

All About Start Up Funding

RBC Phillips, Hager & North Investment Counsel

RBC Global Asset Management Inc.

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Firm Statistics:

- Private client discretionary investment service with more than \$16 billion in assets under management and over 80 investment professionals nationwide. 18 in B.C.
- RBC Global Asset Management won the Lipper Award for Best Overall Fund Family in Canada in 2007 and 2008 and Best Bond Fund Family in 2009
- Phillips, Hager & North won the Lipper Award for Best Overall Fund Family in Canada in 2010 and Best Bond Fund Family in Canada in 2007, 2008, and 2010
- 74% of the money managed by RBC Asset Management has delivered investment performance in the 1st or 2nd quartile for the 10 years ending January 31, 2011
(Source: Morningstar Research Inc.)

Venture Capital Corporation Program (VCC)

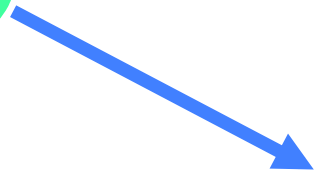


- VCC Investments
 - 30% refundable tax credit available
 - Cash back to investors
 - Eligible Small Business definition = lots of companies
 - First come, first serve
 - <http://www.tted.gov.bc.ca/TRI/ICP/Pages/default.aspx>

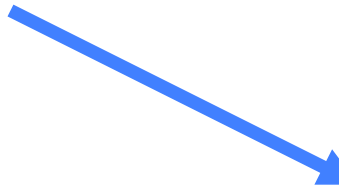
Dialing for Dollars!



What do I do?



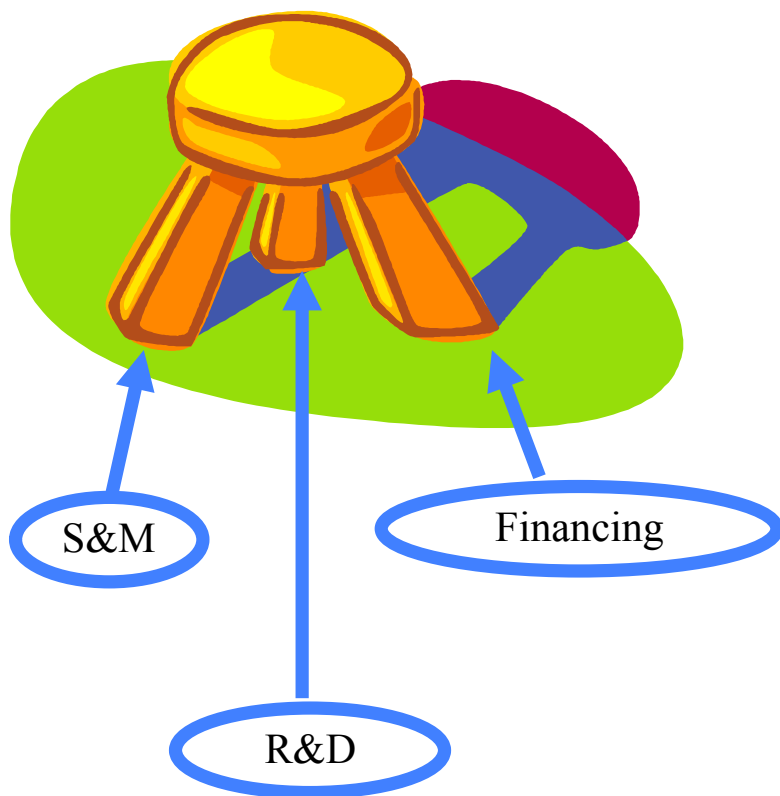
Who do I sell to and what do I sell them?



How do I get the money?



Oops!?!



