

# Planning for More Exits - Good News and Bad News

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# Good News - A Golden Era

- I believe history will call this a golden era for technology entrepreneurs
- And angel investors
- Never before has it been so easy to
- Create such valuable companies
- On so little capital
- And sell them so early for so much money

# Why? – The Internet

- The biggest reason this is a golden era is simply technological innovation
- Most significantly – the internet
- We all take for granted:
- That we carry a computer in our pockets that is more powerful than the computer that ran the university I attended

# Why? – The Internet

- And we are currently connected by a wireless network 10x faster than the wired network in my first company
- And that we speak with people anywhere in the world for free – with video
- We are discovering entirely new ways to use this network in business:
- Open source software and virtual companies
- Creating incredible opportunity and wealth

# So What's the Bad News?



# The Spouse Test

- Let's be honest,
- How many of you
- Discuss the actual returns on your angel investment portfolio
- With your wife or husband?

# OK, I'll Say It...

- Most angel investors lose money
- The good news is
- It's not just you
- We need to talk about it
- I know we are already improving
- And we can do much better

# Investing Is Not Easy To Learn

- Generating a consistent return
- On any investment portfolio isn't easy
- What we do is especially challenging
- Angel investing is actually more difficult than Venture Capital investing
- Because we invest earlier
- (And that's just one reason it's harder)



# In the Venture Capital World

- VCs have learned that it's very expensive to train a new partner
- John Doerr at Kleiner Perkins says
- That training one new VC
- Is as hard as training a fighter pilot

# The Cost of Our Educations



- To learn to be a VC
- Takes 6 to 8 years
- And costs
- \$20 million
- (Remember - angel investing is harder)

