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# REPORT ON BUSINESS

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

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**VENTURE CAPITAL**

## Use a Rifle, Not a Shotgun, When Hunting Venture Capital



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It takes an exorbitant amount of time, money and mental bandwidth to raise capital. Under today's market conditions, one should expect to spend no less than six to nine months, \$100,000 and 500 hours of senior management's time to prepare, target, pitch, negotiate, paper and close a venture capital financing (i.e. an investment of anywhere from \$2-15 million from an institutional professional investor into an emerging growth company). That is just the simple reality of attracting outside investors and then converting their interest in your opportunity into money in your company's bank account.

Can you shorten the time frame? Yes, but only if you act counter-intuitively to your first instinct, and use a sniper's rifle and not a shotgun when targeting investors.

One of the biggest mistakes that entrepreneurs make in pursuing capital is over shopping or shot-gunning their deal. Most entrepreneurs, once they've put the finishing touches on their financial model, business plan, executive summary, elevator pitch and 12 slide investor presentation, feel the need to flog it to each and every person they meet.

These well intentioned entrepreneurs are hoping to rely on the old adage, "if you throw enough stuff on the wall, something will probably stick." But, in reality, the best advisors know there are a limited number of sources of capital for each deal. Showing the deal to investors that have neither the interest nor the ability to do the deal is not only a waste of energy, it can also significantly lower the probability that any deal will get done. After all, Telus Ventures has little ability (or interest) in investing in a biotech deal, unless it is to put a phone inside someone's head, so why show that deal to them?

The dangers from shot-gunning your deal are multifold:

- Targeting too many investors often spreads the team too thin and forces you to cut corners in preparing for those investors who have a higher probability of doing the deal.

- Investors often wonder if the methodology for raising capital is indicative of how management will carry on business, particularly sales and strategic alliances.

- Management must balance its energy between running the company and pitching the company. Following low probability leads will not only become a distraction, but this will take the CEOs focus away from running the business.

- A company that pitches itself before entering an investor's sweet spot, risks making a bad first impression. Unfortunately although an investor may hear a company's pitch over 6, 12, and 18 months, and many things may improve, it is generally the first impression that they retain.

- The VC industry is incredibly small. Once a deal makes "the rounds," its reputation may actually begin to precede it and the company may be judged not on their true opportunity but on the perception they leave behind with the investor who in turn passes these views around like a cold. Investors may wonder just how good a deal can be if you have to sell it to so many firms.

So how do you increase the probability of getting a deal done without increas-

ing the number of investors you pitch to? Focus on quality not quantity!

There are several key steps that can both increase the probability of your venture raising funds and dramatically decrease the cost to doing so.

### Step 1: Prepare

Before you can even start the process of raising money you have to understand not only your business backwards and forwards, but you have to understand the key metrics of the opportunity you are showing - so ask yourself the following:

- How much capital does this venture need to succeed? Is that sum needed all at once or can it be tied to milestones?

- What milestones are ahead over the next 6, 12, and 18 months (first sales, break even, market adoption)?

- What are the "use of funds" (finish R&D, rollout product, expand sales force)?
- Is this a seed (pre sales), early stage (sales of \$0.5-2M), or later stage (sales of \$2M+) venture?

Once you know the answers to these questions you know what sort of deal you are taking to market.

### Step 2: Target

Different sources of capital like different sorts of deals. According to Jeff Park from Covington Capital, you need to know your audience. "Who is in the room, which deals have they, or their firm done. Each investor looks at prospective investments from slightly different aspects: some examine intellectual property and patents, others focus on channel partners or historical customers, while others mostly care about some newly signed contracts," said Mr. Park.

In order to determine what each VC is looking for, you need to do more than just read their website and press releases. Almost all VCs in this country call themselves "early stage capital," but each has distinctly different definitions of the term. In order to really see an investor's focus, review their investments over the last 12-18 months to determine the characteristics those investments share.

But past history doesn't always determine future activity. One should also simultaneously delve deep into the current state of the fund they wish to pitch to. In doing so, determine:

- The type of fund it is (government, Limited Partner, Labour sponsored, corporate, bank owned, debt, etc.).
- What is their investment mandate (by stage, industry, geography, etc.).

