopardize your ongoing business.

Project IQ

Finding an M&A consultant who wanted to work for us turned out to be more difficult than we expected. The bulk of the revenue made by M&A consultants consists of a success fee, usually a percentage of what is earned when a deal is closed.

When we contacted some of the usual suspects in the field, we were told that we weren't interesting enough if we didn't have a revenue of at least €10 million. It didn't help that we were honest about our intentions. We said that we didn't think we were "sellable" yet. We looked at the M&A project as a useful exercise to plot a path toward a nice exit, not necessarily to realize such an exit immediately. What we needed most, was a long-term strategy, not a short-term sale.

We asked Bernard Slede, the French consultant we had met in Silicon Valley during our Plug & Play visits, for advice. He introduced us to two smaller M&A companies. We felt most comfortable with Marta Führich and Artur Gulpe from goodpoint.Fellows in Berlin. Marta had nine years of experience at Ernst & Young Corporate Finance as a senior manager. Artur had been associate director at Corporate Finance Partners and vice president at IEG Investment Banking Group in Berlin. They had both left their secure jobs to start their own M&A company together. We were their second customer.

The first advice we got was to have a specialized accountant calculate the consolidated revenue of our companies and attempt to know what our recognized revenue was for the past couple of years.

> *In consolidated financial statements, the financial statements of the parent company and its subsidiaries are presented as those of a single economic entity. For instance, adding up all the invoices issued by all companies doesn't make sense because the various companies also invoice each other. These intercompany invoices must be eliminated from the total.*
>
> *When we talk about recognized revenue, we don't consider when an invoice is paid in cash, but we look at when the revenue is realized. We distinguish between accrued revenue and deferred revenue.*
>
> - *Accrued revenue is revenue recognized before cash is received. For instance, if you do a job in year A but you receive money from that job in year A + 1, the revenue should be recognized in year A—regardless of when you issued your invoice.*
> - *Deferred revenue is revenue that is recognized after the cash is received. For instance, if you sell support contracts and a company pays $12,000 for one year of support on December 1, you can only recognize $1,000 in the current calendar year and must defer $11,000 to the next year.*

We hired BDO to do the math, taking into account that:

- The fiscal year of the parent company 1T3XT BVBA didn't coincide with the fiscal years of its subsidiaries iText Software Corp. and iText Software BVBA.
- Before the consolidation exercise, we considered all invoices to be similar, whether the customer paid for a perpetual license or for a renewable support contract.

BDO advised us to make the fiscal years of the different entities coincide and taught us how to distinguish between types of sales so that we knew when to recognize which revenue. We also learned how to use this information to calculate the annual recurring revenue (ARR).

While BDO was crunching the numbers, Artur created a fact book and a teaser.

> *A fact book consists of a slide deck in which you attempt to answer every possible question a potential buyer might ask. Who owns the company? Who's on the team? What products does it offer? What is the business model? What does the revenue look like? What is the outlook for the next five years? And so on.*
>
> *A teaser is a document that consists of a maximum of two pages summarizing the highlights of the fact book, but in which the company name has been anonymized so that people who receive a copy don't know which company the teaser is about.*

If you ever sell your company, you'll notice that both the seller and the buyer use a codename for the project. That codename is used throughout the documentation and in all conversations. Marta and Artur chose the name IQ for the iText project. I don't know the origin of this name, but I've noticed that the first letter of the codename often corresponds with the first letter of the company name.

We didn't inform our employees that we had started an M&A project. We didn't want them to behave differently. We didn't want anyone to start worrying about the future, nor did we want to create any false expectations. We introduced Artur as an outside consultant who would assist us in auditing our own business. That wasn't a lie.

A Clear Deadline

We agreed with goodpoint.Fellows that the project would have a clear deadline. A commission would be due if Marta and Artur succeeded in selling our business, but all parties knew up front that the chances of realizing a successful exit were minimal. With this in mind, we agreed upon a consulting fee so that goodpoint.Fellows wouldn't have to work for nothing.

Whenever I get to the Q&A part of a guest lecture I give at a college, the teacher often breaks the ice with the question, "If you could give one piece of advice to the students, what would it be?"

