

Raising Venture Capital to Fund Productivity and Innovation

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Presentation Content

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- ▶ Debt vs. Equity
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Why do Businesses Need Money?



- ▶ R&D
- ▶ Innovation
- ▶ Productivity
- ▶ Cash flow
- ▶ Working capital
- ▶ Growth / Expansion
- ▶ Finance a contract
- ▶ Finance losses
- ▶ Acquisition



Debt vs. Equity?

Debt

- ▶ No share dilution
- ▶ No investor rights
- ▶ No responsibilities towards investors
- ▶ Easier to control
- ▶ Higher chance of raising debt

But...

- ▶ Debt service
- ▶ Security
- ▶ Covenants
- ▶ Solid balance sheet



Debt vs. Equity?

Equity

- ▶ No interest
- ▶ No security
- ▶ No covenants
- ▶ No repayment terms

But

- ▶ Share dilution
- ▶ Investor rights
- ▶ You have less control
- ▶ Responsibilities towards investors
- ▶ Lower probability of raising equity



Sources of Debt

- ▶ Friends & family
- ▶ Canadian chartered banks
- ▶ Foreign banks
- ▶ Sub debt lenders (MMVF, Roynat)
- ▶ Other financial institutions
- ▶ BDC / EDC
- ▶ LSVCC



Sources of Equity

- ▶ Friends (former friends) & family
- ▶ Angel investors
- ▶ Strategic / Corporate Investors
- ▶ Labour sponsored funds (LSVCC)
- ▶ Venture capital (“VC”)
- ▶ Your portfolio & RRSP’s



What Do Lenders Look For?

- ▶ **Financial Analysis**
 - Balance sheet, current ratio, EBIT/sales, funded debt/EBITDA, debt service / EBITDA, maturities,
- ▶ **Market Positioning**
 - International
 - National
 - Regional/Local
- ▶ **Company Strategy**
 - In line with industry
 - Manufacturing/Quality
 - Track record / Team



What Do VC's Look For?

- ▶ A-1 Team (skills, attitude)
- ▶ World class technology
- ▶ Breadth of technology (not a “one trick pony”)
- ▶ Distinct competitive advantage
- ▶ Commercial viability (short & long term)
- ▶ Clear and realistic business plan
- ▶ Risk sharing with other VC's
- ▶ IRR
- ▶ Sector and geography
- ▶ Exit strategy
- ▶ **The “Wow!” effect**



Do Your Homework



- ▶ Strong team
- ▶ Clear business plan
- ▶ Crisp presentation
- ▶ **The “WOW!” effect**
- ▶ Avoid pitfalls
- ▶ Be realistic
- ▶ Exit strategy



Do Your Homework (2)

- ▶ Share structure (clean slate)
- ▶ Good governance
- ▶ Stock option plan?
- ▶ Financial statements
- ▶ Revenue recognition
- ▶ Qualified people
- ▶ Intellectual property
- ▶ Prudence & care
- ▶ You vs. the company
- ▶ Skeletons
- ▶ Nepotism



Do Your Homework (3)

- ▶ **Business Plan**
 - Executive Summary
 - Mission & Vision
 - Market (unsatisfied needs)
 - Value Proposition
 - Competitive Landscape – Our Advantage
 - Strategy (R&D and Marketing)
 - Team
 - Financial Needs (Canada vs. USA)
 - Use of Funds
 - Exit Strategy
 - Why we should be chosen?



Do Your Homework (4)

- ▶ Exit Strategy
 - Must be realistic
 - Time
 - Value
 - List of Targets
 - Name
 - Reason
 - Value
 - Approach



Do Your Homework (5)

- ▶ How to choose the VC...if you have this luxury
 - Sector
 - Stage
 - Geography
 - Deals in your area
 - Due diligence
 - Talk to the CEO of a portfolio company
 - Talk to several VC's
 - Think syndication
 - Do not play one VC against the other



Types of Venture Capital



- ▶ Private Equity Funds
- ▶ Labour Sponsored VC Funds
- ▶ Government Funds
- ▶ Corporate Funds
- ▶ International Funds



Venture Capital Market in Canada (\$B)



	<u>2010</u>	<u>2009</u>	<u>Diff.</u>
Investments	1.1	1.0	+10%
# of Deals	354	331	+ 7%
▶ Québec	392	431	- 9%
▶ Ontario	424	288	+43%
▶ IT Sector	42% of Total		
▶ Life Sciences	38% of Total		
▶ Clean Tech	17% of Total		
▶ All three	97%		



Venture Capital Market in Canada



	<u>2010</u>	<u>2009</u>	<u>2008</u>
▶ Deal Size	\$3.2M	\$3.1M	\$3.5M
▶ Cdn Investors	\$811M	\$730M	\$1.0B
▶ # of Exits	31	25	21
▶ # of IPO's	1	1	1
▶ Fundraising	\$819M	\$960M	\$1.0B



Typical VC Investments

- ▶ Investment in exchange of shares
- ▶ Preferred shares with rights & privileges
- ▶ Shareholders agreement
- ▶ Veto rights
- ▶ Board seats
- ▶ Minimum IRR
- ▶ Non dilution rights
- ▶ Performance clauses
- ▶ Liquidation rights
- ▶ Put clauses
- ▶ Exit scenarios



VC Deals Analysis



- ▶ 20% die
- ▶ 60% are the living dead
- ▶ 20% are home runs

VC's do each deal with the thought that it will be a home run. With this in mind, they refuse over 95% of the deals presented to them.



Labour Sponsored Funds (LSVCC)



- ▶ Firms that raise \$ from individual investors and give the tax credits
 - Up to 30%
- ▶ Started in Quebec in 1982 (Fonds de solidarité FTQ)
- ▶ Created by laws passed in provincial legislatures
- ▶ No exit for investors until they reach 65



VC Players in 2011



- ▶ BDC
- ▶ EDC
- ▶ CPP
- ▶ LSVCC
 - Fonds de solidarité (FTQ)
 - Fondation (CSN)
 - GrowthWorks
 - Covington Group of Funds
 - VenGrowth Asset Management
 - Canadian Medical Discoveries Fund
 - SaskWorks Venture Funds



VC Players in 2011



- ▶ **Private Equity VC Funds**
 - Celtic House Venture Partners
 - EdgeStone Capital Partners
 - iNovia
 - JLA Ventures
 - McLean Watson Capital
 - Miralta
 - NovaCap
 - Propulsion Ventures
 - Skypoint
 - Ventures West



VC Players in 2011



- ▶ Corporate VC Funds
 - RIM (Research in Motion)
 - Rogers
 - Summerhill Venture Partners ex. BCE Capital)
 - Intel
 - IBM
 - Other US and International Firms



VC Players in 2011



- ▶ International VC Firms
 - Summer Street Capital Partners
 - Wynnchurch Capital
 - Comerica Bank
 - Kleiner Perkins
 - Coller Capital
 - JMI Equity



Living with a VC Partner



- ▶ Transparency
- ▶ No Surprises
- ▶ Performance
- ▶ Consistence
- ▶ Hard Work
- ▶ Attitude
- ▶ Vision



Conclusion

- ▶ Need to be “Best in Class”
- ▶ Ask yourself: “Can I succeed without a VC?”
- ▶ Know what you want
- ▶ Do your homework
- ▶ Honesty & integrity
- ▶ Present well
- ▶ Negotiate
- ▶ Compromise
- ▶ “Mettez de l’eau dans votre vin”



Thank you
Merci

