

This Golden Era for Entrepreneurs

UBC Sauder School of Business
BAEN 502 Growing & Exiting a Venture

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Basil Peters

Format this afternoon

- I'd like to move quickly through my entire presentation
- And have a discussion at the end
- Instead of questions throughout
- This PowerPoint will be available
- The video will be online in a few weeks

My Background and Perspective

- I am a geek, techie, nerd
- PhD in Electrical and Computer Engineering from University of British Columbia in 1982
- Started my first company at grad school
- Nexus grew to be the world's 2nd largest manufacturer of cable TV headends
- Sold in 1993 to Scientific Atlanta and is now part of Cisco

My Tech Investment Funds

- When we sold Nexus, it was the first time I had money to invest
- Been an enthusiastic tech investor since
- Founded and managed a:
 - Hedge fund – 1996 to 2000
 - Venture Capital Seed fund – 2002 to 2006
 - Angel fund – 2005 to 2011
- Now run a boutique M&A Advisory firm

My Investments and Financings

- I've made about 100 early-stage technology investments
- Slightly less than half produced a return
- I've been directly involved in over 100 technology company financings
- All were successfully completed
- I've worked directly on several dozen exits
- This is what I've learned about entrepreneurs.

A Golden Era For Entrepreneurs

- There has never been a time before when
- It was so easy for so many entrepreneurs
- To create such valuable companies
- On so little capital, and
- Sell them so early
- For so much money

Outline

- Why this is a Golden Era for Entrepreneurs
- The Biggest Change in the 21st Century
- Big Companies Today
- Startups Today
- What's Working in Our Economy
- M&A is the Transition – innovation to growth

The Biggest Change in the 21st Century

Every Century Has a Big Change

- That fundamentally transforms our world
- In the 19th century it was railroads
- In the 20th century it was automobiles and air travel
- In the 21st century it is the internet
- The internet may be the most significant
- So far ...

The World is Now a Small Place



And everything is happening faster

Big Companies Today

Big Companies Today - Outline

- When I graduated from University
- Today it's a disadvantage to be big
- Why big companies can't innovate
- The best way for them to grow
- Big companies have too much cash
- Demand for M&A exceeds supply

When I Graduated University

- Most of the new grads wanted to get jobs in the big companies
- To learn 'how it was done'
- To do exciting innovative work
- To work somewhere that was safe and stable
- Today, working in a big company seems to be a pretty risky proposition
- And certainly not a very lucrative one

The Disadvantage of Being Big

Canada's Most Valuable Corp

- Nortel was founded in 1882
- In 2000, Nortel's value was a third of the entire TSX index – Canada's most valuable
- Market cap was \$398 Billion
- Employed 94,500 people
- Bankrupt in 2009
- Assets sold to companies around the world

Other Big Tech Companies

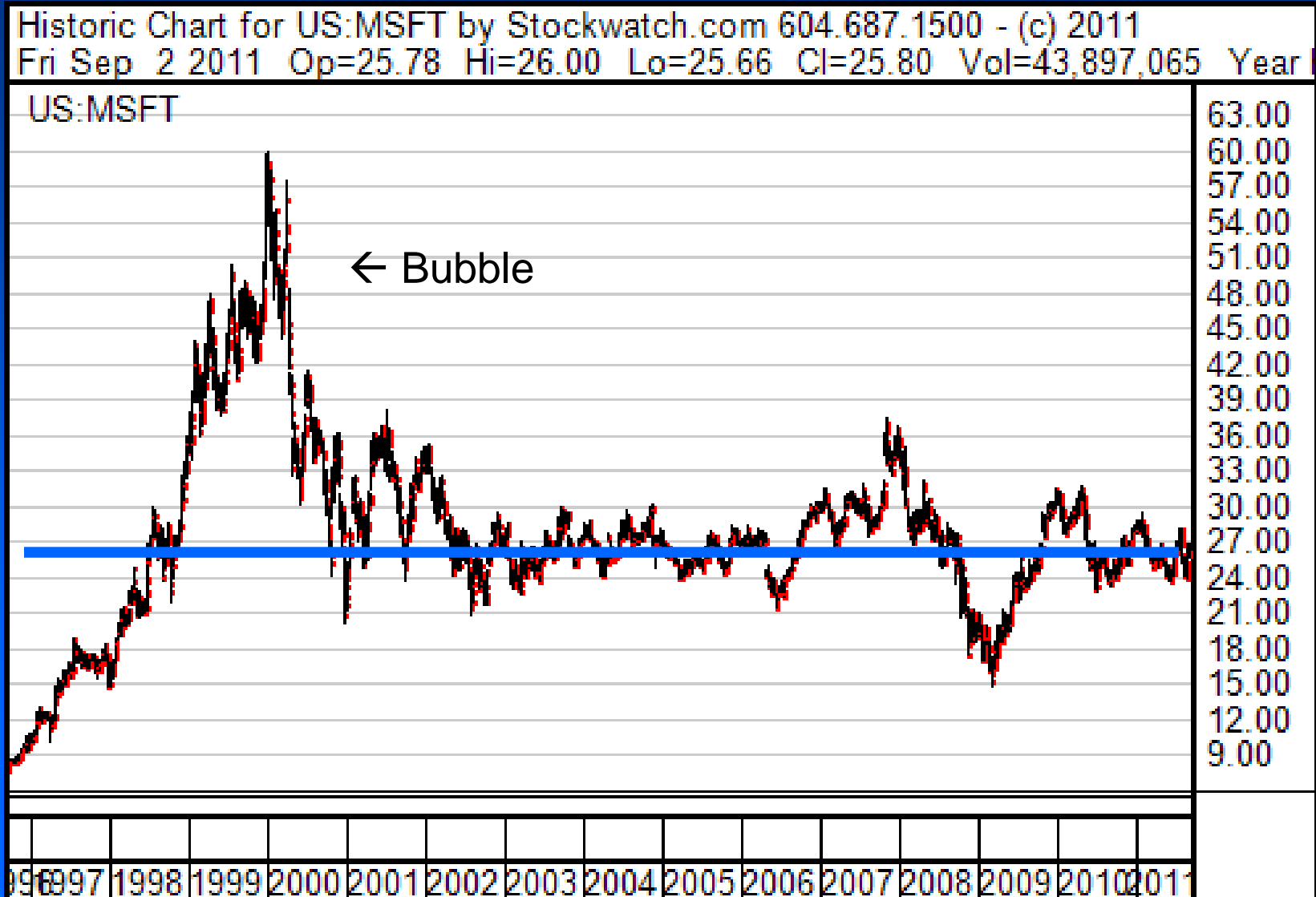
- Was Nortel just a single example?
- Or a made in Canada failure?
- What about the other big, great tech companies?

