

# Trends in Exits and Angel Investment

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# The World is Changing

- We are living through an interesting time
- The economy is changing
- The whole world is changing
- Faster than ever before
- Much of the change is driven by the Internet
- The biggest change is

# The World is Now a Small Place



# The New World

- We now live in a world where distance doesn't matter
- Where the important ingredient for growth is not capital,
- But people
- Ideas
- Innovation

# 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

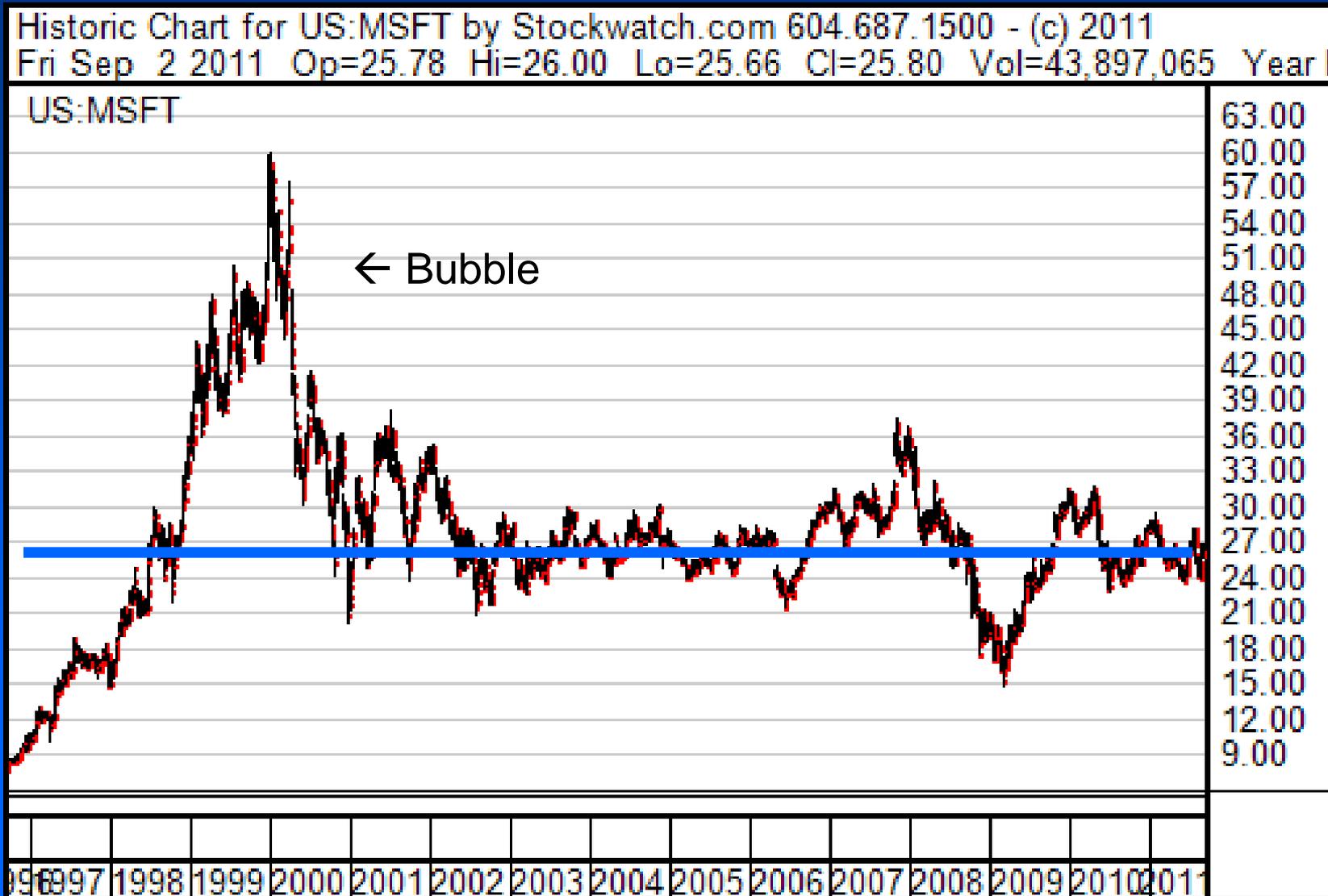
- Was Nortel just a single example?
- Or a made in Canada failure?
- What about the other big, great tech companies?

