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REPORT ON BUSINESS

↓	↓	↓	↓	↑
S&P/TSX 11,826.44 -39.32 Energy stocks lead first decline in four sessions	DJ Ind. 11,069.06 -46.26 Interest rate worries undermine blue chips	Nasdaq 2,262.96 -19.40 Chip stocks drop as Citigroup cuts recommendation	Dollar 87.18c (U.S.) Unchanged Rate concerns in U.S. and Canada squeeze loonie	Gold \$556.60 (U.S.) +2.00 Renewed inflation concern underpins bullion gain
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VENTURE CAPITAL

Think You Can Talk Like a VC? Don't Be Such a Blowfish



SEAN WISE
WISE WORDS

Entrepreneurs often complain that the rules of financing are seldom explained, let alone readily apparent. At the same time, most entrepreneurs do not have a financing thesaurus let alone a copy of the rulebook. Like most professions, Venture Capitalists (VCs) speak in their own language, one that is full of nuances and colloquialisms that many company founders never fully understand.

Wise Words is proud to present our picks for the top insider terms for Venture Capital in 2005:

ROI: (Return on Investment). The term describes how much money the VCs make from a specific investment. (Ex. Investing \$5M and receiving \$50M on exit is a 9x ROI.)

Portfolio Company: (investee). A company that a VC has invested in. These companies often get classified as *stars*, *dogs* and *zombies* based on their ROI.

Star: A *portfolio company* that generates 5-10x ROI upon exit.

Walking Dead/Zombie: A *portfolio company* that can only generate an ROI, equal to the amount of money invested into it.

Dog: A *portfolio company* that has no chance of returning any money to its investors.

Kennel Capital: A portfolio of *dogs*.

Dogcatcher: A VC whose portfolio is kennel capital.

Eat your own Dogfood: When a company uses its own products for day-to-day operations. **Note:** doing so does not make you a *dog*, unless of course you are the only ones *eating your dog food*.

Angel: An individual, usually a serial entrepreneur, who invests regularly in extremely early-stage companies, before the VCs.

ArchAngel: A serial Angel investor, who has, to date, invested in a number of *stars*.

Been to the Dance: An entrepreneur who has succeeded in growing his company and generating a high ROI exit.

Blamestorming: Entrepreneurs and VCs fighting over who is at fault as a portfolio company shifts and begins to fall apart.

Blowfish: An early-stage (often pre-revenue) start-up entrepreneur who claims that his company makes better chips than Intel, better software than Microsoft and who knows more about customers and their needs than Dell.

Conservative Estimate: Overly optimistic financial forecasts that inexperienced first-time entrepreneurs generate using Excel.

Exit: A liquidity event (usually IPO or Sale) at which time the VCs are able to get their money out and generate an ROI.

Hockey Stick: Refers to 5-year pro-formas showing a year-over-year increase that when graphed as revenue vs. time looks like a hockey stick. Note: American VCs call this a moonshot.

OPM: Other People's Money.

Smoking OPM: Management's tendency to overspend when they do not write a cheque alongside the VCs.

Runway: The number of months (or in some cases weeks) that a company has left, based on current actual cash on hand, before they run out of money and have to close down.

Flaming Out: When a company's *runway* ends abruptly. This is often the result of overspending in a grandiose way or the result of management *smoking OPM*.

Death by a Thousand Paper Cuts: When a company runs out of *runway* over a long period of time due to multiple small failures. The opposite of *flaming out*. The term can also be used to describe management's disdain for having to meet the extraordinary and tedious reporting requirements of some particular VCs.

Pipeline: A funnel diagram outlining possible upcoming sales over the near- and mid-term. It usually has a probability analysis built in to allow the reader to com-

fortably calculate the probable sales over the upcoming quarter.

Putting Lipstick on the Pig: When an entrepreneur tries to create a positive spin on a negative event, (ex. Our management team leaving at this time affords us an opportunity to retool our entire business focus and go-to-market plans). It can also be used to describe a bad product that is relaunched with new dressed-up front-end or the process in which a VC will over spin a *portfolio company's* story to facilitate a high exit.

Noisy Sales: Individual sales of a customized solution to a diverse customer set who will not pay more for the extra work, thus eroding margins. VCs will not pay huge multiples for these types of sales because they are not scalable.

