HOW TO GROW YOUR BUSINESS FOR MAXIMUM RETURNS WITH A STRATEGIC EXIT PLAN

The Rules Have Changed

SOME REVEALING QUESTIONS

- “What’s your exit strategy?”
  - “Don’t have one, really”
  - “We’re going to grow it and someone will buy us”
  - These are not strategies
- “What drives the value of your business?”
  - “Revenue? Profits? Customers?”
  - “I don’t really know”
- How disappointing would it be for you
  - To invest years of your life building a business for modest, little or no real return

PROBLEMS

- Can't make 'value-based' decisions for growth
  - Markets Products Partners Employees
- Can't structure the business for maximum returns
- Can't create meaningful incentives for owners & employees
- Don't know how, when or where to position for exit
- No mechanism for controlling/maximizing $$ you get
- Never realize the success results really possible

EXITS & EXIT STRATEGIES

- What an Exit Strategy is (and what it isn't)
- Why every business owner needs an Exit Strategy right from the start (right now)
- How starting with the "Right" Exit Strategy generates 100% to 400% larger returns both short and longer term
- How the rules have changed and how you can realize returns you've never imagined possible as a result
- How to capitalize on the best path to big returns today
- How to maximize financial returns for your business, yourself and your employees

ZERO LIMITS VENTURES – STEVE LITTLE

- Entrepreneur – 41 years
- Sold 1st business age 15 for $200K, 2nd age 19 for $750k
- Raised $700M+ for 9 different Silicon Valley startups
- Exited 5 tech businesses; avg. $100M+
- Led M&A teams for 9 additional tech acquisitions
- Coached hundreds of entrepreneurs to success
- Creative Sales & Marketing Visionary
- Founding Partner, Zero Limits Ventures 2010
- Specialize in accelerating growth & creating high-value exits

WHAT IS ZERO LIMITS VENTURES?

- Advisory consulting venture investment firm specializing in:
  - Funding and funding strategies
  - Growth reinvigoration strategies to increase valuation
  - High-return exit strategies (sell-side acquisition)
- Access to $5B+ in debt & equity growth capital partnerships serving virtually any industry
- Relationships Top-Tier Venture Capital, Investment Banking, Private Equity, Law and Accounting Firms

WHAT IS AN EXIT?

- An “EXIT” is an event that alters control of the company for example:
  - Liquidation
  - Legacy Transfer
  - Employee Purchase
  - Management Buyout
  - Merger & Acquisition
  - IPO
- There is a very limited but reemerging IPO market today
- M&A is the most viable & common exit event for most
- Management buyout / restructuring are increasingly popular

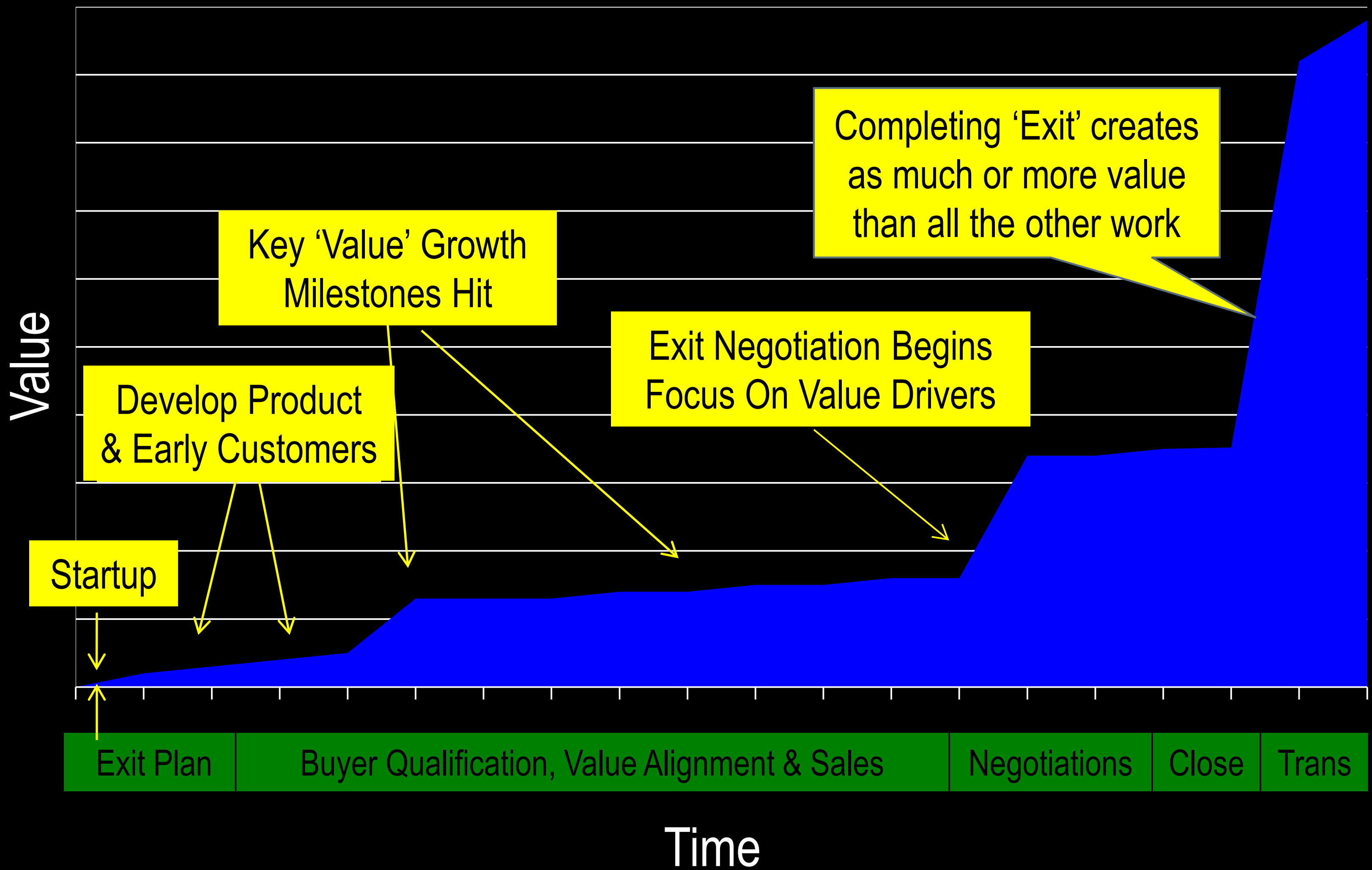
WHAT'S AN EXIT STRATEGY?

