Exit Strategy Webinar

December 8, 2021

ACA

ANGEL CAPITAL ASSOCIATION

HOW TO GET VALUE FROM THIS WEBINAR

- A copy of the slides has been sent to each registrant
- Use chat to submit questions; audio and “raise hand” have been disabled
- Questions will be posed once the presentation is completed
- The course is being recorded and will be available to participants for a limited time.
- Contact Heather Krejci with questions: hkrejci@angelcapitalassociation.org

ACA
ANGEL CAPITAL ASSOCIATION

Angel Capital Association Today

Great Connections

Gold Standard Education

Data Analytics

Advocacy in DC

World's largest professional society of active accredited angel investors - www.angelcapitalassociation.org

ANGEL CAPITAL ASSOCIATION

Webinar Objectives

- Understand the myths and misunderstandings about what an exit is
- The importance for angel investors to focus on exits
- Best practices for developing and implementing an exit strategy
- Introduction to the Exit Strategy Canvas

MISUNDERSTANDING EXITS

ACA

ANGEL CAPITAL ASSOCIATION

What is an “exit”?

ACA
ANGEL CAPITAL ASSOCIATION

An Exit is NOT a Departure of the Founders!

It is the ONE thing that angel investors should look at. This is more important that team, a big market, barriers to entry, or any other diligence factor you may look at.

ANGEL CAPITAL ASSOCIATION

VENTURENOMICS

Value Creation in the Venture World is Often the Opposite of the MBA World!

Exits are more important than positive cash flow.

ACA
ANGEL CAPITAL ASSOCIATION

THE “SECOND CUSTOMER”

ACA

ANGEL CAPITAL ASSOCIATION

Think of it as “The Second Customer” Value Proposition

1 Who will buy your product/services?

2 Who will buy your business?

NIKE

ACA
ANGEL CAPITAL ASSOCIATION

“But I don't wanna exit!”

Experienced founders with exits under their belts are like the fox in the henhouse - they want to do it again!

First time founders mistake value creation with “building something big” Angel investors sometimes mistake investing in a job for founders vs. an investment with returns.

ACA
ANGEL CAPITAL ASSOCIATION

TYPES OF EXITS

ACA

ANGEL CAPITAL ASSOCIATION

MERGERS AND ACQUISITIONS

M&A

Company makes a strategic acquisition, usually paying a multiple of revenues but some deals sell before revenues even start.

MOST ANGEL EXITS WILL BE M&A

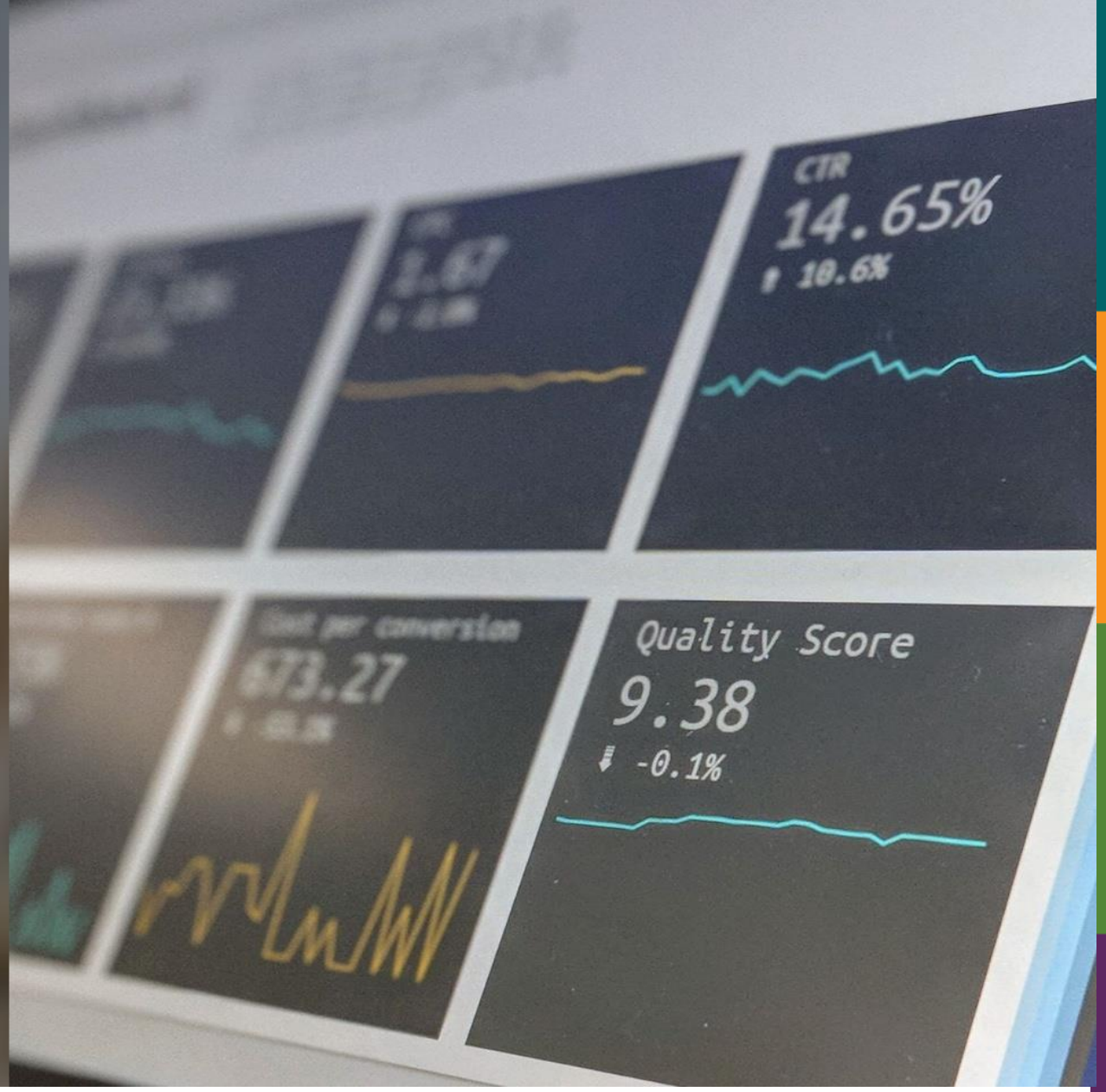
Corporate acquisition is of the whole company while an Asset sale is a purchase of the assets of the company.

