Stanford eCorner

Decoupling Exits from Liquidity

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Phil Libin shares opinions on a new trend he sees appearing in venture capital, where the need for company exit strategies is decoupled from the desire for liquidity. He also articulates how secondary markets now offer companies and investors new opportunities for liquidity during subsequent funding rounds.

Transcript

So the question is, I said I don't want to sell the company but we raised a bunch of money, close to $100 million from people who like to get their money back, how do we rationalize that. Well, pretty easy. So there has actually been this complete revolution, just in the past two years in the VC industry, which I think people here kind of know but the memo hasn't quite gotten out to the rest of the world yet. But there is a total fundamental change of shifting - shift of thinking about this which is sophisticated investors like Sequoia and Morgenthaler are our main investors, have totally decoupled exit from liquidity. Those two things used to be together, so you start a company and the investors want you to starve until you're done, until you exit and then everyone gets their money back and that's fundamentally stupid. And like look in hindsight like obviously it's stupid, why - who does that benefit? Why would anyone want to put pressure on the founders of a company to potentially sell prematurely because yeah, they are kind of successful but they also got to put their kids through college and they have a lot of money on paper but they don't have any money really. So this whole idea of coupling exit and liquidity which was 99% of the time before, it doesn't make any sense and it was people here that figured out, boy that's dumb. What do you do when you see something that's dumb, well you just stop doing it. So the secondary markets today provide all the liquidity that you ever need, totally separate from an exit. So when you do a round, especially any of the later rounds, it's usually not only possible but it's usually quite encouraged to allow existing shareholders to sell a certain portion of their shares.

The bigger funds like Sequoia, Sequoia is not a monolithic entity, right, they have many funds with different risk profiles, so they can actually - some of their funds that have more start up profiles can get out, some of their growth funds can get in, they can shuffle that through, there's tons of other investors that are happy to buy shares from founders, from employees, from shareholders and so you can have multiple liquidity events all the way through and then at some point you'll IPO and you have the liquidity that way but there is no exit. There is no synchronized event where everyone is like we're done because why should there be. That's not good for anyone. So that's - the separation of liquidity from exit, I think, was like a profound shift that happened - really Facebook, I think, is probably the first company that really figured this out. Facebook and investors like Sequoia, like DST, like Yuri Milner, they were kind of the few people to do it and it's like you're watching history happen right now and it's fantastic. Like I go to Boston and like the Boston BCs didn't get that memo yet. So they are still conflating those two things. But it's only, you know, sooner or later, the next decade or two, that everyone will figure it out.