

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 \$1B+ for 11 different startups
- Exited 6 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:
 - Growth reinvigoration strategies to increase valuation
 - High-return valuation growth exit strategies
 - Funding and funding strategies
- Relationships Top-Tier Venture Capital, Investment Banking, Private Equity, Law and Accounting Firms
- Access to \$5B+ in debt & equity growth capital partnerships serving virtually any industry

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 limited but reemerging IPO market today
- M&A is the most viable & common exit event for most
- Management buyout / restructuring are increasingly popular

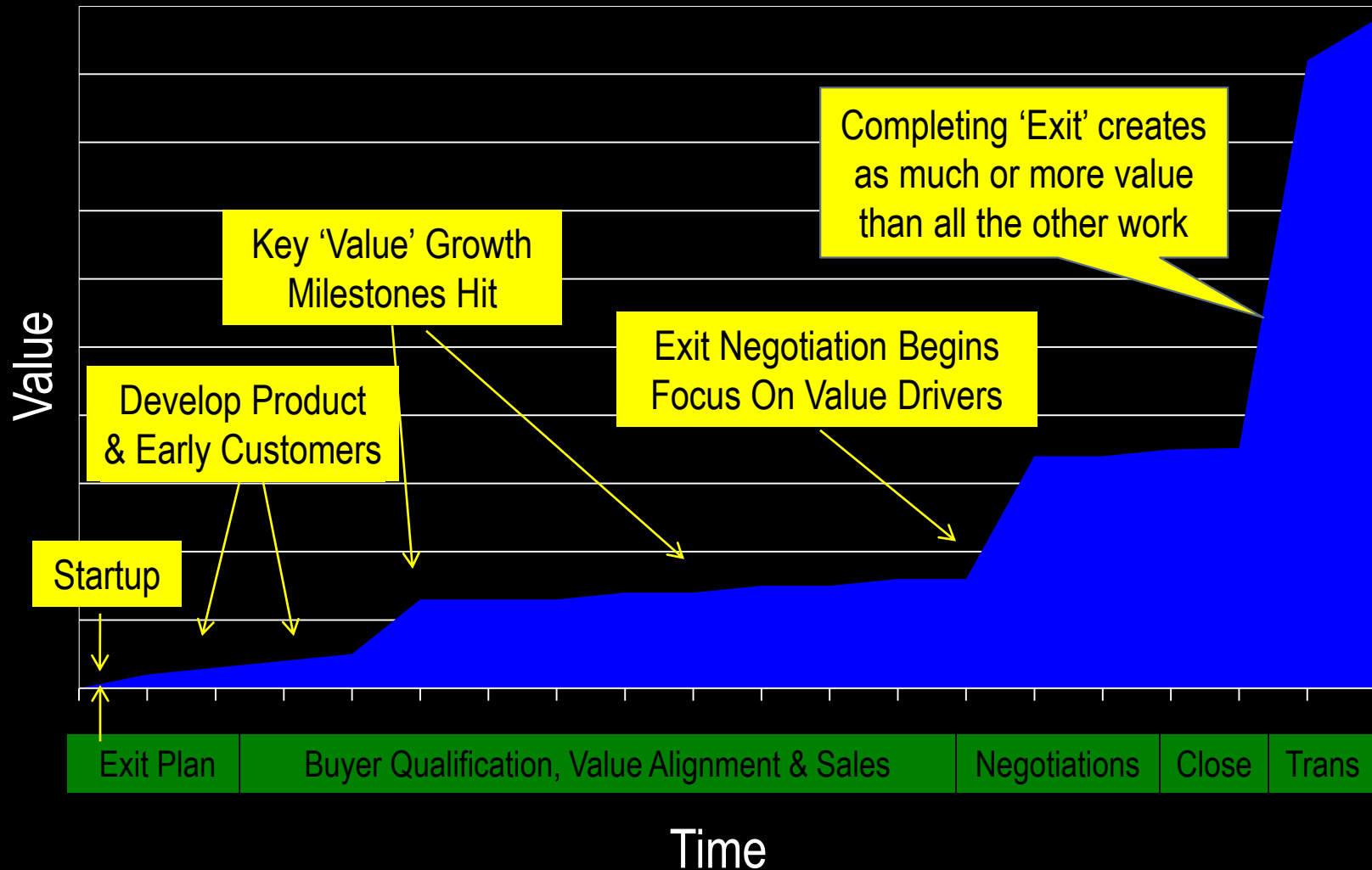
WHAT'S AN EXIT STRATEGY?