ANGEL CAPITAL ASSOCIATION

PRIVATE EQUITY ACQUISITION

PE

Private Equity funds often acquire all or part of a company with any number of strategies including “roll ups”, growing companies for cash flow, or preparing them for IPO



ANGEL CAPITAL ASSOCIATION

REVENUE (ROYALTY) BASED INVESTMENT

RBI

For companies without a traditional exit path, capital is returned to investors as a percentage of revenues until a pre-determined target multiple is achieved.

ACA

ANGEL CAPITAL ASSOCIATION

SECONDARY MARKET

Secondary Market

Existing investors or employees with exercised options sell shares to new or existing investors before a formal exit of the company.

ANGEL CAPITAL ASSOCIATION

INITIAL PUBLIC OFFERING

IPO

Company engages investment bank to underwrite, prepare financials and disclosures S-1 and raise capital.

Typically ten years or more to IPO and revenues of $100M or more. About 2-5% of angel deals will IPO

“Direct Listing” is an alternative to an underwritten deal

ACA
ANGEL CAPITAL ASSOCIATION

SPECIAL PURPOSE ACQUISITION COMPANY

SPAC

A “blank check” company goes public with no business and therefore lighter lift to document risks or other disclosures

Blank check company then acquires the target company which becomes public.

Similar to a “reverse merger IPO” where an inactive public “shell company” acquires a company and it becomes public.

ANGEL CAPITAL ASSOCIATION

DETERMINING EXIT VALUATION

ACA

ANGEL CAPITAL ASSOCIATION

Sources for Comparable Transactions

HOOVERS™

<- Public
Private ->

PitchBook

crunchbase

U.S. SECURITIES AND EXCHANGE COMMISSION ★ MCMXXXIV ★

THOMSON REUTERS

CB INSIGHTS

ACA
ANGEL CAPITAL ASSOCIATION

The Drivers of Exit Multiples

LTM Revenue at LOI :	<2x	2x-3x	3x-4x	>4x
Quantitative Factors:				
Delivery Model	License / Services	↔	↔	Cloud / Service
Revenue Growth	< 5 - 10%	10 - 20 %	20 - 30%	30 - 40%+
% Recurring Revenue	< 50%	50 - 70%	70 - 90%	> 90%
Gross Margins	< 50%	50 - 60%	60 - 70%	> 70%
EBITDA Margin	< 10%	10 - 20%	20 - 30%	> 30%
Total Addressable Market	< $ 500 million	↔	↔	$ 5+ billion
Client Concentration (Top 10)	> 75%	↔	↔	< 20%
Qualitative Factors:				
Market Position	Limited	Low	Medium	High
Market Growth	< 5%	↔	↔	> 20%
Product	Commoditized	↔	↔	Differentiated
Technology	Legacy	↔	↔	Leading Edge
Management Team	Less Experienced	↔	↔	Strong, Deep
Process Factors:				
Buyer Universe	Limited, One Sector	↔	↔	Broad, Multiple Sectors
Synergy Potential with Strategic Buyers	Limited	Low	Moderate	High
Performance During Process	Miss Budget	↔	↔	Exceed Budget
The Right Buyer	Weaker Ability to Pay	↔	↔	Strong Ability to Pay
The Right Advisor	Limited Buyer Coverage / Relevant Experience	↔	↔	Broad Coverage / Relevant Experience

ACA

ANGEL CAPITAL ASSOCIATION

Determining Exit Valuation

- Exit Valuation Required for DCF Valuation Methodologies (Discounted Future Cash Flows)

- Start with the **PROFORMA**
  - Determine Reasonable Revenue or EBITDA numbers for target exit year

- Determine Reasonable **EXIT MULTIPLE** (of Revenue or EBITDA)

REVENUE * MULTIPLE = EXIT VALUE (ESTIMATE)

