Engine

# Exits, Investments *and the* Start Up Experience: *the* **Startup Voice** *on* **Acquistions**

For more information, see *Exits, Investment, and the Startup Experience* at engine.is/reports

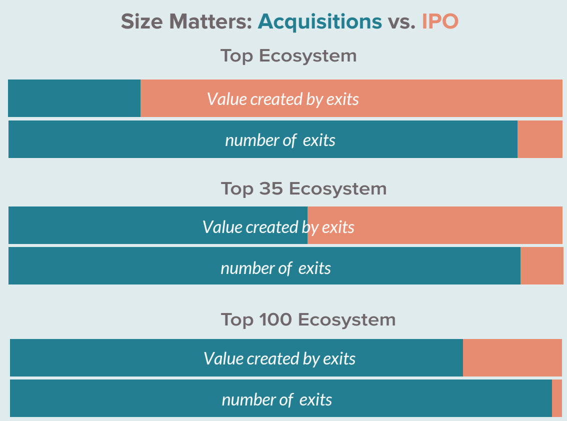
Engine Startup Genome

# THE STARTUP ECOSYSTEM NEEDS ACQUISITION AS AN EXIT PATH.

Startup exits and investment are two intimately related and important drivers of the dynamism that is critical to economic growth and innovation in the startup ecosystem. But exits via acquisition are particularly important to startups—especially those located outside of hubs like Silicon Valley. Startup acquisitions promote the building of knowledge, recycling of talent, and flow of capital through the ecosystem. Each of those components are key to building new startups and stimulating the investment needed to grow them to scale.


## The overwhelming majority of startup exits everywhere are via acquisition.

Acquisition is the most frequent startup exit in every ecosystem. In large ecosystems like Silicon Valley that have large IPOs, the majority of exit value comes from those IPOs. In smaller ecosystems—acquisitions create nearly all of the exit value. In most parts of the country, acquisition is the only meaningfully available exit path for startups.




## Founders say acquisitions are a good thing, and policymakers shouldn't make it harder to be acquired.

*" **The acquisition of 21 by Perforce was a success** and the right move for us, and I hope policymakers **don't make these sorts of transactions more difficult."***
~ **Shani Shoham**, CEO, 21 Labs
(acquired by Perforce)

*"**Being acquired is a desirable startup exit** path, and restricting it will lead to less capital and less startup competition."*
~ **Steven Cox**, Founder & CEO, TakeLessons
(acquired by Microsoft)

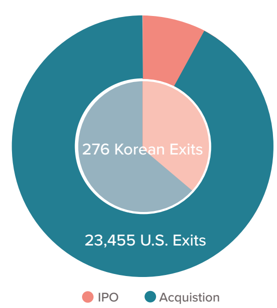
*"being acquired was **a really good outcome** for Safaba"... and **"a transformational professional opportunity** and financial outcome for our entire team."*
~ **Alon Lavie**, Cofounder & CTO, Safaba
(acquired by Amazon)

*"Founders should be able to pursue the pathway to **exit that is right for them..."***
~ **Jewel Burks Solomon**, Founder & CEO, Partpic
(acquired by Amazon)

## ACQUISITIONS AND IPOS AREN'T INTERCHANGEABLE.

IPOs are out of reach for many companies, extremely rare in most parts of the country, and early IPO regimes in other countries suffer from issues with performance and often aren't true exits for startup founders or investors—the kind that provide returns and deliver dynamic benefits to their local startup ecosystems.

Share of Exits by type, 2011-2021



## Acquisitions foster knowledge transfer and ecosystem growth.

Talent—knowledge and experience—is at least as essential to startup success as the capital needed to seed and grow companies, and acquisitions play a critical role in the development and mobility of talent through the startup ecosystem. Exited founders and employees learn from their experiences and put that knowledge into their next venture or advising others.

*"With the capital from selling their company, as an example, a Black founder can become an investor that then invests in more Black founders. They can share their expertise to help those founders build to their own exit and the cycle repeats."*
**~Preston L. James II,**
CEO & Cofounder,
DivInc

*"I'm able to help startups in a different way because I've experienced every part of the journey... equipping founders thinking about selling their startups with the many things I did not know going into the process myself."*
**~ Jewel Burks Solomon**,
Founder & CEO, Partpic
(acquired by Amazon)

## Acquisitions build generational wealth and expand opportunities.

Successful exits—overwhelmingly via acquisition—can create sometimes significant wealth for founders and their employees. Founders and their employees have been able to afford homes or pay off debts. They've been able to become investors, mentors to others, or start their own companies. And when acquisitions occur in underrepresented communities, it can help them prosper and overcome both historical and persistent discrimination.

*"Successful M&A can be life changing and transformative... Over time, th[e] ripple effect [of M&A cycles] builds generational wealth and fosters an ecosystem that helps diverse communities to prosper."*
**~Preston L. James II,**
CEO & Cofounder,
DivInc

*"Many of these founders whose companies are acquired typically don't come from loads of money, so this really is the American dream. If you start limiting who can acquire or what they can acquire, you're actually limiting opportunities for generational wealth for everyday people."*
**~Elizabeth Yin,** Cofounder
& General Partner,
Hustle Fund

## Serial entrepreneurs pour their talent and resources into the next thing.

Many startup founders launch several companies throughout their careers, using what they've learned from the previous venture to drive success. If they've experienced a successful exit—like being acquired—serial entrepreneurs often have their own resources to put into growing the new company, and with the track record of a return on investment, usually find a comparatively easier time raising outside capital.

*"My cofounder and I left [the acquiring firm] to build a new startup, leveraging our deep knowledge of the industry... Since then, we've raised $41M in venture funding..."*
**~Nicholas Hinrichsen,**
Cofounder & CEO,
Carlypso
(Acquired by Carvana)

*"My real joy lies in startups. My two options seemed to be: be an investor, which I was already doing, or start a new startup. Ultimately, I decided I wasn't ready to start a new company again (yet), and joined a friends' growth-stage startup..."*
**~Vinod Muthukrishnan,**
Cofounder & CEO,
CloudCherry
(Acquired by Cisco)

## Acquisitions are necessary to stimulate and sustain innovation-focused investment.

Venture capital is the most prominent form of institutional investment in startups, and very few startups grow very large without it. Exits are a critical part of the venture capital investment model because they are how gains are realized, capital is returned to investors, new funds are formed and ultimately invested in new startups. Every VC invests with the belief that a company could one day go public, but acquisitions are essential because they make up the majority of successful startup exits.

