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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

It is Still Who You Know!



SEAN WISE
WISE WORDS

Closing Venture Capital is a lot like consummating a marriage. It takes time for the relationship to mature and blossom. In today's connected economy, there are many ways to begin the courting process, but if you want to ensure your time is efficiently leveraged during the dating process it still comes down to "who you know."

I recently discussed this with a cross section of the Venture Capital (VC) professionals to determine where they got their deal flow and which source of deal flow had the highest probability of closing an investment. I spoke with Kirk Washington from Yaletown Ventures (a seed fund in Vancouver); Robin Axon from Ventures West (one of the country's oldest and most successful early stage funds) and Doug Hewson from Axis Capital (an Ottawa based seed fund), this is how they ranked their deal flow.

Unsolicited Submission

Probability of getting a meeting - 100:1;
Probability that a deal gets done - 1000:1

The fact is, you probably wouldn't go on a date with someone who called out of the blue and said "Hi, you don't know me, but I read about you on the internet and I really want to marry you, so can we have a date?" Well, that's how VCs view unsolicited business plans.

Robin Axon of Ventures West offers this blunt assessment.

"We received more than

500 unsolicited business plans last year but met with very few. As for closing a deal, I don't think we've ever invested in a first-time entrepreneur's company that came in unsolicited."

The truth is, for most funds the little "submit plan here" button on their website is simply a way of screening out those who don't understand their business. After all, it is easier to delete electronic documents than those submitted by snail-mail.

Unknown Agent

Probability of getting a meeting - 50:1;
Probability that a deal gets done - 100:1

There are many posers out there claiming they can help you get business funding if only you agree to pay them \$10,000 a month and 10 per cent of the money raised. However, that is exactly what they are, POSERS. In many cases, they have neither the relationships nor the license to deliver. In some cases, the only connection these so-called "agents" have with the VCs is that they met them at a cocktail party three years prior and kept their business card. These unlicensed agents know (and care) little about the Fund's mandate, financing criteria or investment approach. Often, they overshoot your business to anyone and everyone, effectively killing your chance of landing money as well as taxing your scarce time and resources. Furthering the courtship analogy, setups by unlicensed agents have about as much chance of leading to a long-term union, as a blind date set up by your great-great-grandmother.

Before you agree to work with anyone who offers to set you up with VCs be sure to ask four key questions:

- Are you a licensed Limited Market Dealer (the Securities Commissions want legitimate brokers to qualify and register if they are going to take contingency fees)?
- Which VCs can vouch for you?
- Which ones have you worked with?
- Which ventures did you fail to raise capital for? (After all everyone loves

their agent when they succeed, the better test is look at those CEOs who failed to raise capital and see how much weight they put on the Agents for the failure).

Venture Fairs, Financing Forums, and other Industry Events

Probability of getting a meeting - 15:1;
Probability that a deal gets done - 20:1 -- much higher if you win "best in show"

Across Canada, there are a variety of trade associations striving to serve the emerging growth markets (the Toronto Venture Group, OCRI, CTI, etc.) most, if not all, have annual "dog and pony" beauty contests. Founders looking for money have 15 minutes to impress a room full of investors. Choosing which event to present is often a tough decision. The ultimate success you may find comes down to who is choosing the presenters.

If VCs select the presenters, then your chances of finding a match increase dramatically. However, if the companies are chosen by sponsors, industry professionals, or event organizers, your chances decline greatly. The reason why nearly 40 per cent of the presenting companies at the annual Canadian Venture Forum in Toronto go on to raise funds isn't the food CVF serves. The fact is that CVF presenters are hand-picked by a selection committee of 30+ Tier One VCs based on their "fundability." Their "fundability" and the peer driven selection process in turn attracts more VCs to attend. This stacks the audience, which in turn, increases the probability of funding and the cycle perpetuates.

