



new VENTURES BC  
COMPETITION

# LIONS CAPITAL CORP.

---

Tanner Philp

[tphilp@lionscapital.com](mailto:tphilp@lionscapital.com)



# Lions Capital Corp.

---

- Fund manager of BC Advantage Funds (VCC) Ltd. and Lions Fund
- \$65 million under management
- Invest in promising emerging life science and technology companies in British Columbia
- Founded and managed by:
  - Dr. Don Rix,  
Chairman
  - Frank Holler,  
CEO & Partner
  - Jim Heppell,  
Pres. & Partner
  - David Raffa,  
COO & Partner
  - Tanner Philp,  
CFO & Partner



# BC Advantage Funds

---

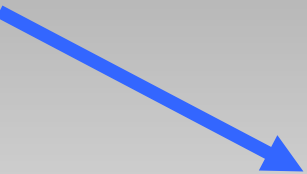
- A Venture Capital Corporation (VCC) fund
  - 30% refundable tax credit available
  - Cash back to investors
  - Eligible Small Business definition = lots of companies
  - First come, first serve
  - <http://www.tted.gov.bc.ca/TRI/ICP/Pages/default.aspx>



# Dialing for Dollars!

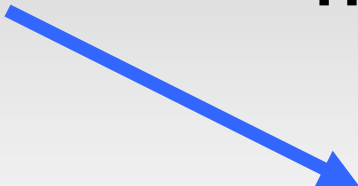


What do I do?



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

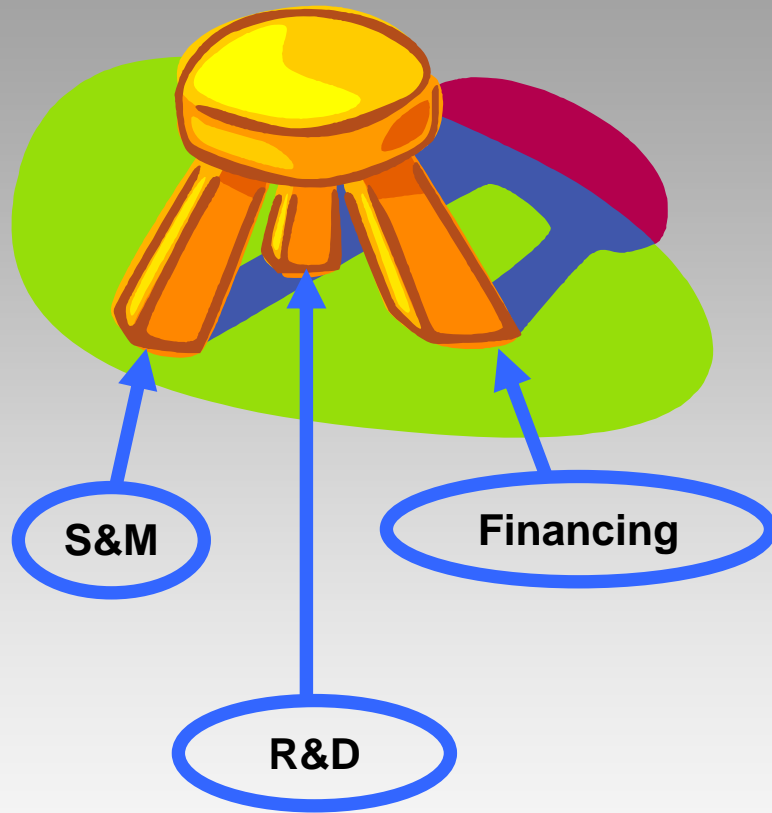
How do I get the  
money?



Oops!?!



