WHY "EARLY EXITS" ARE YOUR GOLDEN OPPORTUNITY FOR MILLIONS AND MORE

The Rules Have Changed

EXITS & EXIT STRATEGIES

- Why every business owner should have an Exit Strategy right from the start (right now)
  - Even if you're not focused on 'exiting' your business now
- How the "right" Exit Strategy maximizes returns
  - Both immediately & at the exit event
- How the rules have changed in your favor
- Why 'Early' exits are the best path to big returns today
- How to maximize your returns with an Early Exit

WHO AM I?

- Entrepreneur – 41 years
- Sold my 1st business at age 15 for $200K
- Sold my 2nd business at age 19 for $750k in equity
- Entered the Silicon Valley Tech VC world as an ER
  - Raised $500M+ in funding for 9 different startups (20 years)
- “Exited” 6 tech businesses; avg. valuation $100M+
- Led M&A teams for 9 additional tech acquisitions
- Retirement #1 at 46 years

WHO AM I?

- Founded Zero Limits Ventures
  - Investor, advisor & coach to entrepreneurs, executives, business leadership teams and other investors
  - Funding and funding strategies (helped raise $250M+)
  - Specialize in creating rapid revenue growth and highly-lucrative strategic exit acquisitions (20+ acquisitions)
- Founded ThePerfectBizFinder / ThePerfectBizBuilder
  - “How to” build a business that is perfectly suited for you
  - Entrepreneurial skills development for wanna-be & early stage

PRINCIPLE EXITS

- Liquidation
- Sell it to employees
- Acquisition (M&A)
- Keep it in the family
- Initial Public Offering (IPO)