Intel – 15 years

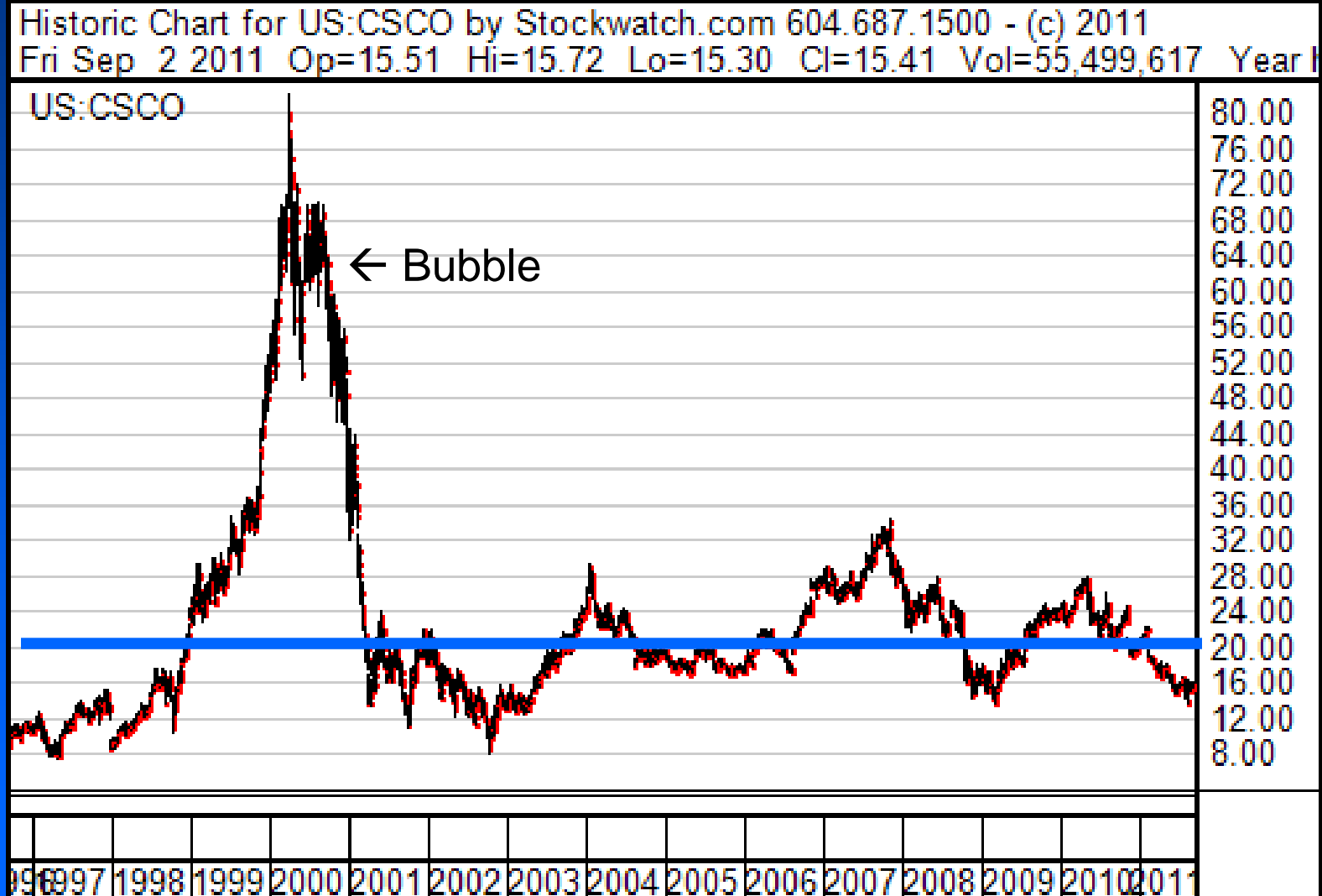
Historic Chart for US:INTC by Stockwatch.com 604.687.1500 - (c) 2011
Fri Sep 2 2011 Op=19.80 Hi=19.93 Lo=19.57 Cl=19.64 Vol=42,807,570 Year 1