*"If the options for companies or for investors were IPO or total loss you wouldn't be able to sustain startups or an innovation-focused investment model."*
**~Tyler Griffin,**
Cofounder & Managing Partner,
Restive Ventures

*"The reality of any sort of investment is that investors need a return, or the likelihood of a return—and in the startup ecosystem, that's usually through an acquisition."*
**~Parag Shah,**
Serial Entrepreneur & Founder,
Vēmos

# THE STARTUP VOICE ON ACQUISITIONS

It is critical for policymakers to hear the perspectives of their startup constituents on the issues impacting them, and highlighting the views of the startup ecosystem is at the heart of Engine's work. Acquisitions are the most common form of successful startup exit, and it's important to understand the acquisition experience from those who've lived it. That's why the original iteration of this report included firsthand accounts from several startup founders across a range of ecosystems, deal sizes, and acquirers. Those stories are included here alongside a broader set of perspectives, like serial entrepreneurs that have founded and sold many companies; startup founders turned mentors and venture capitalists; and leaders of accelerator programs helping founders chart their path to success. Each of their stories help detail how acquisitions fit into the broader startup ecosystem.

## Startup Aquisition Experience: Elizabeth Yin

San Francisco, California
Cofounder & CEO, **LaunchBit** (Acquired by BuySellAds)
Cofounder & General Partner, **Hustle Fund**

**Hustle fund helps startup founders with capital, knowledge, and networks through pre-seed investment, advice, connections, and events and teaches people to become angel investors through Angel Squad.**

I founded an advertising company called LaunchBit in the thick of the recession in 2008. I could raise no money at first, but, scarcity turned out to be a good thing, because we meandered a bit and at first had no idea what we were doing. Eventually, we learned a lot about growing a business. As part of that, we formed partnerships with other advertising companies and one of those, BuySellAds, eventually approached us about acquiring our company. As a first time entrepreneur, I was incredibly naive and although I knew that one day it would be nice to be acquired, I wasn't really seeking it when they initially approached us. At first, we didn't bite on their acquisition suggestions, but after several months of sussing it out, we decided it made sense. They made the process very simple—no handcuffs for the team with just a short transition period for us to hand the business over to them. It was a modest exit and they ended up running the company for several years.

One of the things I love about entrepreneurship is the autonomy and ability to work on things you truly care about. A small part of the decision (but not the primary one) to proceed with selling LaunchBit was the realization that ads were not my life's work. Admittedly, though, on the day we closed the acquisition, I felt a sense of emptiness. I had just let go of "my baby" that I had worked on for so many years. Although it was also an opportunity to find the thing I absolutely loved working on—not just for five or ten years, but for thirty—that turned out to be a tall order. It really is hard to figure out what is the problem you want to work on for decades on end. I was working at a startup accelerator for a while and experimenting with different side projects to figure that out. And, one day, it dawned on me that what I really cared about was in front of me all along: startups and founders. I enjoyed helping great founders access capital, knowledge, and networks—three things every startup needs to succeed. That's why I started Hustle Fund.

# Startup Aquisition Experience: Elizabeth Yin

(continued)

When we started Hustle Fund, we initially launched a pre-seed VC fund to back very early stage founders. Our pre-seed fund invests in companies that basically have two people in a garage with half a prototype, no revenue, and a dream. A lot of people ask me how I knew I wanted to get into venture capital, but the truth is, I view Hustle Fund as a business—much like running a startup. Yes, in the truest sense, we are a VC fund—we invest in startups and hope to generate high returns from those investments. But, beyond investing, we also help with advice on building a business and connecting founders with other people who can help them succeed.To this end, beyond pre-seed VC funds, we've built conferences and events to help investors and founders connect and build networks. We've built Angel Squad, which is our modern day angel investing club that has had 1500+ members to help even more founders than we can help w/ our funds. We produce a lot of content: videos, blog posts, and tweet storms to empower founders with knowledge that can help them on topics like fundraising and customer acquisition. And we're just getting started.

As a VC, you try to invest in great companies, and you're looking for strong returns. We are looking for companies with 100x potential—companies that can potentially return 100x our initial investment. And the companies that will get there won't get there until about a decade later. Acquisitions are really important for this liquidity, because the public markets have really tightened due to Sarbanes–Oxley. In the 1990s, a common way that investors got liquidity on big winners was through IPOs. In fact, Amazon went public in 1997 at approx $300m market cap, but today, companies typically can only go IPO if they can achieve market caps that are 10-50x higher than that. So, acquisitions are really the primary driver for liquidity for many companies, because IPOs are so much more rare.

Acquisitions help the startup ecosystem on multiple levels. It helps entrepreneurs build generational wealth and become angel investors to pour back into startup ecosystems. These founders and early employees go on to angel invest in the next generation of founders. VCs generate wealth for their LPs who can reinvest into more funds and thereby more startups. I believe in democratization of wealth through entrepreneurship, and this is really only possible through acquisitions. Many of these founders whose companies are acquired typically don't come from loads of money, so this really is the American dream. If you start limiting who can acquire or what they can acquire, you're actually limiting opportunities for generational wealth for everyday people.

Acquisitions are not just about the money. They are also an integral part of the knowledge transfer that makes a successful startup ecosystem. Founders that have been through a full cycle from launch to exit know what good looks like and also what mistakes they've made that they won't make again. Having experienced people on your team or experienced people coaching you, is the crux of what makes Silicon Valley successful, and perhaps why in other cities throughout the country, founders have a higher hill to climb without the institutional knowledge that is passed around as often in the San Francisco Bay Area. Acquisitions are good for startup ecosystems everywhere and reducing them would be a real detriment to the U.S.