- 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
 - Mgmt / 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 each buyer
 - Technology or IP
 - Revenue / Profitability
 - People / Employees
 - Strategic Partners
 - Customer / Ref base
 - Business model
 - Market opportunities
 - 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

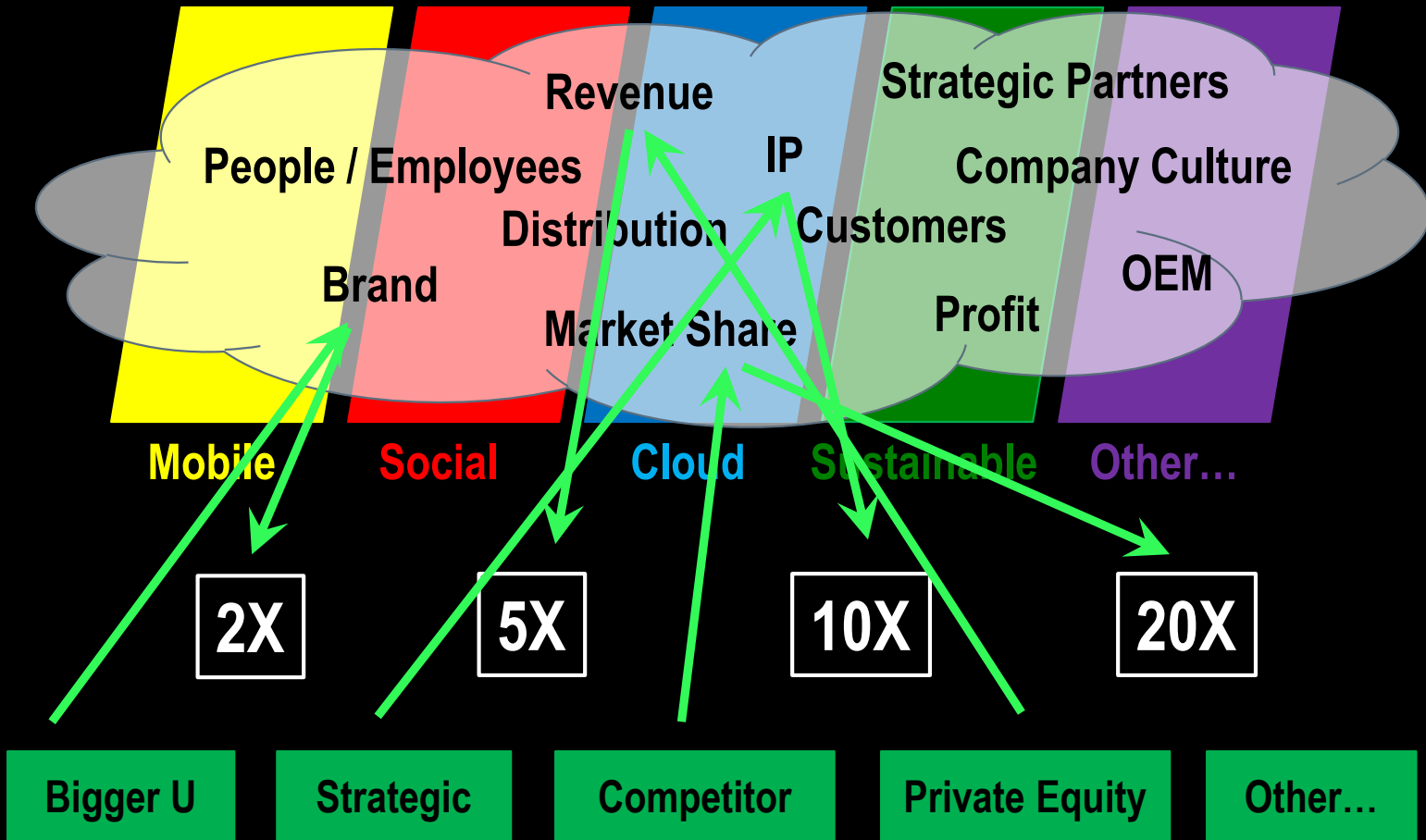
- Low probability of success
- Limited rate of return
- High dilution (circular)
- Lots of “brain damage”