- An intentional and carefully planned process of:
  - Identifying, characterizing & qualifying potential suitors
  - Aligning the company properly in the right high-value markets to achieve maximum valuation
  - Leveraging specific high-return value drivers or each prospective "buyer"
  - Preparing the company internally and externally to garner the maximum value growth or price at acquisition
- Not something that just happens some day in the future

5 TOP REASONS WHY EVERY BUSINESS NEEDS A REAL EXIT STRATEGY ON DAY 1

- Establishes key **Value Drivers** for your business
  - Focuses your efforts on what makes your business worth most
  - Positions your business optimally in high-return markets
- Forces highest-return decision priorities on all areas
  - Product development
  - Market selection
  - Business model
  - Sales & marketing strategies
  - Mgmnt / employee alignment
  - Recruiting
  - Compensation & vesting
  - Focused use of proceeds / profits
- 100% to 400% larger $ return with the right Exit Strategy
- Defines company / owner mission statement
- Pre-requisite for growth funding (if necessary)

BUILDING VALUE WITH THE RIGHT EXIT STRATEGY



STRATEGIC EXIT BASICS

- Companies are “sold” not “bought”
- An Exit Strategy builds a better business, even if you’re not planning to ‘exit’
- 4 typical reasons big companies buy small ones
  - To sell your products to their customers (more product)
  - To sell their products to your customers (more markets)
  - To leverage something of yours to make theirs better
  - To get smart employees who make them more competitive
- Each prospective buyer “values” your company differently

STRATEGIC EXIT BASICS
3 FACTORS EFFECTING VALUATION / PRICE

- Specific **Value Drivers** for <u>each</u> <u>buyer</u>
    - Technology or IP — Customer / Ref base
    - Revenue / Profitability — Business model
    - People / Employees — Market opportunities
    - Strategic Partners — Others unique to the buyer
- Advantaged positioning in a high-valuation market
- Paced to capture the key windows of opportunity (2)
    - For the industry
    - For the buyer

TYPICAL VS STRATEGIC EXITS

Typical Exit

- Start and fund the business
- Grow it organically (trial & error)
- Mature it to $n in rev / profit
- Decide to sell the business
- Solicit buyers
- Prepare due-diligence
- Externally determined valuation