# Startup Aquisition Experience: Tyler Griffin

Bellevue, Washington
Cofounder & CEO, **Prism** (Acquired by PayNearMe)
Cofounder & Managing Partner, **Restive Ventures**

**Restive Ventures provides early-stage capital, deep operational expertise, and systematic connections to help fintech startups launch and grow more quickly.**

In 2012, a friend of mine from college and I started Prism. We initially wanted it to be a free solution for busy people who didn't have time to deal with bill payments. It turns out most affluent people just put everything on auto pay, so we ended up pivoting to be more of a cash management solution. The product focused on helping lower and middle income individuals who were concerned about running out of money at the end of the month avoid late fees by paying their bills on time. For example, if your power bill is due on the 20th, and you put a check in the mail on the 20th, they're going to say it's late, but if you pay it through their website, they'll credit it for the 20th even if the money takes a few days to actually get there.

The product worked really well and enabled real-time payments from the perspective of the customer. To pay a bill with your bank account we would transfer the money out of your account and use a virtual card to pay the bill. That had a few benefits, first for customer security, since they didn't have to enter account information on several different biller sites, and second, for cost, since we could collect interchange fees without charging the customer anything. The challenge with that model was that several states would consider you a money transmitter. Ultimately, we'd have to get 48 money transmitter licenses, which at the time was not a well-trod path. I was bemoaning the issue at a FinTech conference to the CEO of another payments company, and he flagged that they had just received their last money transmitter license and suggested it might make sense to put the two companies together. That was the impetus for the acquisition.

Even though the decision to sell was a bit spur of the moment, we were able to run a competitive process with multiple interested buyers, which was really important for getting beneficial terms for our stakeholders. For me, it was important to have a really short lock-up because the company already had a CEO and it didn't make sense for me to stay on past an initial transition. All the employees moved over to the new firm, many received cash payouts in addition to their compensation packages, and some are even still there today. It's easy to look back wistfully and think about the possibilities if we had continued to grow the company ourselves, but it was a good outcome that everyone is happy with.

Following the acquisition, very importantly, I first took my wife on a month-long honeymoon because we got married while I was running a startup which is really asking a lot of your spouse. Then, I was an Entrepreneur-in-Residence for what was essentially a captive VC fund, doing founder mentoring based on my experience running and selling a startup and through that I got familiar with their portfolio. One of my colleagues there wanted to start his own fund and wanted someone with operational experience, so we started what became Restive Ventures and raised our first fund in 2019. We invest in pre-seed and seed-stage companies and have an opportunity fund as well for later stage investments.

At Restive Ventures we've had several portfolio companies exit, almost entirely through acquisitions. We approach every investment believing that the company could one day IPO, but understand that a successful exit probably is going to be an acquisition. IPOs are very hard, don't happen that often, and take many years. If the options for companies or for investors were IPO or total loss you wouldn't be able to sustain startups or an innovation-focused investment model.

Acquisitions are a good thing and they're good for employees, too. Rarely do startup acquisitions involve people losing their jobs. Instead, they result in employees getting higher salaries. If you're an early stage company, you're almost always paying below-market salaries and you're making the difference up with equity. In an acquisition, employees will usually get equity in the acquiring firm and a raise to a market-based salary.

# Startup Aquisition Experience: Parag Shah

Minneapolis, Minnesota
Serial Entrepreneur
Founder, **Vēmos**

**Vēmos allows hospitality venues and brands to deliver personalized & unique experiences to their customers.**

I started my first tech company in college in 2007, and I have been doing startups ever since. To date, I've started a few different companies, most of which have failed, a couple of which have done fairly well.

The first company, called LunchBox, was a traditional dorm room startup. We had lots of early traction, but we didn't really know what we were doing. We didn't understand how to raise money, or the strategic importance of capital and outside investors, so we ran into resource hurdles a lot. Eventually after graduation, fellow cofounders decided it was time to move on. I continued to run the business and eventually was able to facilitate an exit.

The next successful company I started, called Foodsby, was also in the food space, creating essentially virtual cafeterias at large corporate office buildings. We grew really fast and were able to raise significant capital through VCs and Private Equity. Part of that success came from my previous experience. I now understood how to raise money, and had a previous successful exit to point to, which was very helpful because investors like investing in founders with a positive track record. We were able to grow the company to multiple markets and onboarded thousands of restaurants, including large chains. As the company continued to grow, I was presented with an opportunity to exit, which I eventually took in order to pursue a bigger opportunity I was working on within the hospitality industry. Myself, and one other person, were able to take the exit opportunity to invest in a new company that created additional jobs for the state of Minnesota. It would have been much more difficult to create a new company without the capital generated from the exit.

Today, I'm the founder of Vēmos. We're a hospitality app that lets hospitality venues create personalized experiences for their customers, like showing a personalized menu that reflects a customer's dietary restrictions or food allergies, tailored rewards for a customer's favorite beer, and easy access to favorite menu items. The previous exits on my resume and—given Vēmos' market positioning—the potential for an acquisition by a large company has been really attractive to investors. The likelihood of being acquired by a company is far greater than taking the company public so it is important to us, and our shareholders, to have multiple liquidy options.

That's something I think policymakers should really understand—there's a big difference between our goals and needs as tech startups and traditional small businesses or other industries. Startups might be small, but our goal is to scale. The initial capital to start Vēmos came from personal funds from the Foodsby exit, but we need investment to grow. The reality of any sort of investment is that investors need a return, or the likelihood of a return—and in the startup ecosystem, that's usually through an acquisition. Exits are such an important part of how innovation is enabled. Taking that away and not allowing people to be acquired would just halt innovation and new companies from forming.

I know policymakers are concerned about a few large tech companies' acquisitions, but those are a small number of overall transactions, and that focus really clouds the overall importance of acquisitions to startups. The reality is that we're open to being acquired by anyone, and policymakers shouldn't make that harder for founders and everyone else that benefits from an exit. Most startups' compensation includes stock options and so an acquisition means liquidity for our employees and their families. An eventual successful exit is sort of their retirement plan because as a startup we aren't able to provide the same benefits as other corporations. At the end of the day, it's not about me, or even our investors, it's about everyone else that believes in what we're building.

