TWO Articles in this doc:

1. https://www.businessinsider.com/amazon-eero-acquisition-how-much-investors-lost-leaked-documents-2019-4
2. https://mashable.com/article/amazon-eero-wifi-router-sale/

Here's how much investors may have lost in Eero's fire-sale deal to Amazon, according to leaked documents

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Eero

- Amazon's acquisition of Eero was valued at $97 million, a fire-sale deal that was worth significantly less than the company's most recent reported valuation.
- Documents obtained by Business Insider indicate how much investors may have lost from the deal.
- The paperwork indicates that the estimated amount to be paid at the deal's close was lower than the estimated liquidation preference per share, a sign investors received less than they poured in.
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When Amazon agreed to acquire Eero for $97 million — a fire-sale deal that was worth significantly less than the company's most recent reported valuation — investors were among those who lost out while the founders walked away with millions in payouts.

Documents obtained by Business Insider indicate how much investors in series seed through series D rounds are estimated to have lost according to the deal's terms. The documents say the estimated per share liquidation preference for each class of shares was lower than the estimated amount per share to be paid at closing — a sign investors received less money than they poured in to the startup. It makes sense considering the company's sale to Amazon was valued at far less than its most recent estimated valuation, which Pitchbook data indicates was $215 million following a series D funding round in late 2017.

A liquidation preference dictates the amount of money that preferred stock owners are paid in the event that a company is sold or liquidated. It's a common practice venture capitalists use to ensure they get their money back before other types of stockholders are paid.

In Amazon's acquisition of Eero, the amount to be paid per share at closing was more than 16% lower than the liquidation preference for series seed through series D rounds, according to the documents.

Because the figures below are estimates, the exact amount of money investors were paid at closing could differ from what was shown in the documents. Mashable first reported the specifics of Amazon's acquisition of Eero on Friday. Eero declined to comment when the news broke on Friday and has not responded to Business Insider's follow-up request. Amazon has not responded to Business Insider's request for comment.

Series Seed

- **Estimated per share liquidation preference**: $0.48
- **Estimated amount to be paid at closing**: $0.40
- **Difference**: Decrease of 16.7%

Series A

- **Estimated per share liquidation preference:** $1.17
- **Estimated amount to be paid at closing**: $0.98
- **Difference**: Decrease of 16.2%

Series B

- **Estimated per share liquidation preference:** $2.83
- **Estimated amount to be paid at closing**: $2.37
- **Difference**: Decrease of 16.3%

Series C

- **Estimated per share liquidation preference:** $5.03
- **Estimated amount to be paid at closing**: $4.21
- **Difference**: Decrease of 16.3%

Series D

- **Estimated per share liquidation preference:** $7.51
- **Estimated amount to be paid at closing**: $6.29
- **Difference**: Decrease of 16.2%

Amazon and Eero announced in February that the two companies had entered into a merger agreement, a move that was positioned as being a beneficial partnership that would accelerate their missions of bringing a quality Wi-Fi experience to the home. But the terms of the deal also left common shareholders with almost nothing, as the documents indicate that the terms valued common stock at $0.03 a share.

Eero's three cofounders — Nick Weaver, Nathan Hardison, and Timothy A. Schallich — received payouts in the form of bonuses and other awards, as did other company executives, the documents suggest. Weaver is poised to receive more than $7 million, according to the documents, while Hardison could end up with more than $5 million and Schallich could receive more than $4 million. The final amount Eero's cofounders and executives receive could differ from what was stated in the documents.

Eero was founded in 2014 by the Stanford alumni Weaver, Hardison, and Schallich. The company quickly established itself as a pioneer in mesh networking — a technology that uses multiple access points to blanket an area with a Wi-Fi signal rather than relying on just one router. Eero's first product was well-received by tech critics upon launching in 2016, and companies like Google and Samsung have since released similar devices.

Amazon's purchase of Eero is the latest in a series of acquisitions that further cement the online retail giant as a dominant player in the smart-home industry. It acquired the smart-doorbell maker Ring for a reported $1 billion in 2018 and the security-camera startup Blink for a reported $90 million in 2017, Reuters reported at the time.