# Financing Strategy



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

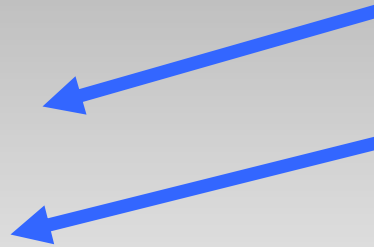


# What You Need To Do - Sales Approach

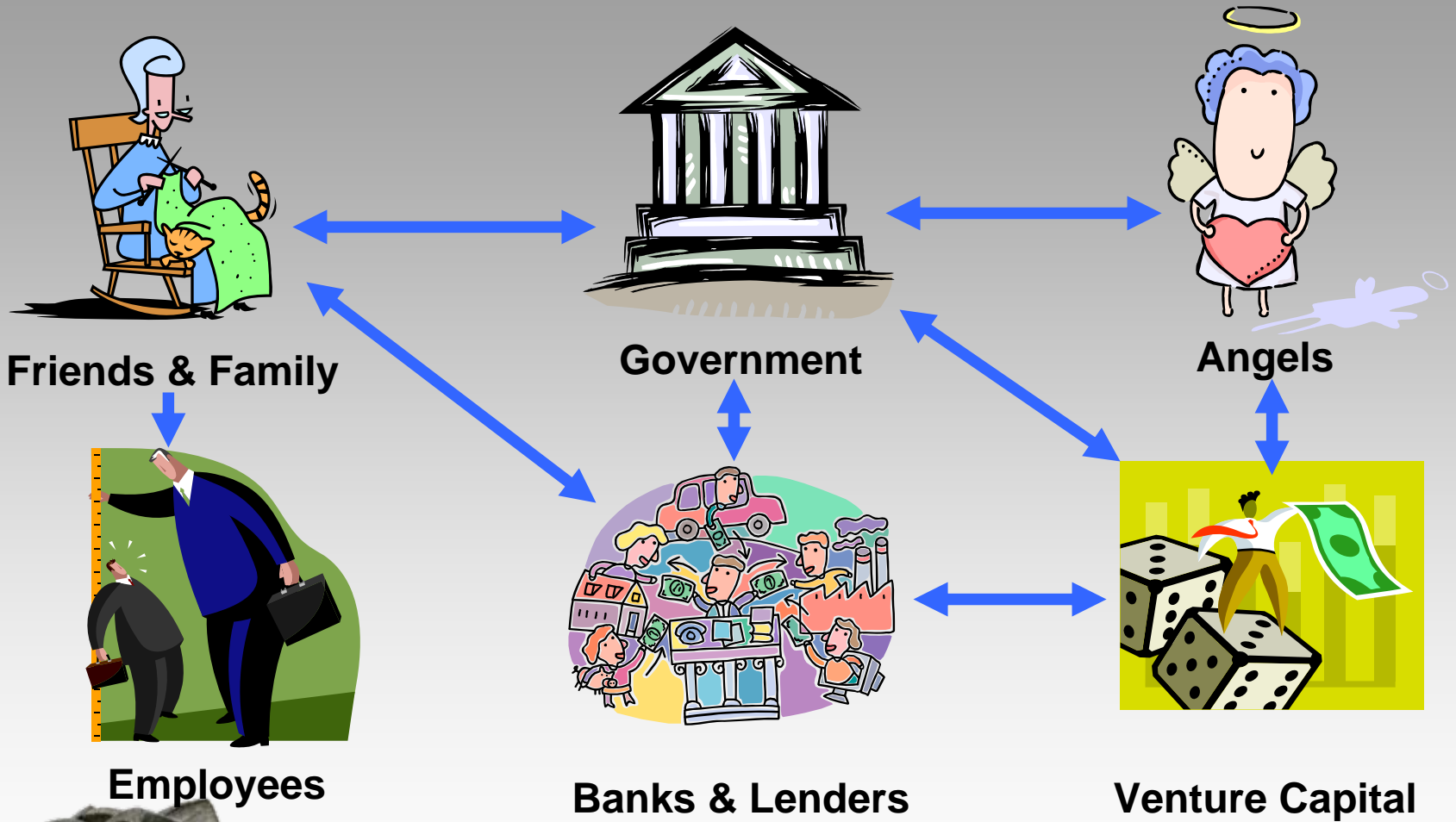
---

- 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



# Sources of Capital



# Sources of Capital

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

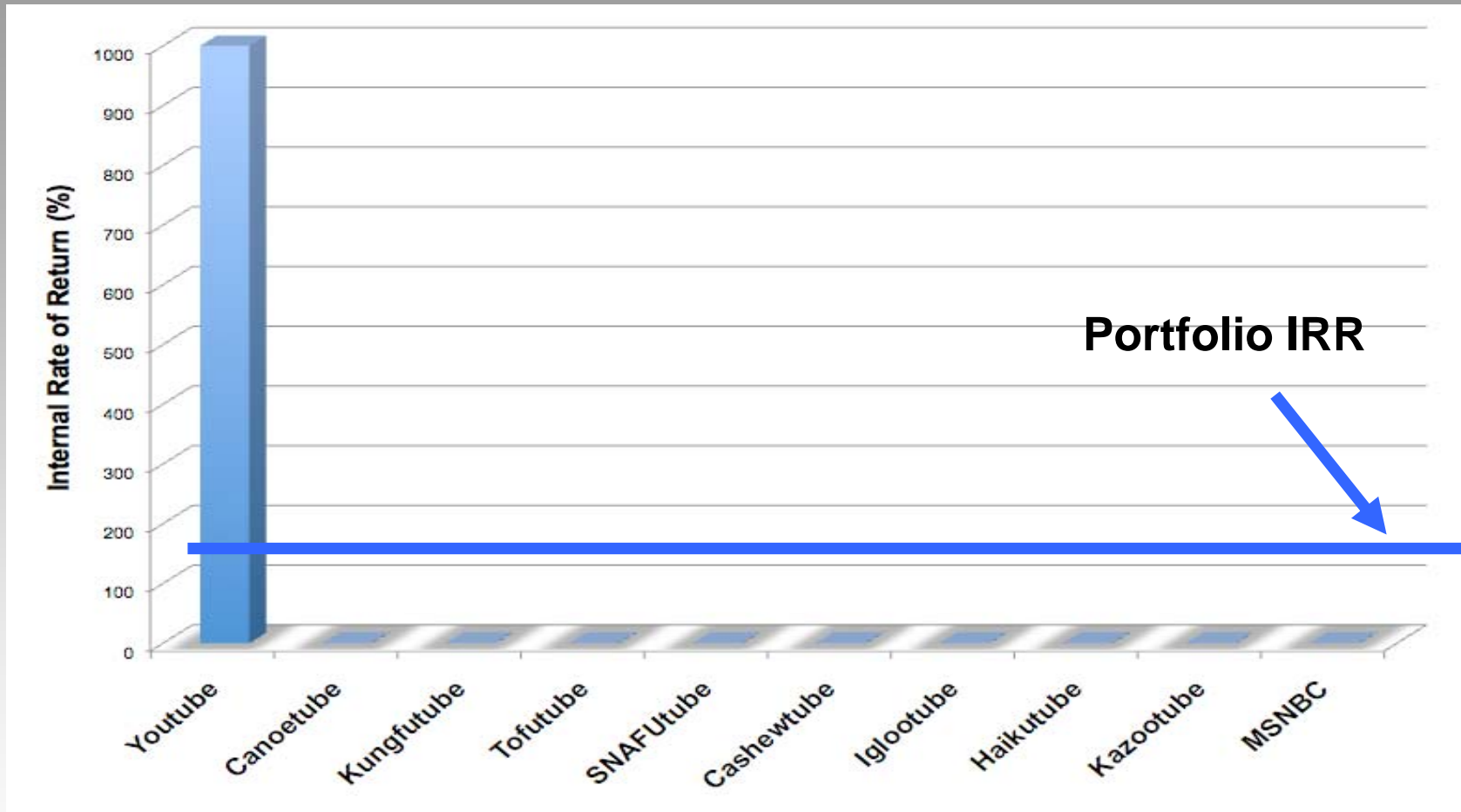


# Understanding Investor Motivations

	<b>Banks</b>	<b>Angels</b>	<b>VC's</b>
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	5 – 7 yrs
Portfolio Approach	Yes	No	Yes
Fiduciary Responsibility	Corporate	Self	Investors



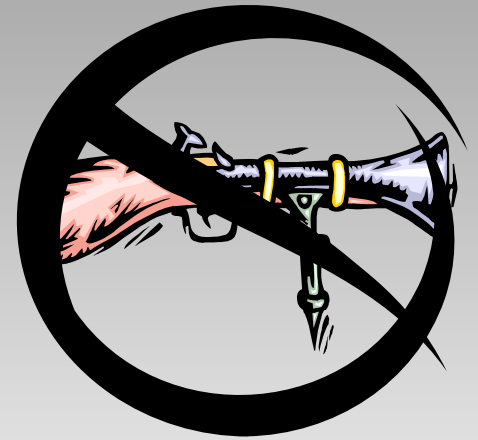
# Sequoia Portfolio



# 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](http://www.cvca.ca)
- Find the right person at each firm – based on their background and portfolio