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

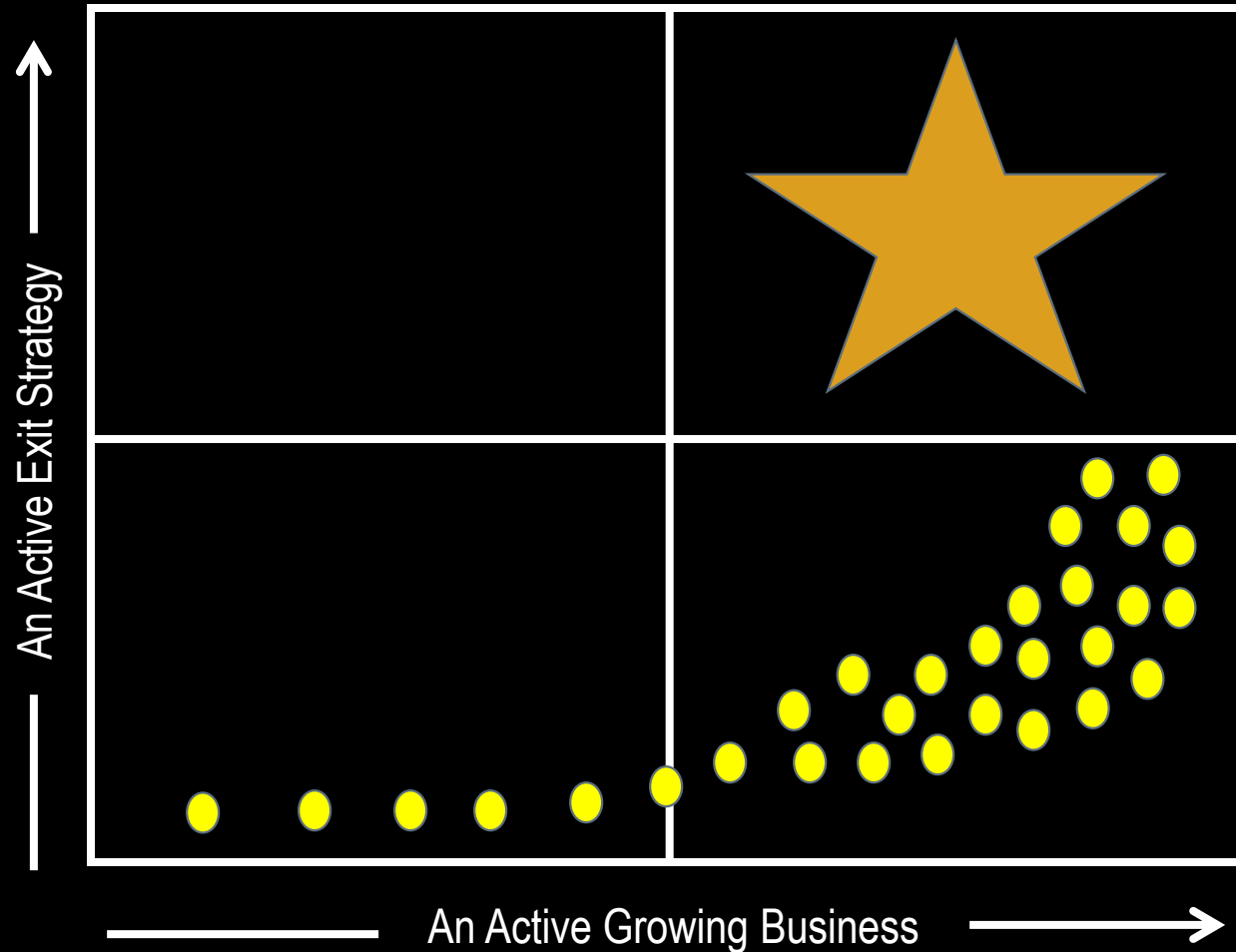
Results

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



WHEN?

WHERE IS THE GREATEST RATE OF RETURN?



