

# The Best Exit Strategy Is Not Having One

**Allen Lau**

**Co-Founder**

Wattpad (Acquired by Naver Corp. for \$754M CAD)



# The Best Exit Strategy Is Not Having One

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Two Small Fish Ventures Co-founder and Operating Partner  
Wattpad Co-founder and former CEO





# Hi, I'm Allen!

- Recovering CEO (Wattpad, 2006-2022)
- 3x entrepreneur (2x VC backed)
- 2x exits (last one at US\$660M)
- Electrical engineer (B.A.Sc., M.A.Sc., U. of Toronto)
  - Inducted into the Engineering Alumni Hall of Distinction at the University of Toronto in 2020
- Deep tech VC



# TSF Fund IV

**We are a top-decile deep tech VC investing  
in the next frontier of computing and its applications**

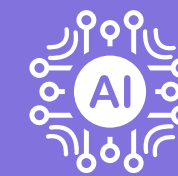
We follow **the same winning formula as Fund I, II and III** with early-stage investing across pre-seed, seed and seed+.



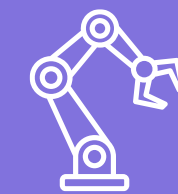
# Our Thesis

We invest in the next frontier of computing and its applications, **reshaping large-scale behaviour**, driven by the **collapsing cost of intelligence** and defensible through **tech and data moats**.

Please find our full TSF Thesis 3.0 [here](#).



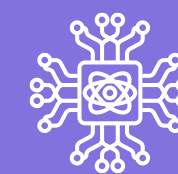
Domain Specific  
Deep AI Platforms



Physical AI



AI Infrastructure



Advanced  
Computing  
Hardware



Smart Energy

# My First Company





# My First Company: Tira

**Founded in 2001; I was the co-founder and CTO**

## **Two Lines of Business:**

- Mobile games
- Mobile publishing software for gaming studios

## **Key Milestones:**

- 2004: Decided to solely focus on software; sold the gaming division to Airborne for under \$1M
- 2005: Airborne was acquired by Cybird for \$100M
- 2006: Software business began to decline
- Explored acquisition opportunities; several suitors, one came close but didn't close
- 2008: Company folded

# Lesson Learned

- We were idiots; we sold the wrong business :-(
- Anchor valuation to the buyer's perceived value, not your own
- The software market was too niche — only mobile gaming publishers needed it
- Faced many alternatives, including in-house tools
- Without a unique differentiator and a large market, it's not worth much
- In other words, after selling the gaming division, Tira simply **wasn't a great company**
- Even when a deal seems done — it's not done until the money's in the bank



# My Second Company

wattpad 

Wait?

Isn't Wattpad your **third** company?



# My Second Company: Wattpad

**Founded in 2006; I was the co-founder and CEO**

**At the intersection of user-generated content (UGC), mobile reading, and fiction**

## **Context at the Time**

- We were too early; truly ahead of the curve
- YouTube was only one year old; Facebook was a 200-person startup
- iPhone and Kindle didn't exist

## **Reality Check**

- Wattpad didn't take off as we'd hoped

## **Our Move**

- We downgraded Wattpad to a side project...





A normal person would've looked for a job.

But entrepreneurs?

We're wired differently, and **not exactly hireable.**



# My Third Company

FEEDm8

# My Third Company: FEEDM8

**Founded in 2007; I was the co-founder and CEO**

## **The Opportunity:**

- Entered the fast-growing mobile advertising space

## **Early Momentum**

- Formed a partnership with the eventual acquirer early on
- They were interested in both our technology and our team

## **The Exit**

- Sold the company in early September 2008 — just days before the financial crisis hit

## **The Twist**

- Wattpad was part of the same legal entity, so it was sold along with FEEDM8 (!)
- We later bought Wattpad back for \$1 after setting up a new corporation :-)



# Lesson Learned

- When we first engaged, it never crossed our minds that they might acquire us.
- You can call it luck, but you'll never score a goal you don't shoot.
- For small acquisitions, talent is often the key driver.
- Only sell what the acquirer wants to buy. That's how we were able to get Wattpad back.
- Don't nickel-and-dime when setting up legal entities — structure matters.
- The offer we received was very reasonable, but that's the exception, not the norm.
- Tax optimization can make a big difference in the outcome.