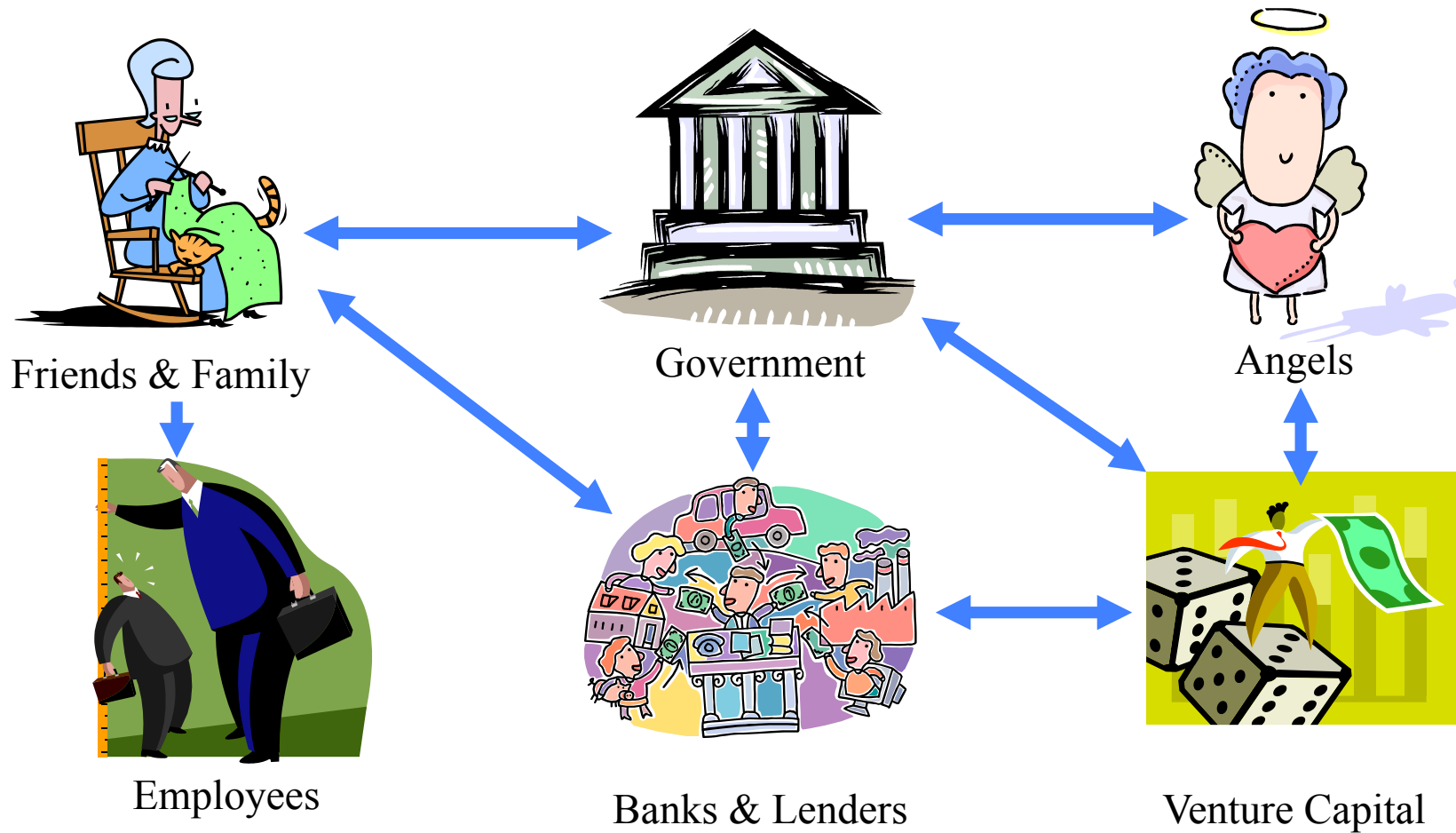
- Fund to milestones
- Leave a cushion
 - 4 – 9 months to complete a financing
- **WARNING: Expertise Required – Unlikely to Succeed Otherwise**
 - Directors & Advisors
 - Bankers
 - Investors

What You Need To Do - Sales Approach



- Package – Exec. Summary, PowerPoint, Business Plan
 - Identify Targets
 - Contact Targets
 - Complete Due Diligence
 - Negotiate Terms
 - Close Investment
 - **WARNING:** the process can easily break down at each step
- Term sheet
here
or here
-
- Two blue arrows originate from the text 'Term sheet here or here' on the right. The top arrow points to the 'Contact Targets' bullet point, and the bottom arrow points to the 'Complete Due Diligence' bullet point.

