

Crossroads: Should I Sell Or Should I Grow?

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▶ How to Decide

If market leaders can come from any market, how do I decide if and when I should exit?

- ▶ Will your company be a multibillion dollar market leader?
- ▶ Market leaders are created from companies like yours
- ▶ As entrepreneurs, we often see the next opportunity around the corner
- ▶ And yet, we face real risks with the majority of our net worth on a daily basis
- ▶ What are our options?
 - Sell the company
 - Sell some of my shares
 - Raise capital to fund growth
 - Stay the course

▶ How to Decide: Sale/Timing

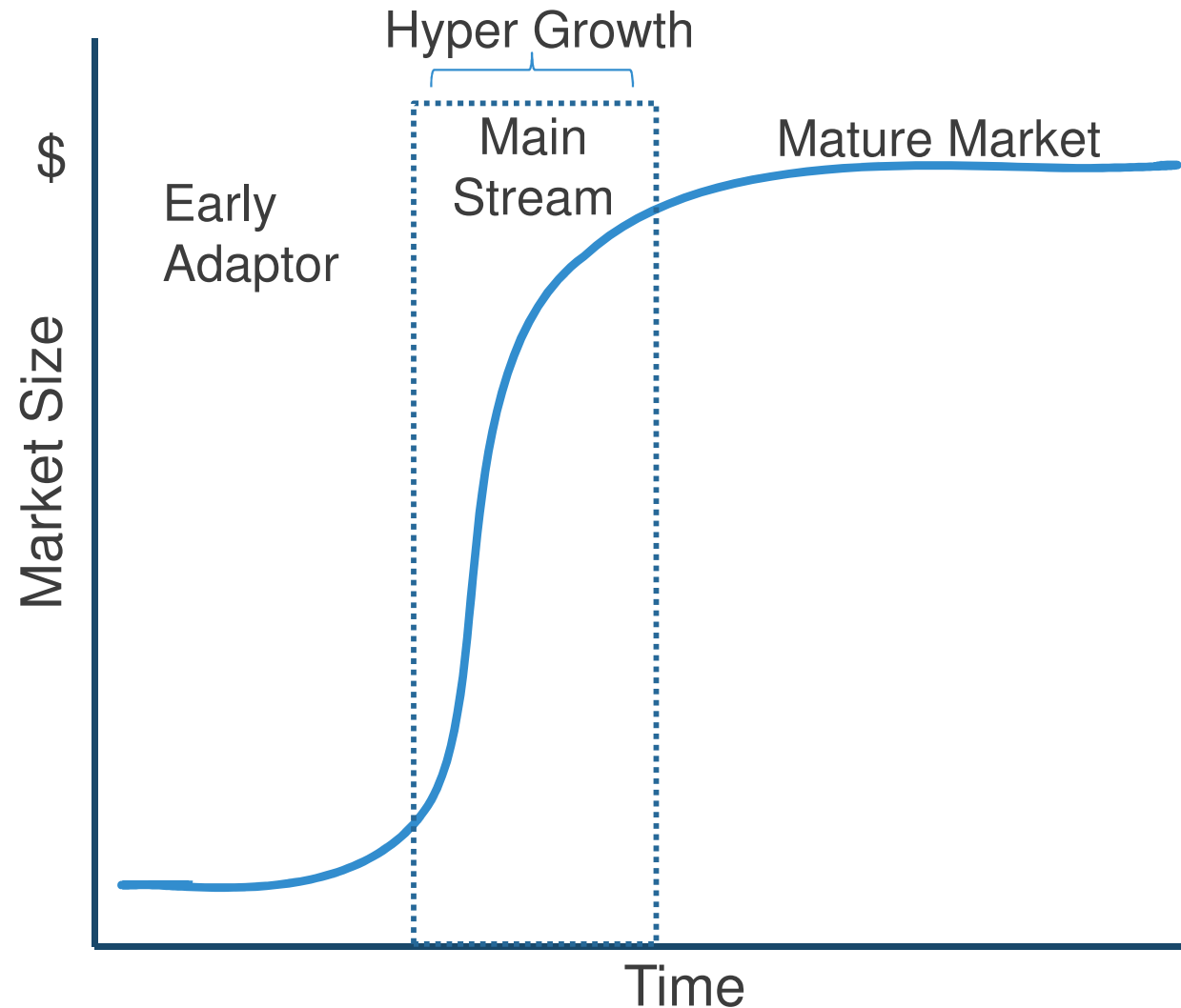
*A methodical
approach to a
high stakes
emotional
decision*

- ▶ High stakes question:
 - Missteps or indecisions can be expensive
 - Emotional process due to changes involved
- ▶ Approach useful for founders with:
 - Large equity ownership: Own 10%+ (often majority)
 - Active in the business
 - Founder can control outcome
- ▶ Three major factors are typically involved in the decision to sell:
 - Market – what is likely to happen to market growth?
 - Financial – what do the numbers say?
 - Personal – what are my needs goals and desire?
- ▶ We recommend looking at each factor independently – these issues can't be comingled.

Review the Market Continued...

Hyper-growth is driven by mainstream buyers

At what stage of market development is your company?



▶ Review the Market Continued...

What stage of development is your market?

- ▶ If Early Adopter Market:
 - Is hyper growth imminent?
 - What is your “holding cost”? Can you wait?
 - Are buyers willing to value the market potential?
- ▶ If Hyper growth:
 - Can you be a market leader?
 - How defensible is your position?
- ▶ If Hyper growth is slowing:
 - Do you see the next market?
 - Can you develop it fast enough to sustain growth?
- ▶ If Market is Mature:
 - Are you the consolidator?
 - Do you have the capital, skills and temperament to consolidate the market

▶ Understand the Financials

The financial analysis is quantifiable though still subjective

- ▶ Compare the economics of a share sale today with a share sale in three to five years.
 - Predict revenue growth based on market assessment
 - Calculate dilution from financings
 - Calculate exit value in 3 to 5 years
 - Discount back to today's dollars (higher risk= higher discount rate)
 - Does the resulting value make you indifferent to a sale today?
- ▶ If your business is in the rapid growth phase:
 - Financial analysis will suggest no sale without a high premium
 - A partial sale may be of interest to reduce risk of high growth
- ▶ Things to consider:
 - What is your confidence level on the market / your growth?
 - What resources will this require?
 - What management skills do you need to recruit?

*Lifestyle goals
are critical*

▶ Consider the Personal Aspects

- ▶ Never overlook your personal lifestyle considerations.
- ▶ Stage of Life: A founder-entrepreneur late in their career with relatively few assets will approach liquidity with a different risk profile than someone early in their career.
- ▶ *Considerations:*
 - *Risk Profile*
 - *Real Money*
 - *Personal Growth*
 - *Changing Roles*

► Situation Analysis

Analysis will point to an action plan

- After analyzing each category, step back
 - Identify every point in favor or against
 - Score each category with a plus or a minus.
 - Alignment across all three indicates a sale is prudent
 - Mixed outcomes spotlight development areas, alternatives
- If categories don't align:
 - Understand why, can the issues be fixed
 - Timing may help, when will they align, begin panning for that timetable
 - Partial sale may help
 - Reduce risk
 - Fund growth
 - Bring in board, talent, experience for growth phase

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► ***Full Article:***

<http://www.sterlingreport.net/articles/article250.html>

For more

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