Professionals with Fund Relationships

Probability of getting a meeting - 3:1;
Probability that a deal gets done - 5:1

Venture Capital is all about relationships, particularly when it comes to deal flow. Those professional service providers with deep and meaningful relationships with the Funds are most acutely aware of the inner workings of the Funds you want to meet.

"The majority of our deal flow comes from our net-

work of contacts," said Kirk Washington, of Yaletown Ventures.

These people understand exactly what particular VCs are looking for based on: stage of business, industry and geography and risk to return ratio, and this knowledge when combined with their long term relationship, allows them to more easily acquire the ear of the investor on your behalf. Further, the VCs know that these professionals work with them day in and day out and therefore are much less likely to agree to introduce companies that will damage the relationship. The VCs are, in turn, a large source of work for these professional service providers. Truth be told, no tier one service provider is going to trade their long-term relationships just to satisfy your short-term engagement.

I break these matchmakers up into three classes:

- accountants, who carry out audit and valuation work for the Funds themselves;
- lawyers, who undertake transaction support for the Funds;
- and limited market dealers, who get paid for closing deals.

There are two distinct differences between these professionals and the Posers described above: (1) each is a licensed professional, who must subscribe to an orderly code of conduct; and (2) each has a long term relationship to maintain with the Fund, a relationship they won't maintain if they bring consistently low quality deals to the VCs.

Current and Future Investors

Probability of getting a meeting - 2:1;
Probability that a deal gets done - 3:1

"I like it so much; our Fund is leading the round. You just have to meet them." These words, spoken by a Tier One VC, will usually get you a meeting with any VC, any where, any time. After all, the fact that one Fund is willing to write a cheque is often impetus enough for another VC to have a look-see. Most VCs will almost always take calls from their peers on deal flow.

However, it is also important to note that this call has to come directly from one VC to another. Too often I have heard, "well so-and-so VC is interested, so you should be too." Trust me. That isn't the same thing as, "I'm syndicating this deal, do you want to have a look?"

A call from a current investor is even better than a call from a future investor. Successful tech entrepreneurs are still a rare breed in Canada. However, rarely are winnings reinvested as in the form of Angel investment. For this reason, most VCs will take meetings from Angels on companies that they have sunk money into. After all, if it is good enough for the guy who founded Research in Motion, it is probably good enough for most VCs.

Stakeholder to the Fund

Probability of getting a meeting - 1:1;
Probability that a deal gets done - 3:1

There are two referral sources that beat out all the rest: investors in the Funds themselves and portfolio CEOs.

Funds, like entrepreneurs, have to raise money (and yes, karma does go around). In the case of private funds like JL Albright and Ventures West, this money may come from institutions like Teachers' Private Capital and OMERS or Fund of Funds like the Business Development Bank of Canada which commit millions in capital and become an LP (Limited Partner) to the Fund. So you can bet when an LP, who has 10 per cent of a VC's \$100-million fund, calls and asks him to take a meeting, he'll be there.

As Yaletown Venture's Kirk Washington said: "Every cheque we wrote was to a lead that either came from an LP, another VC, or through our personal network."

How does this help you? Unfortunately, it doesn't. Since getting to the LPs is often more difficult than getting to the VCs. There is however an easier way.

The easiest way to get a VC meeting, and yet the most underutilized method, is getting a warm referral from a CEO of a VC-

backed portfolio company. After all, who better to endorse you than someone the VC trusts enough to invest \$5-10 million into? Who knows better what that investor is looking for, than someone who has it? Further, these CEOs are readily accessible (they can be found just by clicking through the portfolios section on the VC's website) Best of all, entrepreneurs love to talk about their business, especially their successes. So if you want to meet a VC, call up some of their current investors and ask them about their fundraising experiences. Worst case scenario you will find out more than you hoped about their investors; best case scenario they might offer to make the introduction.

After all, it still is *who you know!*

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PARSIMONIA QUADRUP
Gulosus umbraculi incredibiliter verecunde agnascor quadrupiei. Octavius fermentet topicatur Pompeii. Parsimonia apparatus bellis lucide suffragarit finit.