Results

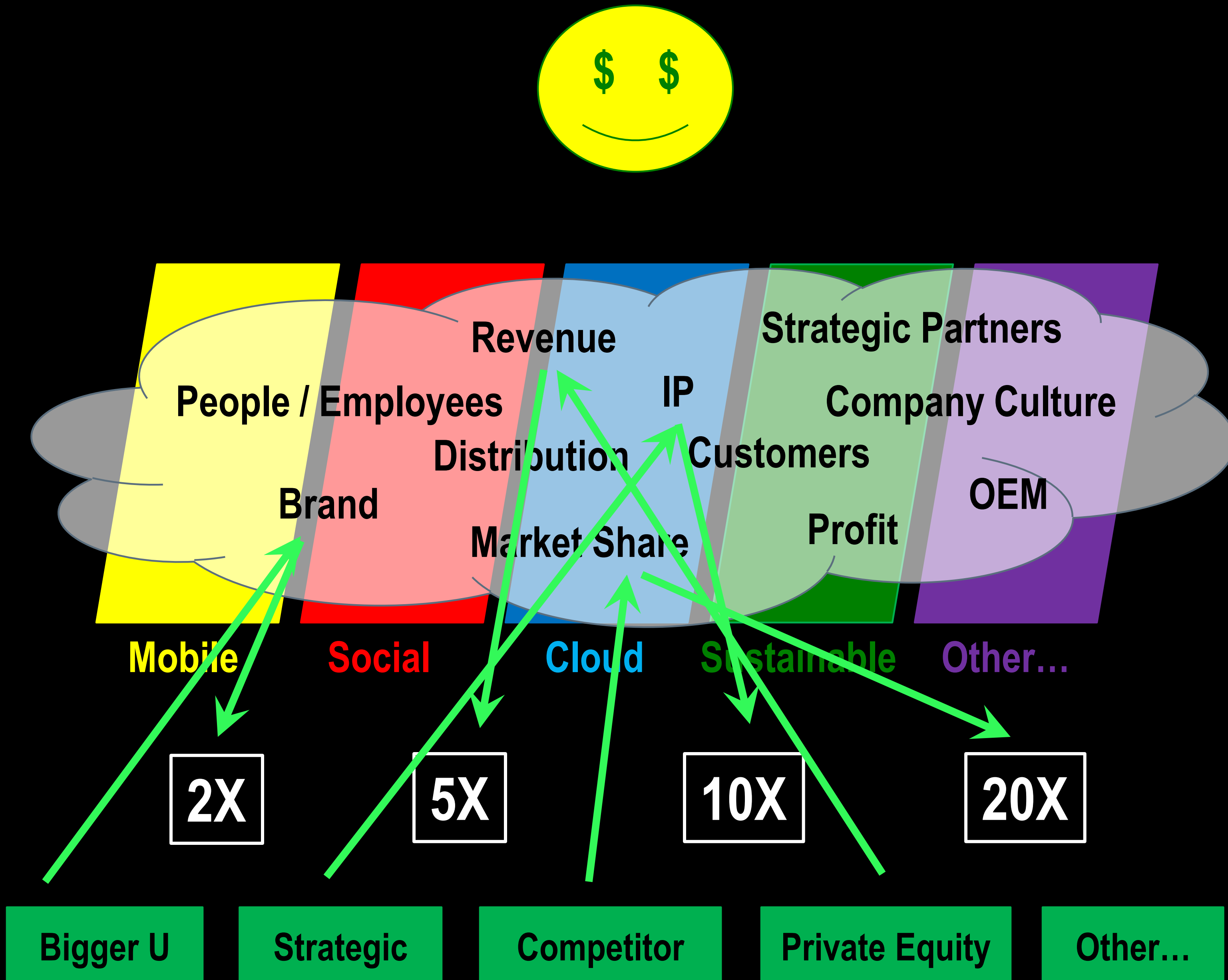
- Low probability of success
- Limited rate of return
- High dilution (circular)
- Lots of "brain damage"

Strategic Exit

- Begin with the exit strategy
- Know prospective buyers
- Paced with industry window
- Aligned market & value drivers
- Aligned go-to-market Bus. Model
- Aligned funding sources & terms
- Designed for maximize valuation

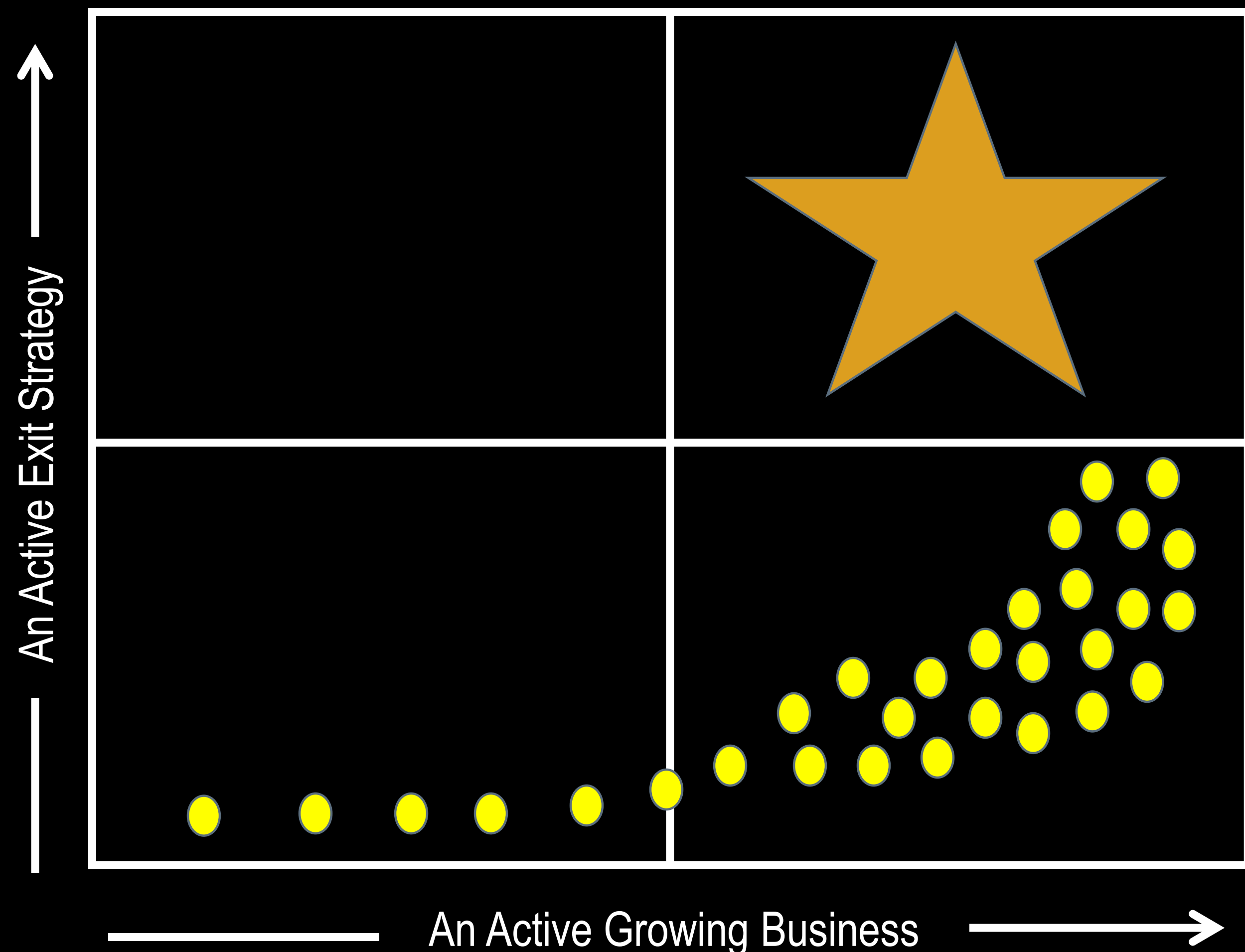
Results

- High probability of success
- Maximum rate of return
- Low dilution
- Low friction success