# Startup Aquisition Experience: Preston L. James II

Austin, Texas
Accelerator
CEO & Cofounder, **DivInc**

**DivInc is a startup accelerator focused on removing barriers to entrepreneurship, and enabling underrepresented founders to build viable tech startups through access to capital, curriculum, community, and connections.**

As part of a long career in the technology ecosystem, I attended a myriad of investor events, demo days, and pitch competitions, and at each one I noticed the lack of people of color or women in the room. Too often, I would be the only Black guy present. It wasn't right, and I didn't see anything being done to address it with any sense of urgency. There were plenty of panel discussions about the lack of diversity, but I decided it was time to build something to truly address it. DivInc is about fostering startup ecosystems that are vibrant, diverse, inclusive, and increasingly successful as a result of those qualities. To do that, we are focused on helping diverse founders to build viable tech startups through our accelerator, a 12 week intensive program which provides founders with access to capital, education, mentorship, and networks. Our mission is to create social and economic equity through entrepreneurship. DivInc firmly believes entrepreneurial inequity is the most unrecognized contributor to the racial wealth gap in the United States.

We primarily work with early-stage startups that are pre-revenue or early revenue. Our job is to help founders successfully navigate from the pre-seed to Series A stage, thus building investable and scalable companies. A critical part of that is helping founders to understand where they're going, and chart a strategy for an eventual exit. For most startups, that isn't going to be an IPO, but rather a merger or acquisition (M&A). Founder education is really important to facilitating eventual M&A transactions. Helping them understand what a proper term sheet looks like or how to structure their cap table when seeking investment is key.

More importantly, however, especially for BIPOC and Women founders, is gaining equitable access to the resources and opportunities that facilitate M&A and being part of the "M&A ecosystem" because we learn better and faster by engaging, seeing, and doing. Successful M&A can be life changing and transformative for founders, their families, their employees, their communities and their investors. In some cases, generational wealth can be created. BIPOC and Women founders have been unfairly excluded from this experience. Imagine our economy, innovation, job creation, and wealth generation if we enable equitable access to M&A.

Ultimately, anything policymakers can do to help facilitate successful exits for founders—especially underrepresented founders—is really important to the ecosystem. These exits, which lean heavily on M&A, are a critical step in the path of building wealth and creating new opportunities in diverse communities. With the capital from selling their company, as an example, a Black founder can become an investor that then invests in more Black founders. They can share their expertise to help those founders build to their own exit and the cycle repeats. Over time, this ripple effect builds generational wealth and fosters an ecosystem that helps diverse communities to prosper.

# Startup Aquisition Experience: Jean Anne Booth

Austin, Texas
Founder & CEO, **UnaliWear**
Founder, **Luminary Micro** (Acquired by Texas Instruments)
Founder, **Intrinsity** (Acquired by Apple)

**UnaliWear extends independence with dignity for vulnerable people through a wrist worn medical alert watch with 24/7 automatic fall detection and more.**

I'm an electrical engineer, with 30 years of experience in semiconductors. I spent ten years at a major semiconductor company before leaving to join my first startup. That startup failed within the first year, but the team became the founding members of Intrinsity, a semiconductor company harnessing a unique stacked gate methodology to excel in compute-intensive fields like audio, vision, and graphics. Apple later acquired Intensity, recognizing the potential of our technology for their graphics unit. By that time, I had left to start another semiconductor company, Luminary Micro, that created a common software platform for microcontrollers. Luminary Micro was acquired in 2009 by Texas Instruments, and I went there following the transaction before retiring. I came out of retirement in 2013 to start UnaliWear, a medical alert company that provides automatic fall detection and more through a wrist worn watch.

Startup acquisitions play an important role in the overall economy and U.S. competitiveness. The exit to Texas Instruments helped broadly disseminate our technology and was a good outcome for the U.S and our capabilities. Prior to starting Luminary Micro, people were worried the U.S. and Europe were going to lose the edge in semiconductors to China and Taiwan, and the microcontroller marketplace was super fragmented. Every semiconductor company was doing something different, which presented a barrier from an engineering perspective because any change in hardware (semiconductors) necessitated a change in software as well. We created the first common software base and it really forced the industry to transition. The change we drove as a startup enabled choice between semiconductor suppliers based on price and features without the technical barrier. And it helped shift the lead in microcontrollers back toward the U.S.

Most startup exits are through acquisitions and they are absolutely necessary because exits are the way that we fund what comes next. The normal lifecycle of companies and entrepreneurs is to start something, hope you at least hit a single, get some money, and plow that capital and knowledge into your next business or into someone else's business as an angel investor. That's my story. If I hadn't sold the earlier companies, UnaliWear wouldn't exist, and the thousands of Americans we give dignity, independence, and safety to would be without our technology. Limiting acquisitions without understanding their role could inadvertently hinder the flow of capital and stunt the progress of groundbreaking technologies.

In the acquisition process it's critical to have competition for companies. A competitive process is what enables founders to negotiate deal terms and close at reasonable valuations. For example, with my semiconductor companies there were only so many potential corporate buyers. If you take any of them away, then you have a less competitive process or you're left with private equity buyers that have other motivations besides innovation. So, if policymakers or enforcement agencies limit who can acquire or what they can acquire, then you'll see worse outcomes for startups, less capital going to funding innovation, and fewer entrepreneurs able to plow money from their exit into the next thing.

## Startup Aquisition Experience: Jean Anne Booth

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One final thought related to startup capital formation and exits. With my semiconductor companies, we were able to attract VC investment, and we raised over $100 Million between the two semiconductor companies. UnaliWear, by comparison, is in what I call “SilverTech,” where VCs aren’t very interested—perhaps because there’s never been a big exit for a silvertech startup yet. I hope to prove them wrong one day, but in the meantime, we need investors, so I’ve ended up raising over $20 million from angel investors—usually one $25,000 check at a time. I’ll let you do the math. I often think about other pathways to access capital, including going public, another common startup exit. But going public is so expensive and burdensome thanks to regulatory requirements, it’s not really feasible for us because we don’t have the millions in the bank needed to afford going public.