THE RULES HAVE CHANGED

5 AGENTS OF CHANGE

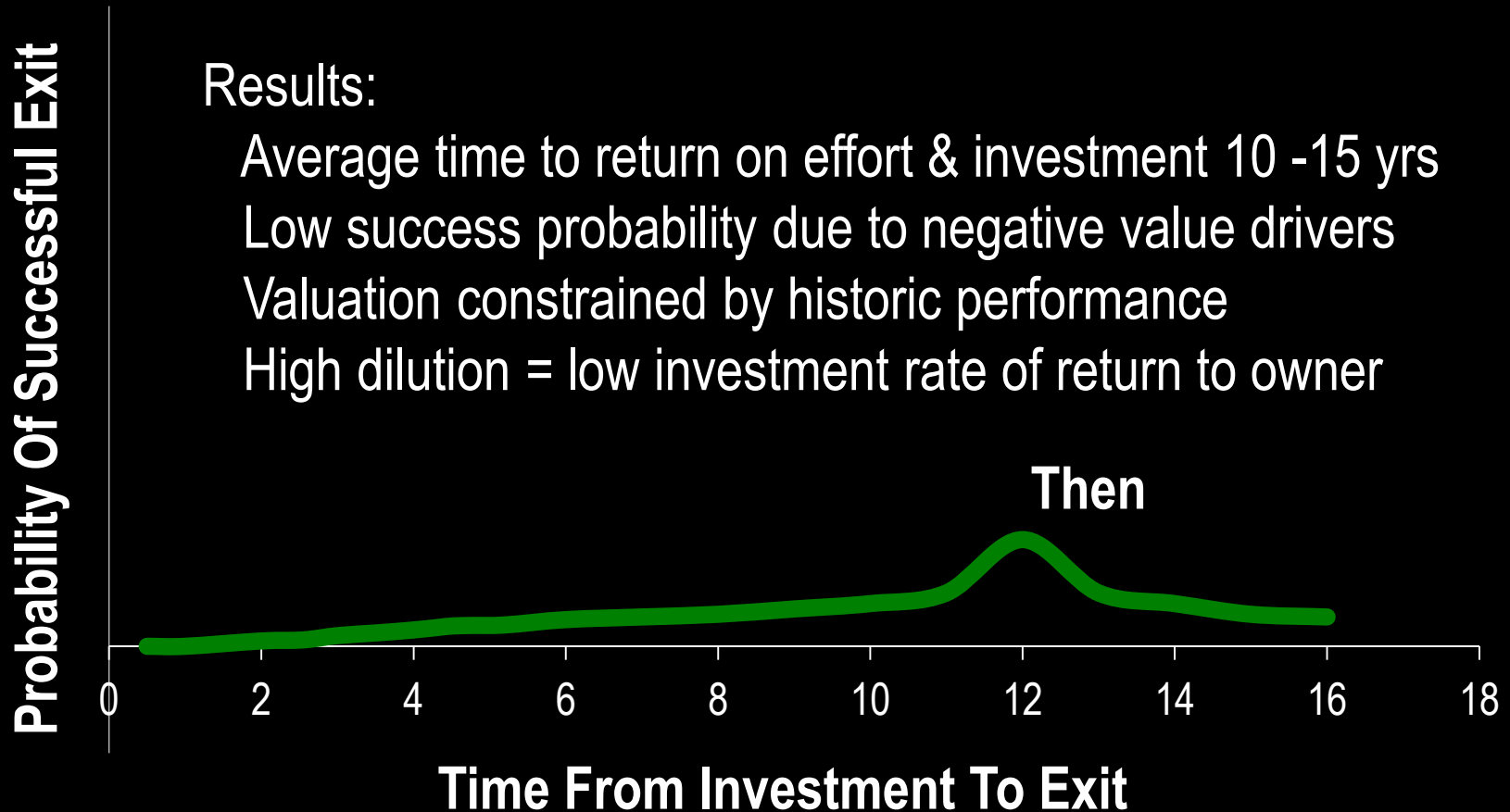
- Product innovation cycles are MUCH shorter (6-18 mo VS 2-5 yrs)
- Internet, mobile, social media, cloud, SAAS, wiki based and other platforms have leveled the playing field for small VS big businesses
- Large to medium sized companies have LOTS of cash and are under a lot of shareholder pressure to 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”



