Blurring the lines
Trends from the EY Entrepreneur Of The Year 2014™ US finalists
Opportunity abounds

This year’s headline is growth, and the 663 EY Entrepreneur Of The Year™ 2014 finalists are our newsmakers. Their ideas, energy, products and services create jobs, stimulate the economy and give back to the communities in which they live and work.
The performance of these finalists’ companies over the last three years gives us a timely snapshot of the state of entrepreneurship in the US. It also provides a glimpse into the key characteristics of today’s fastest growing companies. Where others wait on the sidelines because of economic hardship or doubt, these companies go on the offensive in spite of it. They demonstrate a keen focus on innovation, instill passion in their teams and execute on their vision regardless of economic times.

When we look at what the class of 2014 has accomplished – and perhaps more importantly, where they are headed – we see a future of vibrant innovation and rapid financial acceleration. Market segments are converging, industry lines are blurring and companies that have long stood the test of time are being disrupted at lightning speed. Tradition is being trumped by innovation.

In this year’s class of Entrepreneur Of The Year finalists, we see two significant trends emerging along the path to accelerated growth: broad adoption of technology among a relatively young population of entrepreneurial companies and a heightened interest by professional investors to fund to scale and then to exit in the vibrant capital markets of the past 12 months.

There is a lot to learn from these ambitious entrepreneurs. And from what we can see, they are just getting started.

**Herb Engert**  
Americas Strategic Growth Markets Leader, EY

**Mike Kacsmar**  
EY Entrepreneur Of The Year Americas Program Director
Revenue and employment on the rise

This year’s Entrepreneur Of The Year finalists are a testament to the power of innovation, foresight and opportunity. They are visionaries, in some cases transforming the world with a new product or service. They are upward-bound, with combined revenues of $197 billion and an impressive 34% revenue growth in each of the last two years. In addition, they are job creators, employing more than 529,000 people, a 32% increase over the past two years.

Finalist performance
The 663 high-impact finalists from the EY Entrepreneur Of The Year class of 2014 have created ...

**Growth**

- 529,133 employees
- Employment growth over past two years: 32%
- Median number of employees, up from 191 the year before: 395

**Revenue**

- $197 billion in total revenue
- Revenue growth in each of the last two years: 34%
- Median revenue: $42m

Employment growth at private companies outpaced public at 44% and 21%, respectively, and employment at venture capital-backed companies grew fastest at 74% over 2 years.

Revenues at private companies outgrew public by 48% and 27%, respectively, and revenues at venture capital-backed companies grew fastest at 166% over 2 years.
So what makes these incredible high-growth companies tick? In a word, technology. Some of the strongest performers among today’s entrepreneurs have leveraged technology into a game changer. These companies are revolutionizing traditional business models by blurring industry lines — using technology to disrupt, scale and change lives.

Consider how this year’s finalists are leveraging technology as a competitive advantage in their respective industries. Trulia’s online platform has modernized the traditional home-buying process, and thus, the real estate industry as a whole. The Honest Company has built its business model around selling 80% of its products online, in addition to stocking shelves of major brick-and-mortar retailers. In the life sciences industry, The Spectranetics Corporation uses laser technology to fight against cardiovascular disease.

The importance of technology among this year’s finalists is reflected in a new trend: how these companies do business becomes the basis for who they say they are. Companies that in the past might have been classified as retail, banking, automotive or real estate are now self-identifying as technology companies.

Savvy entrepreneurs are aligning with the tech sector because they know it’s an investor magnet. Among Entrepreneur Of The Year 2014 finalists, technology is the top sector to attract private equity (PE) and venture capital (VC) investments. More than half (56%) of the companies in the tech sector have received VC funding, compared with just 27% in other sectors. Similarly, finalists in the technology sector were the highest target for M&A activities, with 26% undertaking a merger or acquisition in the past three years. Digital transformation is driving dealmaking in this sector as companies seek to accelerate their adaptation to the technology megatrends of smart mobility, cloud computing, social networking and big data analytics.

The impact of industry on going public

Many high-growth entrepreneurs dream of the day they take their companies public. Choosing the right industry can mean the difference between a great valuation and long-term success versus years of underperformance.

Positioning a business today can be more challenging than ever because many companies can function across different industry sectors. When evaluating which sector to target, entrepreneurs should take into account the market from which the majority of their revenue emanates. Additionally, entrepreneurs must ensure that they are well-positioned not just for today, but also for where the business is headed. Five years from now, will the business still be focused on financial services, real estate, consumers... or something that hasn’t even been thought of yet?