Sources of Capital



Sources of Capital



	Banks	Angels	VC's
Stage of Investment	Late	Early	Early
Speed to Close	Medium	Medium	Slow
Follow On Capital	None	Some	Lots
Degree of Participation	Passive	Passive or Active	Passive or Active
Sector Focus	Diversified	Focused	Diversified or Focused
Decision Maker	Credit Manager	Self	Partners or Investment Cttee

Sources of Capital



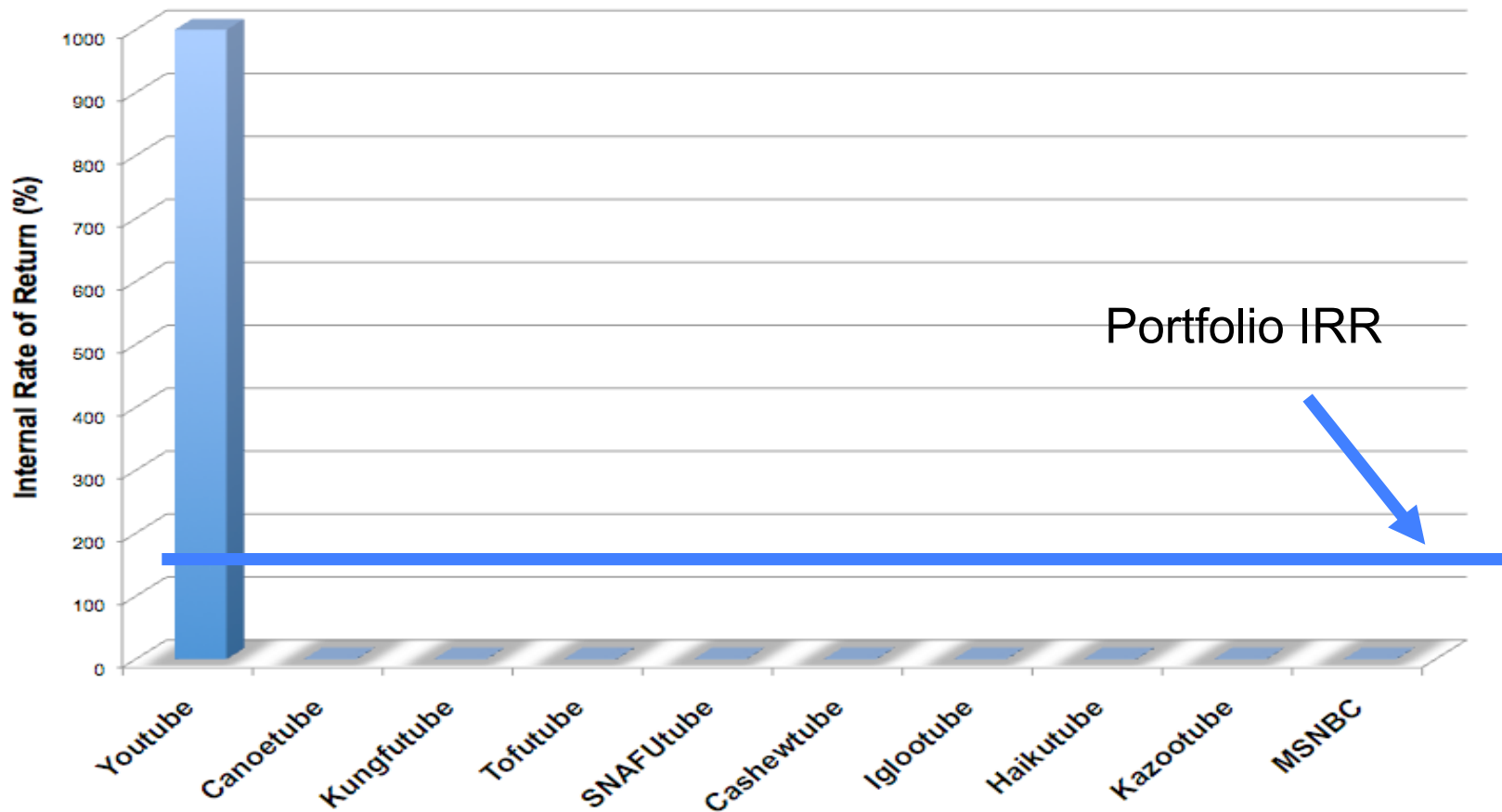
Government	Banks	Angels	VC's
<ul style="list-style-type: none"> ➤ SRED ➤ IRAP/NRC ➤ Government Funds – i.e. SDTC ➤ VCC Program ➤ Innovation Grants ➤ EDC ➤ Non Dilutive ➤ C4G 	<ul style="list-style-type: none"> ➤ Operating History ➤ Personal Guarantees ➤ Asset Pledges ➤ Banking Relationship ➤ GSA 	<ul style="list-style-type: none"> ➤ Past Exits ➤ C_O Experience ➤ Active Mentors or Passive Investors ➤ Relationship Matters ➤ Answer to Themselves 	<ul style="list-style-type: none"> ➤ Operating Experience? ➤ Active or Passive ➤ ROI Matters ➤ Answer to their Investors

