Exit Strategies

Marcel van den Assum
Chairman

Angel Association of NZ
Angel investing is a contact sport, we can learn from Black Belts to minimize the bruising

PERSONAL EXPERIENCE

- >15 businesses, >25 investments
- 1 exit > 10x, 2 exits > 1x
- 7 still with potential
- 5 written off
- 5 early stage Boards

EXPERT INSIGHT

Bill Payne
Basil Peters
Nelson Gray
Robert Wiltbank
Rob Adams
Tom McKaskill

“The most likely outcome of any one angel investment is failure ... 56% of exits failed to return capital, while 9% generated more than 10x capital invested”

Rob Wiltbank, NESTA 2009
Start with the end in mind.

- Maintain the big story, the aspirational vision that resonates with customers, partners, investors, acquirers.

- Align shareholders and the board on the **optimal** exit outcome and drive towards it from day one.

“*Until an exit, we angels are just donors*”

John Huston, OhioTech Angels
Capital strategy scenario planning.

- Gov'ment Grants
- Strategic NRE
- Angel Fund
- Strategic Venture Funds
- Seed VCs
- VC
- IPO
- Trade Sale M&A
- Dividends
- Family Friends Angels
- Super Angel
- Liquidity events or Exits

Early stage investment commitment
Capital strategy scenario planning.

Traditional path to Exit:
- Gov'tment Grants
- Strategic NRE
- Strategic Venture Funds
- Trade Sale M&A
- Seed VCs
- VC
- IPO
- Dividends
- Super Angel
- Angel Fund
- Family Friends Angels
Capital strategy scenario planning.

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- Seed VCs
- VC
- IPO
- Trade Sale M&A
- Dividends
Factors influencing exit critical path

- Huge exits are rare (1 in 10,000 angel deals)
  - Median exit price is less than $20 million
- Startups are much better than big companies at innovation
  - Multinationals spending on, NRE and M&A, instead of R&D
- Governments are more actively supporting entrepreneurs
  - Grants, co-investment and tax incentives extend angel runway
- You can prove business model for $100ks, if not $10ks
  - Internet, open source, global market, virtual companies
- IPO market in the US is unpredictable
  - Secondary listing in some geographies developing as an option
- Venture capital is diminishing in importance
  - Invest large amounts, require huge exits, takes a long time
Datapoint: Cash for acquisitions

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Available for M&amp;A</th>
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<tbody>
<tr>
<td>US Companies</td>
<td>$2 Trillion</td>
<td>Most</td>
</tr>
<tr>
<td>Global Companies</td>
<td>$8 Trillion</td>
<td>Most</td>
</tr>
<tr>
<td>P-E Funds</td>
<td>$0.4 Trillion</td>
<td>All</td>
</tr>
</tbody>
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“US ICT multinationals have more than $250 Billion cash ... enough collective cash to purchase 12,000 companies!!!”

Bill Payne
Datapoint: Angel only versus with VC

- More Failures
  - Fewer 1x – 5x Exits
  - 1x - 5x

- More 5x – 10x Exits
  - Slight Increase in High Multiple Exits
  - 10-30X
  - >30X
Datapoint: IPO exits for VCs
Fundamentals of effective exit strategy

- Alignment of investors, Board and management
  - At best success is shared, at worst the deal falls over
- Ensure a director has M&A experience and leads
  - This will be an “active governance“ role, hands on
- Secure the best professional advice
  - Investment banker, legal and accounting impact players
- Be prepared for Due Diligence at any time
  - Discipline focuses the business on what’s important
- Creating buyer tension maximizes transaction value
  - The spirit of competition is strong
- Keep the pace going when you have formal interest
  - Buyer likely has several transactions on the go, and many prospects
Pose the right questions … Be informed

It’s a process: Start before investing and stay focused on the exit.

Focus on strategic buyers from the start. Who would buy this company and why?

Pursuing strategic customers will get the attention of the right strategic buyers.
Effective execution: pressure points

- Strategic Investment: equity or Non-Recurring Engineering?
  - NRE if company remains “independent”, preferential rights are limited
- Venture Capital: do we need < $5m or > $10m?
  - Develop as competitive and benchmarking scenario to acquirers
- CorpDev or Line Function: who calls the shots? Who to call on?
  - Line owns the Business Case. CorpDev is acquirer’s IB
- Go-to-Market or IP Roadmap: which adds most to valuation?
  - TAM proof points critical for premium, IP value largely opportunity cost
- CEO / management team: Business as Usual or Exit?
  - Must “run the business”. Keep staff out of the exit conversation …
- Cash runway to close: it’s tight, how do we stay strong?
  - Have plan B, C, D … depending on cash position and stage of the process
The lifecycle of an exit starts will before, and extends well after, the deal is closed.

6 TO 24 MONTHS BEFORE
- Establish relationship with owner / future deal sponsor
- Engage IB, build prospects
- Frame up deal, pitch : 1 year
- Letter of Intent : 6 months
- Due Diligence : 3 months
- Negotiations, close : 1 month
- Money in the bank : 7 days

12 TO 36 MONTHS AFTER
- Escrow : 10-20% of deal
- Earnout : 1-3 years
- Staff retentions : 1-2 years
- Transition team : 6 months
- Warranties : up to 6 years
- Shareholder Representative

Basic principle : People do business with people
Asian Business Angel Forum is in Queenstown, New Zealand, in October 2015 ... see you there!