## Startup Aquisition Experience: Shani Shoham

Campbell, California
CEO, **21Labs** (Acquired by Perforce Software)

**21Labs is an autonomous testing and analytics platform that lets mobile app developers and engineering teams accelerate their release cycle and perfect the user experience for Android and iOS applications.**

Throughout my career, I have worked for and founded various technology companies and venture capital funds. One company I worked for provided the infrastructure for test automation, but you still needed engineers to write the scripts and manage them. That led to low test coverage and increased cost of testing. Using the knowledge I had gained and what I saw as a gap in the market, I started 21 Labs to further automate the process of UI testing and functional testing of mobile applications.

We integrated and partnered with companies like Perforce, Sauce Labs and others to provide the infrastructure to our customers. These partners also reached out to us for joint GTM activities and introduced us to their customers. It made the acquisition the next step in the natural progression.

I stayed at Perforce to help with integration, but once that was settled and my contractual obligations were up, it was time for me to move on to the next thing. Earlier this year I left Perforce to become the Chief Revenue Officer at a new startup that is focused on software development, testing, demo and deployment environments to help speed software release cycles.

The acquisition of 21 by Perforce was a success and the right move for us, and I hope policymakers don’t make these sorts of transactions more difficult. However, one issue that we ran into with 21 is talent. There simply is not enough skilled labor—developers—to be able to recruit and retain the talent we need. As a startup, we couldn’t really compete with the compensation packages that large established companies were offering, especially in the Bay Area. While we would have loved to help build the local economy through employment too, we ended up relying on developers from Eastern Europe to grow 21. Part of the answer to this talent problem has to be making it easier for immigrants to come to the U.S.

# Startup Aquisition Experience: JD Beebe

New York City, New York
Co-Founder & CEO, **ThankView** (Acquired by Rubicon Technology Partners)

**ThankView helps schools and organizations create branded, personalized videos for recipients to thank people, raise awareness, promote events, and update stakeholders.**

I started my career in advertising, working at large firms including Goodby, Silverstein and Partners, Saatchi and Saatchi, and HUGE. I worked my way to the creative side of the business, working as a copywriter and eventually a Creative Director. Along the way, I started a few silly businesses—I sold fake beards and went on to start a topical halloween costume company, I sold love notes on Valentines Day from Jon Hamm called Hamm-O-Grams, and I made a website that helped nearly 100 of my past co-workers find new jobs after agency layoffs. In NYC, I joined an agency called Noise, where I was able to see how the business really worked. Using what I learned, I turned a consulting gig into my own creative digital agency, New Antisocial. We had a Manhattan gym client that got us thinking about the boutique fitness space. As a joke, I started a fitness studio called "Beebe's Buttcamp" after attending a Barry's Bootcamp class. The joke very much became real and we grew to over 25 classes a week and was named one of the best NYC studios during our run.

During these projects, I got engaged to my now wife. I didn't want to handwrite the wedding gift thank you notes, so that sparked the idea behind ThankView. Luckily, through all these pursuits, I was able to corral friends into becoming equal partners, and ThankView started with four founders - two childhood friends who had helped run the other businesses and our CTO Jerry Bai who I had met at Noise. We soon pivoted to working with universities and nonprofits as we saw that sharing gratitude was central to their business models. The funds from each prior business funded the subsequent so we remained bootstrapped and self-funded through our eventual sale.

ThankView was founded in 2015 and sold in 2021. Prior to selling, I had met the EverTrue CEO Brent Grinna at conferences. We had become friendly and later partnered, having ThankView data feed into the EverTrue platform. By 2020, ThankView was beginning to entertain an exit as we were still bootstrapped and hadn't taken a dollar out of the business. Around the same time, Brent was also considering a sale. We constructed a narrative of a future where we were a single org that was very compelling. Instead of officially merging businesses, we simply marketed ourselves as an "exotic" deal where we verticalized ourselves ahead of a sale. We were already represented by Horizon Partners, an "artisanal" advisory group and EverTrue joined forces. We combined our stories and hit the market mid 2021.

We were marketing ourselves for a majority sale to private equity groups. We decided that PE was the right move for us early on because there aren't many strategic firms in this space, they offered worse terms, and it's important to have a competitive process to produce good outcomes. We sent our proposal out to 35-40 PE firms, met with nearly 20, chose three finalists and went through deep diligence. The deal structures were all different, some with different earn out clauses and valuations. We ended up choosing Rubicon Technology Partners, who I can't say enough good things about. They've been amazing partners to us and have supported us as we went on to acquire three additional organizations. We set up an Integration Management Office (IMO) to integrate all the companies into a single entity and have spent the subsequent months integrating the teams and working on ways to integrate the tools.

The exit was an absolute success and I would certainly sell again—the only downside to the exit is the inevitable change in culture that comes with growth. As a self-funded company, not only did the founders do well, but every employee made a substantial amount from the sale, which I'm very proud of. Some have been able to parlay that into launching their own startups and I love seeing what cool things people in our alumni network are up to now. Today, I remain at the company as the Head of Product, mentor other entrepreneurs as much as time allows, and have become a modest investor—mostly supporting

## Startup Aquisition Experience: JD Beebe

(continued)

other founders in the fundraising/advancement space.

With startups, I would say there are a thousand ways to do it and no one way is right. Starting companies with friends hasn't come without some heartache but ultimately it's the most fun I've ever had and has been life changing. Even our M&A advisors I now consider close friends. For me, being able to self-fund and stay small and hungry for many years lead to the best outcome I could have imagined. If I could do it again with the friends I've made along the way, I would 1000%.

## Startup Aquisition Experience: Nicholas Hinrichsen

San Carlos, California
Cofounder & CEO, **Carlypso** (Acquired by Carvana)

**Originally a peer-to-peer platform for buying and selling used cars, Carlypso is an online platform that gives customers access to wholesale inventory and helps throughout the buying process by performing inspections and arranging delivery.**

I came to the U.S. from Germany to go to business school at Stanford, where I met my cofounder, Chris. After we graduated, we started Carlypso—with the goal of building something like an Amazon of used cars. We went through Y Combinator, raised $10 million in venture capital funding and ran the company for about four years.