Every company evolves as it grows. The sector selected for the IPO is very important, not just for the day you go public and immediately thereafter, but for the long-term financial success of the business.

### Top 3 sectors to attract investment

#### Private equity

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Technology</td>
<td>23%</td>
</tr>
<tr>
<td>Consumer products</td>
<td>10%</td>
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<tr>
<td>Banking and capital markets</td>
<td>8%</td>
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#### Venture capital

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Technology</td>
<td>45%</td>
</tr>
<tr>
<td>Life sciences</td>
<td>12%</td>
</tr>
<tr>
<td>Consumer products</td>
<td>8%</td>
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Technology is no longer seen as a hurdle but rather a facilitator for dramatic growth, quickly.
To gain traction in the most competitive markets, entrepreneurs must disrupt them—and no one knows this better than the newest entrants. Nearly half (46%) of the 2014 finalist companies are less than 10 years old. They’ve launched—and thrived—during the worst global economic downturn since the Great Depression. These finalists are in good company. Many of today’s best-known brands, including GE (1878), Allstate Insurance Company (1931), Microsoft (1975) and CNN (1980), started during downturns.

What accounts for the success of these relatively young finalist companies? Technology plays a big role here too. “Companies, especially technology businesses, have the ability to leverage innovation into the company creation process and drive costs down significantly compared to what we saw 10 years ago,” says Jeff Grabow, US Venture Capital Leader at EY. From “freemium” software to the ability to rent infrastructure on demand, technology is dramatically reducing the length of time required to go from idea to execution. In just 10 weeks, the zulily co-founders were able to build and launch their “flash sale” website. They offered limited-time sales on a constantly changing inventory of products for the whole family. They adopted a business model where they don’t hold inventory and instead fulfill customer orders from their vendors. While this model requires longer ship times and no returns, it enabled zulily to skip the need for warehouses and launch their business quickly. This process, coupled with zulily’s “browse and buy” approach, has completely disrupted traditional e-commerce.

Technology is no longer seen as a hurdle but rather a facilitator for dramatic growth, quickly. This transition, coupled with reduced startup costs, has provided an opportunity for angel investors to fund companies that were once only in a VC’s purview.

Investors looking for high growth and faster returns have turned to young companies that produce exponential returns faster. Consider that 55% of PE-backed Entrepreneur Of The Year 2014 finalist companies are less than 10 years old, with a median age of 9 years. Shift to VC-backed companies and those numbers are 71% and 7 years, respectively.

The silver linings of the recession

Maintaining culture during unprecedented growth

How can you maintain your company’s identity while you scale? Young guns might be wise to heed the advice of family business leaders who must remain unusually entrepreneurial to pass healthy, profitable enterprises from one generation to the next. In so doing, many family businesses go through periods of rapid transformation and have lots of lessons to share.

When Jodi Berg, the fourth-generation CEO of Vitamix, took over the reins of her family’s 88-year-old business, she had a vision for explosive growth. But before she set out to change virtually every aspect of the company, she needed to align the company around what really mattered, using the process of appreciative inquiry to get to its core.

“We interviewed 98% of our employees, asking what they value most about the company,” Berg says. “Respecting what they absolutely did not want us to change gave us permission to change everything else.”

The themes that emerged became Vitamix’s core identity and an incredible change management and alignment tool, giving Berg the freedom to make significant changes while preserving employee balance, satisfaction and productivity. Even better, it inspired the entire workforce to drive the change themselves.

Today, these core values drive everything from hiring decisions to customer service response. They are the foundation for innovation, research and development. And that is what it takes to succeed for generations.
Fueling the fire

Entrepreneurs know that at some point in their journeys, it usually takes big money to finance big ideas. Half of the finalist companies have received PE and/or VC funding. Up 17% from last year’s finalist class, this shows that investors are back. Indeed, investments from financial sponsors (PE and VC funds) are at record levels, giving high-growth companies a wide array of options when seeking financing. Against this backdrop, investors are keen to realize value through an exit, institutions are eager to invest and the valuation gap is closing.

A new venture timeline

These statistics reflect a new trend emerging among venture capitalists. Thanks to reduced startup costs, VCs can provide less money at the beginning of a company’s life cycle and then increase their stakes as the company starts to scale. Overall, the amount of capital is the same, just distributed at different stages.

What does this mean for entrepreneurs? It allows them to focus first on product, then on growth. The ability to demonstrate a product/market fit — essentially that the idea is viable and valuable — is a critical first step in a startup’s journey. With a proven value proposition, the venture capitalists are then financing the company’s growth. The VCs help them scale and reach a stage where the company is ready for an exit.