# 2008 - Perfect Timing!

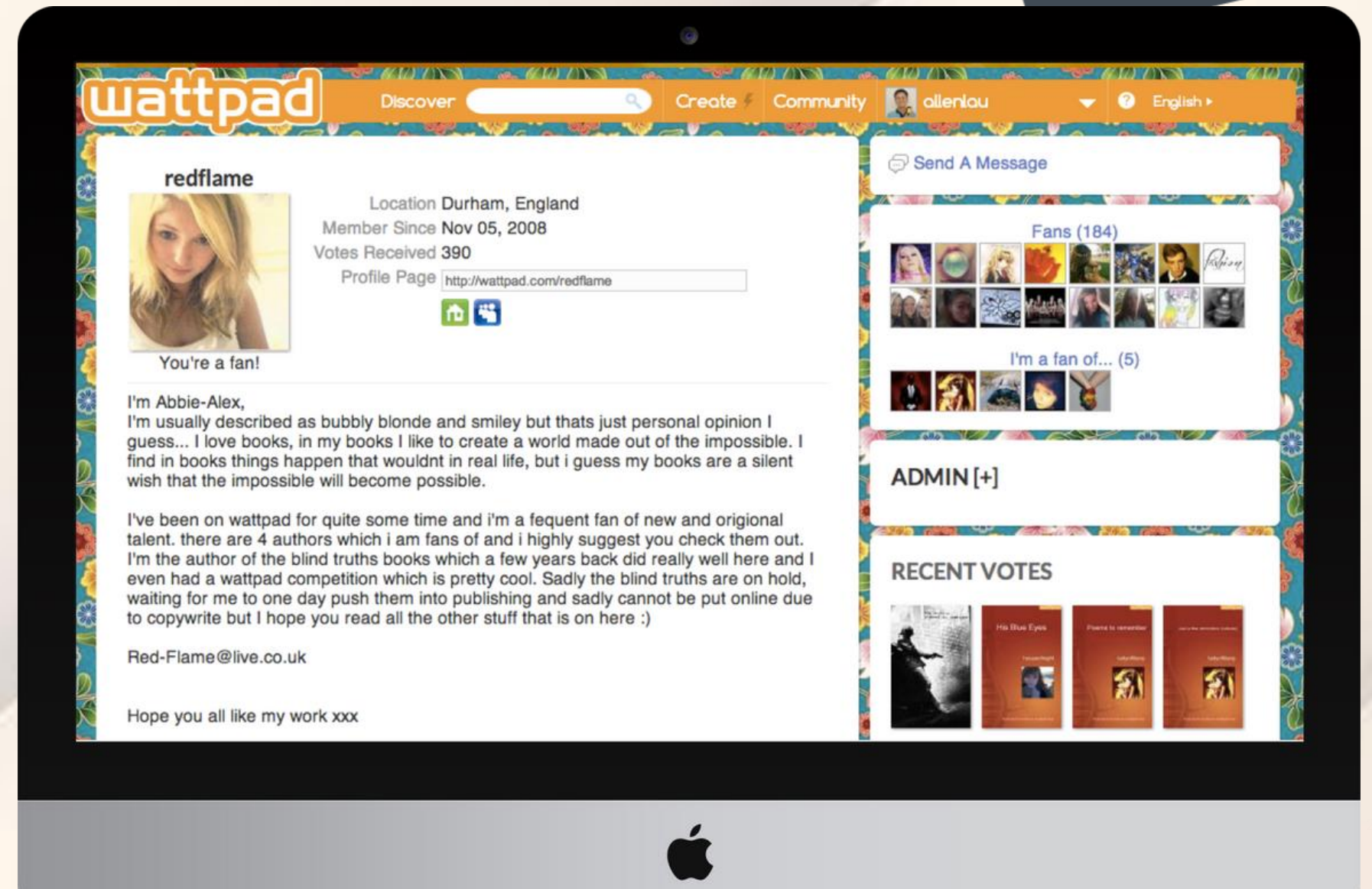
FeedM8  
acquired

App Store  
launched

Lehman Bros  
collapsed

G1 Android  
announced

**After TWO years, our first writer finally showed up. Things started to snowball afterwards.**





# 2010 We Raised Our First Round

We raised  
\$600,000!