Our goal at the outset wasn't necessarily to be acquired, but rather to build as big as we could. We discovered that running a car retailing company is really, really hard and capital intensive—particularly what we were building—because success required vertical integration, essentially being three companies in one: a logistics company, a bank, and a car dealership. We became very good at two of these pieces, i.e. the car dealership and the logistics company. But our inability to provide financing, especially to buyers with low credit scores, led us to sell our business to Carvana. Carvana had inherited the lending business from its parent company Drivetime, and so we decided selling to them seemed like a good option.

Venture investors have an expectation for a high exit multiple. Returning capital to investors was important. At the point of the sale, the intellectual property we had created had become very valuable. The technology, however, wasn't as useful without the team that had built it. Therefore, ensuring the best deal for our team—making sure they had a job that paid well where they could apply what they learned and eventually move on—was 100% aligned with our investors' financial interests. Everyone on our team of about a dozen were able to join Carvana.

Looking back, I wish we could have stayed independent and been the successful company in a position to acquire, but this was the second best possible outcome for us. We couldn't have built what Carvana had inherited.

I worked at Carvana in a few leadership roles for a few years, in addition to advising and investing in startups. In 2020, my cofounder and I left to build a new startup, leveraging our deep knowledge of the industry to help consumers with their auto loans in particular and their consumer loans in general. Since then, we've raised $41M in venture funding from amongst others Andreessen Horowitz and our strategic partner CUNA Mutual Group. We're on a mission to turn Credit Unions into FinTechs and help consumers with their financial well-being.

# Startup Aquisition Experience: Steven Cox

San Diego, California
Founder & CEO, **TakeLessons** (Acquired by Microsoft)

**TakeLessons is a learning platform where instructors offer teaching services for sale and individuals receive lessons for languages, tutoring, music, and more, either online or in-person.**

I founded TakeLessons in 2006 after noticing a disconnect between people looking to learn and those who could actually teach them. What we recognize today as ecommerce platforms or marketplaces were around—eBay, for example—but connecting buyers and sellers of services was still novel. I started the company out of a spare-bedroom, self-funded, and worked at night with teams in India to build the first version of a product, initially focused around music lessons. We bootstrapped the business for a few years before friends and family funding, and eventually institutional venture capital.

Before being acquired by Microsoft in 2021, we made two acquisitions ourselves to advance the business. One helped us to expand into a new offering—building out our network of instructors at a discount—while the other acquisition added a social aspect to our core offerings around music.

The decision to be acquired was a strategic one, reflective of our understanding of the cycles startups go through. Early on in 2012, business was going well and we started receiving offers from would-be acquirers. While we explored them, we ultimately decided not to pull the trigger—we were just getting started and had a lot of opportunity ahead of us. At various points over the next several years there were times where we would have been open for an acquisition, but there weren't any buyers. So when we experienced the boom in online learning during COVID, we tested the waters and received interest from both strategic buyers and private equity firms, confirming it was a good time to potentially join forces with a strategic buyer.

We were courted by multiple parties, and we were thrilled to be acquired by Microsoft—the second largest company in America. Obviously, key considerations like pricing, terms, and probability of closing were important, but for us, Microsoft's strengths paired well and they had the resources to grow TakeLessons and a shared interest in empowering providers to make a better living doing what they love. Equally important—and I hope this is a priority for every founder—the day after we were acquired, all of our employees had jobs at Microsoft.

The company is in great hands. This has allowed me to step back to a consulting role after spending the several months following the acquisition helping with the transition. I am now taking a breather a bit and thinking deeply about what I want to do next. I've joined the Board of Directors / Advisors for a couple marketplaces and/or ed tech companies, and I've started looking at government policy, social impact, and food tech space. I will certainly remain in the startup ecosystem.

Finally, I've been asked recently about big tech acquisitions that are made just to kill off new technologies. Personally, I haven't seen these "killer acquisitions" where a large company tries to stamp out a small one. It's possible, I suppose, but I find that larger companies are more interested in playing offense than defense.

Regarding policy, policymakers should be thoughtful about limiting mergers and acquisitions by big tech as a way of reigning in the major players. Being acquired is a desirable startup exit path, and restricting it will lead to less capital and less startup competition. Policymakers should also realize that immigration is an important key to startup talent. To compete in a global economy, startups need to hire the best and brightest employees from around the world. The employee-sponsored visa program remains broken, and Congress needs to make it easier for startups and other small businesses to navigate the immigration system. Finally, the protection of the Qualified Small Business Stock (QSBS) incentive is a key driver to allowing entrepreneurs and early employees to be rewarded for taking the risks to start and grow a new business. Without a doubt, the QSBS tax treatment helps the startup ecosystem as an economic engine.

# Startup Aquisition Experience: Alon Lavie

Pittsburgh, Pennsylvania
Cofounder & CTO, **Safaba** (Acquired by Amazon)

**Safaba is an automated translation solution for global enterprises' digital content, like websites, customer communications and more.**

I spent most of my career in academia as a professor at Carnegie Mellon University (CMU) in the AI language technology space. In 2009, a cofounder and I started Safaba, which was essentially a spin-out of my research lab activities. Automated translation technology was evolving quickly at that time, mostly in research settings, and we identified an opportunity and need for commercialization. The technology was particularly advantageous for large, global enterprises—including Amazon, who initially approached us as a customer and really liked the product and expertise we offered.

A lot of our technology development was funded by the Small Business Innovation Research grant program and some investment capital from a few different entities. By the end of 2014, we were at the point of raising a series A round when Amazon approached us with an offer, and we ultimately decided to accept. We were a team of 12 at that point—mostly from the CMU research environment—and eight of us went full time into Amazon. At the time, Amazon was the only large tech company without a presence in Pittsburgh and we made clear early in the process that none of us wanted to move to Seattle. I convinced them that there is a lot of value to the talent and connections at the University, so as part of the acquisition they opened a corporate office here in Pittsburgh. I worked there as a senior manager for three and a half years post-acquisition, and the office has grown to 300-400 people, so I definitely pat myself on the back for being the person recognized as bringing Amazon R&D to Pittsburgh.

Focusing on the positives, I think being acquired was a really good outcome for Safaba. Ultimately, it was the right decision for the company, and it wasn't just financially lucrative for my cofounder and I, but it was a transformational professional opportunity and financial outcome for our entire team. The integration of the technology within Amazon went really well. And managing an R&D team in a large company also added another highly valuable chapter of experience to my career that I really appreciate.