$ $
Revenue
Strategic Partners
People / Employees
IP
Company Culture
Distribution
Customers
Brand
OEM
Market Share
Profit
Mobile
Social
Cloud
Sustainable
Other…
2X
5X
10X
20X
Bigger U
Strategic
Competitor
Private Equity
Other…

WHEN?
WHERE IS THE GREATEST RATE OF RETURN?



THE RULES HAVE CHANGED
5 AGENTS OF CHANGE

- Product innovation cycles are MUCH shorter (6-18 mo VS 2-5 yrs)
- Internet, mobile, social media, cloud, SAAS, wiki based and other platforms have leveled the playing field for small VS big businesses
- Large to medium sized companies have LOTS of cash and are under a lot of shareholder pressure to invest it
- PE firms have access to lots of leverage-able capital and are gobbling up business in every industry for the cash flow
- Large & growing multi-generational population of entrepreneurs emerging with loads of new innovation
- So the climate for acquisition could not be better (earlier is better)

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 innovation relatively slow (2 to 5 yr)
- Go to market & customer acquisition (2 to 5 yr)
- May need more funding (VC dilution + other issues)
- 2 to 5 consecutive quarters of growth / profit (2 to 5 yr)
- Average time to return on effort & investment 10 -15 yrs

THE RULES HAVE CHANGED
WHAT USED TO "WORK"

Results:

Average time to return on effort & investment 10 -15 yrs

Low success probability due to negative value drivers

Valuation constrained by historic performance

High dilution = low investment rate of return to owner

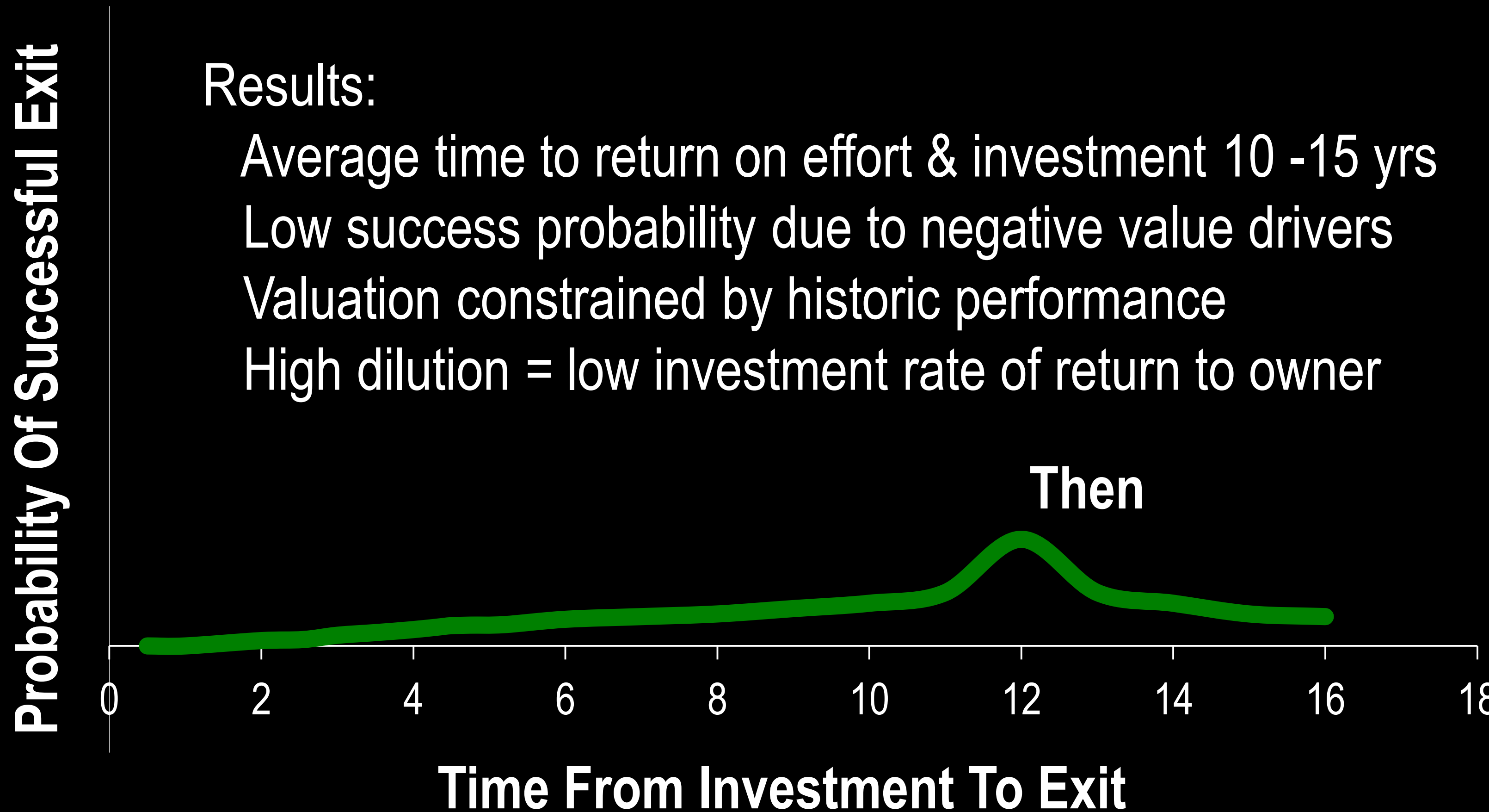
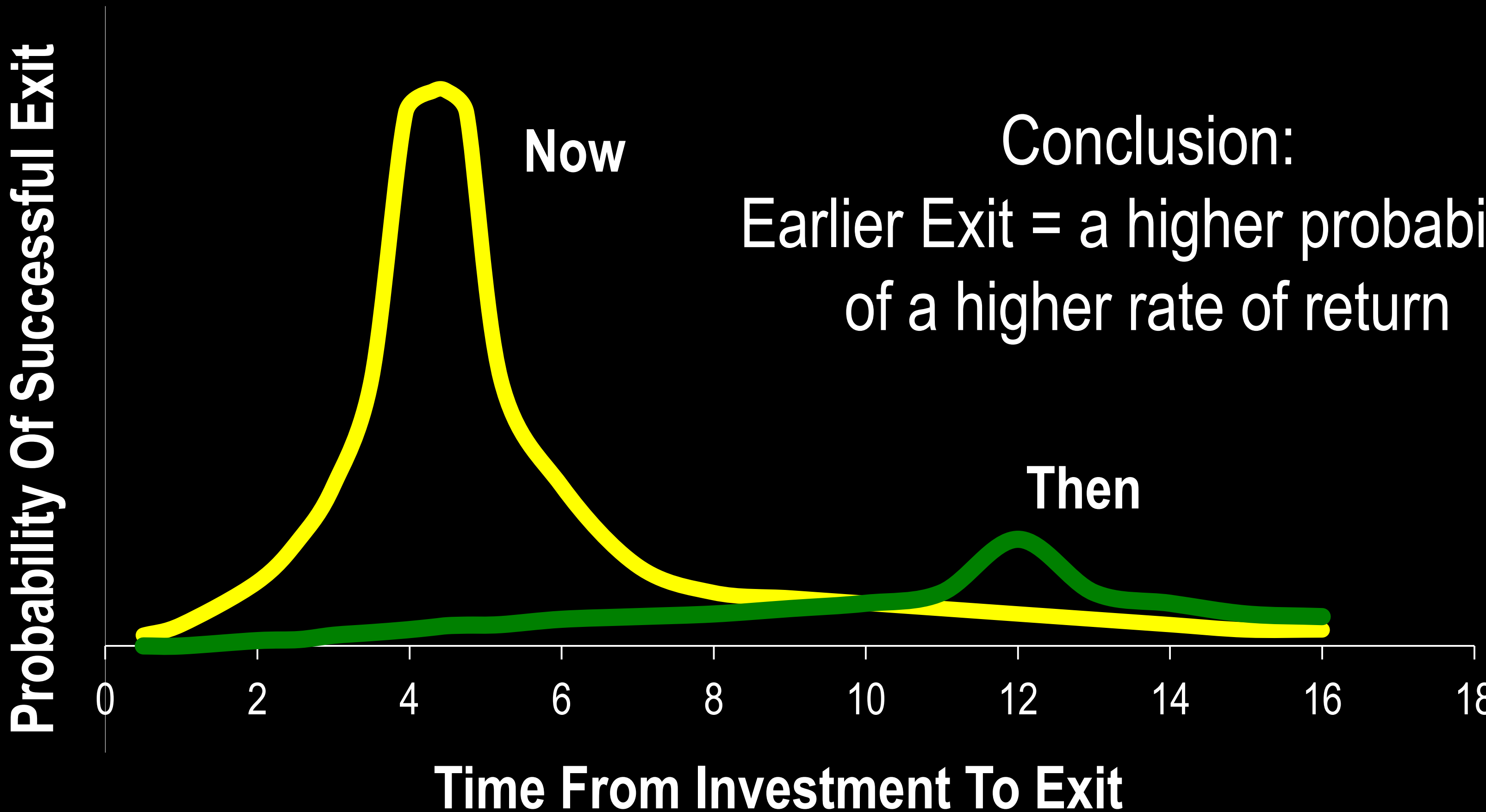


Image Source: Basil Peters

THE RULES HAVE CHANGED
WHAT "WORKS" NOW

- FAST innovation (2 - 18 months)
- May or may not need funding at all (NRE)
- Go to market and proof established with early adopters
- Medium to large companies buy the business
- The buyer grows the business generating high returns
- Exit time to return on effort & investment 1.5 to 5 years
- Low (or no) dilution for founders / owners

THE RULES HAVE CHANGED
WHAT "WORKS" NOW



Conclusion:
Earlier Exit = a higher probability of a higher rate of return

Image Source: Basil Peters

THE "NEW" BIG OPPORTUNITY

- Large number of smaller, high-return EARLIER exits
- In the past 54 months most acquistions $15-$30 million
- Most occurred BEFORE the company was 3 yrs old
- Many were PRE revenue:

"90% or more of our transactions are small transactions…less than 20 people, less than $20 million is truly the sweet spot…"

"we prefer companies that are pre-revenue"

(Charles Rim one of the top Google M&A guys)

THE ‘NEW’ BIG OPPORTUNITY EXAMPLES

- Adscape sold to Google for $23 million (2.5 years old)
- 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 (2 years old)
- Picasa sold Google for $5 million
- LiveJournal sold to Ask Jeeves for $25 million
- Jumpcut sold to Yahoo for $15 million

THE "NEW" BIG OPPORTUNITY
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

PROBLEM: MOST ENTREPRENEURS WAIT TOO LONG TO START THE EXIT

"Most entrepreneurs don't think about selling their businesses until it's too late…

I got lucky, for one and only one reason: I built my company to sell." Norm Brodsky – Inc. June 2013

Norm Brodsky

Build to Sell. Even If You Don't Plan to Sell

Most entrepreneurs don't think about selling their businesses until it's too late

WE ALL KNOW THE saying that it's better to be lucky than smart. I needed a lot more than luck to build the records-storage business that I sold in 2007 for $110 million, but I've recently realized I was luckier than I knew in deciding to sell when I did. Therein lies a lesson in the importance of building a business so that it can be sold whenever the timing seems right.

Understand, I built CitiStorage with an eye toward eventually selling it. I think all entrepreneurs should do that, regardless of their exit strategies. When you build to sell, you learn to look at your business the way a potential buyer would. You become more aware of the company's weaknesses, and you have an opportunity to eliminate them and strengthen the business, thereby creating additional value. Building to sell also leads you to adopt best practices. You'll have a better business as a result—even if your intention is to hold on to it indefinitely, rather than sell it.

A MOST HEARTBREAKING MISTAKE

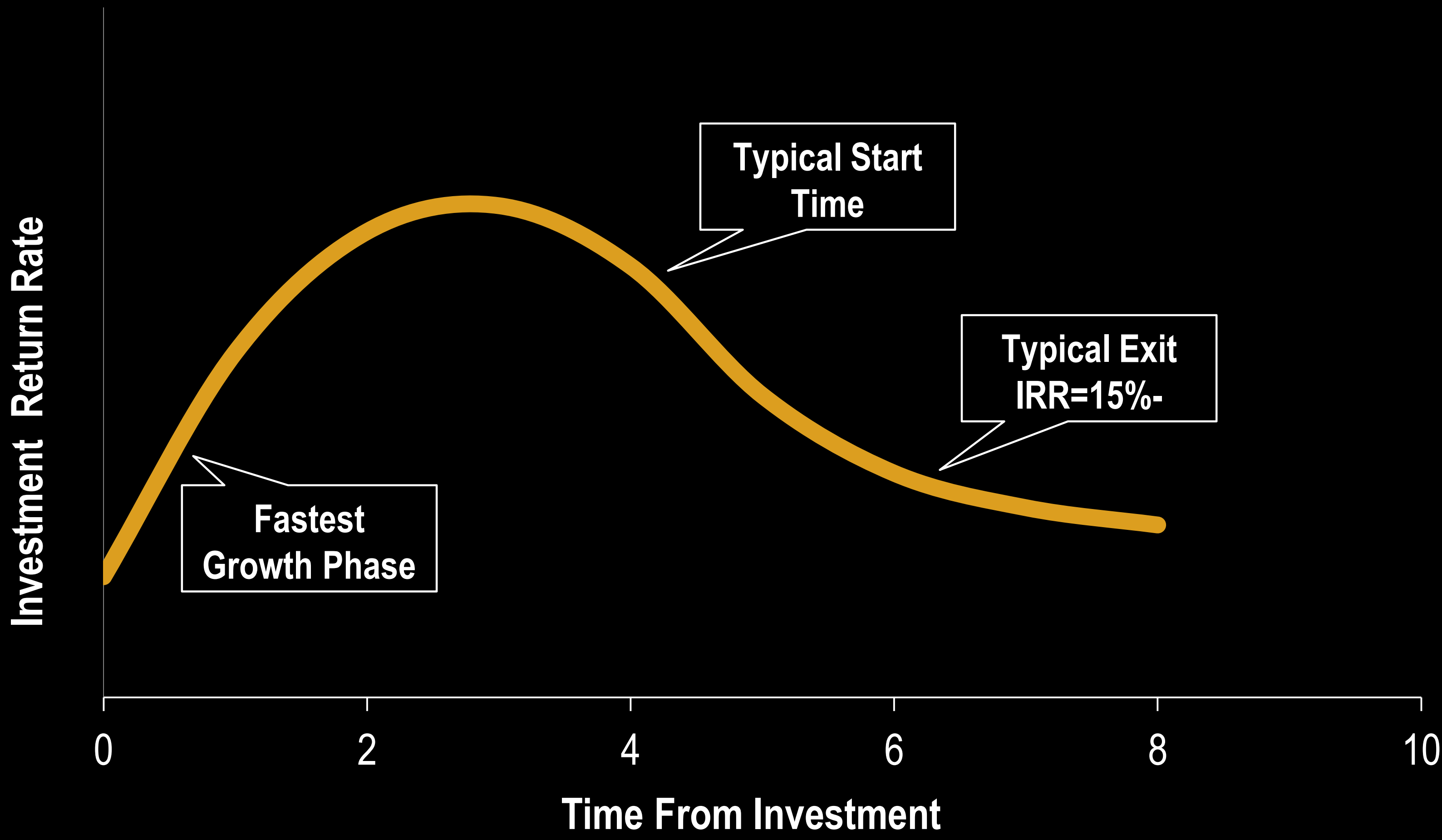


Image Source: Basil Peters

WHAT IS THE OPTIMUM TIME?