EXIT PRINCIPLES FOR ANGELS

ACA

ANGEL CAPITAL ASSOCIATION

Maximize Value at Exit

- Build the exit value into the company from the beginning – pay attention to the gaps in the incumbents in the market
- Create relationships early on and bring multiple bidders into the sale vs. taking the first offer
- Timing is everything – weigh risks over time vs. an early exit. Every company's strategy will be different

Tax Strategies to Maximize Returns at Exit

- Timing is important. Your cash returns will be different at 8 months vs. 18 months vs. 60 months.
- Section 1202 Requires five years
- When exit result in net losses, be sure to use Section 1244 accelerated write-off
- Section 1045 lets you roll your deals forward to keep the five year QSBS clock ticking if you reinvest within 60 days

Every Raise is a Decision to Raise More or Exit

- Every raise is a “fractional exit”
- Raising a new round dilutes everyone and adds 2-5 years to the exit calendar
- Who will be joining in a new round? What are their goals? Will they create value or put value at risk?
- What are the key inflection points of value? Does it make sense to exit now or keep growing?

BOARD AND TEAM ALIGNMENT

ACA

ANGEL CAPITAL ASSOCIATION

Board Seats and Exits

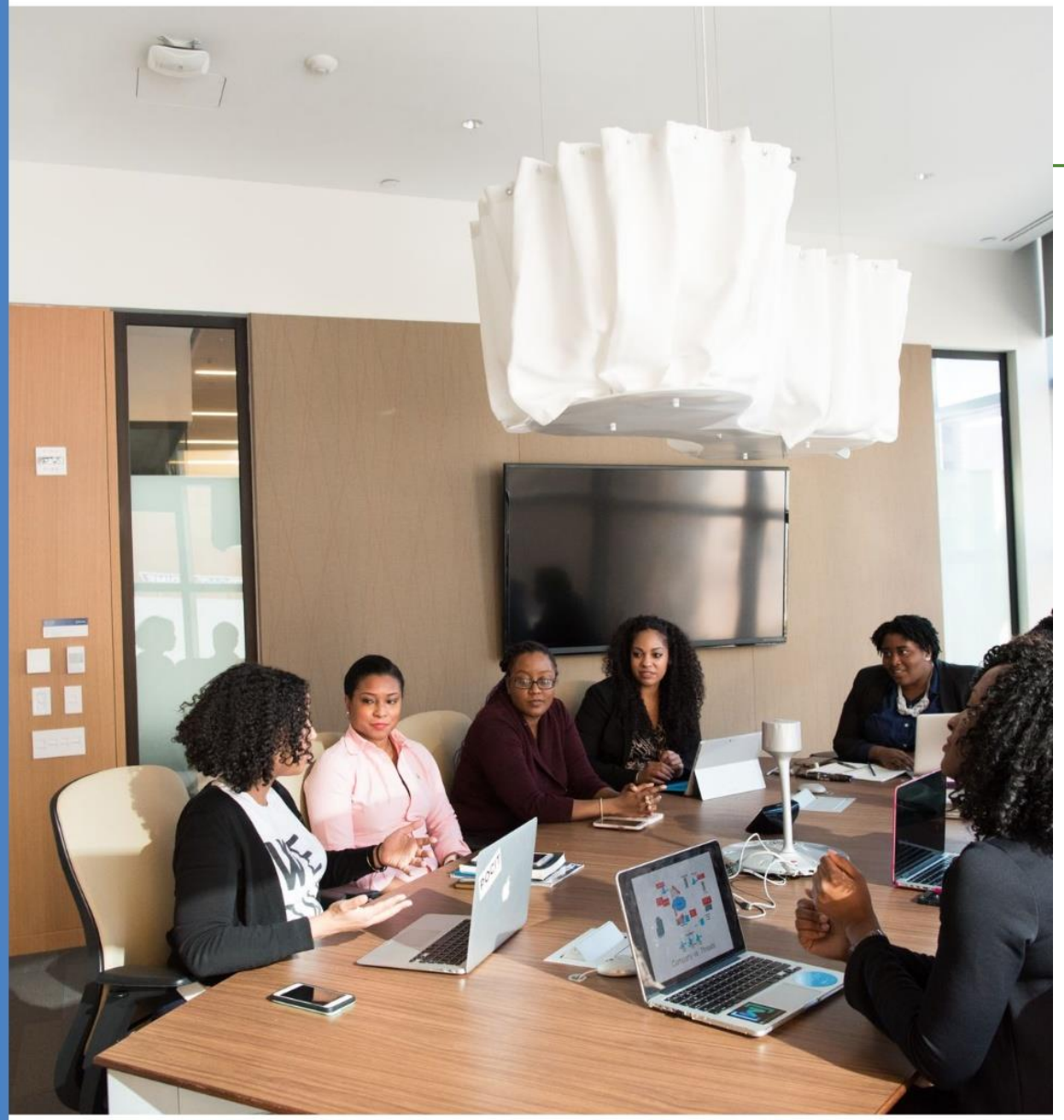
Founder Salaries

Too Big and there is no motive to exit.

Too small and they will want to exit perhaps too early.

Exits on Every Agenda

Confirm exit strategy and current exit valuation at each board meeting.