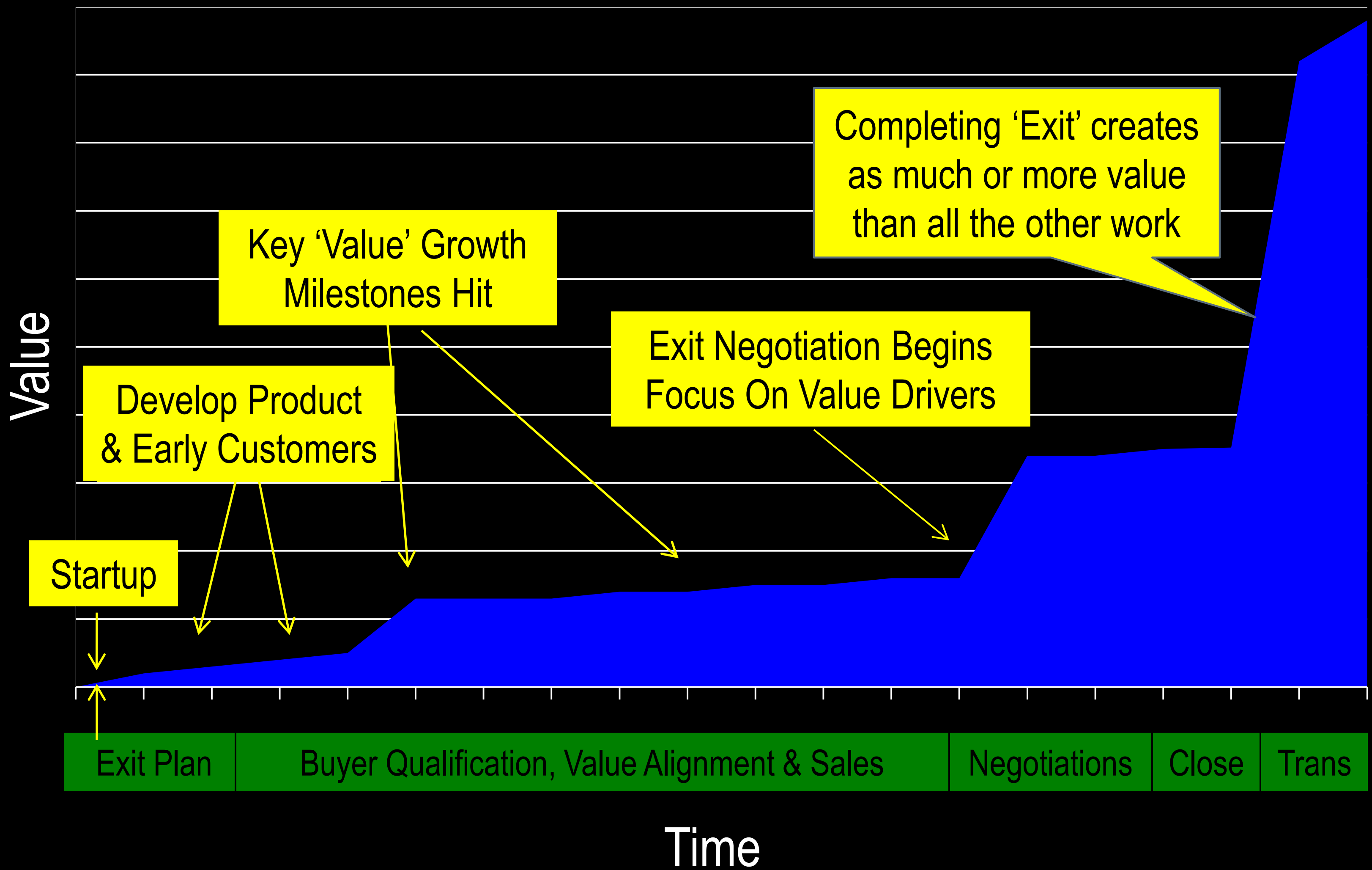
BUT

- Liquidation – selling off the assets and closing down
- There is effectively no IPO market today
- So M&A is really the most viable exit strategy for most

5 REASONS WHY EVERY BUSINESS NEEDS AN EXIT STRATEGY DAY 1

- Pre-requisite for growth funding (if necessary)
- Establishes key **Value Drivers** for your business
  - Focuses you on what makes your business worth more
- Forces highest-return decision priorities on all fronts
  - Product development
  - Market selection
  - Business model
  - Sales & marketing strategies
  - Mgmnt / employee alignment
  - Recruiting
  - Compensation & vesting
  - Etc.
- 50% to 100% larger $ return with the right Exit Strategy
- Creates clarity about what you want from your business

BUILDING VALUE WITH AN EXIT STRATEGY



THE RULES HAVE CHANGED
KEY AGENTS OF CHANGE

- New product innovation is MUCH faster (months vs years)
- Internet and mobile platforms have leveled the playing field
- Large to medium sized companies have LOTS of cash
  - Enormous of shareholder pressure to invest or distribute
  - No good at startups $0 to $20M / great from $20M to $200M+
  - Growth through M&A provides superior value growth to R&D
- PE firms have access to lots of leverage-able capital
  - Seeking positive cash-flow acquisitions to build portfolio value
- Large & growing multi-generational population of entrepreneurs
- High demand for ‘early’ (even pre-revenue) acquisitions

CREATES THE 'NEW' BIG OPPORTUNITY

- Large numbers of smaller <u>EARLY</u> exits
    - Most Exits Are Under $15-$30 million
    - Many are pre-revenue acquisitions
- Acquiring companies want even <u>earlier</u> exits

"90% plus of our transactions are small transactions. … less than 20 people, less than $20 million and that is truly the sweet spot" "we do prefer companies that are pre-revenue" - Charles Rim one of the top Google M&A guys

EXAMPLES

- Adscape sold to Google for $23 million (now Adsense)
- Foodspotting sold to Opentable for $10M (at 2 yrs old)
- Flickr sold to Yahoo for $30 million (at 1.5 yrs old)
- Blogger sold to Google for $20 million
- Picasa sold Google for $5 million
- LiveJournal sold to Ask Jeeves for $25 million
- Jumpcut sold to Yahoo for $15 million

“EARLY” NOT JUST FOR SMALLER DEALS

- Club Penguin sold for $350 million at 2 years old
- YouTube sold for $1.6 billion at 2 years old
- Playfish sold for $275 million at 2 years old
- Mint sold for $170 million at 3 years old
- AdMob sold for $750 million at 3.5 years old

THE RULES HAVE CHANGED
WHAT USED TO "WORK"

- Founders have an idea and start a company
- Friends and family and/or other early seed capital
- Product development & innovation relatively slow (2 to 5 yr)
- Go to market / early adopter & customer acquisition
- More funding? (VC dilution + other kinds of stress)
- 2 to 5 consecutive quarters of growth and/or profitability
- Avg. exit time to return on effort & investment 5 -10 years +
- Low success probability (stuff happens: neg. value drivers)
- Relatively low Investment Rate of Return (IRR)

THE RULES HAVE CHANGED
WHAT USED TO "WORK"

