

The Best Exit Strategy Is Not Having One

Allen Lau

Co-Founder

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



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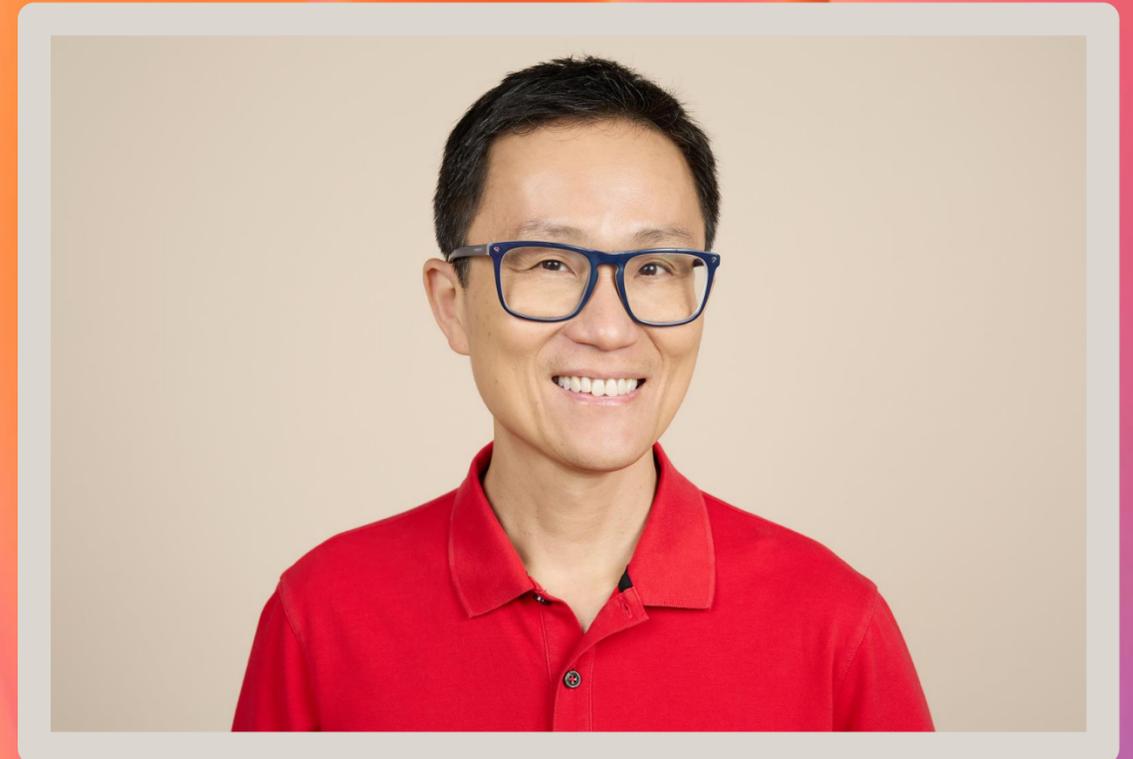
Two Small Fish Ventures Co-founder and Operating Partner

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](#).



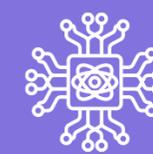
Domain Specific
Deep AI Platforms



Physical AI



AI Infrastructure



Advanced
Computing
Hardware



Smart Energy

My First Company

 ***tira wireless***TM

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!