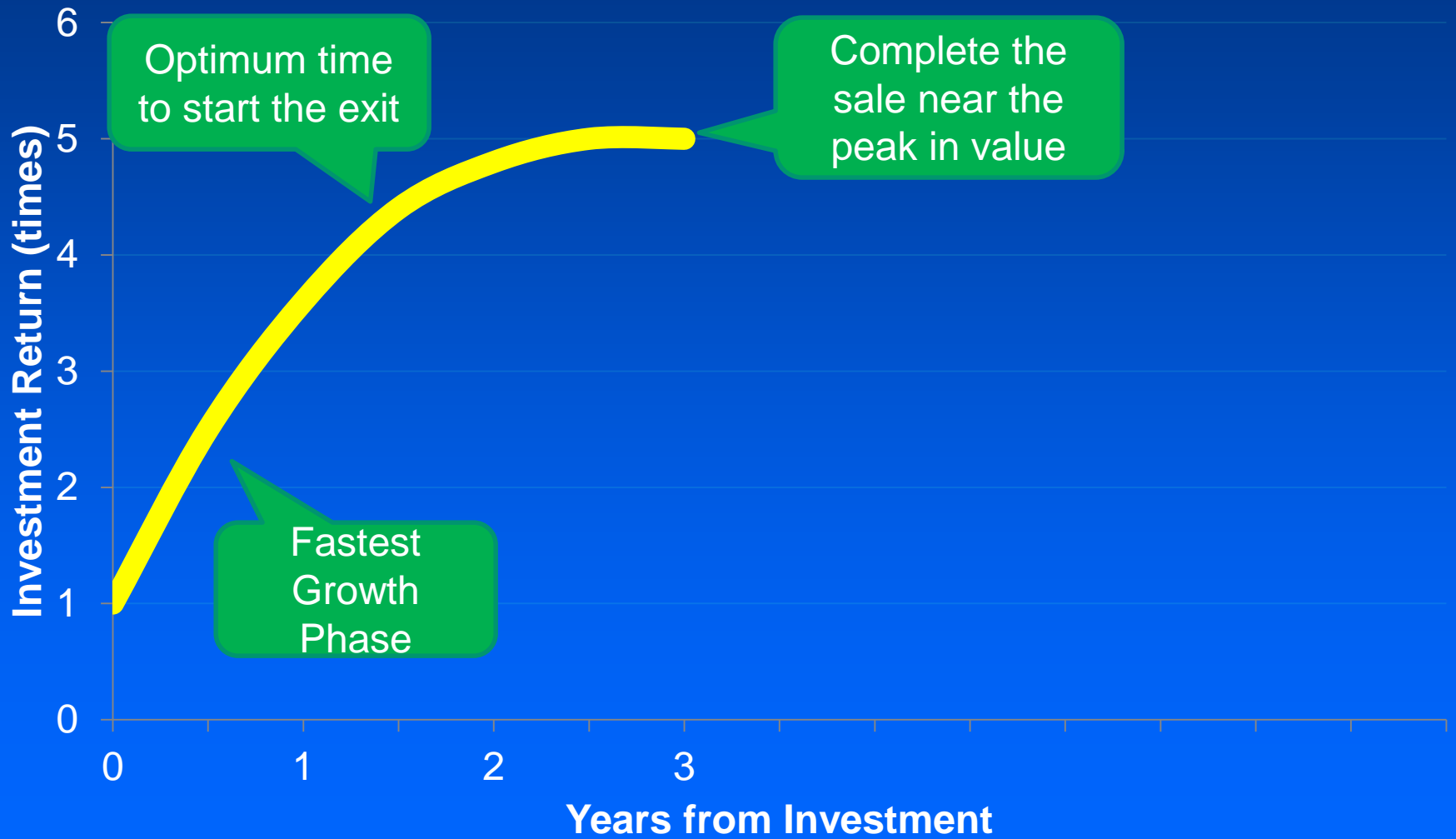
# Angel Investing Is Still New

- Angel investing is still quite new
- Early angel groups started around 1994 - 97
- We are still where traditional Venture Capital was in the early 1980s
- Angels are just discovering best practices
- That's the second reason learning to be an angel is harder than learning to be a VC
- (There is no manual)