SECOND ARTICLE

How Amazon's $97 million Eero acquisition screwed employees and minted millionaires

It's tough out there for hardware startups.
Image: Bob Al-Greene / Mashable
By Rachel KrausApr 05, 2019

When Amazon announced a deal to acquire Eero, the maker of a groundbreaking WiFi system, it sounded like a classic Silicon Valley success story: a promising startup is acquired by the biggest bidder in the land, and everyone rolls around in cash. But that is not this story. This story is about investors losing tens of millions of dollars and dozens of employees left with meaningless stock.

According to confidential documents viewed by Mashable, Amazon acquired Eero for $97 million. Eero executives brought home multi-million dollar bonuses and eight-figure salary increases. Everyone else, however, didn't fare quite so well. Investors took major hits, and the Amazon acquisition rendered Eero stock worthless: $0.03 per share, down from a common stock high of $3.54 in July 2017. It typically would have cost around $3 for employees to exercise their stock, meaning they would actually lose money if they tried to cash out.

Former and current Eero employees who chose not to exercise those options are now empty-handed. And those who did exercise options, investing their financial faith in the company, have lost money.

SEE ALSO: Amazon plans to offer satellite-powered internet

Meanwhile, the Eero execs who stay to help Amazon wage its war for smart home domination will take home around $30 million.

The circumstances surrounding Eero's sale to Amazon speaks to how exceedingly difficult it is to compete in the smart home market. Creating hardware takes time and money, the sort of money that is usually found in the pockets of tech giants. If you want to win in the product sector, you want to be on the side of the giants. And even then, your win may still be a loss.

Great expectations

At its inception, Eero checked off all the boxes for Silicon Valley: a "disruptive" product, chummy co-founders with Stanford pedigrees, an origin story that started in an apartment, and big promises about how its wireless mesh router system would reinvent home WiFi with cutting-edge technology. It even had a sleek, minimalist design.

In 2016, Eero's system hit the shelves. Reviewers, including at Mashable, were delighted by the performance and the packaging. Three months after the successful product launch, it had a valuation of over $277 million.

Eero's primary product is a "mesh wireless router," which changes the way internet access is delivered throughout the house, resulting in coverage that is faster and more consistent. Instead of one central modem and router duo, mesh WiFi systems communicate between multiple devices placed throughout a home, which allows the fastest WiFi signals to reach through more physical barriers. Installing and setting up Eero is simple — no surly cable guy required — and the system is managed via an app on your smartphone.

Eero may have been first to mesh WiFi, but competition came fast. Multiple companies including Luma and NetGear launched similar products in the next year.

According to former Eero employees, the biggest challenge came from Google. The tech giant launched its own mesh network, Google Wifi, in late 2016, for just $299. At the time, Eero was selling for $500.

The company tried to remain a step ahead and diversify — most notably with Hive, a smart home security system — but then Google dropped a bomb: a similar product called Nest Secure. Soon after, Eero abandoned Hive, leading to a period of malaise and confusion.

"The day they killed [Hive] was the day the company changed," said a former employee.

After Eero employees returned from the holidays, 20 percent of the staff was cut. Next came massive attrition. An ex-employee described it as a period of "desperate fear." Morale was so low that HR disabled group emailing and prohibited employees from sending out goodbye emails to say they were leaving.

Then the really big news dropped.

Movin' on up?

On February 11, Eero announced to the public that Amazon had acquired the company. Rumors about the specifics of the deal spread quickly. But any excitement dissipated once employees realized that neither Eero nor Amazon was disclosing a price. That discomfort turned to anger as the documents started to arrive.

"I was really surprised when the announcement came, and I knew instantly it was bad," one ex-employee said. "When they don't announce the price, it's not good. What I didn't know was how bad it actually was."

Employees tried to guess from news reports and social media what the deal meant for them. When the stock price leaked, some ex-employees breathed a sigh of relief that they didn't exercise their options in the first place. Others were left with worthless stock and disappointment.

The letter, dated February 15, gave employees four days to decide what to do with their Eero shares. Some even received the letter on or after the deadline.

> If you decide to exercise your Options, you will need to pay the applicable exercise price for such Options up front and will then be entitled to receive \$0.03 for each share of Common Stock in the Merger. Because the exercise price for all Options outstanding under the Stock Plan is greater than the \$0.03 per share payout for Common Stock, the Company would not anticipate or recommend that any of the Company's Option holders exercise their Options prior to the closing of the Merger.