Understanding Investor Motivations



	Banks	Angels	VC's
How do they get paid?	Interest	Exit Value	Exit Value
Fee Structure	Interest Rate	Exit Value x % Owned	2% and 20%
Liquidity Horizon	1 – 3 yrs	5 – 7 yrs	7 – 10 yrs
Portfolio Approach	Yes	Maybe	Yes
Fiduciary Responsibility	Corporate	Self	Investors

Sequoia Portfolio

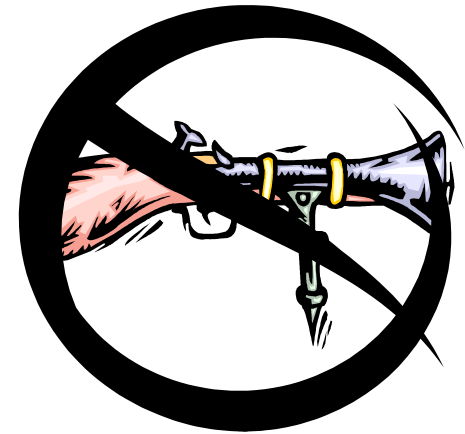


Source: www.marsdd.com

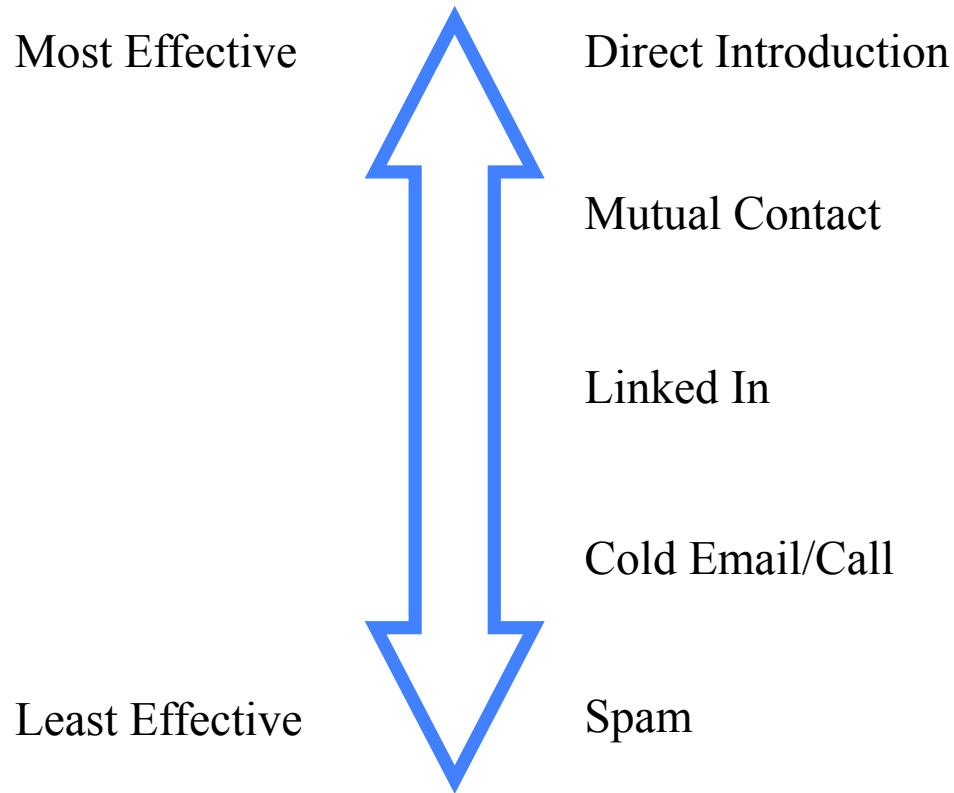
Who to Call



- Target investors that understand your company and have done similar deals
 - Industry, term preferences, structures etc.
- Look at portfolios on websites (VC's) and CV's (Angels)
- Learn who's who from your lawyer, an entrepreneur, an agent and www.cvca.ca
- Find the right person at each firm – based on their background and portfolio



How to Contact Investors



- Contact & submit an Exec Summary
- Follow up with email or phone call
- GOAL: get a coffee meeting and then a presentation
- Lever your contacts to understand where you are in the queue – DON'T: fight the queue

Contacting Investors – First Steps

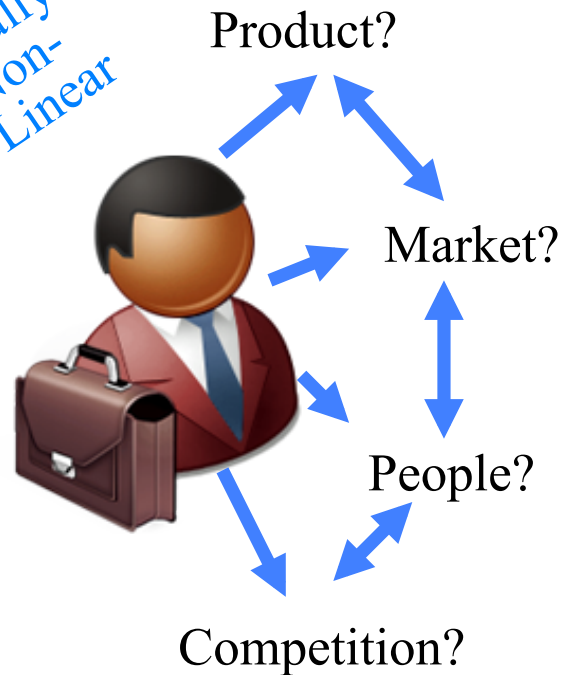


- First Contact Advice:
 - Go for a coffee or glass of wine/beer first
 - Listen 50% of the time, talk 50% of the time
 - Talk about the business - who you sell to, why they buy, etc
 - Don't talk about the technology
 - Ask about his/her portfolio and deals s/he would like to do and why
- Follow-up
 - Write back a thank you note same day or later that week
 - Answer all questions you couldn't earlier and ask a few of your own
 - Suggest another meeting and primary topic

Presentation Etiquette (?)



Typically
Non-
Linear



- 1 Hour, 12 Slides Max
- Sell the business not the technology
- Know your audience
- Don't contradict yourself
- Contents:
 - Product
 - Addressable Market
 - Team
 - Competition
 - Financial



Do a Throw Away Pitch



- Typical DD Items:
 - Management references and CV's
 - Strategy review
 - Technical review
 - Market analysis
 - IP review
 - Etc. etc. etc.
- DO: be prepared with a DD Binder ahead of time
- DO: know where you are in the DD process at all times
- DON'T: take a long time to respond to queries

What Investors Are Looking For



- Ideal Company for an Investor:
 - Team with applicable experience
 - Addressable large and growing market
 - Competitive advantages (IP, unique business model)
 - Clear and scalable business model
 - Market validation
 - Credible vision of success



Investors are in the business of saying No. You need to take away their reasons.

Can't Get Money?