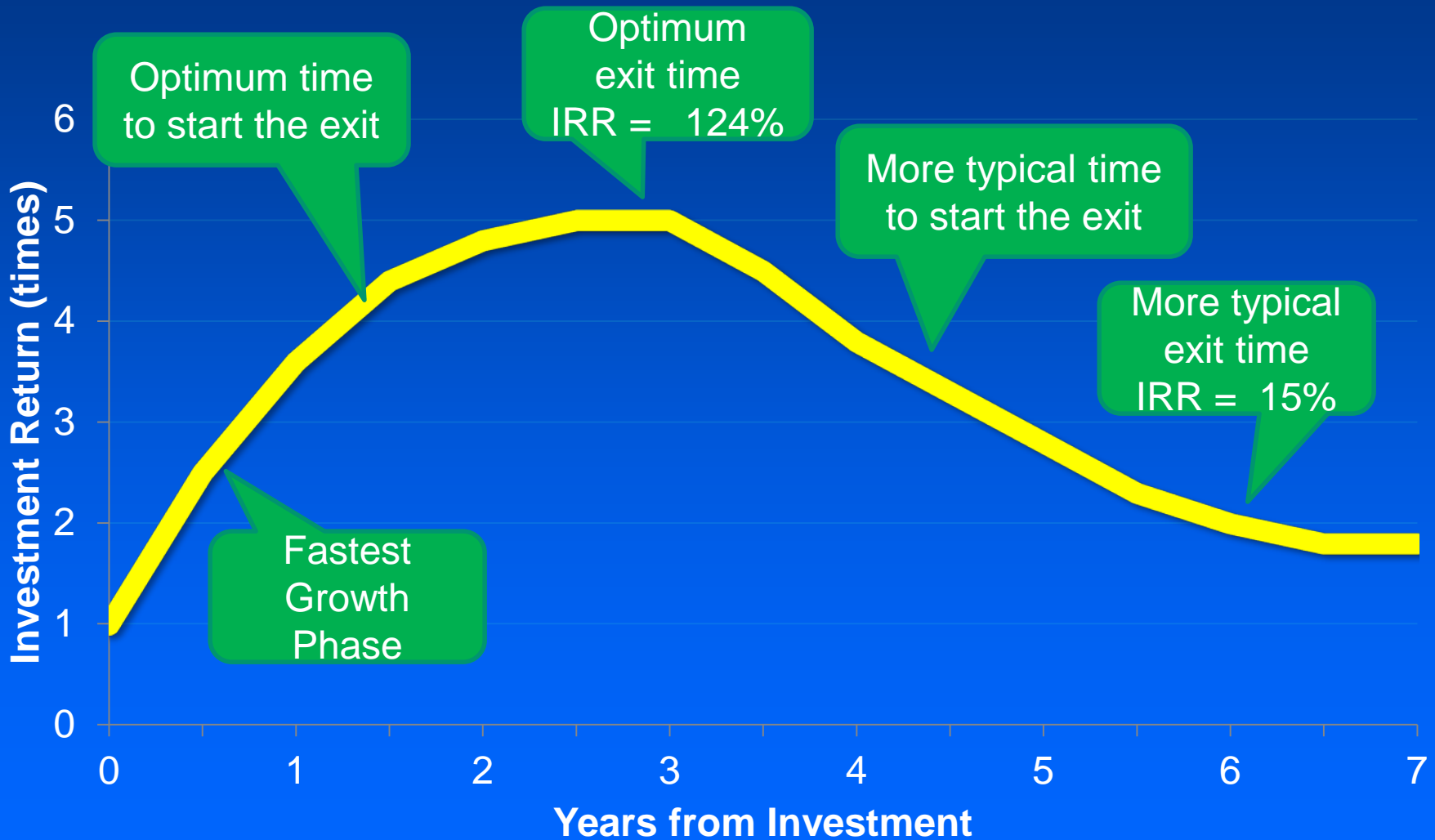
# My Most Important Message

- I estimate only 25% of all companies that could have been sold, actually end up exiting.
- Yes, the probabilities are 75% that if a startup succeeds, and becomes valuable,
- It will still fail to exit.
- And then the most likely result is that it will fail
- Completely fail.
- This is my observation – not hard data

