

VCs are looking for great ideas; The trick is to be able to get them to look at the business plan

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Equity financing has never been easy to source in Canada. But now it's getting worse.

Statistics from the Canadian Venture Capital Association show venture investing in the third quarter of 2009 fell 50% from the previous year, to just \$191-million. In fact, total venture-capital investments could fall below the \$1-billion mark this year for the first time since 1995—the year Netscape went public and kicked off the Internet gold rush.

But there is hope. The recession is easing, more Canadian cleantech companies are emerging, and the strengthening initial public offering market is restoring venture capitalists' hopes for more successful "exits" from investments. (Ironically, the company that breathed new life into the IPO market last month is Dollarama, the low-end retail giant that's the very antithesis of most VCs' ideal investment.)

And then there was the Ivey Venture Forum, co-presented in Toronto last week by the University of Western Ontario's Ivey Business School and its alumni association. More than 200 entrepreneurs, investors and executives came out to hear pitches for funding from eight plucky tech companies, selected from more than 100 eager applicants.

The potential investees represented a range of industries: cleantech, business software, digital instrumentation, medicine, biotech and even e-commerce. Just as importantly, these companies had exciting stories to tell and a tight hold on an innovative niche (e. g., holographic microscopes, or laser-based cavity-detection systems for dentists) that most Canadian entrepreneurs would kill for.

How can more companies cash in on vencap? According to a panel of experienced investors at the forum, it's not much different than in good times: stock your team with experienced, professional management; create a compelling one-page summary of your company and the opportunities it seeks to exploit; and fill your Rolodex with the names of credible professionals who can connect you with the best VCs in your niche.

"The easiest way to get a meeting [with a VC] is to be referred to us through a trusted source," said panelist Robert Antoniades, managing director with RBC Technology Ventures. "Use six degrees of separation," he added. Find a lawyer, banker,

accountant or similarly credible sponsor who knows the VC firm you're targeting and is willing to make an introduction. "If you can get that person's trust, that will be a hot lead for us," Antoniades said. "That's much better than emailing your business plan."

You also have to be able to show a credible, hockey-stick-shaped growth curve that will assure untold riches for you and your backers. "You have to prove that you're scalable," said Andrew Wilkes, chairman of the National Angel Capital Organization. If you don't foresee rapid market growth, why would early-stage equity investors — who want to at least quintuple their money — bother to invest in your company?

The key thing entrepreneurs should understand about venture capital is it is perfectly legitimate, indeed necessary, for investors to expect to make oodles of money from your idea or company usually by taking a generous share of equity in return for supplying money you can't get anywhere else. Don't look at it as the VCs helping themselves to value you've created. You have to buy into the notion they are enabling you to access the potential value your business, products or ideas have yet to create.

That's a hard notion for many entrepreneurs to swallow. Oscar Jazdowski of Santa Clara, Calif.-based Silicon Valley Bank said the biggest barrier to funding he sees is entrepreneurs' insistence on overvaluing their companies when negotiating with potential investors. To find out what your business is really worth, he says, "You have to start with the principle that the investor wants five to 10 times their money back in five years."

So entrepreneurs must figure out how big and how profitable their business will be in five years, if they get the capital they need now. "Work backwards from that to give you the valuation today that will give them that payback in five years," Jazdowski advises.

That could be a humbling experience. But in return, entrepreneurs have the right to expect VCs to add real value to their investee companies, through their expertise and experience, strengthening the management team, facilitating useful contacts and attracting new customers. "You want to find investors that bring you value," he says. "The best companies get their investors to really work."

What industries are the panellists most interested in funding these days? Health care, social innovation (for-profit companies that solve nagging social problems), clean tech, social media and companies that generate recurring revenues (think of Salesforce.com). What opportunities bore today's VCs? The panellists cited manufacturing, seed-stage companies (pre-commercial operation) and media. "There are too many social networks, too many companies dependent on advertising," Antoniades said. Even green energy may be nearing its best-before date, Jazdowski noted: "If I see another solar-panel company, I think I'm going to jump out the window." – Rick Spence is a writer, consultant and speaker specializing in entrepreneurship. His column appears Mondays in the Financial Post. He can be reached at

rick@rickspence.ca