# Intel – 15 years

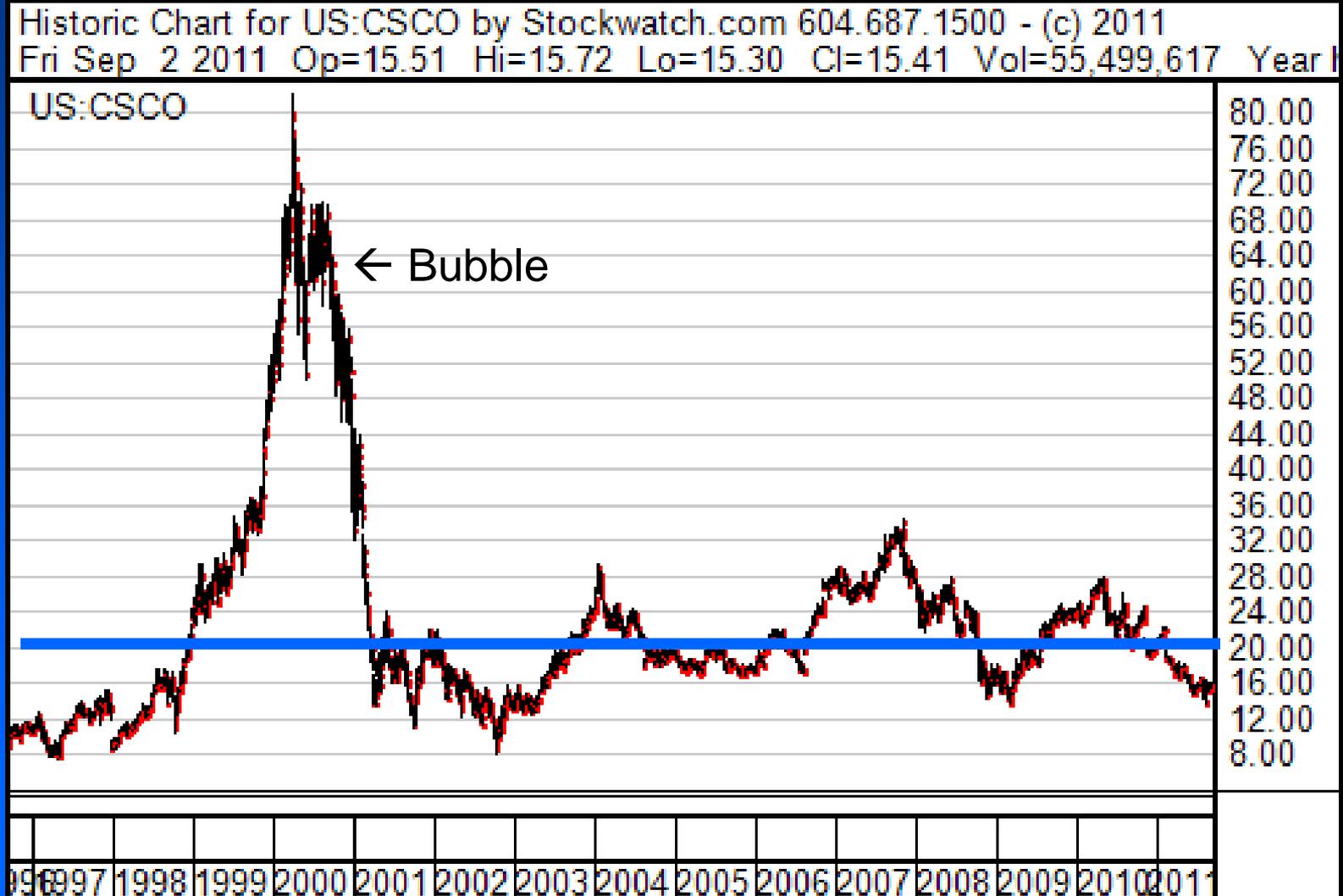
Historic Chart for US:INTC by Stockwatch.com 604.687.1500 - (c) 2011  
Fri Sep 2 2011 Op=19.80 Hi=19.93 Lo=19.57 Cl=19.64 Vol=42,807,570 Year 1



# 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
- Those were the people who created the innovations that fueled the growth

# Innovation in Smaller Companies

- The most creative people now work in startups
- Small companies create opportunities
- Where the smart people create the innovations
- That's why all the economic and employment growth is created by startups
- It wasn't like this 10 or 20 years ago
- New research is helping us understand why this change has occurred

# Big Companies Can't Innovate

- After being an angel for a couple of decades
- I saw over and over how startups out-innovate
- Their larger, better capitalized competitors
- That bothered me for many years
- Just recently Thomas Wessel at Harvard
- Explained that big companies are not designed to be good at innovation
- They are optimized to scale up businesses