It's always difficult to choose, but this is one of my favorite answers:

> *Set a deadline for everything you do. Choose a month, three months, six months, a year, three years . . . depending on how much time you expect you'll need. Work as hard as you can to achieve your goal and don't give up before you've reached your deadline. However, if you haven't reached your goal within the deadline, drop everything and choose a new goal.*
>
> *This advice is inspired by seeing people struggle, continuing to believe in a lost cause. It's hard to give up because of all the time, money, and energy that was already spent, but sometimes, you must admit that spending even more time, money, and energy is nothing but a waste. It's important to know when to cut your losses and to stop no matter how close you think you are.*

Marta and Artur put together a long list of companies that might be interested in acquiring iText; Ingeborg and I reduced that selection to a short list of companies that would receive the teaser.

Most of the prospective buyers dropped out immediately after the first introduction. We had some interesting conversations with companies that replied in a moderately positive way. We soon got the confirmation of our initial assumption that we weren't ready for M&A yet.

In March 2013, we flew to the Bay Area to meet a final selection of American candidates. Although we weren't interested in external capital, we took the opportunity to visit some VC companies such as those on the famous Sandhill Road in Menlo Park.

Meeting with Venture Capitalists

We asked every VC the same question: "If you were to work with us, what would you do for us?"

We compiled a list of all the answers and sorted the different items by priority. The result was a selection of actions we needed to take if we wanted to professionalize our businesses and make our company "investor ready." In a way, the VCs gave us free consulting.

Not every meeting was a success. Being European, we always introduced ourselves as Bruno Lowagie and Ingeborg Willaert. At one point, a VC asked us, "What is the relationship between the two of you? How did you get to know each other? And how did you decide to start a company together?"

When we explained that we weren't only partners in business, but also a couple in our private life, the VC was angry at us. He said we had tried to trick him by using Ingeborg's maiden name. As far as he was concerned, Ingeborg wasn't Ms. Willaert, but Mrs. Lowagie. We received a lecture that it was custom for American women to take their husband's name. We explained that we disapproved of that habit, which ended the conversation.

“We don’t invest in couples,” the VC said. “If your business hurts, your marriage will suffer. We couldn’t care less about that. But if your marriage hurts, your business will suffer. That would be a huge problem for us. We’re no longer interested in you. Bye!”

Establishing a Relationship with a VC

We have the best memories of a meeting with Salil Deshpande at Bain Capital Ventures in Palo Alto. I started my pitch by saying, “I got my first computer when I was twelve; the year was 1982, and the computer was a TI-99/4A.”

I saw Ingeborg and Artur rolling their eyes. “Oh no, Bruno is going to tell his whole life story again.”

I don’t know why I deviated from the pitch we had rehearsed, but Salil immediately interrupted me: “That was my first computer too!”

While Ingeborg and Artur were twiddling their thumbs, Salil and I exchanged experiences about *Space Invaders* and programming in BASIC. We also talked about iText, of course. Like all the other VCs, Salil thought it was too early to invest, but he suggested we stay in touch and contact him for an update at regular intervals. We promised to do so, and we kept that promise. Every six months, he granted us half an hour of his time to talk about iText.

In the first part of those meetings, I explained the current state of affairs on his whiteboard. In the second part, Salil fired one question after the other at me.

"Six months ago, you told me you were going to do X; I don't hear anything about it today. Why didn't you do what you planned? I notice that you are paying little attention to Y; I'd like to see that change in the next six months."

More often than not, we left the room feeling as if we'd just had a beating. When in cross-examination mode, Salil could be stern, but once the interrogation was over, he returned to his usual, friendly self. We always flew home with renewed energy and a better understanding of what we should do to further professionalize our business.

Start-up owners are often disappointed that they don't succeed in getting funded while there are so many VCs around and while there's that much money to be invested. They read news about other companies getting millions, and they ask themselves, "What are we doing wrong? Why doesn't anyone want to invest in us?"

I remember a presentation by a certain VC during the iBoot initiative who claimed we needed funding to be successful. On one of his first slides, he showed two wedding rings with the caption, "Taking an investor on board is like getting married. Everything you do, you do together."

Although the reality show *Married at First Sight* didn't exist yet, I imagined accepting money from that VC as the equivalent of marrying someone you didn't know.

The success rate of marriages at first sight is extremely low, be it in the VC world or on a reality series. Ingeborg and I had been a couple for six years before we finally married.

If there was to be a marriage between our company and a VC, we'd like it to start with getting acquainted. My advice to start-ups is to establish a relationship with a VC long before you need any money. It's a good investment in the future for both parties.