

Early Exits Workshop
Part 4
Exit Valuation

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What was the Exit Valuation

- The goal of this module
- Is to have your team accurately estimate the exit valuations
- For three actual exit transactions
- From my portfolios over the past few years

Early Exits in the BC Tech Fund

- Examples from my early-stage / seed fund
- Managed more like an “angel fund”
- 16 investments in 9 companies in 3 years
- Three years after I started to invest:
 - Brightside was acquired in February 2007
 - Parasun was acquired in May 2007
 - MetroBridge went public in July 2007

No VC investments

- None of these companies had VC investment
- Both Brightside and MetroBridge tried to raise VC money, but did not succeed
- I have no doubt that if either had raised money from VCs these early exits would not have occurred

Parasun Case Study

- The company provides high speed internet over cable TV to about 140 communities
- I invested \$500,000 in April 2004 at a \$3.4 million valuation = \$0.40 per share
- Revenues were about \$3.8 million with a \$500k profit
- My new angel fund invested at \$0.55 per share in June 2005

Parasun Secondary Sales

- The first time I invested at \$0.40/share, I bought treasury shares
- But I also helped to complete a secondary at the same price
- Bought by about a dozen angels and other accredited investors
- When my new angel fund invested at \$0.55/share, it was a secondary sale

Parasun Exit Strategy

- I joined as Chair and agreed to do the exit
- The board set a target exit price at the 2005 strategic planning retreat
- The plan was to sell the company in 2.5 to 3 years (late 2006 or early 2007)
- Most of the work was on growing the business

Parasun Exit Valuation

- Started the sales process in the fall of '05
- Revenues \$8.2 million, profit \$781k with 30% growth rate, 10 million shares
- Approached 100 companies, short listed 10
- Had several bidders through the final stages
- In Jan 2007 sold the company for 48% more than the target price

What was Parasun's Selling Price?

- Gross selling price (before transaction fees)

Brightside Case Study

- Spin out from the University of British Columbia Physics Applied Optics Lab
- Technology to make LCD displays brighter and higher contrast
- \$15 billion /yr market
- Biggest opportunity was large screen devices for home TV applications

My Investments in Brightside

- I first invested when it was just two people and a few patents
- My fund invested three times:
 - \$100,000 at \$3.2 million valuation = \$2.33 /sh
 - \$125,000 at \$4.2 million valuation = \$2.90 /sh
 - \$100,000 at \$12 million valuation = \$5.00 /sh
- In June 2004, Oct 2004 and Aug 2005
- All common shares

Brightside Financing History

- About \$7 million was raised from angels
- Including one brokered round that used an Offering Memorandum to place with angels in Europe
- But despite being engaged with a dozen VC firms up and down the west coast, no VCs ever invested in the company
- The VCs wouldn't invest in common shares

The Brightside Exit

- Without the capital to put the product into production, the only other strategy was to sell the company
- Still in R&D, zero revenues, 8 patents and 3.1 million shares
- The strategy was to sell to a large Asian consumer electronics manufacturer
- Dolby Labs acquired in Feb 2007 (2.75 yrs)

How much did Brightside Sell For?

- Total company valuation in \$ millions

MetroBridge Case Study

- Intel promoting WiMAX aggressively in 2004
- MetroBridge was formed to consolidate all of the fixed broadband wireless companies in BC with a WiMAX strategy
- Raised about \$5 million in total over 3 rounds all from angels and my fund
- Were not successful in trying to raise VC \$

My Investments in MetroBridge

- I invested the first \$200,000 to start the consolidation in Aug 2004 at \$0.17 per share
- Then \$300,000 at \$0.30 per share in Dec 2004
- My new fund invested a small amount at \$0.45/ per share in Mar 2006.

The MetroBridge IPO

- MetroBridge completed an IPO using a CPC raising \$ 8 million in July 2007 (2.9 yrs)
- With 41 million shares outstanding and 61 million fully diluted
- Revenues were about \$ 3 million annualized and losses running about \$ 3.5 million/yr
- Growth rate about 100% per year
- IPO was units (share and full warrant)

What was Metrobridge's IPO price?

- IPO price per share