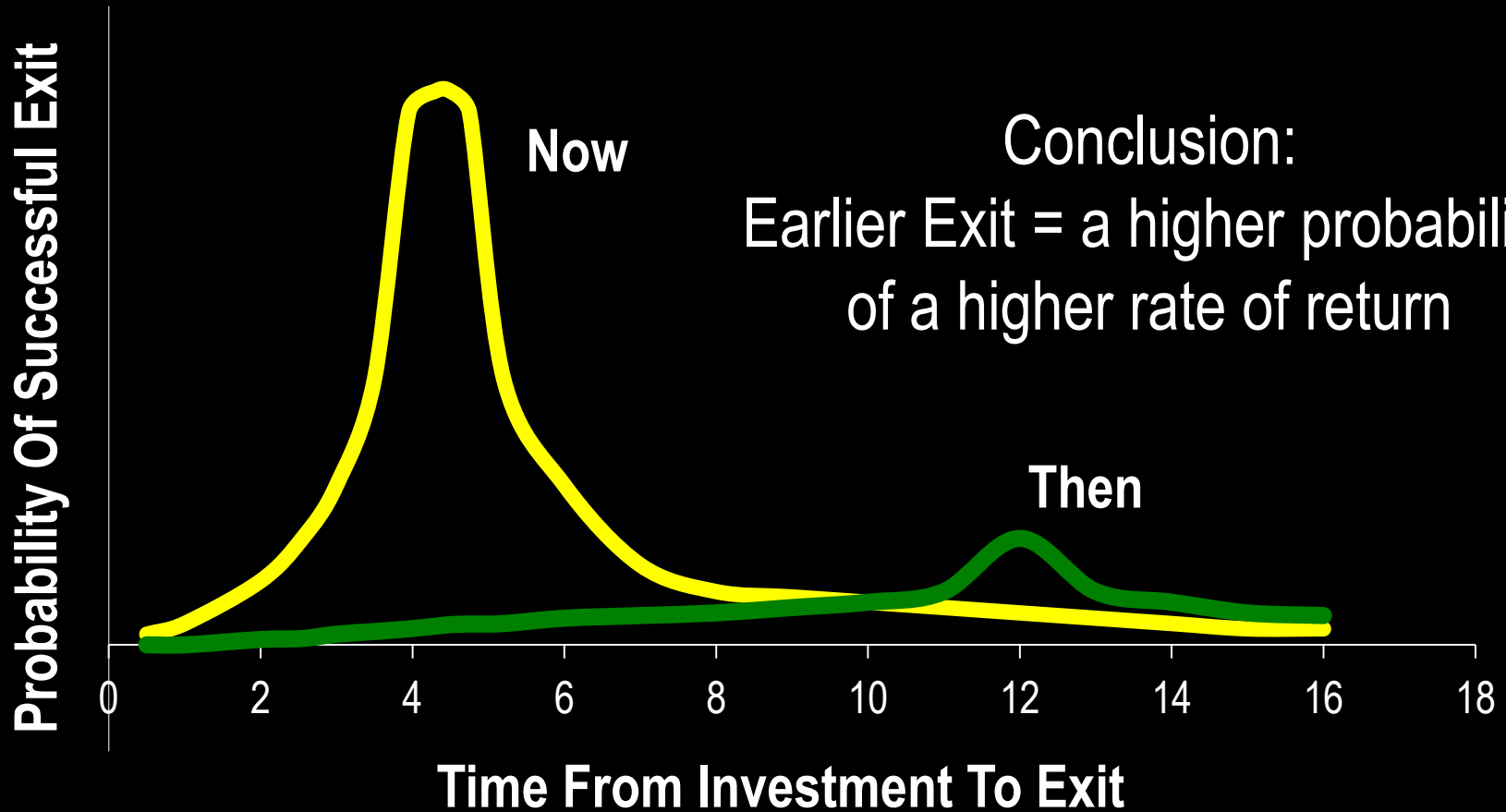
THE RULES HAVE CHANGED

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



THE “NEW” BIG OPPORTUNITY

- Large number of smaller, high-return EARLIER exits
- In the past 54 months most acquisitions \$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

