EVERNOTE:
GROWTH OPTIONS IN JANUARY 2011

Evernote was my most successful investment in a 10-year career as a general partner at Morgenthaler Ventures. Maybe I had "gone native" as investors like to say, but to me it was the kind of company that comes around maybe once or twice in a decade in Silicon Valley. Was it time for me to double down and join the company to help make an extraordinarily ambitious vision a reality?

> —Ken Gullicksen, Chief Operating Officer, Evernote

Stepan Pachikov, a well-known Russian technologist and entrepreneur, founded EverNote in 2004. Previously, Pachikov cofounded Paragraph International, a company that developed the handwriting recognition engine for the Apple Newton. In 1997, Pachikov sold his company to Silicon Graphics, moved to Silicon Valley with his team, and started focusing on the idea of using digital technologies to extend people's brains. One result of this effort was EverNote, a personal computer software application that allowed users to capture, recognize, and search through text on their hard disks. EverNote captured handwritten materials, text, and images and converted them to digital format using handwriting recognition technology. Its revenue model was based on technology licensing to companies that would integrate EverNote core technologies into their broader offerings.

Phil Libin, a successful Boston serial entrepreneur, had a similar vision. In early 2007, Libin put together a team and a business plan for a venture called Ribbon that would allow users to capture and retrieve information in a cloud-based memory enhancement product that would be sold directly to consumers (one of the concepts considered was a wearable device that would capture video and audio automatically, as people move around). As he was studying the landscape, Libin discovered EverNote and in spring 2007, he flew to California to meet Pachikov. When Libin saw a demo of EverNote, he decided to join forces with Pachikov. Pachikov stepped back to a board role while Libin became CEO and brought a number of key executives with him. Libin's first mission was to drop the technology licensing business and several peripheral

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products to squarely focus on his consumer product vision.   In a further nod to simplification, the company also dropped the upper case N from its name and became simply "Evernote."

As it was developing its product, the company also focused on branding and created its now famous elephant logo. Based on EverNote's core technology, Evernote created a cloud-based "external brain"[1] service that enabled people to "capture anything, access anywhere and find things fast."[2] The Evernote product launched in a closed beta release in March 2008, followed by an open beta in June 2008. Evernote was one of the early iPhone applications launched in July 2008 when Apple first opened iPhone to third party developers, and quickly expanded to all major mobile platforms.

Product

Libin described the Evernote product as "antisocial," focusing on personal productivity and privacy.[3]   Evernote was inherently multi-platform, supporting smartphones (iOS, Android, BlackBerry, Windows, and Palm), tablets (iPad–also on the iOS platform), and desktops (Windows and Mac). In addition, Evernote could be accessed from most browsers. The core product created notes comprising text, documents, web clips, images, and audio, which were synchronized across the different platforms. Input could be typed from a keyboard, captured by a camera or scanner, typed or handwritten on a touchscreen tablet, or recorded as voice notes.

Making it easy to find data was the other half of Evernote's core product. Search was always at the center of the Evernote user experience. Since people stored all of their data in their accounts, presenting visual snippets of notes that matched a keyword was usually the quickest way to find anything. Evernote even indexed handwritten text within scanned documents or photographs in its search engine. Since each user had his/her own preferred way of organizing things, Evernote used Notebooks to organize multiple notes in a flexible folder-like structure. Notes could be tagged with searchable keywords as well as location information and other metadata. Some data were automatically generated using location information or time stamps, and some were entered by the user. Users thus had a dashboard they could use to create, organize, and view all of their Notebooks. The dashboard was available across multiple clients–desktop, mobile, or a browser. The client software accessed the Evernote service using an Application Program Interface (API). Evernote developed extensions of the core product that used the same API to access the user's Notebooks and to add new sources of input.

Evernote developed a popular browser plugin, Web Clipper, which allowed users to clip web pages and send them as notes into their Evernote Notebooks. Web Clipper copied the page or section of the page highlighted by the user, retaining its original HTML coding and allowing the user to tag and organize it in his/her Evernote Notebooks.

In spite of its personal productivity focus, Evernote had a few sharing features. It allowed notes to be shared for viewing and editing by other users, and it also had Twitter and Facebook integrations that enabled users to post content directly from Evernote.

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[1] "Evernote Turns Five Years Old," Evernote Blog, June 26, 2013.

[2] See, e.g., https://www.evernote.com/Login.action?targetUrl=%2FHome.action.

[3] J.P. Mangalindan, "Can Evernote's Software Make You Smarter?" *Fortune*, October 12, 2011.

API and The Trunk

Evernote was designed in a modular fashion so that new client software and features could undergo independent development as Evernote applications, which fed into the Evernote service via the Evernote API. The API was published in early 2009, enabling outside developers to create applications that would access the Evernote service in exactly the same way that Evernote applications did. By July 2010, Evernote launched an application showcase, The Trunk, with more than 2,000 developers building hardware and software applications that used the API. The Trunk included applications such as voice transcription software, note, and PDF (Portable Document Format) annotation software, Evernote integration with SAP software, and client software for platforms such as Linux that were not supported by Evernote itself. The API also supported device integration, e.g., a scanner or a LiveScribe pen, enabling users to handwrite notes that were sent directly to their Notebooks.

System Architecture

Evernote used a dedicated server farm in its data center in Santa Clara, California. All of the hardware was owned by Evernote and managed directly by its employees. Since the product was designed as a personal memory service with minimal cross-user interactions, the data could be partitioned into separate user groups. Each of these horizontal partitions or shards handled all the data and traffic for about 100,000 registered users. When a user accessed Evernote, s/he was assigned a virtual machine that performed all the necessary searches, processing, and updates. The requirement for keeping different users data segregated was so strict that there was even a dedicated search engine for each and every user within their virtual machine. Since each user's operations ran entirely within that user's shard, independently of all other shards, the Evernote architecture was highly scalable. All user data were replicated multiple times, so if a server failed, processing could continue on a secondary server without a noticeable service interruption. In addition, all data were backed up nightly in a second remote datacenter.

Revenue Model

From its early days, Evernote followed the "freemium" model. The free version was comprehensive and allowed users to upload up to 60 megabytes of data each month. The premium version cost $5 a month or $45 annually (most premium users opted for the latter) and allowed users to upload up to a gigabyte of data per month.   In addition to the larger upload limit, premium accounts were offered additional features and capabilities including support for larger note sizes, enhanced customer service, additional file formats, faster word recognition, translation features, and enhanced search capabilities. Evernote's average monthly variable cost was 6 cents per active user.

Privacy and Security

Evernote had access to rich user data that it could have monetized through advertising. However, Evernote used the data solely to improve the user experience. Even then, Evernote was strict in only using an individual's own data to improve his/her experience without accessing even aggregated data from other users. Evernote followed what it called its "Three Laws of Data Protection: Your data is yours, your data is protected, and your data is portable." The company believed these rules brought it closer to fulfilling its goal of being "the permanent, trusted, and ubiquitous" place for all the world's memories. Thus, Evernote did not claim any rights to user