ACA

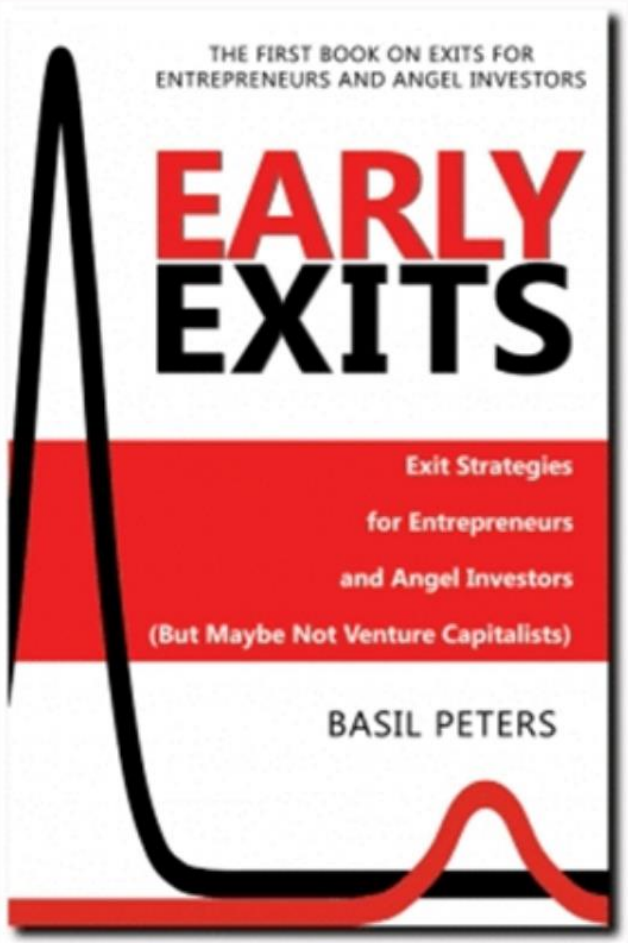
ANGEL CAPITAL ASSOCIATION

EXIT TIMING

ACA

ANGEL CAPITAL ASSOCIATION

Early Exits



ACA
ANGEL CAPITAL ASSOCIATION

Exit Scenarios

How to think about what numbers to use.

Early Exit Opportunity

Early exits can take place between six and 36 months after investment. Often characterized by high IRR but low ROI.

Probable Exit

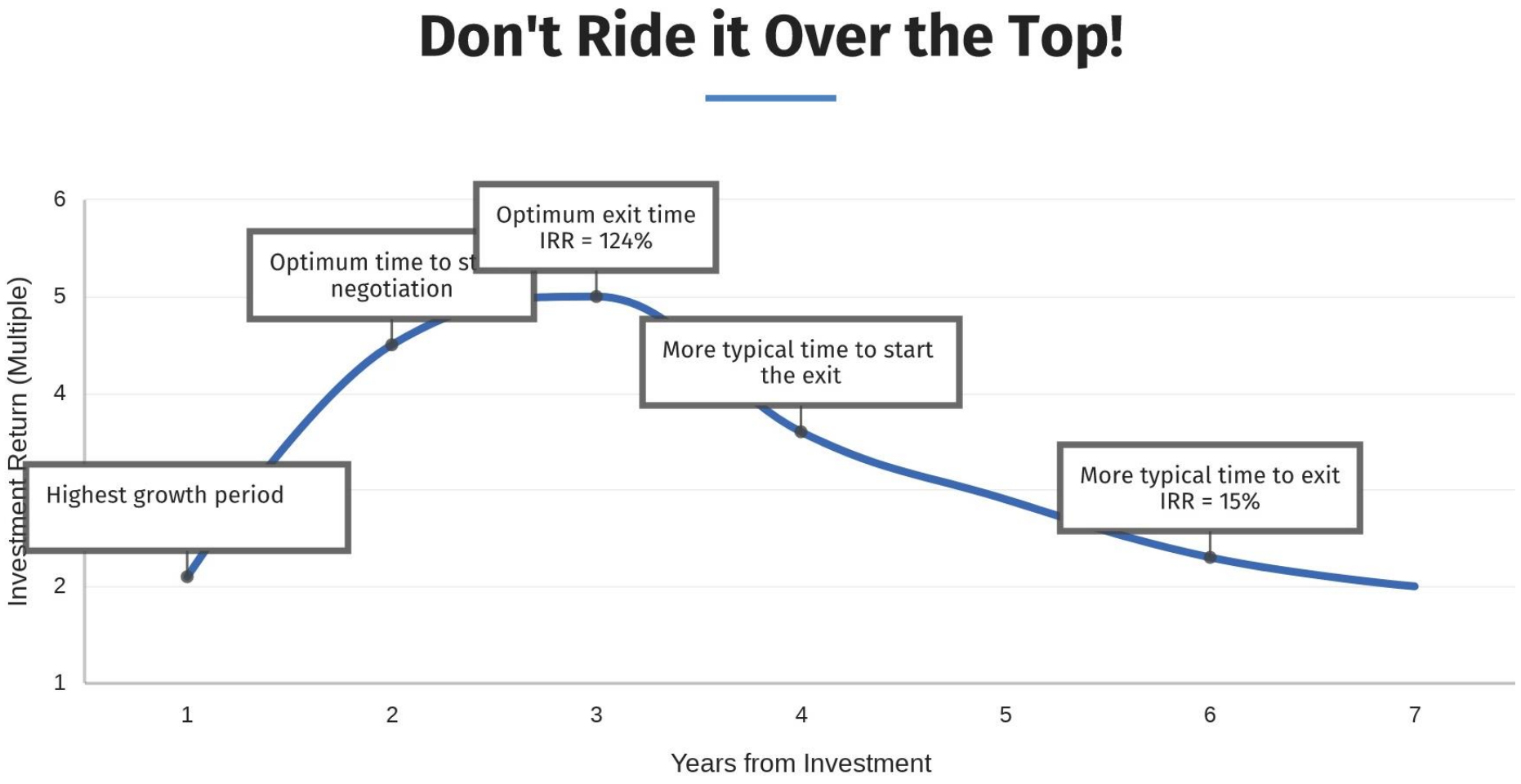
Probable exits are typically between 3 and 7 years from investment. Typically 10X or more return projected.