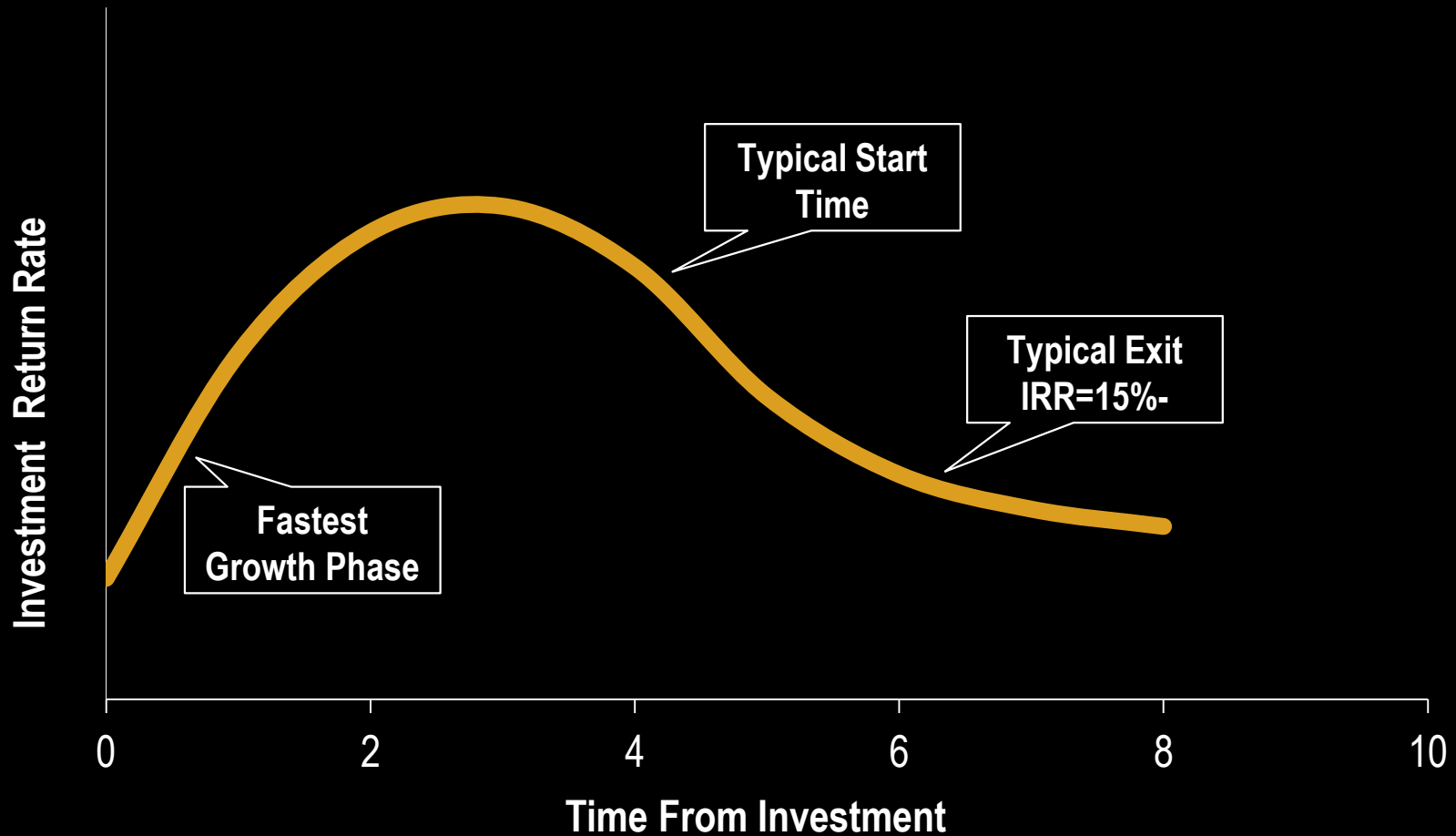
PROBLEM: MOST ENTREPRENEURS WAIT TOO LONG TO START THE EXIT

“Most entrepreneurs don’t think about selling their businesses until it’s too late ...