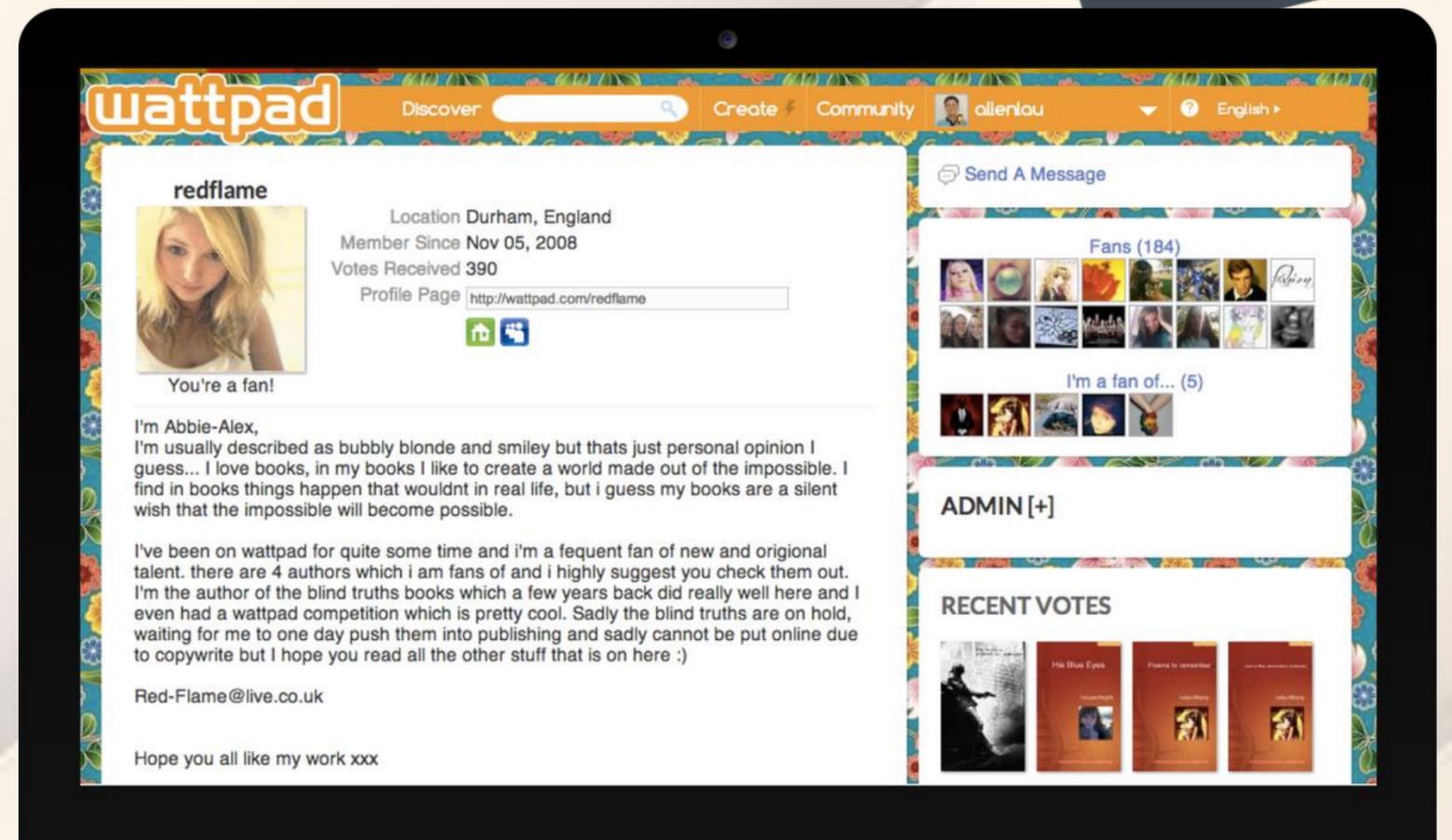
FeedM8
acquired

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!



TechCrunch

E-book Community Wattpad Scores Angel Funding

 **ROBIN WAUTERS** ✓

Monday, January 11th, 2010

0 Comments

The flurry of e-book readers that are descending upon us has prompted investors to take a closer look at companies set to ride the wave.



Wattpad this morning **announced** that it has secured a **round of funding** with a number of private investors, although the e-book community operator and mobile app developer declined to disclose the size of the round.

The consortium of angel investors that injecting capital into Wattpad include **Harvey Beck** and **Alan Levine**, former co-CEOs of ICOM and **Bert Amato**, co-founder of Delrina.

Launched in January 2007, Wattpad is a YouTube-like community that allows its members to read and share e-books on the Web and on mobile devices. According to the company, the site's catalog boasts 'hundreds of thousands' of novels, short stories, fan fiction, essays, jokes and more. Example: Dickens' **A Christmas Carol**.

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:

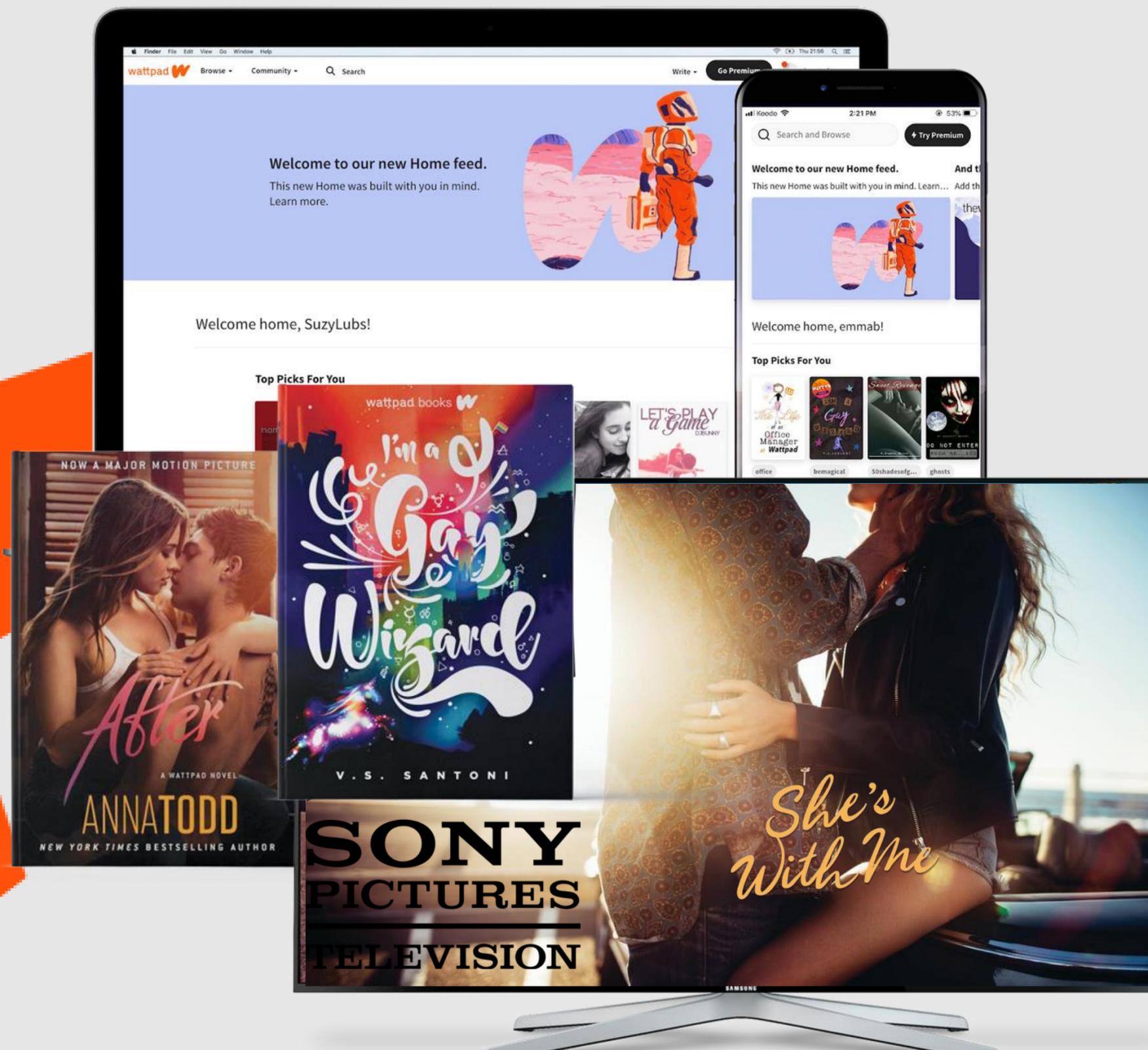
- **Quality Indexer**
 - Deconstruct stories into their elemental features through NLP
- **Comparables Finder**
 - Find stories similar to past hits
- **Emotions Identification**
 - Story arc, writing complexity, readability
- **Theme Identification**

