

# ENTREPRENEURIAL EXITS

Professor David H. Hsu



## What is an entrepreneurial “exit” & why is it important?

- Forms of entrepreneurial liquidity
- Importance: shareholder liquidity; possible strategic effects



[https://en.wikipedia.org/wiki/Initial\\_public\\_offering\\_of\\_Facebook#/media/File:Facebook\\_on\\_Nasdaq.jpeg](https://en.wikipedia.org/wiki/Initial_public_offering_of_Facebook#/media/File:Facebook_on_Nasdaq.jpeg)

## Acquisitions / buyouts

- Pros: organizational synergies; faster resource acquisition relative to organic development; shareholder liquidity (range of possible terms, however)
- Cons: possible loss of control



[https://commons.wikimedia.org/wiki/File:Oculus\\_Rift\\_Driver,\\_SxSW\\_2015\\_\(2015-03-14\\_14.24.19\\_by\\_Nan\\_Palmero\).jpg](https://commons.wikimedia.org/wiki/File:Oculus_Rift_Driver,_SxSW_2015_(2015-03-14_14.24.19_by_Nan_Palmero).jpg)

## Public offerings

- Pros: visibility/credentialing; currency for acquisitions; shareholder liquidity
- Cons: hard to “time” the market (no objective threshold for a public offering); costs (direct and indirect)

## Public offerings

- “In retrospect, Mr. Hastings [the founder of Netflix] wishes he had waited longer to go public ... ‘In hindsight, what triggered Amazon and Blockbuster to compete with us is they could see how profitable we were and how fast we were growing.’” – *New York Times*, 2/22/05 p. G8
- “Ultimately, the biggest pressure to go public may be from Google's employees....for many engineers and executives who have earned stock options in the last few years, a public offering is all that stands between them and a sports car, a beach house or a year in Tibet.” – *New York Times*, 4/26/04

## The U.S. public offering process

- Underwriters (usually a syndicate, with a lead) is selected
- Lead underwriter duties: market the offering (conducts due diligence, prepare marketing materials for the “road show”, prepares a preliminary prospectus and regulatory filings); determine the offering size and allocate shares to investors; price the offering (“underpricing” is common); and after the IPO monitors the price and possibly offer price support

## Research: “Entrepreneurial Exits and Innovation”

- Research question: what is the relationship between entrepreneurial exit modes and innovation outcomes?
- “Counterfactuals” often difficult to establish (e.g., what if a given company would have gone public rather than been acquired?)
- Going public requires public disclosures and projects are compared to expectations; both may affect innovation outcomes.
- Longitudinal dataset of ~400 biotechnology firms, some completing an IPO or M&A; others “nearly” completing those liquidity events; innovation measured through patents.
- Innovation patterns: private ownership > M&A > public ownership
- Published as: VA. Aggarwal and DH. Hsu, 2014. “Entrepreneurial Exits and Innovation,” *Management Science*, 60: 867-887.



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