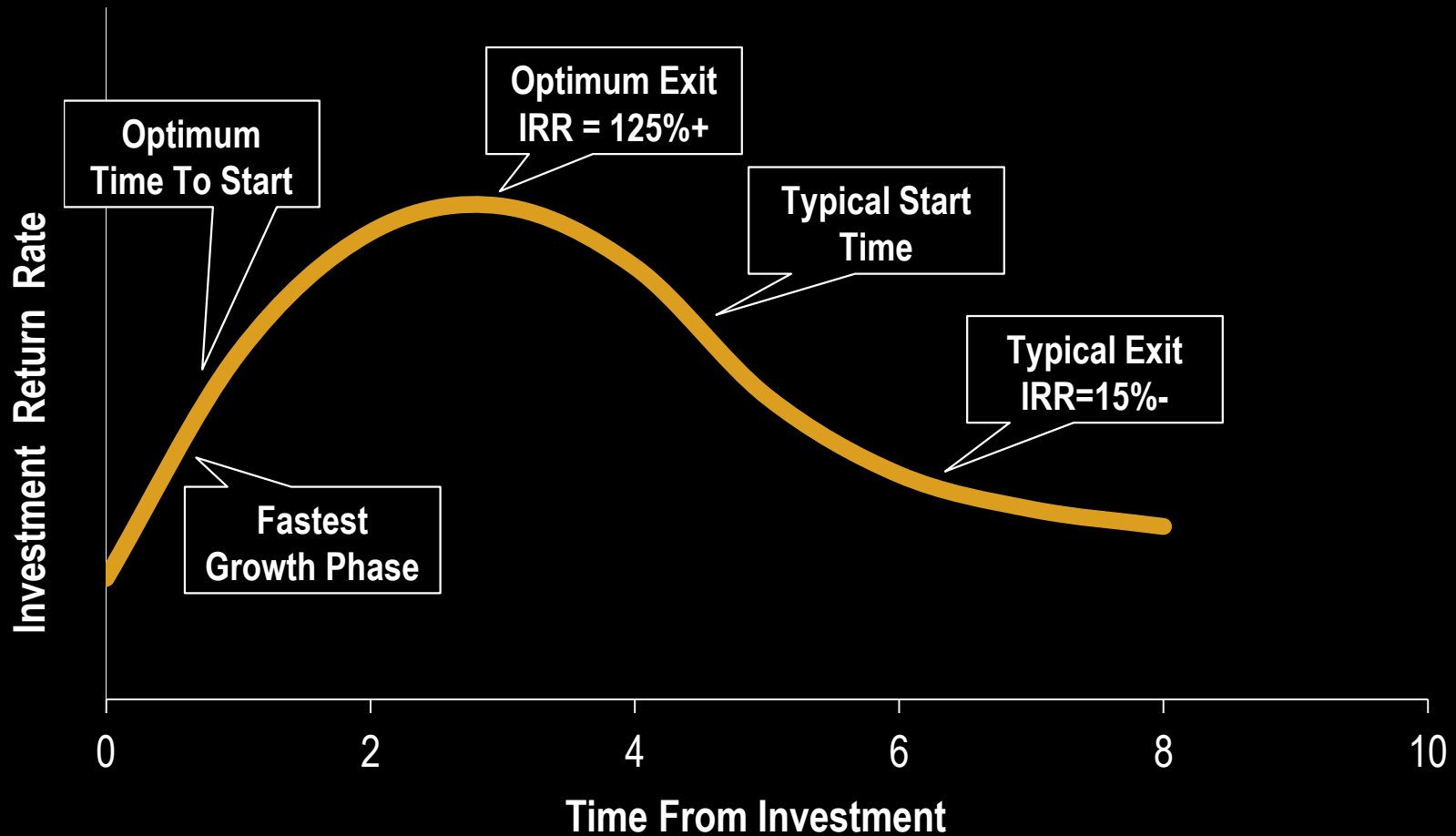
I got lucky, for one and only one reason: I built my company to sell.” Norm Brodsky – Inc. June 2013



A MOST HEARTBREAKING MISTAKE



WHAT IS THE OPTIMUM TIME?



