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# Successful Exit Strategy Secrets: Know How To Get Out Before You Get In

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Is it rude to think about how to leave someone the first time you meet him? Perhaps. But in the risky world of angel investing, top angels think about the exit the first time they meet the entrepreneur.

Angels want to know that the CEO of the business they are investing in understands which companies could acquire them and why. They want to know the role they and other investors like venture capitalists (VCs), will play in an exit. Starting the relationship on common ground decreases th chance of an exit derailing later.

Sophisticated angels know that one investment in 10 provides nearly all o their returns. Driving a successful exit helps to increase the odds of a favorable investment return. While some angel investors can do this on their own, many benefit from joining an established angel group, which brings the power of many experienced angels to lead investments, serve o company boards, and help drive excellent exits.

Dr. Tom McKaskill, in his book, *Ultimate Exits,* advises entrepreneurs to "Start the process by thinking of your business as a product you are going to package for a very selective customer…the buyer who will pay the highest price.”

John O. Huston, founder of Ohio TechAngel Funds and a founding member of the Angel Capital Association, suggests that great exits start with three entrance questions:



- Is there exit goal congruence between the investors and the entrepreneur?
- Who will drive the exit - angels or VCs?
- Can they do so successfully?

To determine if there is exit goal congruence with entrepreneurs you are considering investing in, Huston suggests sharing data on recent exits in their industry and region. The data discussion opens eyes and builds understanding, as many entrepreneurs plan on an unusually large exit such as Facebook’s recent $19 billion acquisition of WhatsApp but a $50 million to $200 million is more likely.

Then ask: "If we decide to invest in your company we will work really har with you over the next three to five years so that we can sell your venture and put X-many millions of dollars in your pocket, is that an adequate outcome for you and your family in light of all the hard work ahead?”

If the answer is yes, proceed with due diligence.

Another question to ask before investing is whether venture capital is needed for a successful exit - and what that means to you as an angel investor. Companies requiring millions of dollars will need to attract VC money later, and it is important to understand the consequences.  Ask:

- Can we raise the requisite angel and VC capital with this CEO?
- Which angel director will ensure all non-dilutive sources of capital have been accessed?
- Can the lead angel drive the exit?
- Which directors have raised VC money in the past?
- How does bringing in VCs impact the ultimate exit?

Don't automatically assume VC goals are aligned with angels' goals. Understand that not only may your investment get diluted as VCs put in later and larger investments, and that VCs may have different ideas about company leadership or an exit. It is important to vet the VCs to avoid exit disagreements between entrepreneurs, angel directors and VC directors.

After making an investment, lead angels will be asked to drive returns and the exit. Angels wanting additional training in this area should consider using the resources of an angel group or professional association. For example, Golden Seeds offers a "Coach to Exit" course and the Angel Capital Association offers sessions at its professional conferences. Three books also provide great advice:

- *Early Exits* by Basil Peters
- *Strategic Entrepreneurism* by Jon Fisher
- *Ultimate Exits* + workbook by Dr. Tom McKaskill

Plotting a successful strategic exit requires identifying the appropriate "customer" for the business. Is the entrepreneur looking to sell to financi or strategic bidders? It's important to understand the difference. While financial bidders are concerned mainly with growing earnings, strategic bidders will ask how the acquisition leverages their assets and capabilitie and assess what happens if their competitor acquires the company.

Angel investors have much to gain by supporting innovative startups. Jus remember, before jumping in, ask the important questions about exit strategies to increase the odds of success.

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I am an angel investor and Executive Director of the Angel Capital Association (ACA), the world's leading professional association for angel investors. ACA is focused on... **Read More**