2014

wattpad 

# Our secret sauce:

Our **Story DNA** technology leverages deep learning and big data analytics to gather insights from the world's most diverse set of stories and its data:

- **Quality Indexer**
  - Deconstruct stories into their elemental features through NLP
- **Comparables Finder**
  - Find stories similar to past hits
- **Emotions Identification**
  - Story arc, writing complexity, readability
- **Theme Identification**

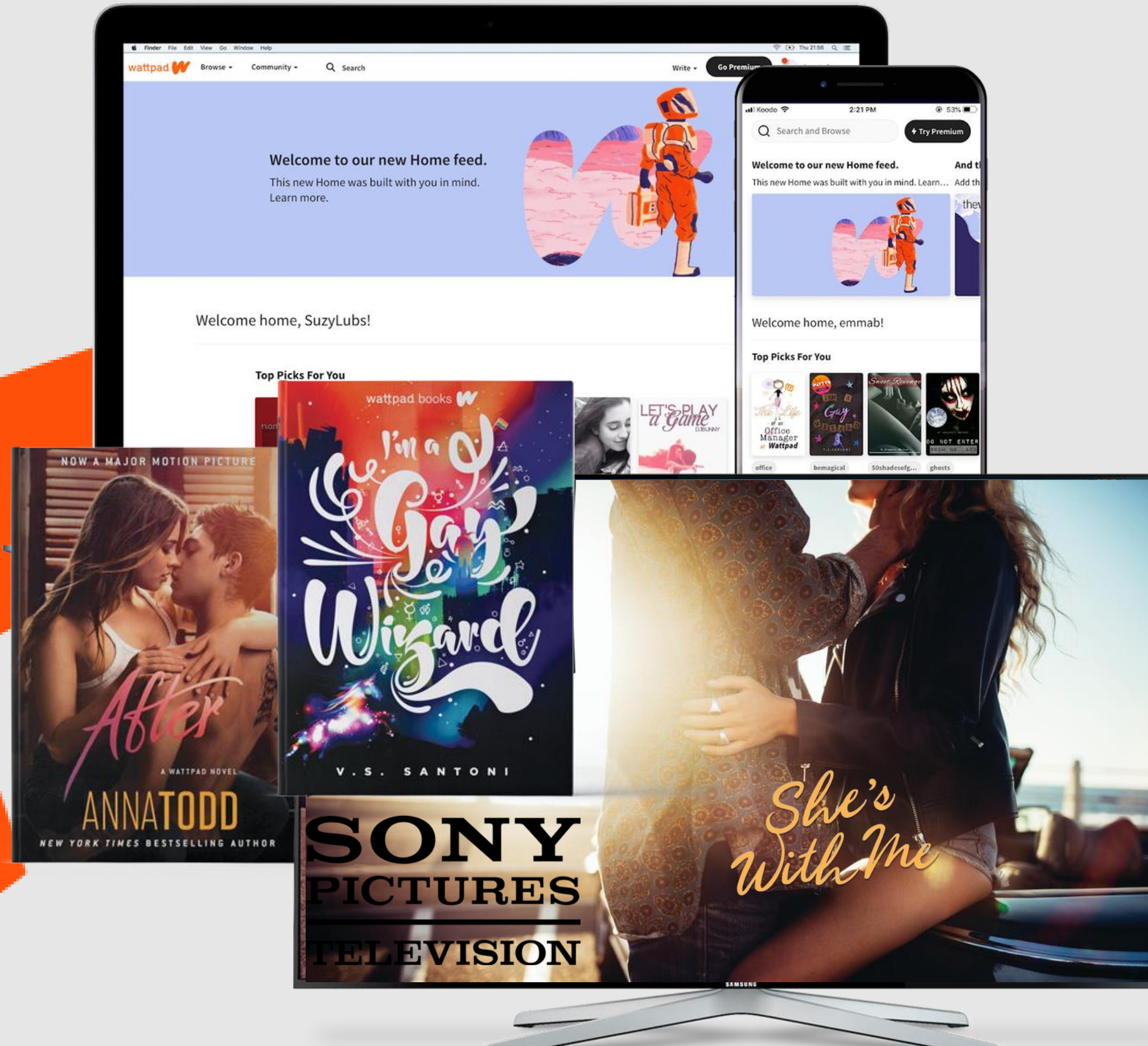
## We became an AI company!