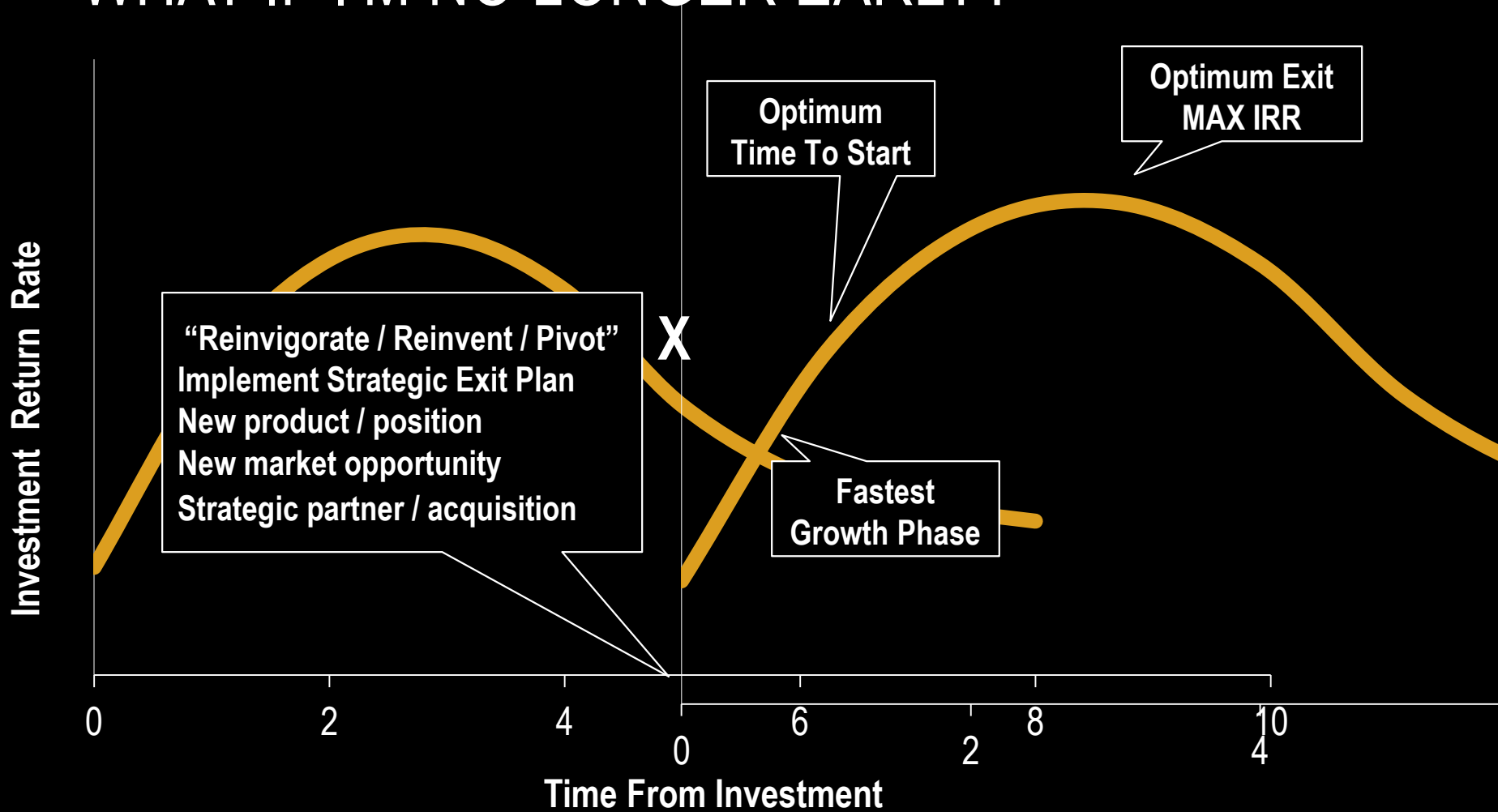
ADVANTAGES OF AN EARLIER EXIT

- Inherent market inefficiency – less competition
- Reduced risks associated with ‘negative’ value drivers
- Valuation emphasis is placed on expectations of future growth vs historic performance

“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?”



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 terms
 - The right source
 - 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 really 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

RESOURCES EXCLUSIVELY FOR YOU

Pre-Register For Book
“A Winning Growth Strategy That Pays”

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QUESTIONS