- Where in the lifecycle the fund is at often dictates the investment activity level of the fund (ie, LP funds in the seventh year may not be looking for new deals, Labour sponsored funds typically fundraise annually in Q1 and thus aren't focused on new deals).

- What level of traction the fund typically requires its investments to have hit before it is willing to consider making an investment (patents, customers, revenues, etc.).

- How much dry powder (i.e. cash on hand) the fund has left, and determine if this capital is already tentatively committed to current portfolio companies.

- The bandwidth currently available internally (most seed funds can take on 1-3 investments per investment manager, most early stage funds 3-5 per, some late stage funds 5-7 per).

You can find out most of this information on-line from [www.CanadaVC.com](http://www.CanadaVC.com) or from [www.CVCA.com](http://www.CVCA.com) or by speaking with the fund themselves or with those that have close relationships in the industry.

Once you know the lay of the land, you should try and match up only with investors directly interested in companies with your characteristics. You need to rifle in on only those sources of capital that can do, and are doing, deals like yours. I think Sunil Selby from Trellis Capital says it best: "Since the VC process is time consuming, an entrepreneur is more likely to 'hit the bull's eye' by concentrating their efforts on those VC's whose criteria they fit. Knowing these criteria expedites the process and reflects well on the entrepreneur, confidence in whom is a significant factor in the investment decision process."

### Step 3: Recruit an Introduction

As discussed in a previous WISE WORDS column, venture capital is a business of relationships. If you want your deal to be reviewed you need an introduction from a source the VC trusts. Deals that come from trusted sources have a much higher probability of not only getting reviewed but of getting done. Deals that come in cold, generally do not. Remember the words of Venture's West Vice-President Robin Axon. "We received more than 500 unsolicited business plans last year ... I don't think we've ever invested in a ... company that came in unsolicited."

What is the best way to get this key introduction? Review the VCs current portfolio and go and meet with CEOs that your target investor has already funded. These executives, not so long ago, were in your exact situation. Worst case scenario - you learn more about the VC; best case scenario - they agree to introduce you.

### Step 4: Customize

Many entrepreneurs simply rehash the same slide deck over and over. Although this approach is way too often the norm, Mr. Park strongly believes this is the wrong way to go.

"Entrepreneurs need to remind themselves when was the last time they had millions of dollars on the line from a presentation. For most of them it would be never!" said Mr. Park. "By researching who you are presenting to, and truly understanding them you can better position yourself for success."

Our firm recommends that you apply some of the research you have learned and customize each presentation to each investor. We always mentor our clients to insert two slides at the very beginning of each presentation. The first, showing why you are pitching that particular investor and outlining how what you are looking for fits with what they are looking for (timing, amount, ROI), thereby potentially aligning interests amongst investor and investee. The second slide focuses on the investor's

existing portfolio, showing how an investment in your venture not only resembles an investment in their current portfolio companies (by stage, industry, customer base) but also showing how, by making an investment in you, you may potentially enhance the ROI on the investments in them (through strategic alliances, potential M&A, and shared mindset). Adding these slides shows investors that you aren't shot gunning your deal willy-nilly but instead applying resources judiciously (just as you will with their money), and shows that you are not only aware of what their fund is up to, but are interested in being part of their portfolio. Finally, it also shows that you know how to do business.

Following these steps won't necessarily get you funding, but it will make the pursuit of capital much more efficient. Financing is a quality not a quantity game. After all when hunting elusive prey you need to use a sniper's rifle not a shotgun.

Sean Wise, BA, LLB, MBA is the Managing Director of Wise Mentor Capital ([www.WiseMentorCapital.com](http://www.WiseMentorCapital.com)), a national venture capital consultancy focusing on bridging the gap between entrepreneurs and capital. Sean is a former Director with Ernst & Young's Venture Capital Advisory Group for Canada, and currently sits on the Boards of the Canadian Venture Forum, the Banff Venture Forum, the Toronto Venture Group and Silicon Valley's IBDNetwork. Sean speaks at more than 20 Entrepreneurial Bootcamps and events across North America annually. His monthly column on [www.theglobeandmail.com/smallbusiness](http://www.theglobeandmail.com/smallbusiness) covers a wide range of topics on entrepreneurship and venture capital as does his blog and podcast found at [www.SeanWise.com](http://www.SeanWise.com).

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