# How Big Companies Think

- 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 a business 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
- \$100 million also requires board approval
- But at \$20 million, it’s really easy for me to get it approved just inside my division
- I’d buy one every month if I could just find them
- Many big companies are spending more on M&A than internal R&D
- 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>

# Most Exits Are Under \$15 Million

- Mergerstat database shows the median price of private company acquisitions is under \$25 million, when price is disclosed
- But the price is not disclosed in most smaller transactions
- Today, I estimate the median price to be well under \$20 million
- And probably below \$15 million
- That was a surprise to me just a few years ago

# 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

# 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

# Exiting in Internet Time

- The internet has also 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

# Weekender Sold in 10 Days

- In 2009 when I wrote “Early Exits”
- I speculated that one day: “They’ll probably define an early exit as selling the company before the end of the weekender”
- That almost happened in November 2009
- A team of entrepreneurs in London built a business in one day and sold it online in ten days: [www.24hour-startup.com](http://www.24hour-startup.com) ← great video
- Not an isolated example, see [www.Flippa.com](http://www.Flippa.com)

# A B.C. Really Early Exit

- This Vancouver company asked me to keep their details confidential – for now
- They wanted to test the idea for their first product, so called on a medium-sized US corp
- The prospect soon asked to buy the company
- The CEO called me for help
- Three months later the money was in the bank
- Company was less than 12 months from startup and still hadn't launched the first product

# Acquisition Before Demo Day

- Techstars is a startup accelerator in Colorado
- Demo days are for entrepreneurs to debut their businesses to media and investors
- In August 2013 one of their startups was acquired before the demo day
- Intuit acquired GoodApril for “under \$20 million”
- That had never happened before
- They’d raised just \$18,000 and a \$100,000 convertible note

# A New Really Early Exit

- Anyone heard of the company PumkinHead?
- How about their product - About.me?
- About.me was acquired by AOL
- Just four days after its public launch
- That may be a new record
- Better way to measure is from startup (= 1 year)
- This illustrates what experienced entrepreneurs and investors can accomplish in this market

# More Exits In Just 2 – 3 Years

- Flickr sold for \$30 million at 1.5 years old
- Delicious sold for \$30+million 2 years from startup
- Club Penguin for \$350 million at 2 years old
- YouTube sold for \$1.6 billion at 2 years old
- Playfish sold for \$275 million at 2 years old
- Mint sold for \$170 million at 3 years old
- AdMob sold for \$750 million at 3.5 years old

# Distance Doesn't Matter

- The Internet has also created a world where distance doesn't matter for many types of business
- On the way here on the plane, I read about the Ice House Showcase last week
- One company highlighted was TranscribeMe
- I've been a customer for almost a year,
- But had no idea they were in New Zealand

# What Does Matter Today

- Looking back at where technology has grown
- In places like Boston and Silicon Valley
- And watching many attempts to create new centers where technology would flourish
- We know now that the most important ingredient
- Is not access to capital or markets
- It's a place where people want to live
- New Zealand is certainly a very attractive place

# Tech Company Exits Then and Now

Most 1980s & 90s tech company exits



Today's tech company exits



# Government Thinking

- Last week at an angel meeting in Vancouver
- Our minister of technology gave a talk
- And said that he hoped our local companies
- Did not “sell out too early”
- Most of us knew that our minister meant well
- But didn’t really appreciate how the economy has changed

# Government Thinking

- Like many of us, he remembers how big companies used to create growth
- And were big, stable parts of our economy
- Today, the growth, and the most stable, part of our economy comes from
- The young companies
- The angel financed companies
- That should sell at the optimum time

# Exits are the Best Part

- I believe exits are the best part of being an entrepreneur or investor
- It's when we get paid for all of our hard work and risk capital
- But it's also the least well understood part of being an entrepreneur or private investor
- Simply because it doesn't happen very often
- And where we need to develop best practices

# Where We Can Improve

- Things are good for entrepreneurs and angels
- But we're still learning
- 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
- Which usually means it will fail completely

# Where We Can Improve

- I believe that investing is easy
- It's getting our money back that's challenging
- Where we angels can most improve our returns
- And to help entrepreneurs, and big companies, create more good quality jobs
- And build a stronger economy

# Our 21<sup>st</sup> Century Economy

- What works today:
  1. Small companies innovate
  2. In places where people want to live
  3. Angels, Friends and Family finance them
  4. Big companies, and others, buy them early
  5. The buyers then grow the business
  6. Entrepreneurs and angels do it again

# 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