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

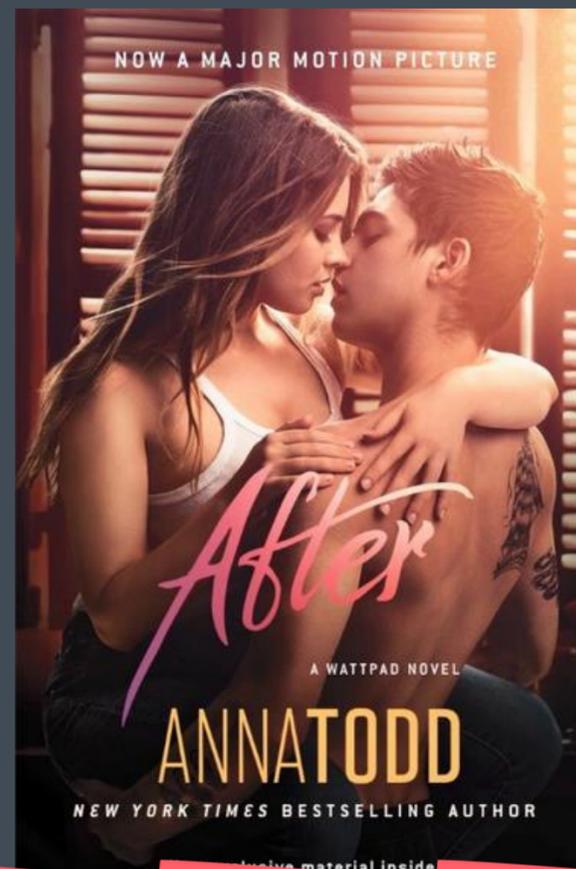
#1 in 50 countries



The most watched movie in the world



Drama Movie of the Year



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



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



THE GLOBE AND MAIL

HOW CANADA'S **WEALTHIEST** SPEND THEIR MONEY | WHO'S TO BLAME FOR FRESHII'S WILTING STOCK? | WHY TOURISTS SHOULD JUST **STAY HOME** | **TOBI LÜTKE** ON CANADA'S GO-FOR-BRONZE MENTALITY