You will typically use this for your proforma and valuation models.

“Power Law” Exit

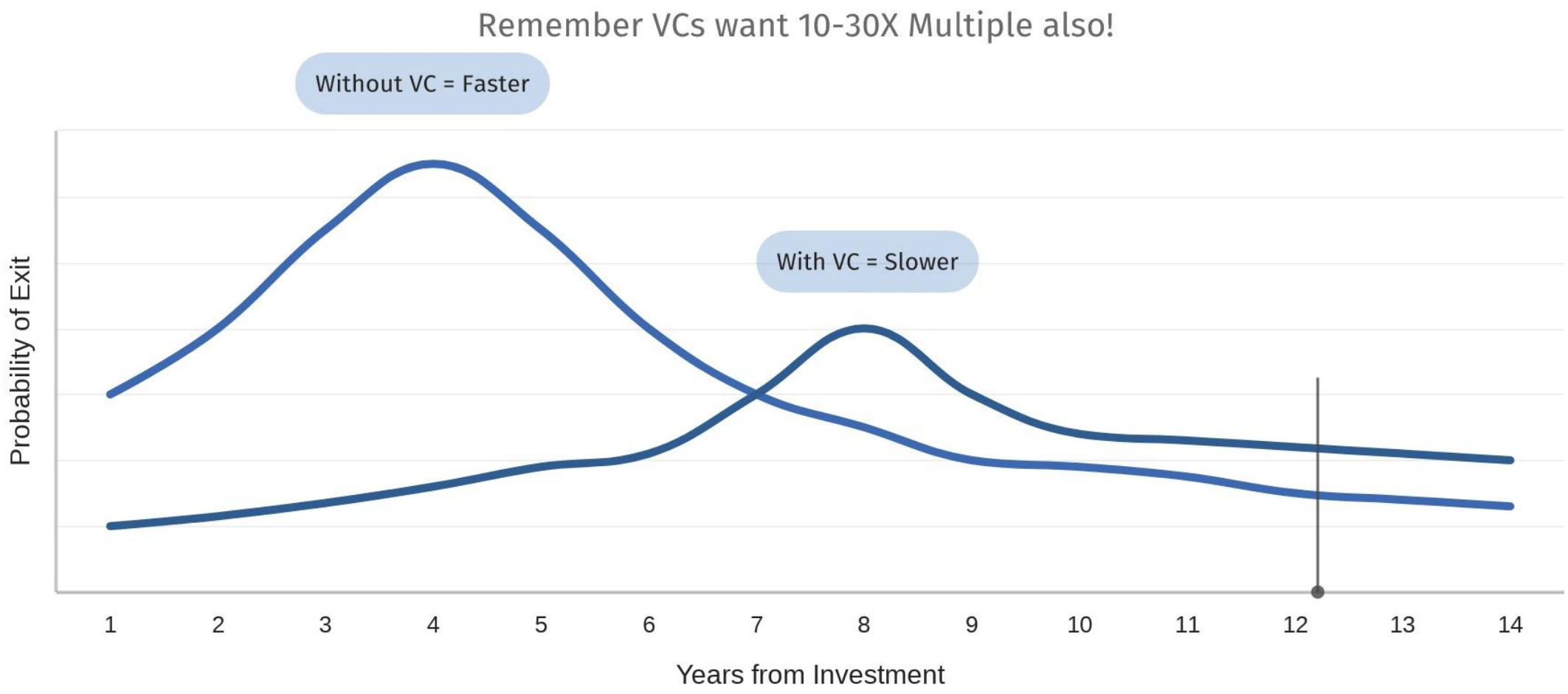
Power Laws state that one investment will “return the fund” one to three times. Unicorns with 100X returns are Power Law Exits. These will typically be IPO vs. M&A

The Art of Exit Timing



ANGEL CAPITAL ASSOCIATION

Engaging VCs Increases Time to Exit



ANGEL CAPITAL ASSOCIATION

THE EXIT STRATEGY CANVAS SIX THINGS EVERY FOUNDER AND ANGEL SHOULD KNOW

ACA

ANGEL CAPITAL ASSOCIATION

Good April – Exit Strategy led to Good Early Exit

ANGEL CAPITAL ASSOCIATION

Industry Vectors

What are the trends?