# How to Contact Investors

**Most Effective**

**Direct Introduction**

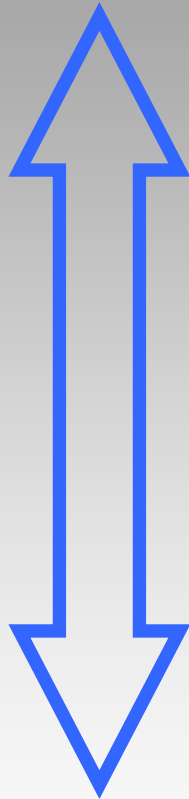
**Mutual Contact**

**Linked In**

**Cold Email/Call**

**Least Effective**

**Spam**



- 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 the same day
  - 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

# Due Diligence

---

- 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



# Can't Get Money?

---

## 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?

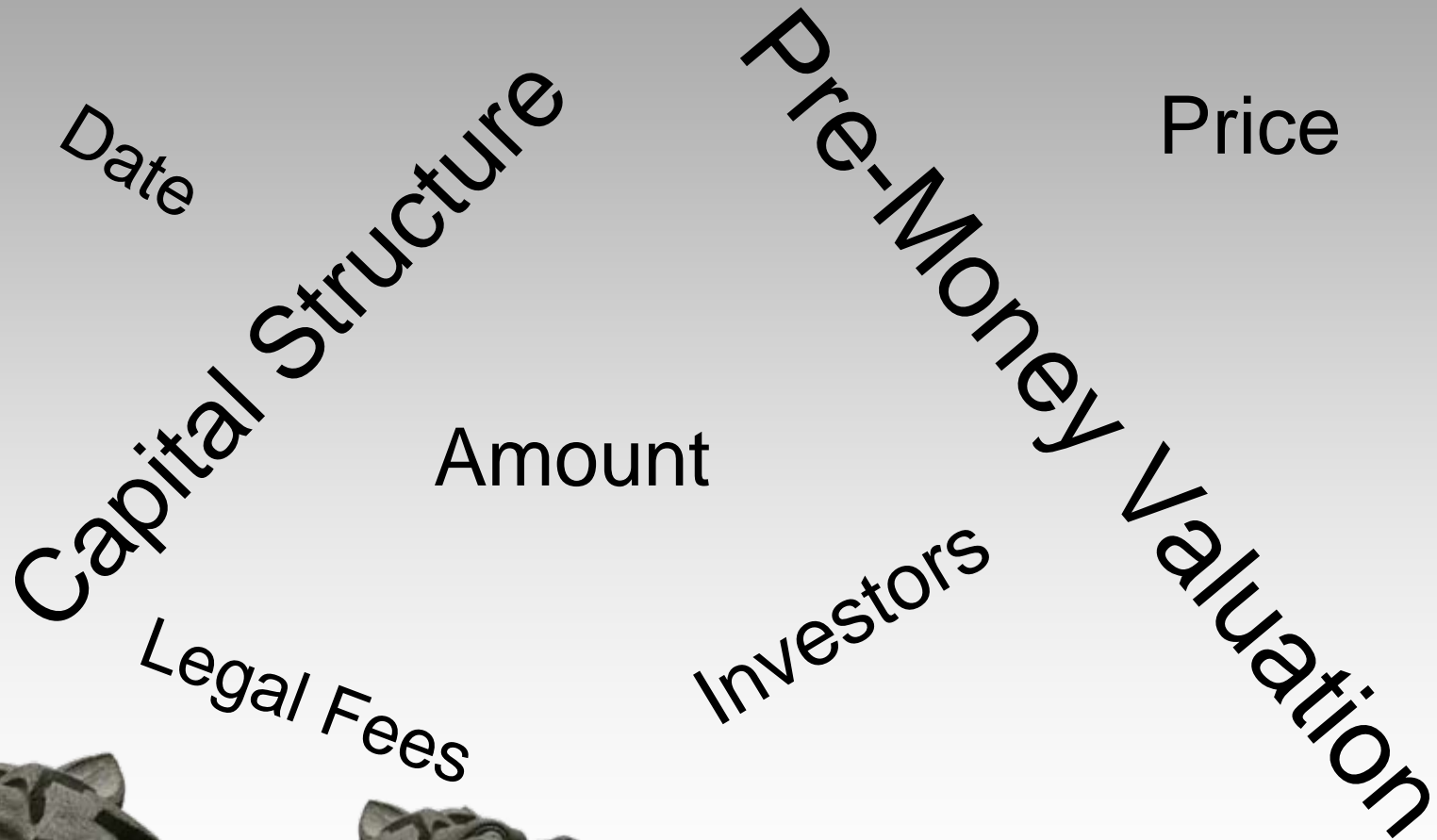
- Domain knowledge = read a blog post
- I know John Doerr = saw him speak at a conference
- I see, it uses TCP = I have no idea