# 2016 Wattpad Became a Different Beast

Wattpad is a global,  
AI-driven, multi-platform  
entertainment company.

apps, books, tv, film





# 2019 Wattpad creates massive hits - repeatedly

**NETFLIX**

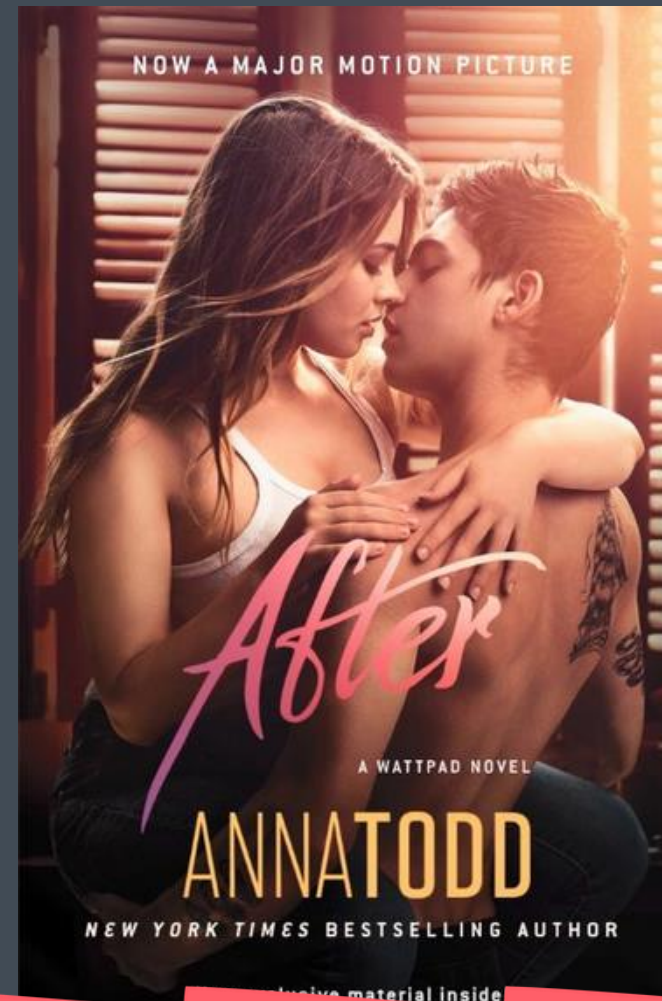
#1 in 50 countries



**The most watched movie in the world**

**PEOPLE'S CHOICE AWARDS**

Drama Movie of the Year



**Opened #1 in 17 markets  
People's Choice Winner**

**DAYTIME EMMY AWARDS**



**10 Emmy nominations across two seasons**

Through our data and fandoms, big blockbuster franchises are emerging from Wattpad