Being acquired is not without its challenges, though, especially with a large company like Amazon. Integration from a culture standpoint is really tough and generates a lot of situations for people to become unhappy. We were a small startup with roots in the University research space, and so the transition to a large company like Amazon was difficult in terms of operational structure, rules and how organizations are managed at that scale. When it came to the acquisition negotiation process, we were also on a different playing field in terms of resources and experience, and so that was probably the biggest challenge for us as founders. Even where we did things right—we had done an immaculate job of clearly separating and documenting our IP in the technology transfer process with the University—there was friction with Amazon. We also had a long relationship with a top-tier legal team that we weren't able to leverage because they represented Amazon elsewhere, and Amazon wouldn't give a waiver to allow our legal team to represent us in the transaction.

Ultimately, I'm glad we saw the acquisition through, but I think there's a lot policymakers, startup supporters, and others can do to help empower startups in the acquisition process, particularly when the acquirer is a large company like Amazon. Shared tools and resources seem like a good place to start. Template agreements or standard terms might help founders understand what is standard in a contract, but wouldn't be very valuable if the acquiring companies are able to toss them aside in negotiations. And for startups, high-quality legal and business representation that you trust to negotiate on your behalf is critically important, as is ensuring your proprietary IP is clearly identified and well-documented to avoid the potential for issues in the acquisition process.

Today, I am an adjunct professor at CMU and a senior manager at a bi-national growth-stage scaleup called Unbabel. Unbabel is fundamentally in a similar AI translation technology space as Safaba, providing an AI-based platform for translation of large volumes of multilingual content for large enterprises. I knew the founders long before they actually started the company—the CEO actually got his Ph.D. at CMU. I opened an office for them here in Pittsburgh and largely oversee the AI technology side for the company. As a growth-stage scaleup, Unbabel is another interesting chapter in my career in the translation technology and NLP R&D space that rounds out my experiences outside of academia in terms of both founding and running a small startup and working at a large tech company.

## Startup Aquisition Experience: Jewel Burks Solomon

Atlanta, Georgia
Founder & CEO, **Partpic** (Acquired by Amazon)

**Partpic leverages visual recognition technology to help enterprise customers identify industrial parts and save time during maintenance and repairs.**

Earlier in my career, I worked in enterprise sales, including for Google and for an industrial parts company, called McMaster-Carr. While at McMaster-Carr, I thought there must be a better way to organize and identify parts using technology—which led me to found Partpic. Users could take a picture of the part they were looking for and Partpic would match it to the correct replacement. We licensed the technology to companies for their websites to help their customers find the parts they needed.

Starting out, we had bootstrapped before raising a seed round. We were actually in the process of trying to raise another round of funding when we were acquired. We were in talks with Amazon about investing in Partpic when the conversation turned into an acquisition offer. It moved too quickly for me to solicit other company acquisition offers, but the investment offers we had coming in helped to raise the acquisition value.

At the time of the acquisition in 2016, we were about four years old and had a team of 15 employees. All but one joined Amazon after the acquisition as part of the Amazon visual search team in Atlanta. Our team was responsible for integrating and building what became Amazon Part Finder, which was released in 2018, about 18 months after we were acquired. I stayed at Amazon for three years—some of our team is still there, but they have all gone to work on different projects.

The integration process with Amazon was tough. Perhaps it was the transition from being a nimble startup to part of a large enterprise or other corporate culture issues, but we really struggled to get the resources we needed to be successful and launch Part Finder. The executive who was our champion within Amazon left about 9 months after we were acquired, which probably compounded the issues. Post-acquisition integration is really important for acquiring companies to get right for startup founders and their employees to have positive experiences and be successful.

From the outset, I always thought that the exit path for us would be via acquisition, given our product and strategy. However, I think we still had room to grow the company further at the point we actually sold. The biggest impediment for us was access to capital—we were having difficulty with fundraising at the time, and a lot of bias in the system contributed to that. Helping to combat these issues motivates the work I do with underrepresented founders at Collab Capital and Google for Startups. Founders should be able to pursue the pathway to exit that is right for them—whether that be an IPO or being acquired—without facing the biases and burdens that can constrain the choices available to them and their potential for success.

Ultimately, the acquisition gave me an authoritative perspective on the entire startup journey from ideation to successful exit. For the work that I do now at Google for Startups and Collab Capital, I'm able to help startups in a different way because I've experienced every part of the journey. That has allowed me to support startup leaders, especially by equipping founders thinking about selling their startups with the many things I did not know going into the process myself.

# Startup Aquisition Experience: Sabari Raja

Austin, Texas
Cofounder & CEO, **Nepris** (Acquired by Providence Strategic Growth Fund)

**Nepris is an education technology platform that enables educators to connect their students with industry professionals to bring real world relevance and career exposure to every student. Through Nepris employers have an opportunity to engage their current workforce with the future workforce, helping bridge the workforce pipeline gap.**

I went to school in India before moving to the U.S. and earning a Master's degree here. Out of school, I went to work for Texas Instruments in their education technology group. Ed tech at the time was very nascent. Working in the space, I got firsthand insight into how technology can impact students' learning and bring equity of access in education. It became evident to me that stakeholders in education, government, nonprofits, and companies were doing a lot to bridge the workforce pipeline gap, but they weren't really leveraging technology to expose students to experiences outside of their immediate network—which especially impacts girls, rural, and minority students. We thought that someone should be making the connection between industry and students earlier—when first graders are learning about rocks, connect them to a geologist, for example—rather than once they're about to look for jobs. That's the basic idea that led my cofounder and I to build Nepris.

We raised two seed rounds before raising our Series A in 2020. While COVID presented challenges, it also presented a lot of opportunities for us. Things were going well—we had plenty of runway, were near profitability, and were growing at 100 percent year over year. But the edtech space had grown up, too—rather than being something niche there were now dozens of competitors to keep pace with. We thought that acquisitions might be a way to accelerate our growth. That wasn't something we were equipped to do as founders, so we ran a process with Vista Point Advisors, through which we had our choice of private equity firms and ended up choosing Providence Strategic Growth Fund (PSG).