REPORT BUSINESS

A STAR IS BORN

ALLEN LAU'S **WATTPAD** WANTS TO BECOME THE NEXT DISNEY

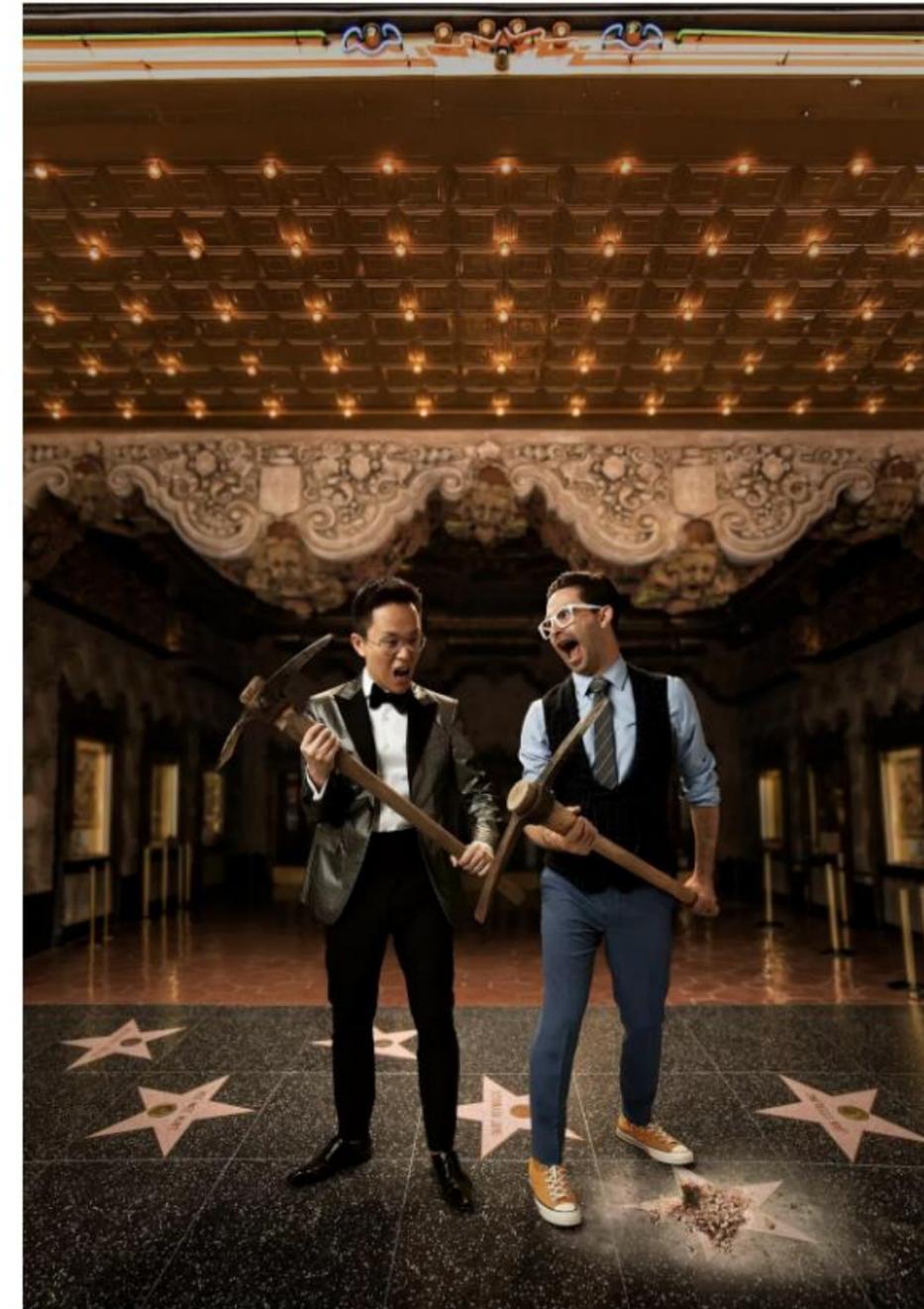
JULY/AUGUST 2019

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

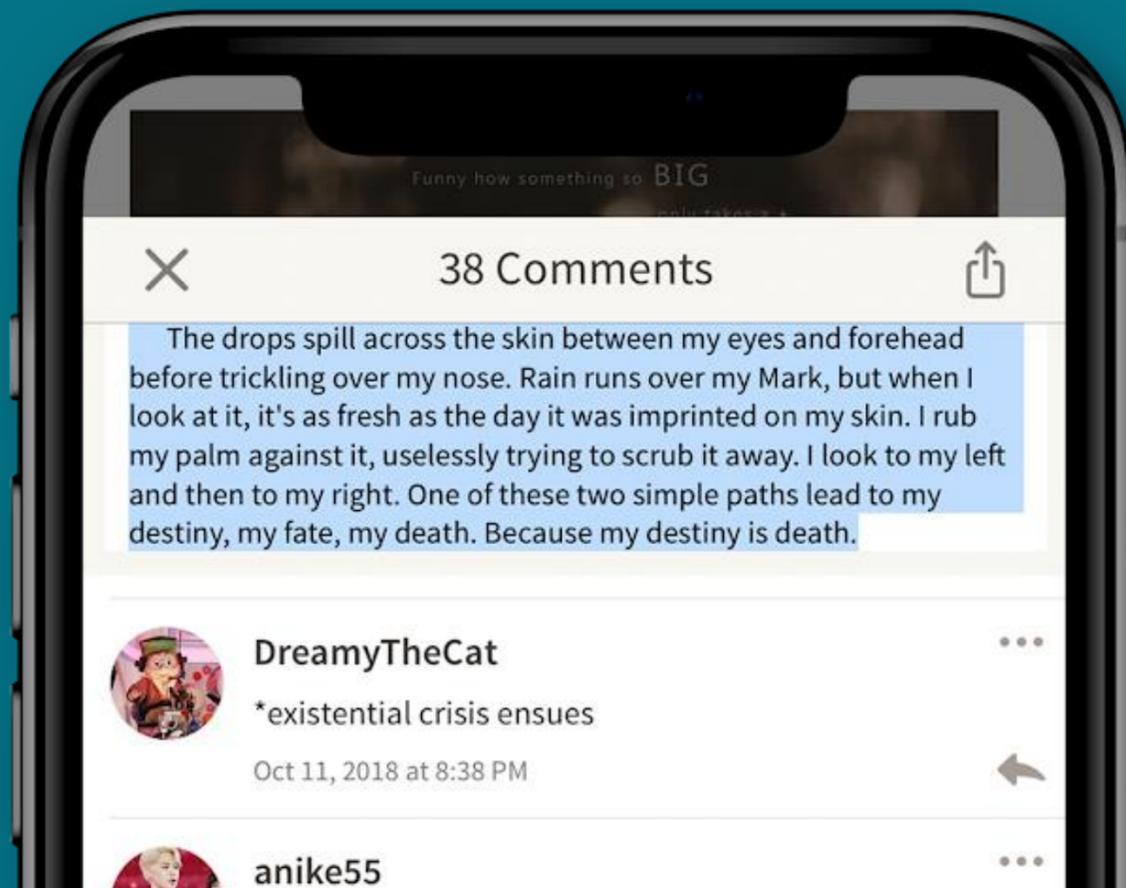
SEAN SILCOFF > TECHNOLOGY REPORTER
PUBLISHED JUNE 27, 2019
UPDATED AUGUST 14, 2019

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

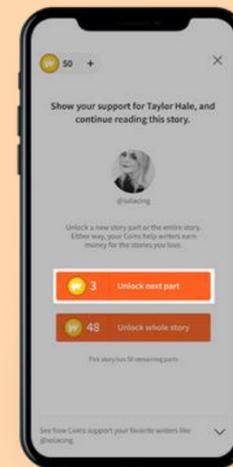


#2

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

Two Small Fish Ventures Co-founder and Operating Partner

Wattpad Co-founder and former CEO

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