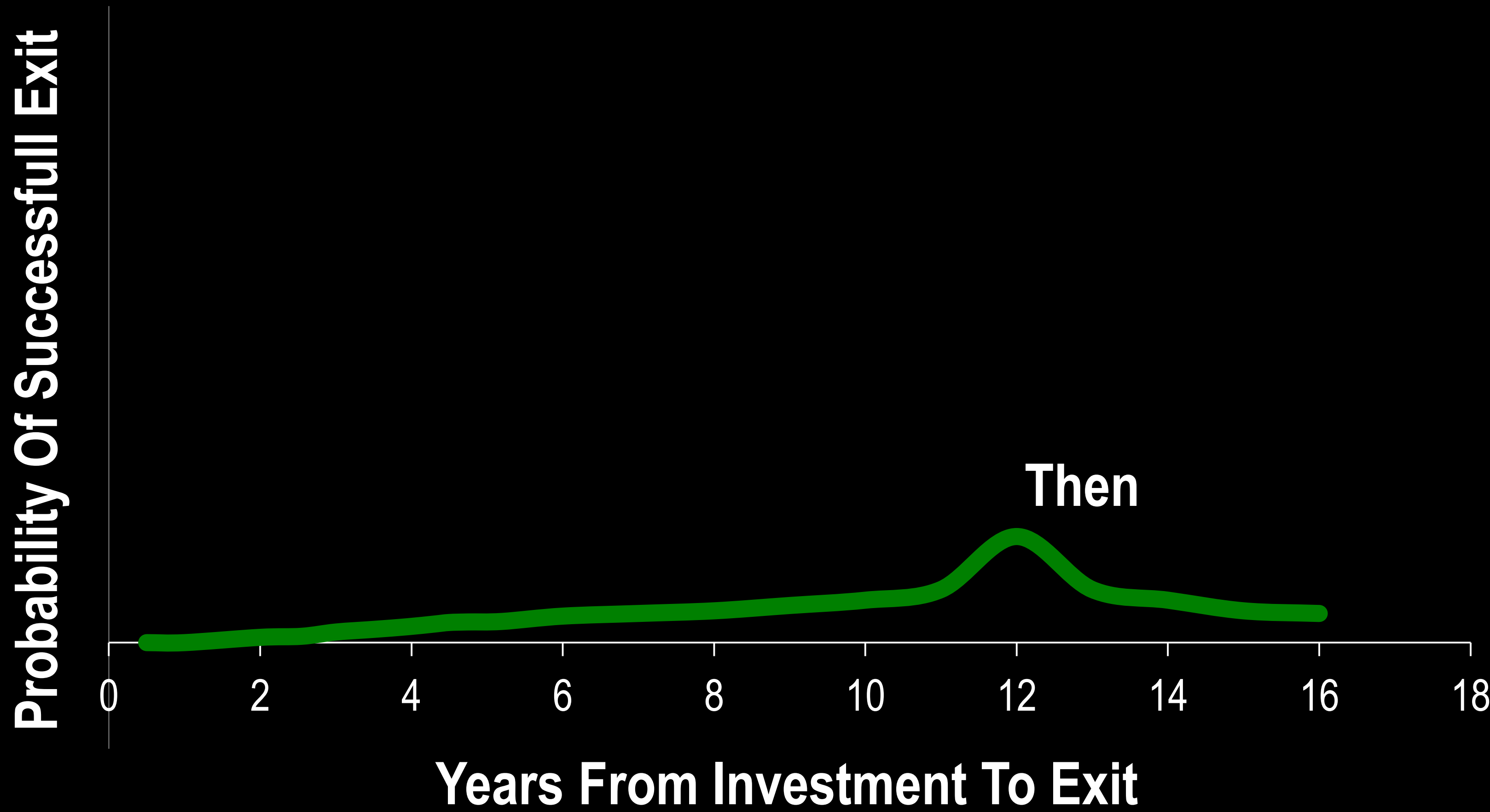


Image Source: Basil Peters

THE RULES HAVE CHANGED
WHAT'S WORKING NOW

- FAST innovation (2 - 18 months)
- May or may not need funding at all
- Go to market with early adopters
- Medium to large companies buy the business <u>early</u>
- The buyers grow the business
- Exit time to return on effort & investment 1.5 to 5 years
- High probability of success (few negative value drivers)
- Relatively high Investment Rate of Return
- Entrepreneur free to do it again (or not)