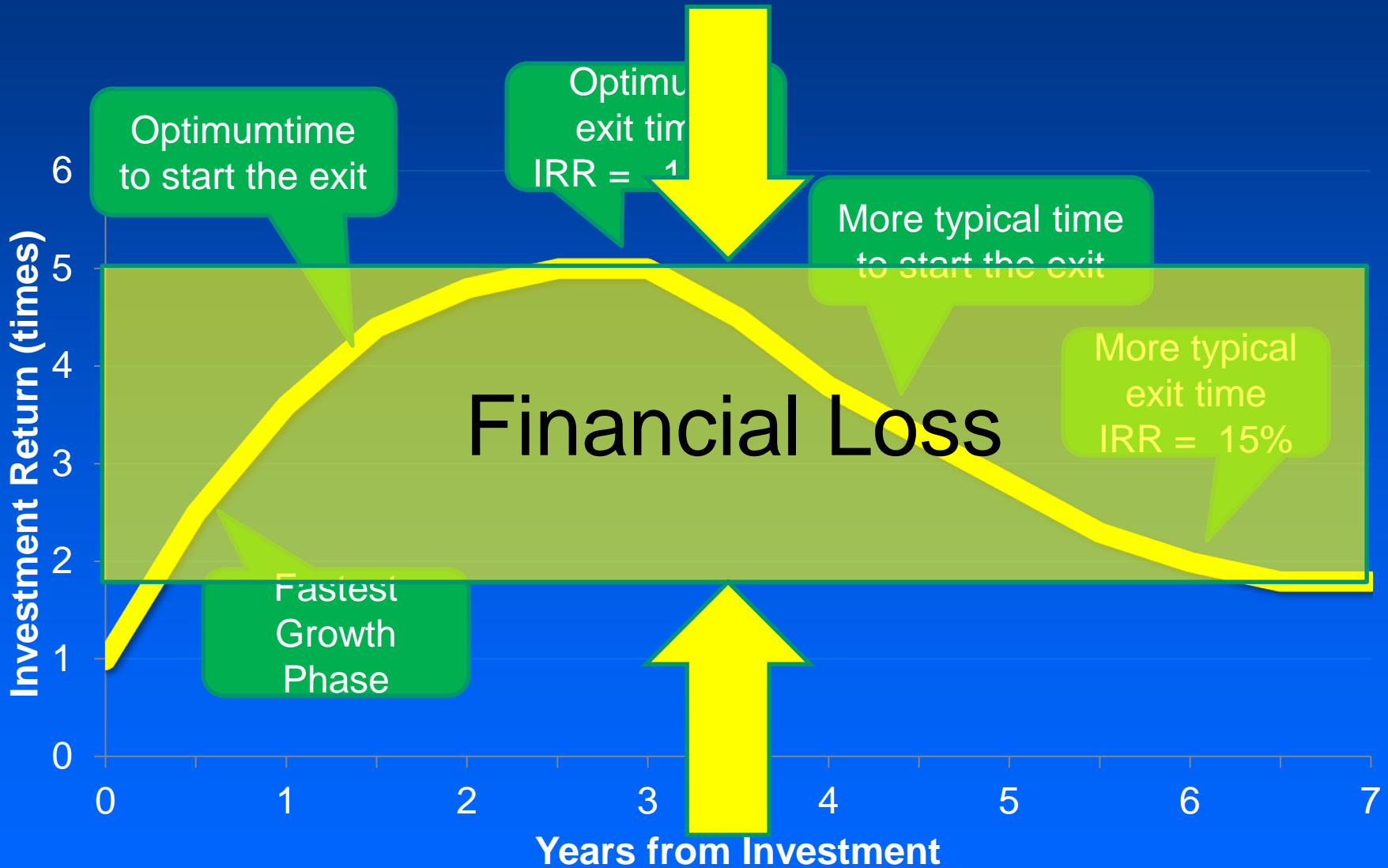
# Ideal Exit Timing



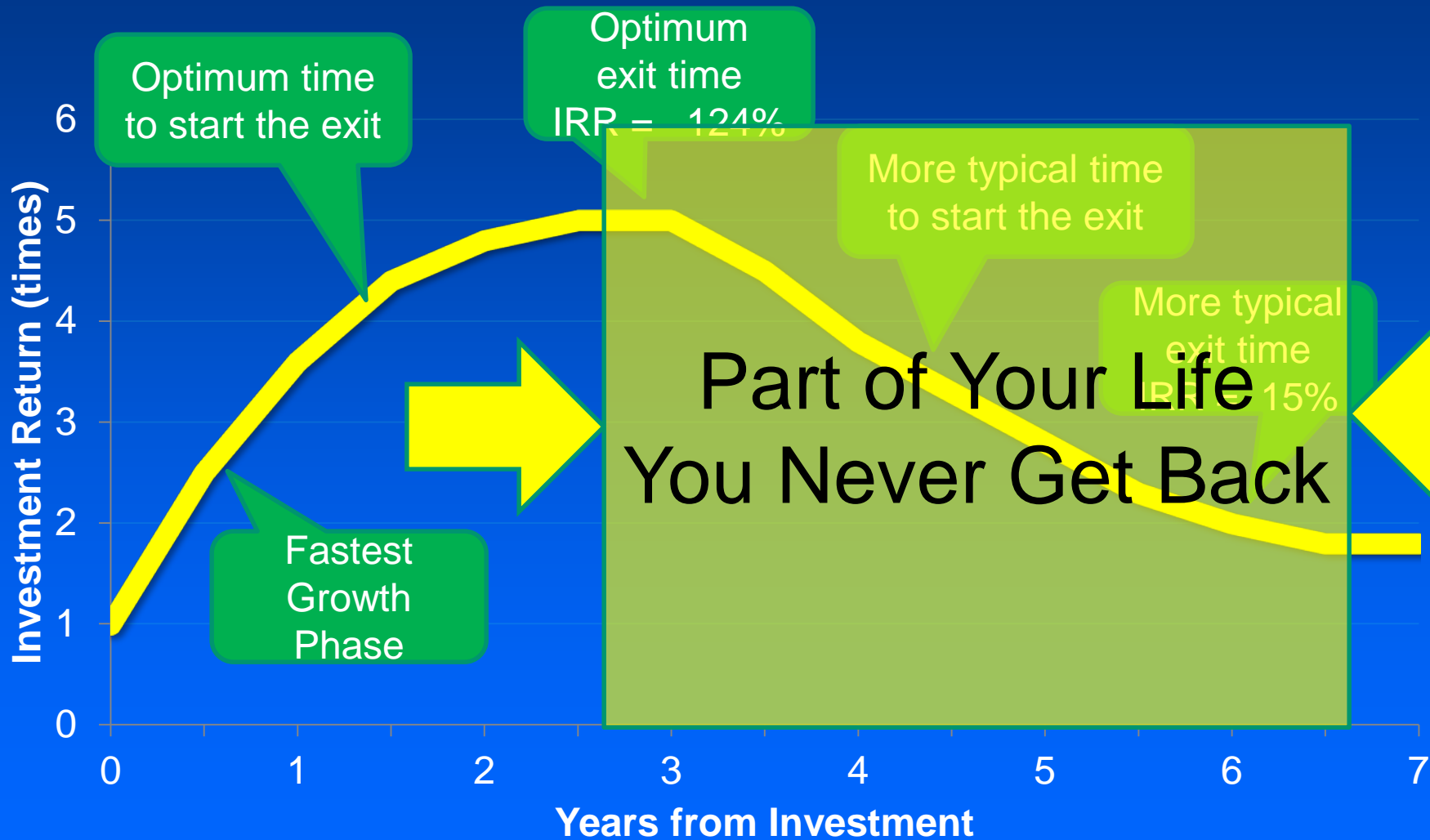
# “Riding It Over the Top”