Where are the incumbents failing?

Where do we need to be in five years to be of optimum value to acquirers?

Wayne Gretzsky “Go where the puck is going, not where it is”

Recent Comps

Who is acquiring whom? (Why?)

What is the average valuation?

What is the revenue/value ratio?

What do the acquisition trends tell you about future trends and how to maximize value for your company?

Private Market M&A Comps

GoodApril

Follow | Save As

Profile | News | Similar Companies | Comps Analysis | Notes & Files

0 Selected | Select All | Select Page

#	Acquired Companies (20)	imi... core	Valuation/Re...	EBITDA	Revenue	Pre-money Valuation	Post Valuation	Deal Size
	GoodApril						20.00	20.00
1	Dave	67.46%	32.79	122.00	122.00	3,746.00	4,000.00	254.00
2	CSI Enterprises	67.06%		26.00			600.00	600.00
3	Serrala Group	65.23%	0.23		143.39		33.17	33.17
4	TIO Networks	65.20%	3.22	6.59	74.01		238.00	238.00
5	WageWorks	65.08%	4.39	79.01	455.89		2,000.00	2,000.00
6	Moip	64.33%	2.80	2.48	10.65		29.83	29.83
7	VersaPay	64.22%	16.33	-8.35	5.83		95.17	95.17
8	Higher One	63.32%	2.96	-34.49	87.89		260.00	260.00
9	JetPay	63.14%	2.38	5.22	81.02		193.00	193.00
10	Planet Payment (Acquired/...	62.83%	4.85	14.41	52.98		257.00	257.00
11	Acima Credit	62.36%	1.12	225.00	1,250.00		1,394.00	1,394.00
12	Eft Canada	61.85%	0.80	0.63	1.32		1.06	0.89
13	Majesco	61.63%	4.85	20.99	150.39		729.00	729.00
14	Kaufman Rossin Fund Servi...	61.40%	3.65		26.00		95.00	95.00

ACA

ANGEL CAPITAL ASSOCIATION

Public Market Comps

GoodApril

Follow | Save As

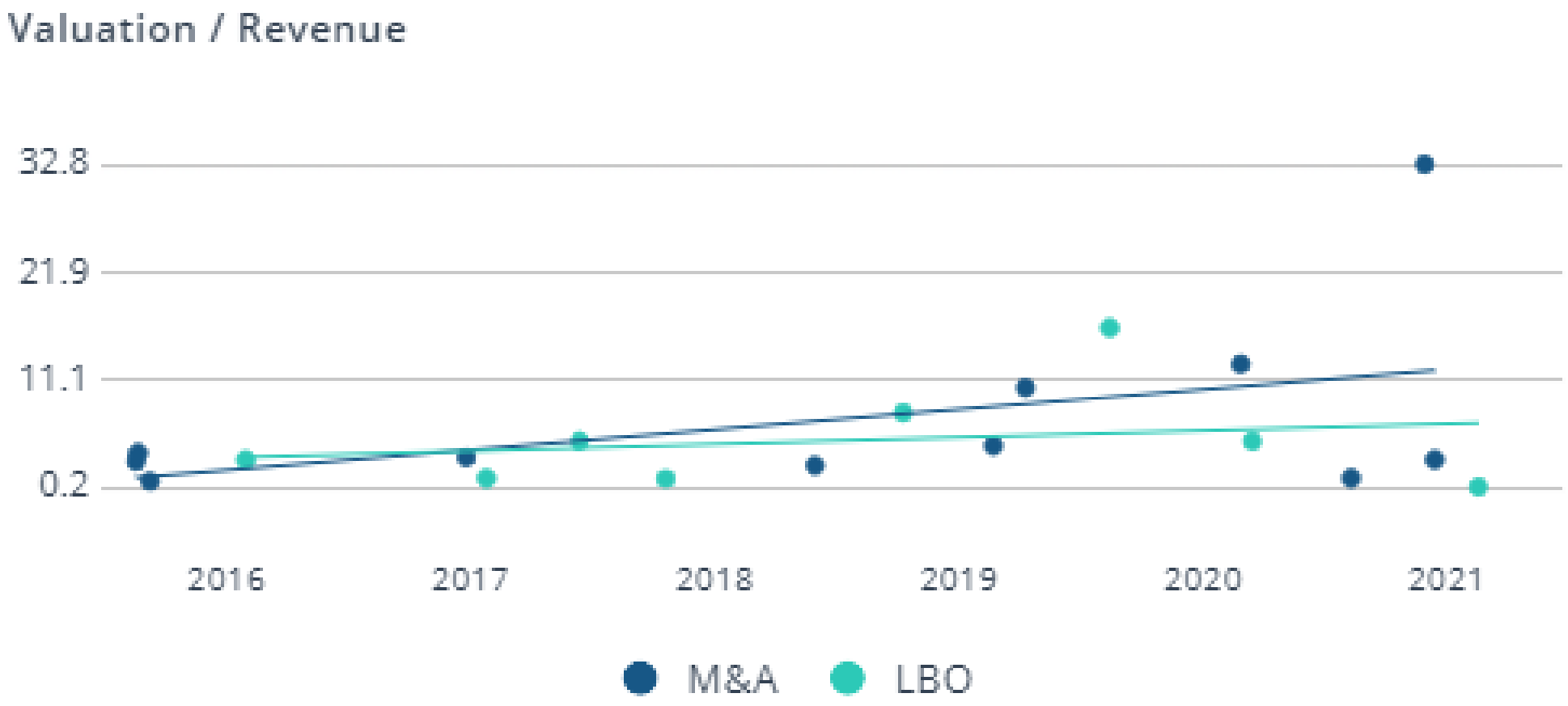
Profile | News | Similar Companies | Comps Analysis | Notes & Files