Microsoft – 15 years



Cisco – 15 years



None Are Creating Wealth

- For their investors,
- And more importantly for their employees
- For decades, these greats were all built on the increasing value of their stock options
- That's what used to bring, and retain, the best and the brightest
- To these big companies

Why Big Companies Can't Innovate

Big Companies Can't Innovate

- In my first company, our direct competitors were both Fortune 500 companies
- About 100 times our size
- That literally terrified us every day
- We consistently beat them in the market
- Because we were much more innovative
- One of them eventually acquired us
- I've now seen that happen a hundred times

Why Big Corps Can't Innovate

- Why? Has bothered me for decades
- I finally understand - new research out of the Harvard Business School Forum for Growth and Innovation
- By Maxwell Wessel in HBR – a must read
- It's economic evolution in our specialized world
- Big companies are not designed to innovate!
- They have been optimized to scale things up

The Best Way for Big Companies to Grow

How Big Companies Think Now

- One of my friends from a Fortune 500 company explained it this way:
 - We (big companies) know we aren't good at new ideas or startups
 - We basically suck at building businesses from zero to \$20 million in value
 - But we think of ourselves as really good at growing values from \$20 million to \$200 million or more

“Under \$20 Million Is Easy”

- A company priced at \$100 million is already out of our sweet spot to buy
- But at \$20 million, it’s really easy for me to get it approved just inside my division
- We need innovation and have to deploy our cash
- Many big companies are spending more on M&A than internal R&D
- Taking an portfolio management approach to M&A
- Today, it’s the best way for them to grow

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/>

Big Companies
Have Too Much Cash

Big Corps Have Too Much Cash

- Many big companies have so much cash that it's a problem – shareholders complain
- Google has \$20 billion
- Microsoft has \$35 billion
- Cisco has \$43 million
- Apple has \$97 billion ← cash and investments
- In total just US corporations have \$2 trillion

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)
- Demand for M&A far exceeds supply

Startups Today

Startups Today - Outline

- The internet has also changed startups
- Today's are accelerated
- Incredibly capital efficient - often bootstrapped
- Increasingly likely to be virtual and global
- Innovative and exciting
- Creating all the growth and enormous wealth
- Where the best and brightest want to work

Startup Acceleration

Startup Acceleration

- The internet has accelerated everything
- It allows entrepreneurs to market and sell to hundreds of millions of prospects in just days
- The internet has also accelerated almost every other aspect of the startup lifecycle
- Entrepreneurs now have “Weekenders” where they build entire companies in a weekend
- Not unusual for companies to exit in 2 - 3 years

Capital Efficiency

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

Startups are Often
Virtual and Global

Startups – Virtual and Global

- The internet has changed even the structure of companies today
- Much like the railroads and automobiles changed the structure of our cities
- Many startups evolve naturally as virtual companies without any physical presence
- And with employees all over the globe
- Are indescribably more competitive

Startups - Innovative
and Exciting

Innovation in Smaller Companies

- Today, startups create the innovations
- And the opportunity and excitement
- And all of the economic growth in our economy
- And incredible opportunities to create wealth
- It wasn't like this just 10 or 20 years ago
- The best and the brightest increasingly want to work in startups
- Creating a positive feedback effect on innovation

Our 21st Century Economy

Our 21st Century Economy

- What's working in our economy today:
 1. Startups and young companies innovate
 2. Rapidly, often virtually and without capital
 3. Big companies, and others, buy them early
 4. The buyers then scale up the business
 5. Entrepreneurs recycle the gains, do it again
 6. The M&A transaction is the transition

M&A is the Transition to Growth

Growth in Companies