- What Investors don't want to invest in: LOTS
- If you can't fund, you need to consider several possible reasons:
 - Your business is a bad idea
 - You don't have the team
 - You are targeting the wrong investors
 - Your timing is wrong
 - Your terms are not market



Synonyms for “NO”:

“Maybe”

“Doesn't fit our
mandate”

“Later”

“Needs a new CEO”

“NO”

“It's too early”

“We want to
follow a lead”

“Maybe”

“We have no money right
now”

What To Look For in an Investor



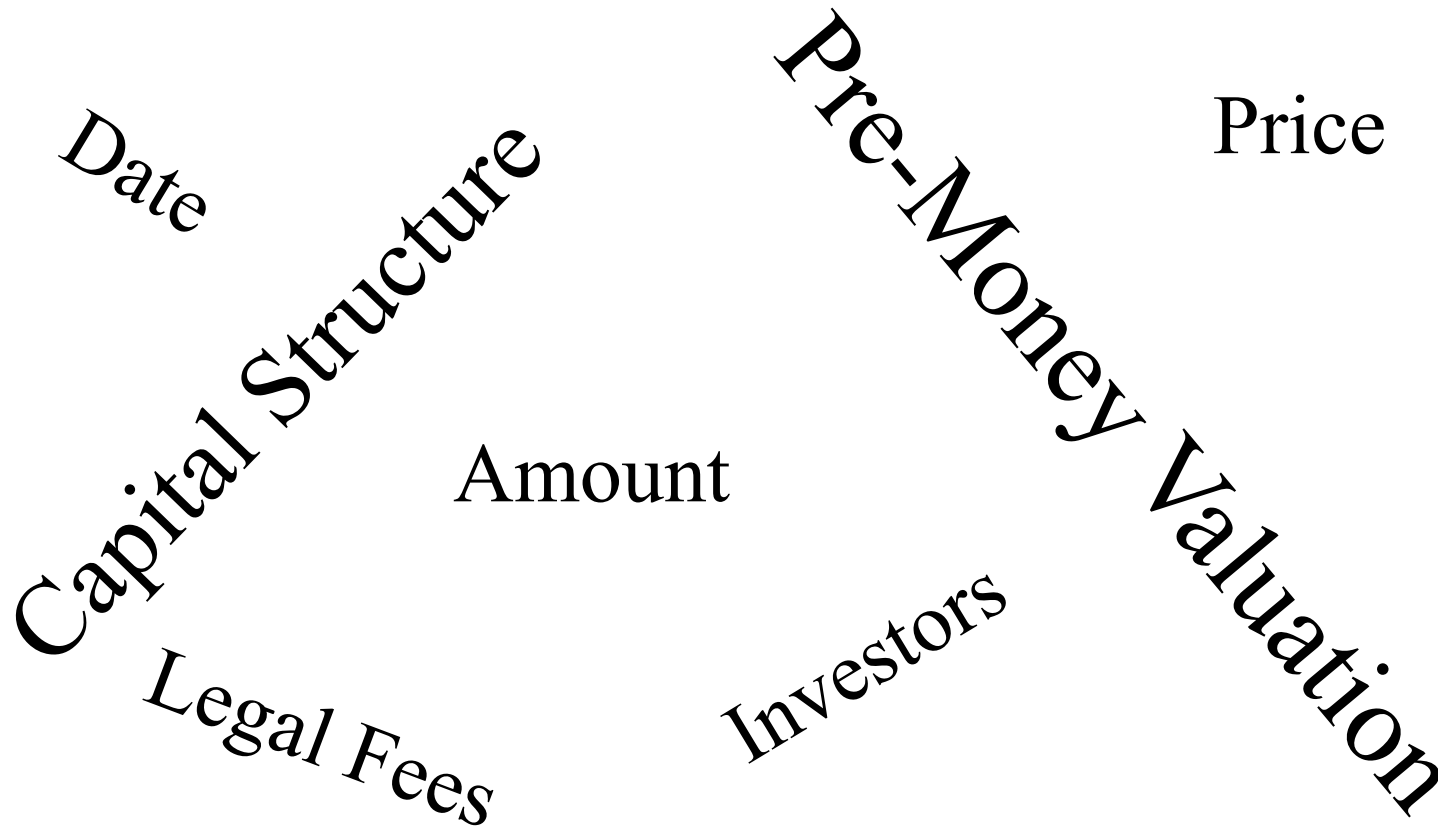
- Industry or relevant deal experience
- People you want to spend time with – good times and bad!
- Experienced management, corporate governance
- Contacts
 - for additional management or advisors – likely
 - for customers – not likely
 - for partnerships – not likely

More than Just Money?