THE RULES HAVE CHANGED
EARLY = HIGH PROBABILITY & HIGH RETURN

Image Source: Basil Peters

PROBLEM: MOST ENTREPRENEURS WAIT TOO LONG TO START THE EXIT

- 2 common misunderstandings about M&A exits
  - You have to grow the company to be profitable
  - Grow it to be larger than $X in revenue or #y customers
- Results in “Riding it over the top”
  - Introduces negative value drivers (‘Stuff’ happens)
  - Increases perceived risk
  - High value-loss

THE MOST HEARTBREAKING MISTAKE

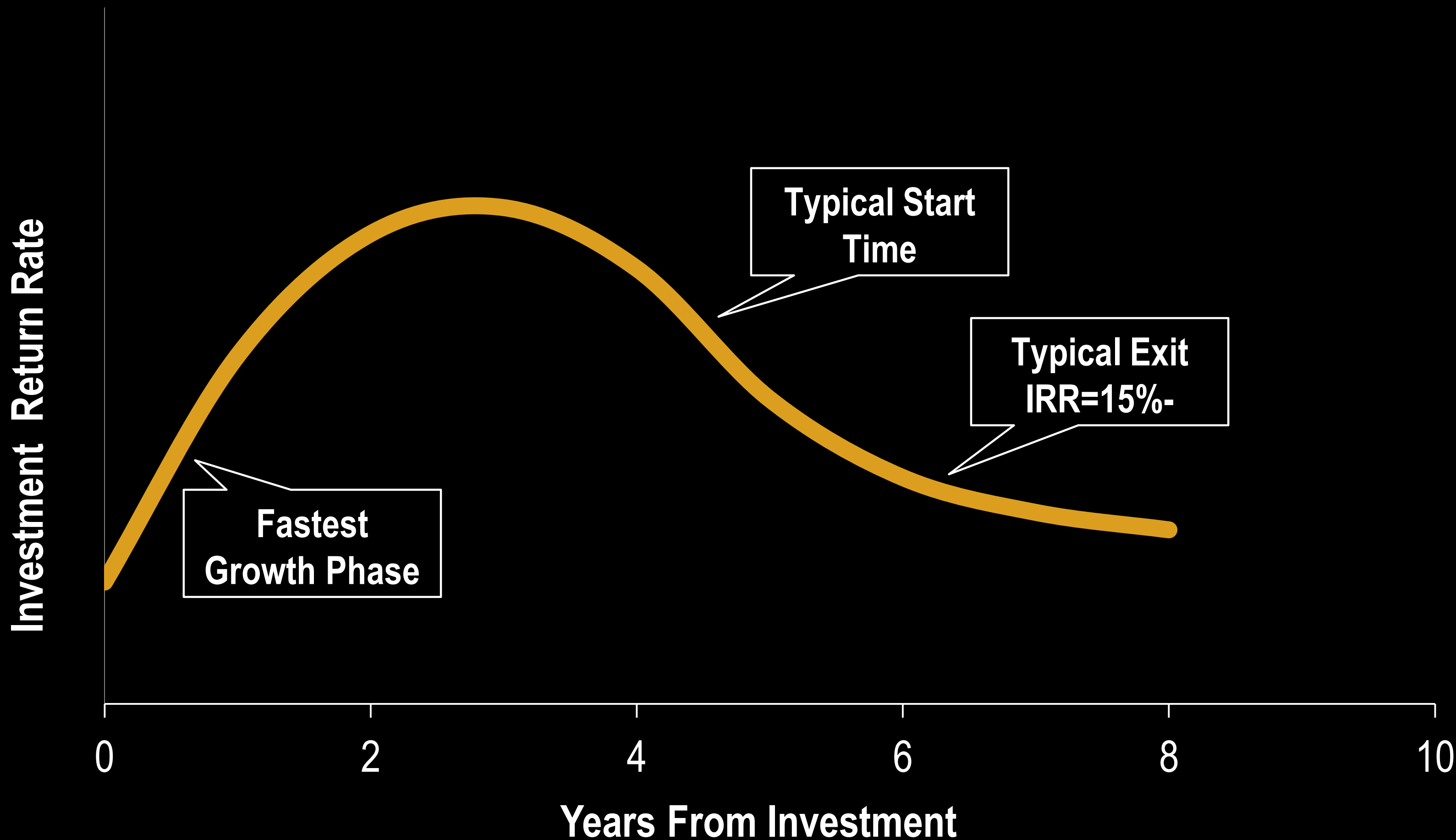


Image Source: Basil Peters

WHAT IS THE OPTIMUM TIME

- The <u>real</u> threshold is a '***Proven Business Model***'
  - Consistent
  - Predictable
  - Repeatable
  - Automation & Continuity a premium
- Principle 'proof' points directly related to 'value drivers'
- Begin Exit Process early in the fast growth phase
- Time exit for maximum return rate