# 2019



## VULTURE

MOVIES | JULY 11, 2018

### How Wattpad Is Rewriting the Rules of Hollywood



By Chris Lee, a Vulture senior reporter who covers Hollywood



### Revenge of the nerds: How reading app Wattpad is using AI to create the next Disney

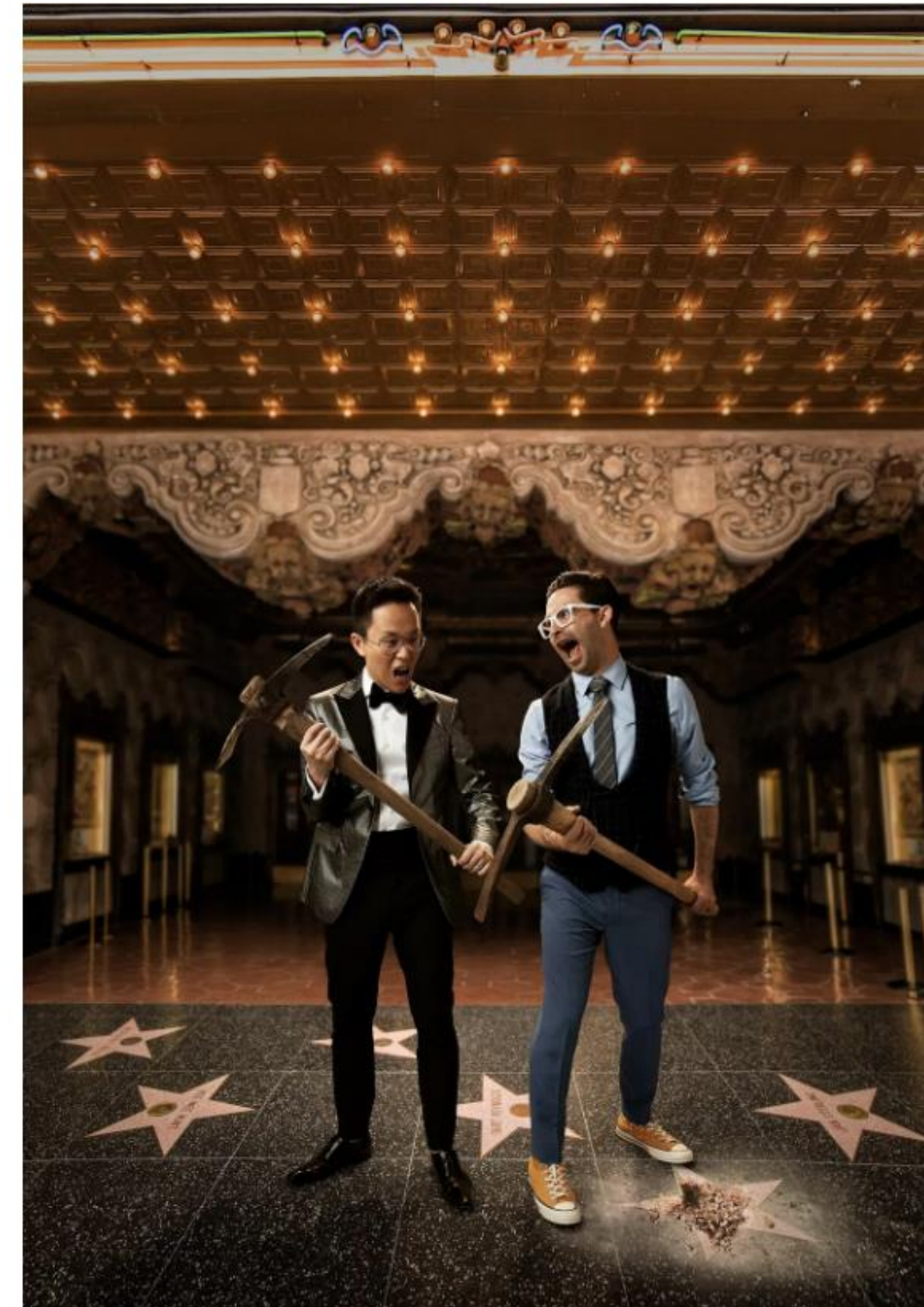
Wattpad started as an online refuge for serious readers — mostly young women. Now it's using its data and authors to take on the old Hollywood model