# The Financial Loss

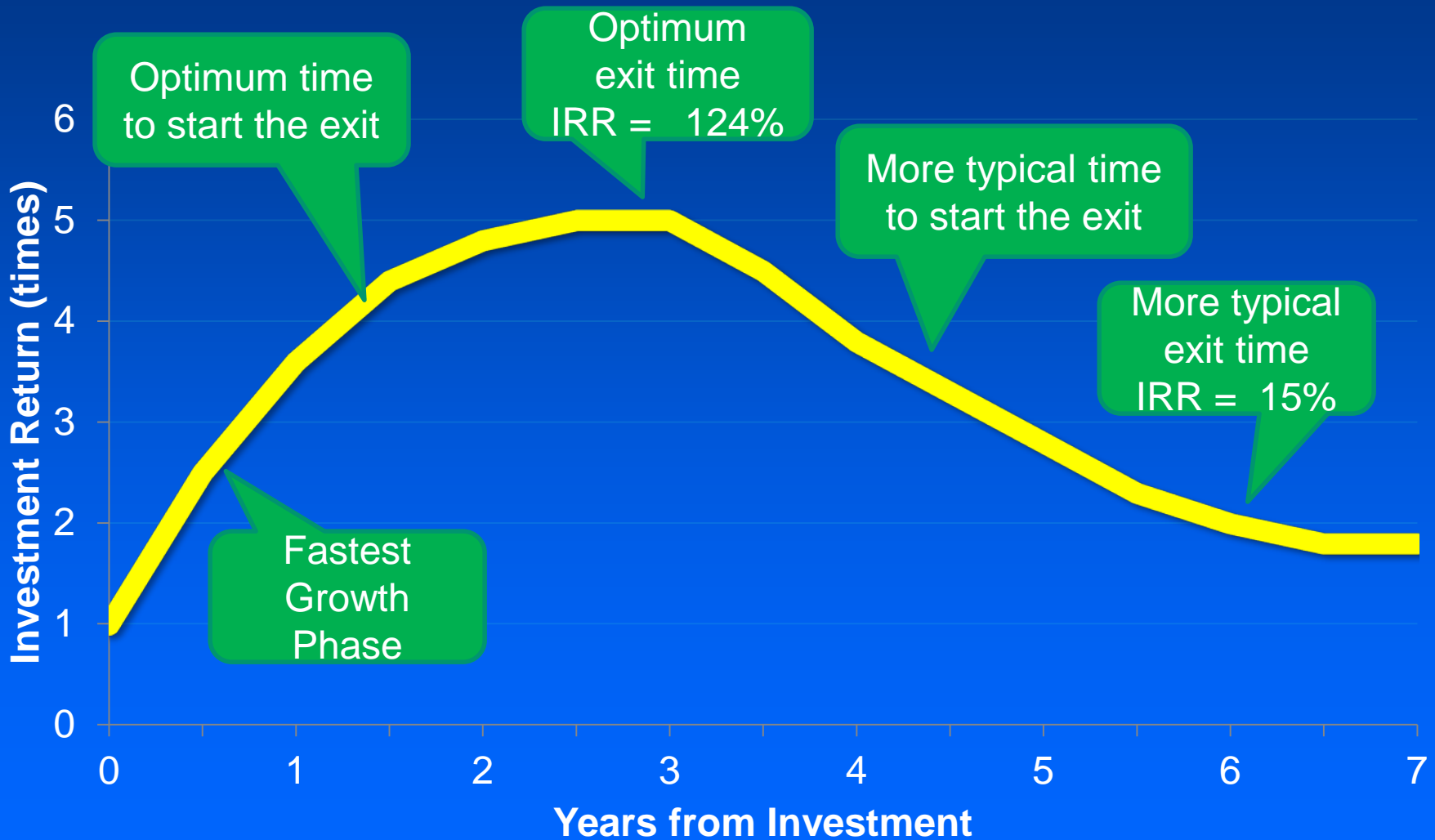


# Part of Your Life You Never Get Back

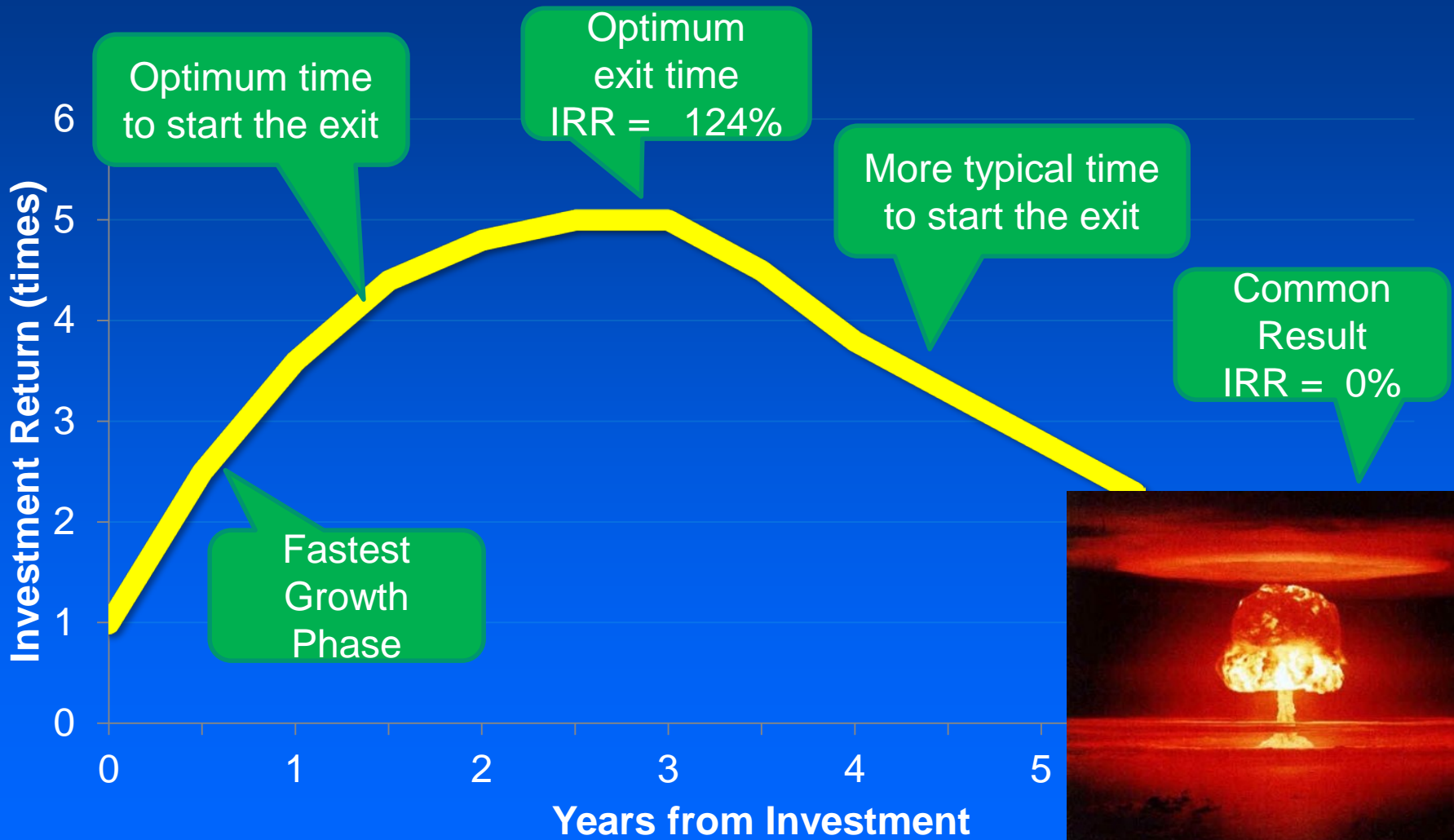




# This is Actually Optimistic



# What Often Happens



# Why ?

- After seeing this happen over and over again
- I started to recognize a few patterns
- And realized there were logical reasons
- Why, if a company misses the ideal time to exit
- There's a significant probability it won't just exit for less,
- But will never exit at all

# Reasons This Happens

1. Over-investment by VCs
2. Competition
3. Negative momentum
4. Waves of Consolidation

On Wednesday, we discussed this at the Early Exits Workshop

For more: [www.Exits.com/blog](http://www.Exits.com/blog)

# How Do We Improve Exits?

- Let's be honest
- We just are not good at exits – yet
- I think we blow it about 75% of the time
- My personal mission is to help us all achieve good exits for more than 25% of our saleable companies
- To increase our success rate to perhaps 50%
- Which would double angel investor returns

# First We Need More Exits Data

- Our biggest problem is a lack of good data
- One reason we don't have more data is
- Exits just don't happen very often
- From Scott Shane, author of *Fools Gold*:
  - 1 to 1.5% of angel backed companies exit
  - 5.9% of angel group deals exited in 2008
- (Not clear if this is a trend or a good year)

# New Data on BC Exits

- Thomas Hellmann from the Sauder School of Business at UBC who you heard yesterday
- “An Evaluation of the Venture Capital Program in British Columbia” October 2010
- 206 angel-backed companies 2001-2008:
- 0.5% did an IPO and 2.9% were acquired
- Very new research from Thomas’ group is showing exit rates in BC of 8.8%

# How Do Angels Learn?

- How do successful angels learn?
- Since we don't have enough hard data
- Most of our education has to be empirical
- Learning by observation & direct experience
- Essentially trial and error
- Directly through our own portfolios, and
- Learning from companies we are close to



# Direct Observation Is Expensive

- Each direct observation
- Is a company
- Observed through its entire life cycle
- From startup to exit
- Which usually costs \$millions (investors' \$)
- And often takes 5 to 10 years