WHAT IS THE OPTIMUM TIME

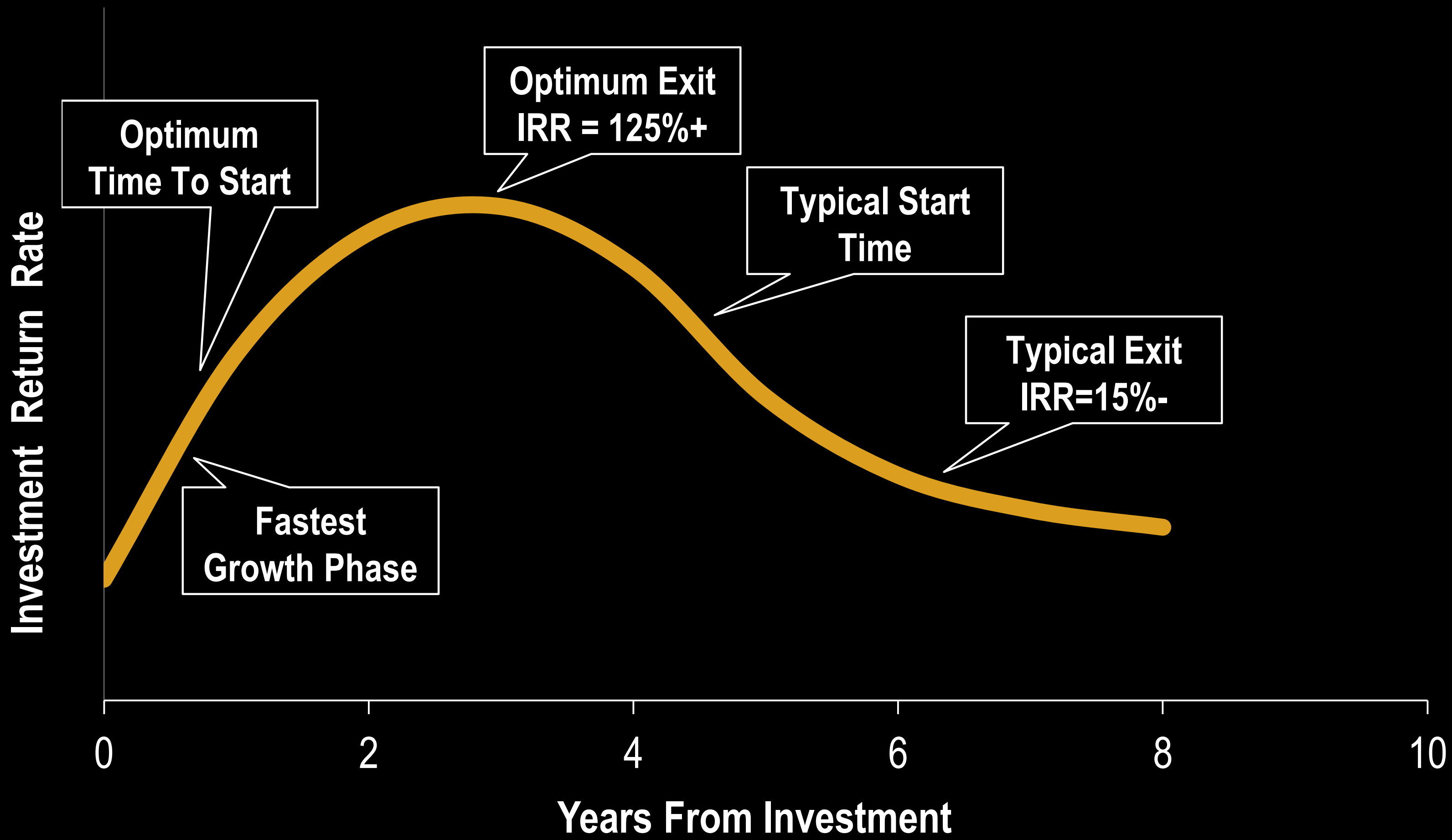


Image Source: Basil Peters

WHY EXIT "EARLY"?
RETURNS BASED ON FUTURE VS HISTORY

- The valuation of any company is an estimate of the net present value of all expected future profits, discounted for risk, inflation and other (industry specific) factors.
- The key difference between how mature companies and fast growing startups are valued lies in how much emphasis is placed on <u>expectations of future growth</u> vs <u>historic performance</u>

