Project Owner

Risk category: FINANCIAL

#5 - Exit strategy & fluctuation of cash flows

Definition

The exit strategy is the moment in which a larger company, a venture capital or a “business angel” absorbs or buys the start-up out. This implies for the smaller firm to be included within a broader production, investment or market spectrum – and ensures the innovative product or idea higher chances to survive. This happening is not certain or predictable, even if sometimes awaited or presumed. In practical terms, though, the success of a business cannot be assured merely by external purchase.

Additionally, if and when the exit happens, the economic value of shares might have varied since the initial appraisal – shares and investments can worth differently along the crowdfunding campaign, mostly if it takes longer than few months. It is to consider, in fact, that an investment may take up to 4-5 years to return into the investor's pockets.
During this time, the economy and the market change, resulting in a different appreciation of the capitals invested.

Mitigation strategy

An accurate market risk assessment and business valuation optimizes the project profitability and help estimate the average **return on investment** that could be expected, based on returns generated by the wider market. It is necessary to determine the **economic value** of a certain company unit and exit sale value, so to establish investors' rates of ownership and future taxation.

Estimating the **average market return** can help companies minimize total cost of capital, while providing the investors with a sense of real appreciation of the expected returns from their assets or shares, in comparison to the risk.
At the moment of an exit, these calculations permit to establish the **liquidation value** that investors will receive as their assets are liquidated and liabilities paid off.

It is highly suggested not to only rely on the happening of an exit/purchase. Being prepared for different scenarios and ready to embrace a “**Plan B**”, remembering that without an adequate business plan and support structure, even promising ventures can fail. In order to maintain a good and reliable reputation with the crowd of investors, it is good practice to envisage for them different financial options already in advance, in order to protect, guarantee and satisfy minor investors too – e.g. foreseeing the so-called **tag-along** option.

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