This would be the last communication that most ex-employees would receive from Eero. But those who chose to purchase or exercise their stock received a "phonebook-sized" packet of dense financial information — including acquisition terms that tell a different story than Amazon and Eero's glowing announcement.

"I was far less salty about the situation before I got this document," an ex-employee said. "I don't begrudge the executives their payout, but I feel like they could have taken a little bit less to not screw the employees who spent their own money because they believed in the company."

First, the documents (reviewed by Mashable with financial experts) open with a reiteration about the stock price from CEO and co-founder Nick Weaver.

"Unfortunately, the transaction will not result in the financial return we all hoped for," Weaver wrote in the introduction.

It revealed that the final sale price was $97 million. Crunchbase reports that Eero took $90 million in venture capital (the *Wall Street Journal* put the number at $100 million). PitchBook, a highly accurate source of VC information, claimed a final $40 million Series D fundraising round from December 2017 brought that number up to $138 million. Eero declined to comment, instead pointing to a March 12 blog post confirming the sale.

An additional $10 million debt line Eero took out brings the total money put into the company at $148 million — 150 percent of the Amazon sale price.

"I knew instantly it was bad."

“One obvious way you can judge whether it was a great exit or not is if the exit valuation is lower than the amount of capital that was invested in the startup,” Rob Chandra, a partner at Avid Park Ventures, and lecturer at UC Berkeley’s Haas business school, explained. "So it's not a great exit."

Still, $97 million is nothing to sneeze at. It looks, at first glance, like the company may have given investors something close to what they’d put in, while providing jobs at Amazon for the remaining employees.

But that's not the case. The story that the financial documents tell indicates that things turned out even worse for investors — and yes, for employees — than they might look.

The documents state that after transaction costs and debt, the actual price will be closer to $54.6 million. That means that Amazon is covering around $40 million of the debt that Eero owes. Ex-employees believe the debt to be from hardware manufacturing costs, since they said that Eero took on corporate financing to actually manufacture the products. Jeff Scheinrock, a professor at the UCLA Anderson School of Management, and an experienced investor and entrepreneur himself, agreed that this was likely the case.

"What this says about it was that Eero was cash strapped," Scheinrock said. "A lot of this money is going to pay off debts. They were having difficulty and probably couldn’t raise additional money, so they had to look for an exit."

That left about $54 million for employees and investors. By looking at stock prices listed in the acquisition documents, the amount raised in each funding round, and the amount of shares each VC received in these rounds, you can get a good idea of the investors’ losses. Ultimately, thanks to a “last in, first out” philosophy, Eero’s Series D investors, led by Qualcomm, will recoup 84 percent of their investments. The seed round and Series A-C investors will all get back 31 cents on the dollar.

But not everyone involved with Eero lost.

Amazon created a "Management and Employee Retention Plan" for key Eero executives. As part of this plan, the documents state that it is allocating 10 percent of the "actual consideration" (the

$54 million transaction price) to executive bonuses and pay increases, even if that meant bigger losses for investors.

Ten executives are getting the majority of that money. The three co-founders — Nick Weaver, Nathaniel Hardison, and Timothy A. Schallich (who goes by Amos) — plus other company executives and affiliates, will collectively receive ~$3.7 million in cash as a "transaction bonus."

The ten executives will also receive between ~$29 and ~$23 million in salary increases, retention and yearly bonuses that vest over three years (for a potential total of $32.6 million). These are all financial incentives for what Amazon apparently views as the core Eero team to stay on and build the product.

“Eero is a customer-focused, inventive team that has quickly developed an impressive WiFi solution that makes technologies at home just work,” an Amazon spokesperson told Mashable when asked why the company acquired Eero.

Still, ex-employees wonder if there might have been more money for stockholders had the executives not been granted so much in cash and bonuses.

Eero executives’ buyout bonuses

San Francisco-based mesh WiFi startup Eero announced its acquisition by Amazon earlier this year. Financial documents obtained by Mashable reveal the cash bonuses and parachute payments received by 10 executives at Eero.

Note: All figures for bonuses and parachute payments have been rounded.