# Deal Terms and Structure

---

The Basics:



# Valuation

---

- 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



# Valuation

---

- 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



# Deal Terms and Structure

---

The Not So Basics:

Board Seats

Liquidity Preference

Preferred Shares

Control

Common Shares

Dividends

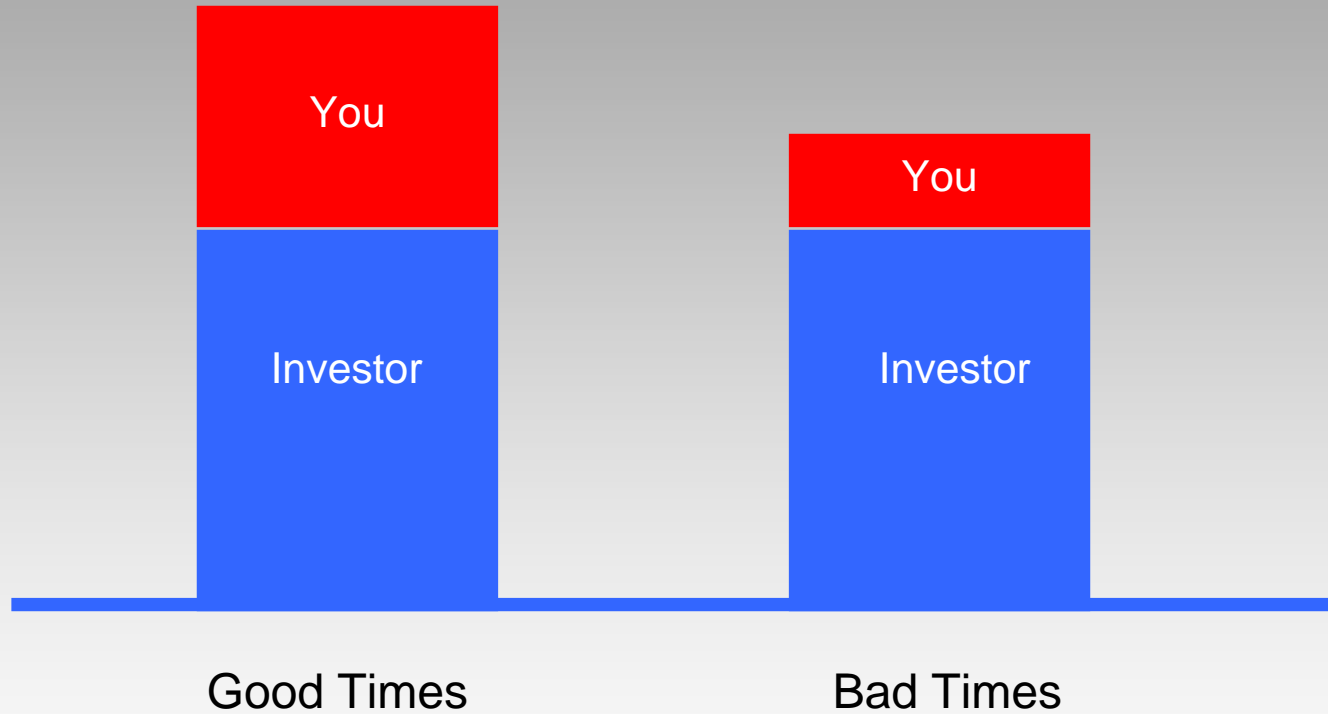
Drag Along

Anti-Dilution



# Preferred Shares

---



# Deal Terms and Structure

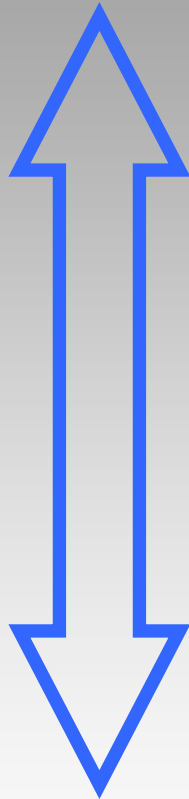
**Most Control &  
Security**

**Debt**

**Preferred Shares**

**Least Control &  
Security**

**Common Shares**



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



# Deal Terms and Structure

---

- Structure should match stage
  - < \$1M typically an Angel round
  - > \$1M 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



# Negotiate Terms

---

- 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



# Close the Investment

---

- 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.