0 Selected | Select All | Select Page

#	Companies (10)	Simi... Score	Market Cap	Enterprise Value (Daily)	Net Income aft... Non-Controllin...	EBITDA (Earnin... Depreciation, ...	Total Revenue (TTM)
	GoodApril						
1	Avalara (NYS: AVLR)	81.14%	14,504,577	13,928,578	(81,398)	(84,167)	595,307
2	Afterpay (ASX: APT)	69.67%	25,601,652	25,732,571	(116,526)	(90,868)	689,068
3	Settlebank (KRX: 234340)	69.62%	226,399	110,165	15,107	24,607	80,596
4	PensionBee Group (LON: PBEE)	69.20%	415,448	339,314	(27,977)	(27,663)	12,206
5	Rego Payment Architectures (...	68.41%	117,926	133,935	(21,221)	(20,232)	1
6	Douugh (ASX: DOU)	68.01%	30,944	23,186			
7	Blucora (NAS: BCOR)	66.61%	775,331	1,136,071	(17,652)	90,310	863,205
8	Payright (ASX: PYR)	66.51%	22,731	55,517	(9,494)	(4,881)	8,538
9	Euro-Tax.pl (WAR: ETX)	66.36%	2,855	248	355	560	5,514
10	Vertex (NAS: VERX)	61.84%	2,873,773	2,803,152	(17,702)	(12,330)	397,323

ACA
ANGEL CAPITAL ASSOCIATION

Exit Comps: Between 6-11x Revenue for M&A/LBO



Source: PitchBook Data

PitchBook

ACA
ANGEL CAPITAL ASSOCIATION

What are your values?

Think about value alignment with your acquirers.

Will you be acquired by someone who shares your values and will accelerate your mission?

Caution - will your acquirers seek to shut you down due to “Innovators Dilemma”?

Exit Team

Not the same as your company team!

You will need specialists:

M&A Legal

Accounting

Investment Bankers

Internal CFO or others with previous M&A Experience

Your VC investors too!

Exit Timing

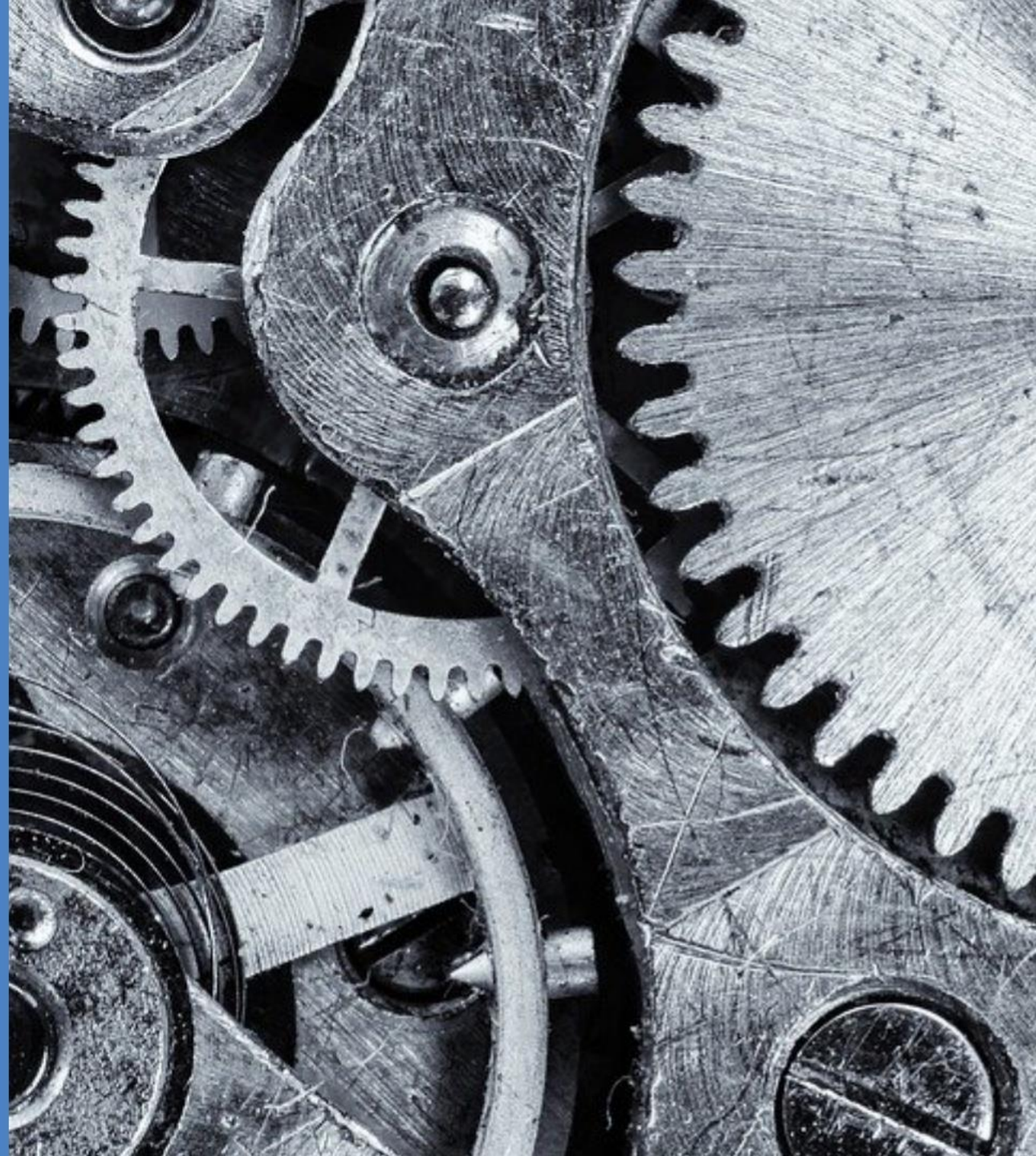
You should always be prepared for exit.