Name	**Title**	**Cash bonus from acquisition***	**Potential total parachute payment****
Olivier Adler	CFO	$608K	$1.5M
Nathaniel Hardison	Head of Product/ Co-Founder	$425K	$5.5M
Sean Harris	Head of Marketing	$424K	$2.8M
Dana Lindsay	Head of Product Operations	$300K	$2.5M
David Loftesness	Head of Engineering	$225K	$3.3M
John Loomis	Head of Manufacturing Operations	$325K	$3M
Nicholas Mack	General Counsel & Corporate Secretary	$325K	$3M
Timothy “Amos” Schallich	CTO/Co-Founder	$426K	$4.7M
Nicholas Weaver	CEO/Co-Founder	$425K	$7.1M
Cecelia Wong	Head of People Operations	$250K	$827K
TOTAL		**$3.71M**	**$32.6M**

***Cash bonuses** refer to money executives receive at the completion of the Amazon acquisition.

****Potential total parachute payments** refer to salary increases, equity, and cash bonuses executives stand to receive if they remain with Eero at Amazon, vesting over a period of three years. Actual payout sums may vary from this total.

Mashable

Executives could get up to $32 million in buyout bonuses.

Image: Bob Al-Greene / Mashable

"They're not valuing the company very much for the past contributions," Avid Park Ventures partner Rob Chandra said. "They're really valuing it more in terms of what it's going to do in the future."

Amazon, when asked, said it values Eero for “both."

(Hard)ware

The key to Eero's future is also what contributed to its failures.

Many outlets, including Mashable, speculated that Amazon's acquisition of Eero had everything to do with the tech giant's plans and desire to increase its dominance in the home. When Eero announced the deal on March 12, it mentioned more communication between Alexa and Eero devices. One ex-employee said this was something Eero was already discussing in 2018, but that it didn't make practical sense at the time.

The Googles and Amazons of the world have the “cash, the size, the structure, to buy markets,” Scheinrock said. "If you’re just a single market company [like Eero], it’s very hard to compete with somebody who’s a giant.”

Hardware startups require a lot of cash, and technological progress can render a product obsolete before it has a chance to take off. Nearly all (97 percent) of the 400 hardware startups tracked in a 2017 report from CB Insights either died or became "zombies," companies that survive for awhile with VC money, but eventually fizzle out.

“When you do it right, there’s a pathway to building extremely valuable hardware companies that have competitive differentiation. Companies that do achieve this can win at scale and aim to go public,” Seth Winterroth, a partner at Eclipse Ventures, said. “But it’s hard in the home right now for startups. The market is extremely fragmented, there’s a lot of noise, and you’re competing against giant tech companies looking to ‘own’ the consumer at home.”

When asked about whether Amazon thinks its presence makes life harder for small hardware companies, a spokesperson instead focused on how its investments help “developers and device makers of all sizes create products.”

The bar for success in home hardware tech is incredibly high — but it can be reached. According to Winterroth, Peloton is a notable example. The indoor bike manufacturer created a product useful and compelling enough to stand and grow, profitably, on its own. On the other hand, many players have fallen at the hands of an overcrowded hardware market populated with well-funded super players. Remember Lighthouse? How about Jibo?

"You either get bought, or you die."

Winterroth points out that Google and Amazon’s race for dominance in the home also creates massive opportunity. Between Alexa, Siri, Google Assistant, and all of their physical iterations, there’s no clearly dominant smart home system. But that also makes these larger players desperate to compete. Home devices are in part a marketing strategy to make customers live their lives — including shopping, watching, and using the internet — entirely through the device’s company. So, as the ex-Eero employees pointed out, they are willing to sell these products much more cheaply than a startup can afford to do.

“If you do not have a product that's an order of magnitude better than what’s out there, you're being drowned out by the marketing coverage and go-to-market strategies of big companies,” Winterroth said. “It’s a very high barrier for small companies to overcome.”

To actually compete against these companies, the product itself must appear instantly valuable for consumers, enter the market at the right time, execute perfectly, and be a conduit to subscription and software services. For most companies — including Eero — that’s too high a bar to reach.

"I just think that the growing consensus is that hardware is a losing bet, especially when you’ve got all the big boys undercutting you," an ex-employee said. "There’s just no winning with hardware. You either get bought, or you die.”