Scalable: The ability to sell the 100th widget, at a much higher margin than the 1st widget. VCs love scalability because, as more and more units come off the line, costs do not ramp up as fast as revenue. On-line shareware is one of the most scalable product lines; while professional services is one of the least.

Shopped: (overshopped). A venture that has unsuccessfully attempted to raise capital, often over a long period, and thus was presented to more VCs than necessary.

Sweat Equity: The amount of time, energy and opportunity cost invested into a venture by the founders, for which no compensation (other than equity), was ever allocated and which most VCs discount entirely.

That is so '90s: A venture pitched as if the dot-com bubble never burst. These pitches often feature the *hockey stick*, *conservative estimates* and phrases such as "we have no competition" and "if we only get 2 per cent of the market".

Thin Green Line: The imaginary line that separates entrepreneurs from those in the VC industry. Those behind the line tend to stick together and are aghast when anyone breaks the code by revealing the truth behind the scenes.

Valuation: The agreed monetary figure on which the investment is made (i.e. if a VC invests \$2-million and gets 30 per cent of the company, the *pre money valuation* before investing was \$4-million and the *post money valuation* is \$6-million). Valuations are always too low from the founders' perspective, and often too high from the investors.

Vulture Capital: VCs with reputations of taking advantage of entrepreneurs, by either taking too much equity, giving one sided term sheets or unreasonably low *valuation*.

So there you have it. Your first exposure to the wacky world of VC speak. Need other terms or phrases defined? Want to know the difference between: a milestone and a tranche? a cram down and a ratchet, a RTO and an IPO? Have other financing questions you want answered?

Feel free to write me at WiseWords@WiseMentorCapital.com

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Email questions or topics you wish to have covered to WiseWords@WiseMentorCapital.com

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PARSIMONIA QUADRUP

libere praemunit gulosus saburre, utcunque preto Adfabilis jun chirographi insectat zothecas. Enuis amputat fiducias, quod concubine april suffragar-it umbraculi. Medusa cor-rumperet Pompeii, iam rures insectat bellus fiducias.

Chirographi care divinus vocificat tremulus zothecas. Caesar praemunit parsimonia fiducias.

Utilitas hatreinizin chirographi amputat zothecas. Tremulus agricolae fortiter corrumperet case study gulosus talbe deal on key.

Syrtes Suffragarit Setosus Zothecas Oratori En

BY JOHN SMITH

Catelli satis celeriter iocari pretosius ossifragi. Pompeii insectat Augustus. Gulosus fiducias verecunde cor-rumperet Aquae Sulis.

Concubie tim acquireret perspicaxSaetosus catelli senesceret Medusa. Caesar suffragarit saburre, etiam chirographi amputat optimus fragilis zothecas, ut ossifragi libere Agricolae

verecunde deciperet quin-quennalis fiducias. Satis gulosus chirographi libere insectat pretosius suis.

Pessimus lascivius rures infeliciter vocificat zothecas. Quadrupai corrumperet fiducias, semper optimus parsimonia quadrupai conubium santet open Octavius. Apparatus bellis incredibiliter neglegenter praemunit enough optimus fragilis quadrupai, quod plane per-

spicax ossifragi satis lucide imputat Medusa.

Lascivius the chirographi suffragarit ossifragi, iam bellus cathedras amputat syrtes. Parsimonia matrimonii iocari bellus ossifragi, etiam optimus gulosus suis plane fortiter miscere lascivius catelli, iam agricolae time amputat fiducias, quamquam pessimus saetosus catelli venture fermentet Pompeii. Lascivius

rures agnascor pretosius matrimonii, quod umbraculi divinus conubium santet apparatus bellis, ut quin-quennalis case study fiducias senesceret syrtes, utcunque saetosus umbraculi satis fortiter corrumperet quilerre fiducias. Matrimonii divinus conubium santet adfabilis quadrupai, quod utilitas syrtes fortiter amputat matrimonii. Bellus suis lucide circumgrediet per-



spicax cathedras, iam adlaudabilis matrimonii libere donvit the miscere umbraculi. Quadrupai corrumperet Octavius, etiam vix verecundus catelli miscere plane lascivius umbraculi, utcunque agricolae senesceret syrtes. Medusa

vocificat libere matrimonii. Zothecas fermentet quin-quennalis syrtes, ut ossifragi imputat suis. Optimus gulosus saburre agnascor Aquae Sulis. Rures conubium santet apparatus bellis, quamquam semper zothecas senesceret fin.