

THE GLOBE AND MAIL

CANADA'S NATIONAL NEWSPAPER * FOUNDED 1844

BOOT CAMPS DRILL FOR GOLD

BY: KEVIN MARRON

Basic training for entrepreneurs in search of venture capital

Vikas Gupta is looking for a few million dollars to take his computer-game software company to the next level. But as a seasoned entrepreneur, he knows it will be tough to find investors for a high-tech business in today's market.

So he recently took the entire management team of Ottawa-based TransGaming Technologies Inc. to a boot camp to drill them on the skills they will need for their fund-raising campaign.

After a year of carnage in financial markets, when new ventures fell in droves, investors are again looking for opportunities and entrepreneurs are promoting their plans with renewed optimism.

But the battle-scarred financiers are wary, and astute entrepreneurs know their success depends on a carefully targeted campaign, a well-trained team and a bullet-proof business plan.

That is why Sean Wise, director in Ernst & Young's Venture Capital Advisory Group, says there was standing room only at boot camps he held earlier this month in Toronto, Ottawa and Montreal.

These sessions expose people running new ventures to the realities of today's marketplace by bringing them in contact with venture capitalists. In that way, they can learn what investors are looking for and see how their own business plans measure up to financiers' demands and expectations.

"Companies looking to grow need to know what lies on the horizon," Mr. Wise says.

That was one of the key lessons Mr. Gupta learned at boot camp. "The more insightful information you can gather about the economic climate and the venture-capital community, the better armed you are to attract venture-capital investors," says Mr. Gupta, TransGaming's president and chief operating officer.

John Cullen, co-ordinator of the University of Waterloo's Business Start-up Boot Camp, says the five-day session he organized for students and alumni this week is also attracting a lot of interest, as would-be proponents of technology startups realize they have to shape up.

"Two years ago, they had a 'build it and they will come' mentality. Now people realize you need to toughen up in order to kick butt in today's marketplace," Mr. Cullen says.

There is money available for new ventures in today's market, but investors are going back to fundamentals — the basic requirements of a good management team and a good business plan that were often forgotten in the euphoria of the dot-com boom — according to Michael Badham, who conducts a quarterly survey of venture capitalists on behalf of the Canadian Venture Capital Association.

"Raising money for a startup is still probably one of the hardest things you can do in Canada and it requires a lot of perseverance," he says.

The challenge that lies ahead was brought home to Harold Korsunsky, another attendee at the Ernst and Young boot camp, when he heard from a venture capitalist who had

reviewed 2,000 business plans from aspiring entrepreneurs in the past year.

"It gives you an idea of how challenging it is to put something meaningful or attractive in front of him," says Mr. Korsunsky, who is try-

ing to raise venture capital for his new Winnipeg-based company, Zero Gravity Wireless.

So what does it take to capture the attention of a venture capitalist or other investors in start-up enterprises? Mr. Wise says the keys are:

- Understand the market, who the investors are and what they are looking for.
- Show them how they can make money with a strong value proposition, convincing them that you have an outstanding management team and business plan.

The market and the investors

New companies need money at several stages of their development and it is important to go to the right people at the right time, according to Mr. Wise.

"The first round should be self-financing," he says. "You can't expect other people to put in money if you're not willing to yourself. Next I recommend going to friends and family. You have to show that people who know you are backing you."

Then there are investors who specialize in providing seed money to early-stage companies. These include so-called angel investors, people with experience and expertise in their field who are prepared to invest their money, while providing mentorship and practical help to promising new ventures.

It is usually at the next stage of development, the point at which a company has developed its product and is ready to take it to market, that they seek financing from venture capitalists. These are companies or groups of investors focused on emerging companies with very good prospects of success.

They are usually looking for a strong return on their investment within four to seven years,

by which point they would hope to get their money out, either by launching the venture as a public company or through a merger or acquisition.

Another source of funding at this stage is what Mr. Wise calls strategic financing.

This involves getting an investment from a large company that is interested in the new venture, with a view to a future takeover, perhaps because it sees its products as potential competition or because its offerings may complement those of the larger company in some way.

The venture-capital market in Canada was not as hard hit by last year's economic slowdown as the U.S. market, according to Mr. Wise. He notes that U.S. venture-capital investment declined 65 per cent last year, whereas the decline in Canada was only 27 per cent, to \$4.9-billion from \$6.6-billion in 2000.