What are your early (1-3 years) options and who would acquire you and why?

What are your 3-5 or 7 year options?

What is your valuation and value proposition at each stage?

Your board agenda each quarter should include your most current exit strategy!



Exit Targets

Who are your likely acquirers?

Not just industry or company, but departments and individuals.

Every company has different exit point. CFO, Strategy, Corp. Dev. or Business Units

Develop relationships NOW with individuals. Blogs, conferences, LinkedIn, newsletters and quarterly updates.

RVC Exit Strategy Canvas

Industry Vectors

What trends will make the company valuable in 3-5 years?

Vectors
1. Incumbents have tax software, but nothing to create tax planning estimates during the year. 2. Good April identified this "gap" in their product offering. 3. Tax Act, Intuit, Turbo Tax, HR Block are all very competitive and looking for new features.

Values

What values will the acquirer need to match?

Values
• Good April was worried about the culture of being acquired by a larger company. • They liked setting their own direction and moving quickly. • In the end they appreciated the resources that Intuit provided.

Recent Comps

Who has been active and what is the sweet spot for acquisitions?

Acquirer	Acquired	Amount $	Multiple (Rev)	Strategy
European Legal Service	Nalogia (RU)	Undisclosed	N/A	Acquired as an operating subsidiary
WealthSimple	Simple Tax Canada	Undisclosed	N/A	Former subsidiary of TaxACT acquired by Wealthsimple
Drake Software	GruntWorx	$17.5 last round 2 yrs prior	N/A	Automated tax doc. Software with AI/ML
Note: Pitchbook composite report shows			6-11X Multiple	

Team

Who is on your team or needs to be added for optimum exit?

Team
Legal – identified a need to have good legal representation because Good April was at an information and experience deficit relative to Intuit. Negotiations – TechStars team (Brad Feld, David Cohen, Luke Beatty) were critical to helping them negotiate and set the terms as well as identify their "bargaining chip"

Exit Timing

What exit opportunities exist as the company grows?

Exit Type (IPO/Acq)	Years	Value	Strategy
M&A	.75	$20 million	Accept offer from Intuit
M&A	5	$75-200M	Grow the company and add features. Probably three rounds of funding to get here.

Exit Targets

Who are the likely acquirers?

Acquirer (Company &Contact)	Value Proposition to acquirer & How will you connect with them?
Intuit Tax Act HR Block	All three have the same value proposition – powerful new features to make their basic tax software more useful to their customers. Connect via – conferences such as Finovate Writing articles in VentureBeat – the "future of tax" Networking – tap into network for introductions

Exit Strategies Key Takeaways

- Exit strategies are the most important part of due diligence for angels
- How boards of directors must be involved in exit strategy and negotiations
- Six ways to think about exit strategies – the exit strategy canvas
- How to win on deals with or without VC follow-on investment
- How to maximize returns with exit strategies and execution
- Using exit strategy models to drive angel valuation negotiations
- Taxes and Exits – How to Keep What you Earn

QUESTIONS

ANGEL CAPITAL ASSOCIATION

RVC Exit Strategy Canvas

Industry Vectors

What trends will make the company valuable in 3-5 years?

Vectors
1. .

Values

What values will the acquirer need to match?

Values
• .

Recent Comps

Who has been active and what is the sweet spot for acquisitions?

Acquirer	Company Acquired	Amount $	Multiple (Rev)	Strategy

Team

Who is on your team or needs to be added for optimum exit?

Team

Exit Timing

What exit opportunities exist as the company grows?

Exit Type (IPO/Acq)	Years	Value	Strategy

Exit Targets

Who are the likely acquirers?

Acquirer (Company &Contact)	Value Proposition to acquirer & How will you connect with them?

AngelCapitalAssociation.org
(913) 894-4700
@ACAAngelCapital

ANGEL CAPITAL ASSOCIATION