# Sharing and Learning

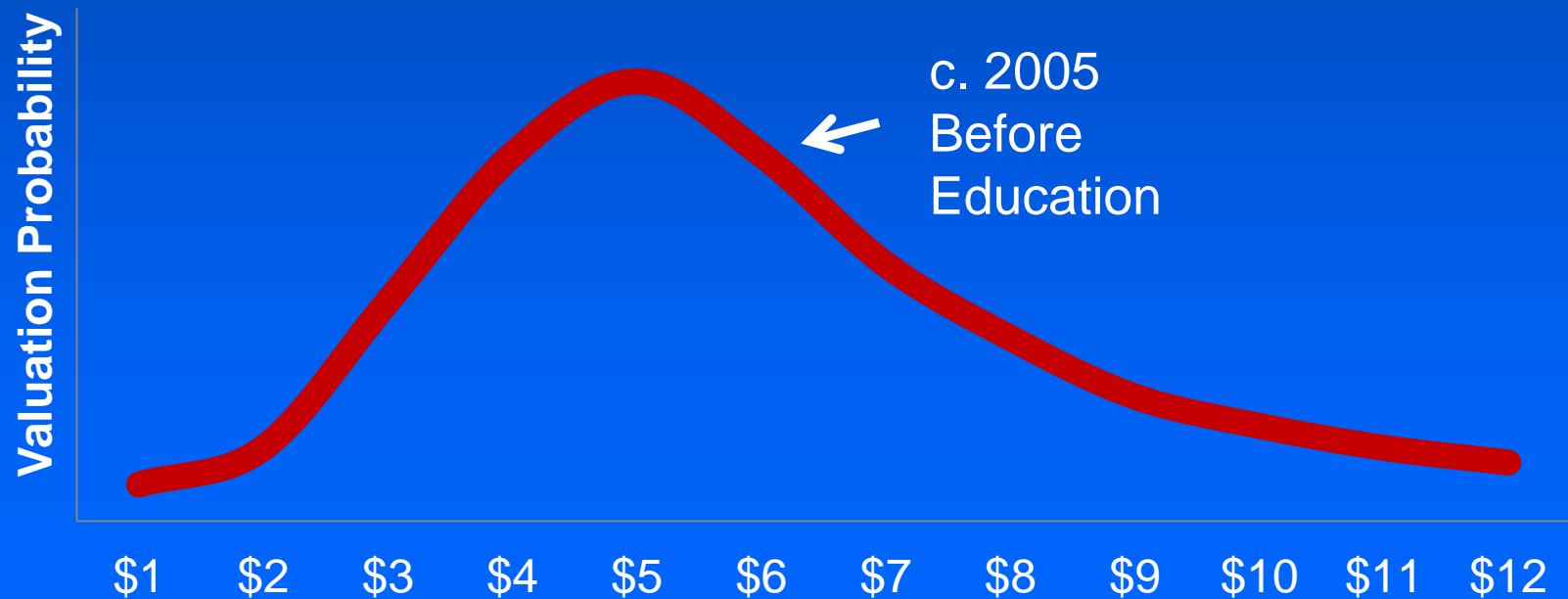
- One data point = \$ millions and a decade
- (The third reason that learning to be an angel is difficult and expensive)
- We need to share data and exchange ideas
- Meetings like this are the best way we can improve our returns

# Example – Education on Valuation

- I believe we've already improved angel returns
- Simply through education on valuation
- It's most often Bill Payne or John May up at the front of the room
- Over the past decade, I've probably watched Bill Payne teach valuation five times
- Here's the result of what we've learned