SEAN SILCOFF > TECHNOLOGY REPORTER

PUBLISHED JUNE 27, 2019

UPDATED AUGUST 14, 2019

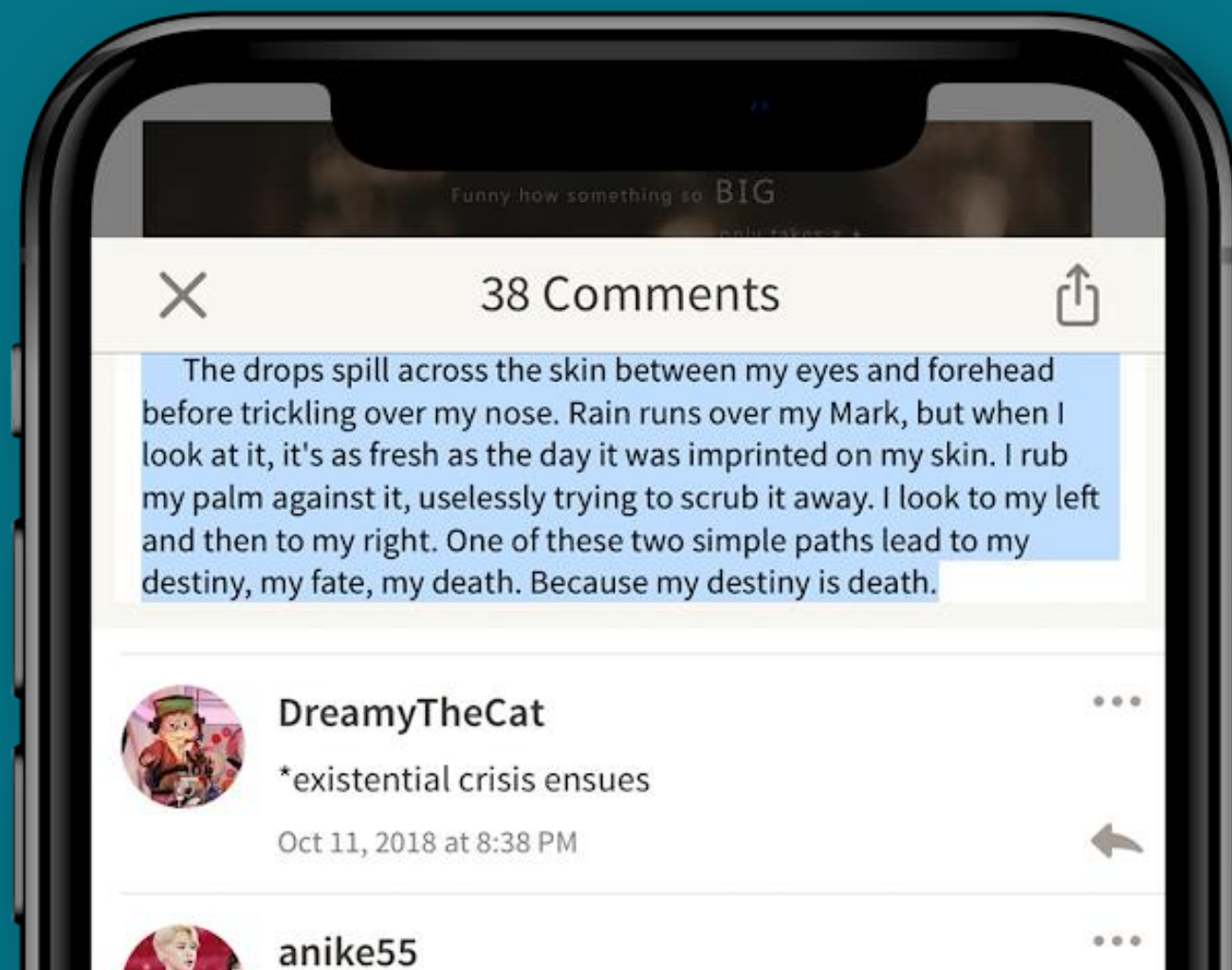
This article was published more than 4 years ago. Some information may no longer be current.





