

Angel Financing and The Preferred Path to Exit for Canadian Companies

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New Startup Economics

- It's amazing how little it costs to build a tech company today
- Back when I was an entrepreneur, hardware and software companies needed \$10s millions
- Which gave rise to the huge VC funds
- And was one of the reasons innovation used to happen primarily in big companies
- Today, entrepreneurs can build companies for \$100,000s and, in some cases, \$10,000s

Why It Costs So Little Today

- It's the internet
- Fundamentally changing how we work
- And build companies
- Instant access to the entire global market
- Another example - open source software
- More importantly - virtual companies

Many Startups Need No Capital

- After being an investor for 20 years,
- I'm amazed by how many of the most successful companies I see
- Or have helped to sell
- Have raised no capital at all
- Or just a little from friends and family
- These bootstrapped companies are usually stronger and produce higher returns

Google Wants Even Earlier Exits

- I was surprised recently to learn just how early Google wants to do acquisitions
- Charles Rim one of the top Google M&A guys:
- “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”
- <http://www.exits.com/blog/google-wants-even-earlier-exits-than-in-early-exits/>

Tech Companies Then and Now

My first exit and many 1990's tech companies



Club Penguin, Flickr, and many 2012 tech companies



Financial Markets are Changing

- As we recover from the 'mortgage crisis'
- And worry about the European debt problem
- All investors are all trying to adapt to:
 1. Poor equity returns for over a decade now
 2. The lowest interest rates of our lifetimes
 3. Concern about the future value of money
- The result is an enormous amount of capital looking for better returns and reasonable safety

Active M&A Buyers Today

- Today's tech M&A buyers are diverse:
 1. Big Companies
 2. Medium Sized Companies
 3. Private Equity Funds
 4. Boomers (individuals, or small groups)
 5. Family offices
 6. VCs operating like P-E Funds – very new
 7. International Buyers – small but growing

Cash for Acquisitions

	Cash	Available for M&A
US Companies	\$ 2 Trillion	Most
Global Companies	\$ 8 Trillion	Most
P-E Funds	\$0.4 Trillion	All
Boomers (US only)	\$ 8 Trillion	Small but Growing
Family Offices (US)	\$ 1 Trillion	Small but Growing

How Many is \$1 Trillion?

- It's difficult to put \$1 trillion in perspective
- Most acquirers consider their 'sweet spot'
- As somewhere around \$20 million
- The median price is closer to \$15 million
- Just one of these \$1 trillion buys
- 50,000 acquisitions (at \$20 million each)
- There are many times more buyers than sellers

Buyers Practically Unlimited

- For many exits under \$50 million
- The number of buyers is, for practical purposes, almost unlimited
- Often see three or four types of buyers
- Simultaneously bidding to buy the company
- Each type of buyer thinks and acts differently
- They all have lots of cash
- And there can only be one successful bidder

A Sellers' Market

- The number of buyers and amount of cash available makes the current M&A environment:
 1. A sellers' market
 2. Fast moving and diverse
 3. Talk is that prices are up 20% in a year