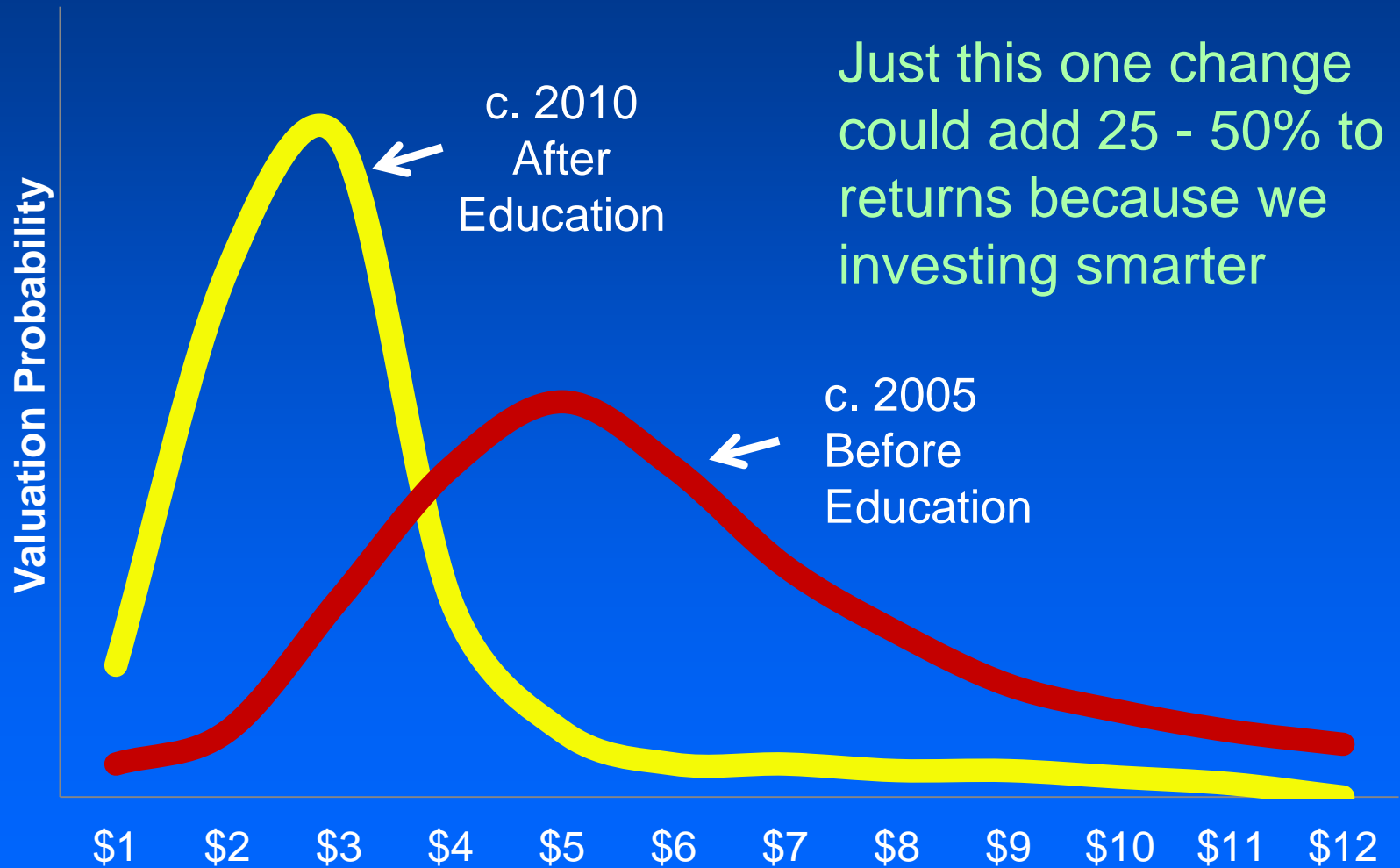
# Valuations and Angel Education

## Valuation of Companies Receiving Investment



# Valuations and Angel Education

## Valuation of Companies Receiving Investment




# Further Improving Our Returns

- Successful investing requires two things:

## 1. Investing Right:

- In the right companies
- At the right valuation
- With the right terms

We are  
getting better  
at these



## 2. Exiting Well

- In a reasonable time
- At a good price
- With a reasonable probability of success

Our biggest  
education  
opportunities



# Exit Data is Difficult to Capture

- To learn how to exit successfully more often
- To develop best practices on exits that will improve our returns
- We need more hard data on exits
- Yesterday morning both Thomas Hellman and Rob Wiltbank mentioned how difficult it is to capture exit data
- Thomas used the term 'heroic assumptions'

# From the NACO 2012 Report

- In 2011 the NACO report captured 8 exits
- In 2012 the survey again captured 8 exits
- But only 4 had enough data to be analyzed
- In all of Canada!



# Dangerously Incomplete Data!

- Report shows that \$1.87 million was invested
- And the total return was \$2.35 million
- And of course many others created losses

## **2.3.2 Return on Investment (ROI)**

With such a small data set (seven disclosed exit events) for which we do have complete comparable information, it is not possible to form a conclusive analysis on investor ROI. However, the total amount invested in the four recorded exits was \$1.87M. These same companies returned a total of \$2.35M to their Angel Group investors. One of these companies returned almost seven-fold the Angel members' original investment (i.e. a home run). Two of these investments generated a positive return, one generated a negative return and the last investment was neutral.

# Dangerously Incomplete Data!

- Why do I say this is dangerously incomplete?
- If someone read the 2012 report,
- A reasonable conclusion would be that angel investing does not work
- Intuitively, we know that is not the case
- Well, at least we hope that is not the case
- We need your help to prove it!

# How You Can Help

- The most difficult part of doing this type of research is obtaining the data on exits
- In Canada, we believe there are about 100 exits per year
- Our last two reports only captured 8 exits/yr
- We need your help to capture more exit data
- We've made it very easy for you
- It will take under one minute of your time

# http://Exits.net

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Your data will help University researchers, Angel investor associations, entrepreneurs and governments around the world.



Any data on exits over the past decade or so – even rumors – will be very helpful.

Company that was sold \*

Exit Valuation \*

\$

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sharing your data!

It will help all of us  
become better investors.