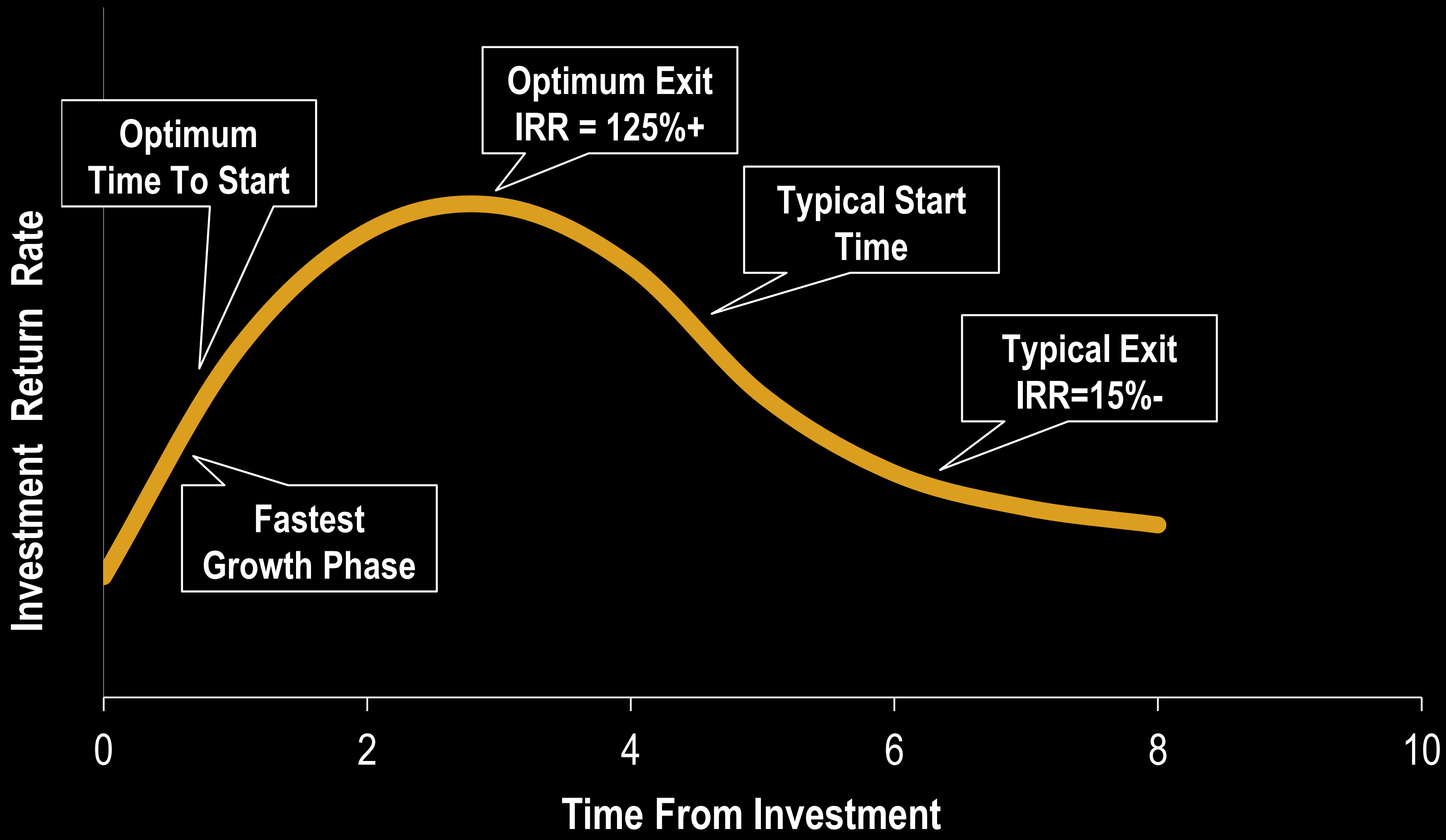


Image Source: Basil Peters

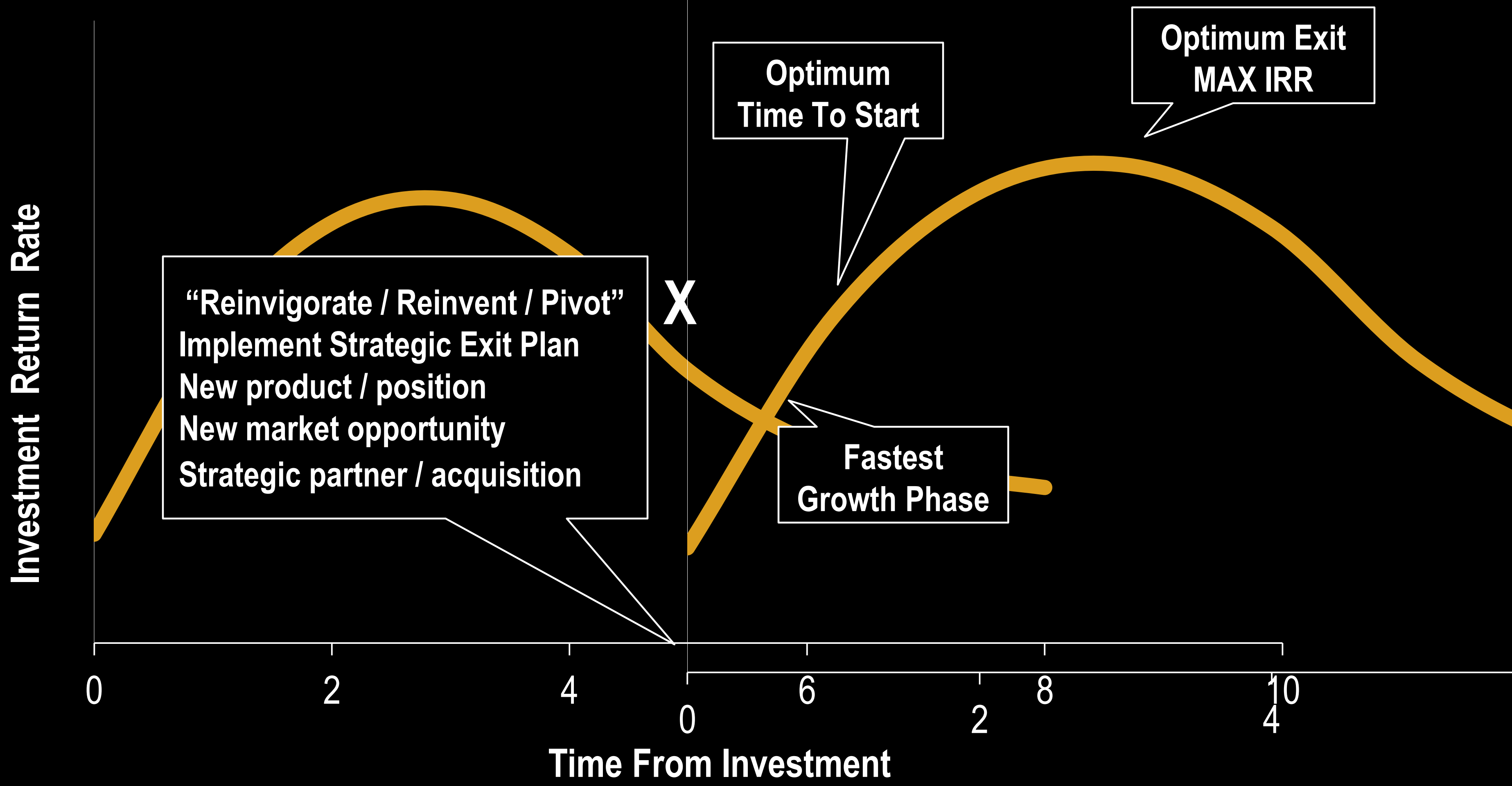
ADVANTAGES OF AN EARLIER EXIT

- Inherent market inefficiency – less competition
- Reduced risks associated with ‘negative’ value drivers
- Valuation emphasis is placed on <u>expectations</u> <u>of</u> <u>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)

“WHAT IF I’M NO LONGER EARLY?”



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HOW
TO MAXIMIZE VALUATION / PRICE

- Employ a Strategic Exit Plan
  - Targeting high-valuation markets
  - Strategic prospective buyers with well defined value drivers
- Align & pace the business model for maximum valuation
- Targeted-fit funding strategy (if necessary)
  - The right amount
  - The right source
  - The right terms
  - The right time

HOW
TO MAXIMIZE VALUATION / PRICE

- Hire experts to build and execute a Strategic Exit Plan
  - External team brings a more robust perspective opportunity
  - Leverages existing business model / plan to accelerate result
  - Keeps CEO/Founders focused on primary business objectives
  - Maximizes returns realized by founders / owners
  - Here's why…

HOW
TO MAXIMIZE VALUATION / PRICE

Principals of the business MUST remain focused on running the business while the Exit Team maximize value

Assemble due-diligence online library
- Executive summary
- Pitch presentation
- Complete financials & cap table
- Forecasts & projections
- + approx. 400+/- other items

Structural updates within your company
- Clean / audited financials restructure debt
- Successor clauses in contracts

Create 'alignment'
- With exec leadership & employees
- With advisory or directors

Organize your business for high-value Exit

Implement a scalable business model
- Automation
- Predictability

Know & hit your KPIs
- #1 reason business becomes unsellable

Prepare 10-15 reference customers

Excellent sales & negotiating skills

Secure multiple qualified buyers
- 40 to 100 suspects
- 15 to 20 prospects
- 5 to 8 qualify for due diligence
- Advance 3 to negotiations & bidding

Disclose any hidden problems

CONCLUSIONS

- The right Exit Strategy is the forcing function that accelerates big results and creates value in the business whether your planning to sell or not
- Even though the Exit comes last, the Exit Strategy comes FIRST and should be part of every priority decision
- The Exit event is when you <u>really</u> get paid for all of your hard work and risks you've taken with your business
- Strategic Exits produce 100% to 400% greater returns
- Earlier Exits provide a superior path the greater returns today
- Maximizing value growth requires a high level of expertise

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QUESTIONS