Mr. Wise says many venture capitalists were engaged in closing unprofitable companies last year. "They've cleaned up their kennel capital and put their dog investments to sleep. Now they're out on the prowl looking for very good deals."

For serious entrepreneurs with a good plan, he says, it could be easier to raise money today than during the dot-com boom. "A lot of the people who were dabbling have left; the tourists have all gone home."

Leo Lax, a partner in Skypoint Capital Corp., an Ottawa company that makes early-stage investments in new ventures in the telecommunications field, says the current market is good for investors because technology-company cutbacks have created a large pool of knowledgeable entrepreneurs.

Irving Ebert, a retired Nortel Networks Corp. executive and one of the founders of Purple Angel, an Ottawa-based network of angel investors, says investors also benefit from the fact that "there is a lot of sanity coming back into the market and more predictability." "Founders are humble," Mr. Ebert adds. "There are no bidding wars among competing venture capitalists, bidding up prices of investments to absurd levels which then make it problematic for anybody to succeed."

The downside of today's market, according to Mr. Ebert, is that it is still difficult for new ventures to raise their next round of financing.

That means that early-stage investors are taking a bigger risk. Nevertheless, he says, "I'd much rather be investing now when you're back to fundamentals versus in the chaos of the bubble world."

What investors want to hear

"In the past, a good idea was enough," says Mr. Wise. "Today, you need a well-rounded management team, a solid value proposition, sustainable competitive advantage and some strong proof of concept," Mr. Wise says.

Entrepreneurs looking for financing also need what Mr. Wise describes as "an elevator pitch." When you get on the elevator with a venture capitalist, you may have an opportunity to make a pitch in the time it takes to get up to the 40th floor, he explains.

"You need a two-minute story that tells the venture capitalists what your value proposition is, what unsatisfied need in the market you are going to address, how you are going to address it and why you are the one to do so."

It takes a lot of perseverance and a lot of energy to persuade people to invest in a new venture, Mr. Ebert says.

"You will pitch to a lot of people, a fraction of whom understand what you're talking about and a fraction of those might take you to the next stage. You have to be prepared to go through that gauntlet," he says.

"A good salesman takes 'no' and gets energy from it. If you are a good listener, every instance of rejection is going to make your plan stronger.

"We look to see if we're dealing with people who know what they don't know. Are they good listeners or do they reject what we tell them and come back and try to tell us why we're dumb?"

Entrepreneurs have to show that they are prepared to take risks and are comfortable living with risk, says Mr. Lax.

"There will be days when an entrepreneur will wake up at three o'clock in the morning with sweat on his brow because there will be no way to his knowledge at that time that he can finance the payroll that's about to happen that morning. He cannot give up."

Mr. Lax says he also looks for passion in entrepreneurs. "One has to have a dream of making a difference — a passionate infatuation with the idea that this is going to revolutionize the world.

"This amount of commitment is necessary to allow a company to survive the ups and downs it will definitely see going forward."

The entrepreneur's idea itself must have technical merit, be original, address a significant customer base and it must be possible to implement it with the resources and time

frame available to an early-stage company, Mr. Lax adds.

"We go under the assumption that all business plans are wrong," says Mr. Ebert. He explains that his group is always looking for "good navigators," people who can adapt to circumstances that don't conform to the plan.

"We give them a rough time on the business plan. It's a test of their understanding of the technology market. We won't believe any of the numbers because those are fiction. But we probe in great detail how these people think," he says.

"We're not impressed by big market studies about a billion-dollar market. All markets are measured in billions," Mr. Ebert adds.

"The thing we're looking for is to show me how you make your next million, one sale at a time."

Sean Wise, BA, LLB, MBA
Mentor Capitalist
Sean@WiseMentorCapital.com
Tel: 416.995.9017

According to the December issue of *Canadian Business* magazine, Sean Wise is one of Canada's leading experts on raising Venture Capital. Over the last 24 months, he has lectured at more than 50 boot-camps, financing forums and industry conferences. He has trained over 500 CEOs who collectively raised more \$200M from a wide variety of investment sources.

Sean sits on the Boards of several young technology companies, as well as the University of Toronto's eXcelerator, the MIT Enterprise Forum and the Toronto Venture Group. He is the Chair of the Toronto Venturefair 2004 selection committee and a member of the Canadian Venture Capital Association.

Sean helped found Ernst & Young's Venture Capital Advisory Group in Canada and now undertakes selective engagements from young tech companies looking for strategic guidance on capital raising and growth.