"*Evernote is not valued at $1B because the business is currently 'worth' $1B, but rather because there is a good chance it will be worth $100B a few years into the future*"

(Inc. – Nov 2012)

WHY EXIT "EARLY" – OTHER ADVANTAGES

- Inherent market inefficiency - little competition
- Reduced risk of *negative* value drivers ("stuff" happens)
- Greater certainty of a higher value payout for founders
- More rapid payout with shorter (or no) earn-out or lock-out period
- Founders free to move on to the next project
- Little or no downside risk - no carry over

SUCCESSFUL EXIT STRATEGY BASICS

- Companies are sold not bought
- Not just something that might happen in the future
- Part of an active (parallel) sales process
- The exit / sales price is tied to specific **Value Drivers**
- **Value Drivers** are specific to each prospective buyer
  - Technology or IP
  - Customer / Ref base
  - Revenue / Profitability
  - Subscriptions / Memberships
  - Smart employees
  - New market opportunities
  - Stats (online)
  - Others unique to the buyer

HOW TO MAXIMIZE EXIT PRICE

- Build an Exit Team
  - An Exit is a complex time consuming process
  - Keep CEO/Founders focused on primary business objectives
- Create ‘alignment’ within the company around the plan
  - Pick your number – know where you’re starting from (KPI)
  - Get clear buy-in of officers, directors, boards & employees
- Organize your business for the Exit
  - Take yourself out of the center
  - Empower a team to execute the business plan
  - Implement a high-return incentive compensation plan

HOW TO MAXIMIZE EXIT PRICE

- Implement a scalable business model
  - Maximize predictability and automation
  - Systemize & productize where-ever possible
  - Emphasis on repeatable, predictable revenue (consumables, continuity…)
- Engage multiple qualified buyers to maximize price
  - ID & Contact 40 to 100 possibilities
  - Start with 15 to 20 suspects
  - Qualify to 5 to 8 prospects (i.d. value drivers)
  - Advance 3+ to negotiations & bidding

HOW TO MAXIMIZE EXIT PRICE

- Focus sale on strategic **Value Drivers** for each buyer
  - Creates the largest fundamental increase in selling price
- Employ excellent sales and negotiating skills
  - Complex, multiple high-level decision makers, relationship selling takes dedicated focus and time
  - Engage an expert
- Know & Hit your primary business objectives (KPIs) !
  - NOT doing this is #1 reason businesses become unsellable
  - Founders should focus here through majority of the process

HOW TO MAXIMIZE EXIT PRICE

- Prepare & debrief 10-15 reference-able customers
- Assemble due-diligence material - online “Exit Library”
- Structural value increases within your company (eg.)
  - Clean / audited financials
  - Successor clauses in contracts

  Restructure Debt

  etc. etc.
- Disclose any potential ‘hairy’ issues or problems
- Minimize Perceived Risk = Maximize Selling Price

CONCLUSIONS
EXITS ARE THE BEST PART OF BUSINESS

- They're the most fun and it's when you really get paid for all of our hard work and risk (party on 5x, 20x, 100x earnings or more)
- A good Exit Strategy is the forcing function that speeds big business results *whether you actually sell or not*
- Even though the Exit comes last, the Exit Strategy should come FIRST and should be part of every priority decision
- Least understood part of successful entrepreneurship
- Get help to win big

OTHER CONSIDERATIONS (NOT COVERED)

- Details of the 3 phases of the Exit Process
  - Preparations before you start selling
  - Managing the sales process
  - Managing the bidding & negotiations
- What typically goes wrong
  - What causes a business to become unsellable
  - Psychological traps that will kill deal fast
- Why sellers need help with this process
  - Why the CEO should not lead
- Step by step to a successful exit

QUESTIONS

EXCLUSIVELY MAVERICK

- Complimentary copy of book & step-by step workbook

(currently untitled)

"The Comprehensive Pocket Guide
To A Winning Exit Strategy That Pays"

- Free 1 Hour Bus. Accelerator & Exit Strategy Assessment

http://www.zerolimitsventures.com/mav-exits

steve@zerolimitsventures.com

408 201-2272 (cell)

Zerolimitschampion (skype)

MAVERICK END