

Module 208: Exit Execution – Course Description

Description

This module provides the knowledge and resources to maximize the probability of completing a successful exit, ensuring the price is fair, the terms are reasonable and the outcome is optimum for the team and the business.

Overview

Over the past decade there have been dramatic advances in angel knowledge and education. Angels, and to some extent also entrepreneurs, have much better information on valuation, terms sheets, due diligence and post-investment relationships. Today, not only in North America but in most of the developed world, angels and entrepreneurs are collaborating more effectively and growing much stronger young enterprises with much better probabilities of success.

Looking forward, there are still many areas where we have the opportunity to expand our knowledge and improve the returns for angels, entrepreneurs and our economies. Perhaps the most needed, and promising, of these areas is exits. Angels everywhere in the world agree that we need more, and better, exits.

There are several reasons that our knowledge of exits has lagged behind other areas:

1. Exits happen less often – for every ten investments we learn from, we probably only experience one favorable exit.
2. Exits happen much later – most successful exits happen five or ten years after the angels invest. Many of us are still waiting for our few first hand experiences.
3. Exits are covered by NDAs – it is much more difficult to capture data on exit transactions because a very high percentage are covered by NDAs; so even when angels have been part of a success, we usually can't share the data. Complete case studies are exceedingly rare.

Learning Objectives

By the end of this module the student will be able to:

- Explain the most common causes of difficult exits
- Develop appropriate preventatives and mitigants
- Choose and implement the best exit strategy for a venture.

Prerequisites

Students should have completed all Level 1 (100-series) modules plus module 206, or have significant direct experience as an angel investor.

Pedagogy

A mix of panel discussions, case studies, and instructor-led group discussions will predominate the methods used in this module.

Detailed topics

This module will cover:

- Why “exit” might not be the best word to describe this – it’s more like a really big financing
- The exit is just another business process and is as predictable as a marketing plan, financing or HR strategy
- Only about 25% of saleable companies successfully exit – why and how to improve your probability of success
- We don’t have the hard data we need, so we have to rely on anecdotal information to learn
- Why companies should be sold, not bought (and what that actually means)
- The danger of allowing a company to be acquired through an unsolicited offer
- The benefits of multiple bidders – it’s not just that the price will be higher, it’s more about probabilities of success
- The inefficient market for selling companies and how to use this to increase the selling price
- How mentors, angel investors and directors can best contribute to the exit process
- How much work is required to sell a company well? (For an experienced team the answer is 1 to 2 man years)
- The CEO is critically important – but should almost never lead the exit (and may even be conflicted)
- Do you need investment bankers or M&A advisors to sell a company?
- The shortage of experienced investment banks that will execute mid-sized exits
- How much are the professional fees to sell a company? (to lawyers, accountants, tax advisors and i-bankers)
- The optimum exit team and company factors which affect the team composition
- There are many more types of buyers today than we’ve ever had before – the types and the reasons
- The M&A market is completely global, even for relatively small companies - how to plan and prepare
- How long it takes to sell a company and how to incorporate this into the overall company strategy and plans
- The intermediate milestones in the exit process and challenges of managing the timeline
- When and how to tell the team that the company might be involved in a transaction

- Exit valuation – including a breakout where you will apply what you’ve learned to value real transactions
- The first steps in the exit process – a checklist for every company
- Due diligence – the responsibilities of the management and the board
- Representations and warranties – and why even the investors should be afraid
- Case studies and lessons from real angel backed company exits – including the war stories and valuations
- Resources on Exits Execution

Assignments

None.

Schedule

Two 1.75 hour blocks, corresponding to the topics above. Includes 3-4 panelist presentations from NACO partners and investors and is moderated by an Angel investor lead developer. Offered regionally once each year as a single session.

Student Prep Work

None required.