# 2020

## We are the world's leading social storytelling platform



 **100 million** monthly users  
**5 million** writers

 **1 billion** story uploads  
**1 million** new chapters per day

 **23+ billion** minutes  
of monthly engagement

 **200+ million** comments per  
month

 **50+** languages

2020

# Multimodal Business Models

#1

## Advertising

Programmatic  
Direct

People who **enjoy free**

High value brand campaigns



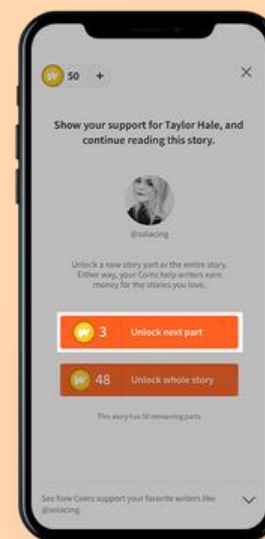
#2

## Paid Models

Subscription  
Paid Stories

People who **pay**

Recurring revenue



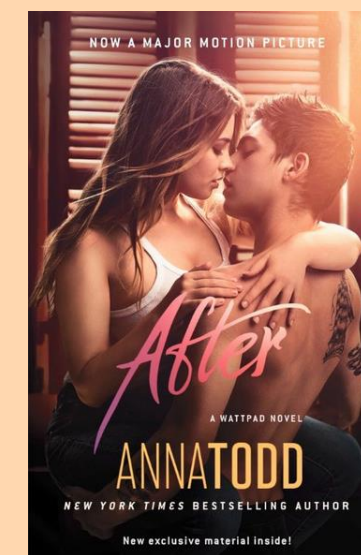
#3

## Entertainment

Movies/TV Shows  
Wattpad Books

People **off platform**

On various forms of media





2021

**NAVER**

**WEBTOON**

acquired

wattpad



**The transaction was valued at more than USD 660 million**

# Wattpad Acquisition Timeline

**April 2014** — Raine invested in Wattpad as part of our Series C

**May 2015** — Took an YPO M&A masterclass

**January 2018** — Tencent led our Series D; Raine helped us run a dual-track process

**January 2020** — Company objective: “IPO ready” — enabling full optionality

**June 2020** — Received first inbound offer (verbal)

**July–August 2020** — Selected a banker — Raine was chosen

**September 2020** — First offer (LOI); eventual acquisition price was >4× higher

**October 2020** — First offer from Naver; planned to spin out WEBTOON, together with Wattpad

**November 2020** — Four offers on the table — three at identical prices

**December 2020–January 2021** — Final auction; Acquisition announced

**April–May 2021** — Regulatory approval received; Transaction closed

# Lesson Learned (IQ)

- An inbound offer is a godsend — seize the opportunity!
- Want a Good Deal? Optionality is everything. Multiple bidders drive price.
- For large transactions, hire a banker to manage the process.
- Engage early so they understand your business before offers arrive.
- Know your own math — understand the waterfall.
- Align incentives — reward home runs, not singles (no retainer, escalating commission).
- Treat your banker as a teammate, not an outsourced provider.
- Bankers can say and do things founders can't (e.g., run an auction).



# Lesson Learned (EQ)

- M&A is an irreversible process — be emotionally ready.
- You're selling more than shares — also your friendships, identity, and legacy.
- Long lock-ups for founders are the norm.
- Time-based earn-outs or holdbacks are better than performance-based ones.
- There are always ways to make life easier for everyone involved.
- Cash and certainty are kings.
- Earn-outs and bonuses can create friction among founders, employees, and investors.
- A million things can go wrong in integration — culture, language, objectives, values, and processes.

# The Biggest Lesson Learned

- Best exit strategy? Not having one.
- Focus on building a **GREAT** business — but do the prep work.
- Large acquisitions are rarer than you might think.
- You might imagine Netflix or Amazon making an offer — but it's never that simple.
- You have to be in the right place, at the right time, with the right people.
- A world-class, differentiated product creates optionality — secondary, M&A, IPO, etc.

Great businesses get bought, not sold.





# Thank you!

**Allen Lau**

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**Wattpad Co-founder and former CEO**

My blog: <https://allensthoughts.com/>