As first-time entrepreneurs, we initially had a very stereotypical view of PE—PE buys failing companies and picks them apart, so you don't want to be acquired by PE, you want a strategic buyer, we thought. After talking with founders that had been through the process, we realized that the right PE firm actually might be a better fit for us. With a strategic buyer, you have to slot in that company's products somewhere, you might be locked in for a time, and how well the integration process goes—both cultural and technical—really depends on the company. While we had interest from strategic buyers and PE firms, for our goals of continued growth, a PE buyer that had experience and a good playbook for growth through acquisitions seemed like a better fit. For us, that was PSG. And they had recently acquired a company called Virtual Job Shadow whose strengths paired really well with ours. We merged with Virtual Job Shadow earlier this year and became Pathful. I've since transitioned my duties to a new CEO and become a board member and Chief Strategy Officer where I coordinate our growth strategy.

As you found a company, you have pretty realistic expectations—you know not every company is headed down the IPO path. Overall, very few education technology companies are public companies. Going from one to five million dollars in revenue was tough. Going from five to 10 million was even tougher. Taking it from 10 to 100 million—at minimum where you need to be to think about IPO—is a completely different ballgame. And unlike the early stages where it's exciting and you're innovating everyday, it is very operational. A lot of founders aren't suited to that challenge, get fatigued, or both. So for most founders, growth through acquisition is the realistic and feasible path.

One thing that is really helpful to the startup ecosystem is Qualified Small Business Stock tax treatment (QSBS)—and so few people know about it. I didn't learn about it until we were going through the acquisition process. Then the Build Back Better bill came out with retroactive changes to QSBS that meant we would've missed the favorable treatment by two weeks. Thankfully those changes did not pass, and with the tax savings as a result of QSBS, I was able to invest in six seed-stage startups just this year. Angel investors are really important for early-stage funding and QSBS plays a big role in keeping capital in the ecosystem and helping angels fund more companies to grow the ecosystem. I am excited that I have the opportunity now to continue paying it forward in supporting early stage entrepreneurs.

# Startup Aquisition Experience: Vinod Muthukrishnan

Salt Lake City, Utah
Cofounder & CEO, **CloudCherry** (Acquired by Cisco)

**CloudCherry is a customer experience software solution that helps companies manage the customer experience journey and increase customer retention.**

Even though there were others in the customer experience market, we decided to create CloudCherry because we saw a gap that could be solved by approaching the problem with a customer perspective lens. Most contact centers are run and evaluated on key performance indicators (KPIs), like average handle time, cost of service or others, but customers don't care about the company's optimized costs, they're more concerned about whether they experienced empathy, attentiveness, and a resolution on their call. None of those components are absolute either. For example, if someone wants to return a broken product, and you give them their money back but are rude about it—you've resolved their issue, but they probably aren't going to buy from you again. So, we built CloudCherry to help companies understand where to invest to improve the customer journey, and we raised funding from corporate and venture investors along the way.

Cisco was one of our investors, since they agreed with our hypothesis that the contact center is really a customer experience business. And so when we began receiving unsolicited acquisition offers from other companies in the space, they made an offer as well. There's a lot that goes into evaluating an acquisition offer. Obviously there's the price, but the terms are very important as well—is it cash or stock? What's the vesting period? Are there clawbacks, performance riders, or other contingencies? In addition, evaluating the company's "acquisition muscle" — their experience and reputation for successfully completing the process and integrating acquired firms is important, too. If you enter exclusivity with one firm and they decide to abandon the deal, it sends a negative signal to all of the others that may make it harder to get acquired in the future.

Ultimately, given all of these considerations and our long relationship with the company, we chose to be acquired by Cisco. That decision was validated by my experience there. The majority of our team joined Cisco and the company put in a lot of work to make sure our culture was safeguarded. For example, at CloudCherry we had an inspiration wall, where each new employee who joined put up a picture of something that inspired them—Cisco let us replicate it there despite the scale it would have to become. They plotted the closest office location to each employee so they wouldn't have to relocate. And we continued to innovate and build our product. For me personally, I ended up becoming Chief Operating Officer for Webex Customer Experience, which was a massive learning experience.

I really enjoyed my time at Cisco—in fact they knew I would never leave to another large company, because if that was the alternative, I'd rather be at Cisco—but my real joy lies in startups. My two options seemed to be: be an investor, which I was already doing, or start a new startup. Ultimately, I decided I wasn't ready to start a new company again (yet), and joined a friends' growth-stage startup, Uniphore, which seems well positioned to IPO one day.

I am also supporting startups as the Co-Chair of the U.S.-India Strategic Partnership Forum. Barriers to immigration is one of the key issues that needs to be solved to bolster the startup ecosystem and both countries' economies. Something like half of unicorn startups have one Indian cofounder, and for every visa awarded to an Indian startup founder, 40 high-paying local jobs are created. Despite this, founders often struggle to come to the U.S. and often end up using job-seeking visas. Such founders are actively being courted by other countries with tailored immigration processes, resources and other incentives. To remain competitive, we need an entrepreneur visa that helps high-skilled individuals who are starting businesses, bringing capital, and creating jobs to do so in the U.S.

Engine

Engine was created in 2011 by a collection of startup CEOs, early-stage venture investors, and technology policy experts who believe that innovation and entrepreneurship are driven by small startups, competing in open, competitive markets where they can challenge dominant incumbents. We believe that entrepreneurship and innovation have stood at the core of what helps build great societies and economies, and such entrepreneurship and invention has historically been driven by small startups. Working with our ever-growing network of entrepreneurs, startups, venture capitalists, technologists, and technology policy experts across the United States, Engine ensures that the voice of the startup community is heard by policymakers at all levels of government. When startups speak, policymakers listen.

Startup Genome

With more than 100 clients across six continents in 40+ countries to date, Startup Genome is the world-leading research and policy advisory organization for public and private agencies committed to accelerating the success of their startup ecosystem. Our mission and impact are rooted in more than a decade of independent research with data on 1.5 million companies over 250+ cities. Learn how Startup Genome accelerates global startup ecosystems by contacting Adam Bregu at adam@startupgenome.com and on startupgenome.com, LinkedIn, Twitter.