- Domain knowledge = read a blog post
- I know John Doe = saw him speak at a conference
- I see, it uses TCP = I have no idea



The Basics:





The Not So Basics:

Board Seats

Liquidity Preference

Dividends

Common Shares

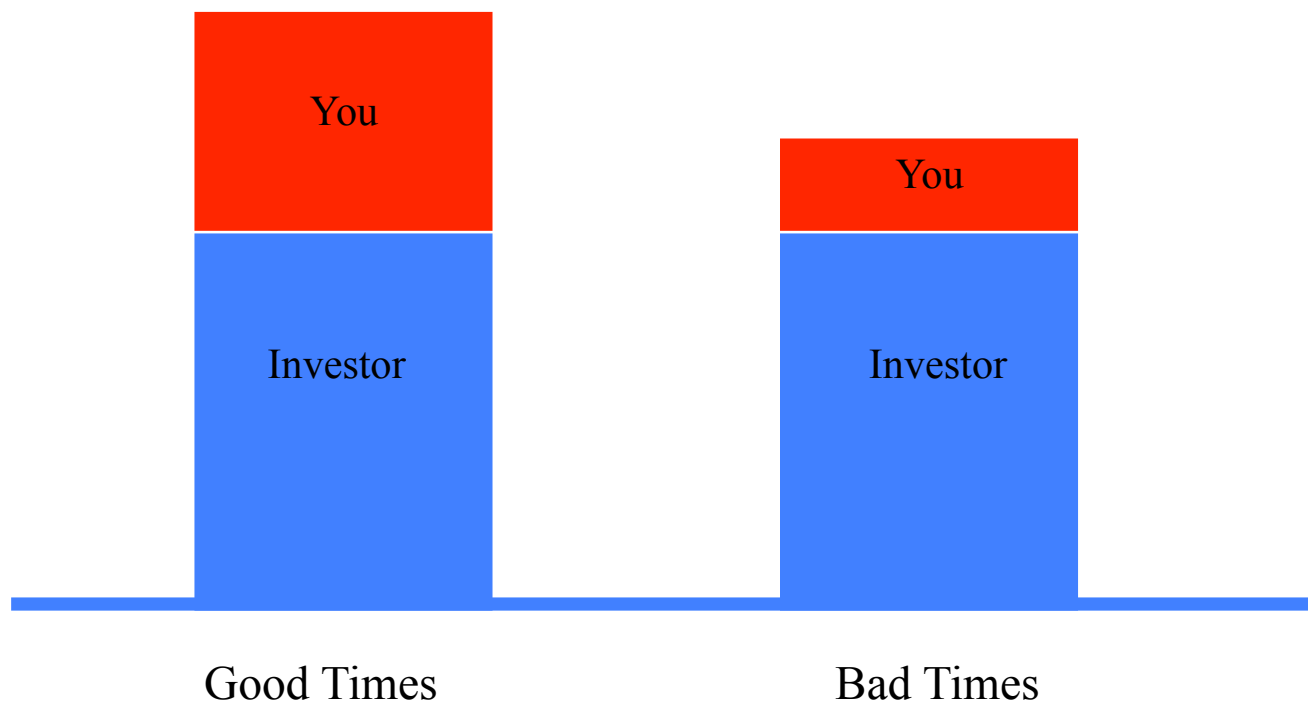
Drag Along

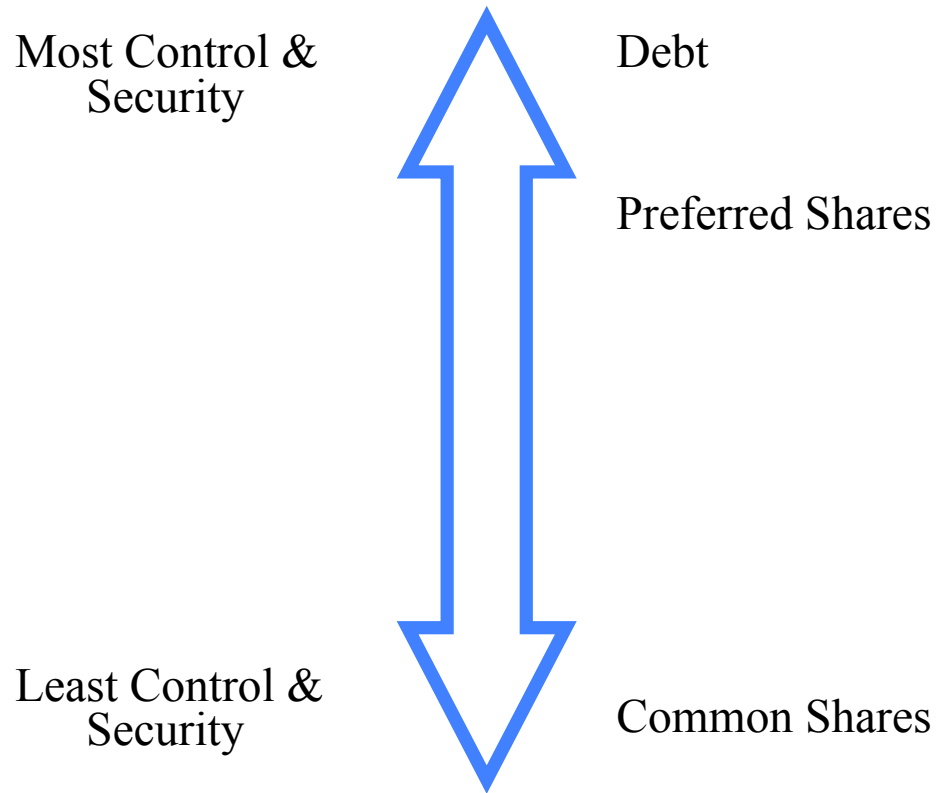
Preferred Shares

Control

Anti-Dilution

Preferred Shares





- Common Shares
- Preferred Shares:
 - Liquidity
 - Price Protection
 - Varying Control
- Debt:
 - Security (GSA)
 - Gurantees
 - Control in Distress
- You do need to finance right?



- Structure should match stage
 - < \$3M typically an Angel round
 - > \$3M typically a VC round
 - Public listing alternative – is this a good idea?
- Alignment
 - Different structures create different motivations
 - Strive for a structure that aligns investors and management
 - Do what it takes to finance
 - Don't say no to a structure on principle alone – do the math



- Investors often have more experience than management
- Consensus is when both parties are equally unhappy
- Remember that investors are future business partners, expect the same in return

- Start-ups are very hard to value rationally
 - Not based on investments previously made or discounted cash flows
 - Based on ROI to the investor and incentive for management/founders
- Be realistic
- Usually \$1 to \$3 million



Valuation is an Art

- Be nice to Granny
 - Friends and family usually get it worst when you revalue
 - It doesn't pay at the family picnic to overcharge on valuation





- Deals can fall apart easily at this stage
 - Get good legal counsel
 - Don't reintroduce issues or terms
- GOAL: as fast and as cheap as possible
- Get help if you need it

Top 10 Lies of Entrepreneurs – Guy Kawasaki



1. Our projections are conservative.
2. Gartner says our market will be \$50B by 2010.
3. Verizon will sign our contract next week.
4. Key employees will join as soon as we get funded.
5. No one else is doing what we're doing.
6. Several investors are in due diligence.
7. Cisco is too slow to be a threat.
8. Beta sites will pay to test our software.
9. Patents make our business defensible.
10. All we have to do is get 1% of the market.

Top 10 Lies of Venture Capitalists – Guy Kawasaki



1. We can make a quick decision.
2. I liked your company but my partners didn't.
3. If you get a lead, we'll follow.
4. Show us some traction and we'll invest.
5. We have lots of dry powder.
6. We're investing in your team.
7. We saw this coming, so we didn't invest.
8. This is a vanilla term sheet.
9. We can open doors for you at major companies.
10. We like early-stage investing.



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