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PE firms typically invest in larger, more mature businesses than their VC colleagues offering predictable cash flows. However, there is no longer a clear line where VC stops and PE begins. Many PE firms today are increasingly looking down-market to smaller companies with higher potential for growth — fishing in the same pond as their VC counterparts.

In recent years, PE firms have been increasing their capacity to drive transformational changes within the companies in which they invest. They have added robust networks of advisors and consultants that are able to improve operational effectiveness and increase value. This allows smaller high-growth companies to maintain control and drive their agenda with support from a firm with expansive resources, a wide network of connections and deep industry experience.

### Employee size by funding

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<thead>
<tr>
<th>Size Range</th>
<th>VC</th>
<th>PE</th>
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<tbody>
<tr>
<td>0–100</td>
<td>36%</td>
<td>26%</td>
</tr>
<tr>
<td>100–200</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>200–300</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>300–400</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>More than 400</td>
<td>20%</td>
<td>39%</td>
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Entrepreneurs are truly a disruptive force. Age doesn’t define them, vision does. Their innovative use of technology enables them to revitalize mature industries and spark entirely new trends. Fueled by injections of capital and the seasoned advice that comes with it, their companies grow at record-breaking speed.

When entrepreneurs invigorate an industry with their energy and fresh thinking, good things happen: value is realized, jobs are created and communities flourish. We see from this year’s finalists that technology enables entrepreneurs to turn ideas into industry behemoths overnight. One thing is clear: the lines between an entrepreneur’s dreams and reality will only continue to blur.

Then comes the exit

As markets stabilize and confidence rises, investors are fueling a new wave of innovation-led IPOs. An impressive 27 companies from the 2014 finalist group have gone public since the start of 2013. “Momentum continues for technology and health care,” says Jacqueline Kelley, EY Americas IPO Leader. “Strong valuations are guided by the ability to place the value on a company’s potential, not just where a company lies today. Right now, investors are eager to look at the business plans of innovative companies.”

Stock market indices continue to hit new highs, volatility is low and investor sentiment is bullish. Financial sponsors are pushing for exits, and the pricing gap is at a historically low level. This sets the stage for a surge in listings as investors rush for returns before the year-end.

A vibrant future

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Insights from the Ewing Marion Kauffman Foundation

While the US has finally emerged from the hangover of the recession, with strong rates of job creation and healthy economic indicators, long-term economic growth forecasts keep getting downgraded.

Happily, high-impact entrepreneurs don’t appear to be paying attention, judging by the profiles and performance of this year’s EY Entrepreneur Of The Year finalists. The most heartening number about this year’s companies is that 46% of them are 10 years old or younger. As Kauffman Foundation research has found, young firms are the driving force of job creation and innovation in the American economy. Young companies have been responsible for the lion’s share of net job creation over the past 30 years, and they account for a disproportionate number of breakthrough innovations.

Young, rapid-growth companies like the Entrepreneur Of The Year finalists also play a critical role in the ecosystem beyond their direct economic contributions. Because they are more likely to hire younger workers, they serve as incubators for these workers and offer ladders for their careers. These companies have a ripple effect in their communities and the rest of the country, especially as they give young workers entrepreneurial experience.

The other notable statistic in this year’s Entrepreneur Of The Year companies is that women represent 12% of the finalists. We salute these women who defy the staggering statistics. While women own 36% of US businesses, these companies are more likely to be smaller and slower growing. In fact, only 2% of female-owned businesses break US$1 million in revenue.

This is not quota issue; this is a growth issue. The US economy enjoyed massive boosts in the 20th century from the large-scale entry of women into the labor force and rising educational attainment, especially among women. We are still enjoying the economic benefits of these trends, but they are diminishing in their effect. For strong and broad-based economic growth to return, the US needs more high-growth entrepreneurs in general, which means more women represented in their ranks.

Every year’s class of Entrepreneur Of The Year finalists are a reminder of the vibrancy of American entrepreneurship and of the economic importance these companies play. This year’s finalists are no different – they help remind us of the essential economic role played by young companies and of the economic imperative of encouraging more high-growth women entrepreneurs.

Special thanks to the Ewing Marion Kauffman Foundation, the world-renowned foundation for entrepreneurship, for its insight and support. EY is proud that Kauffman has been an EY Strategic Growth Forum® US sponsor since its inception eight years ago and has supported the EY Entrepreneur Of The Year Program for decades.
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