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Early Exits –Bill Payne

A colleague in Vancouver, Basil Peters, has written a book on *Early Exits* for angels. At the Angel Capital Association Summit in Atlanta, he used the data from the book to create a new ½-day workshop on the same topic. I have read the book and attended the workshop and find his to be a fresh new perspective on angel investing.

Basil's premise is that the VC model is broken. There are larger and fewer firms resulting in much larger average investments by VCs. Most importantly (and something I had not considered before), because VCs are investing more money per deal (now nearly \$25 million per deal in total), they must wait much longer for exits (now 12-15 years). Why? To get a reasonable return on \$25 million, they need to build the value of the company to \$500 million or more. Considering the market conditions for most of this decade, that takes a long time. What happens along the way? VCs often block exits that would be quite attractive to angels and entrepreneurs, choosing instead to wait for much larger exits (and increasing the risk of failure along the way).

Basil is suggesting that angels think very carefully before funding deals that will require more money than angels can provide in multiple rounds (say, an upper limit of \$3-4 million). He warns that the consequence of investing in deals that will eventually require more than \$5 million is a long time to exit and increased risk of failure.

Basil also points out that the sweet spot for M&A deals is now about \$30 million. Most of M&A deals are being done in the \$15 to \$40 million range. Exits in this range are very interesting for angels and entrepreneurs...but not necessarily for VCs.

Basil concludes that we angels should focus more energy on "angel-only" deals requiring \$500K to \$3 million to get to point where the business model is proven and then begin to look for an attractive exit. Along the way, angels can help their portfolio companies get all the funding they need (in this range) and start early helping to tee the company up for exit.

You can get copy of Basil's book, *Early Exits*, as an eBook or hard cover on his website at www.Early-Exits.com.