

Ready Set Grow

Season Two Webinar Six

Session Summary

Seducing Business Angels: The Art of Courting Investors

October 20, 2009

Presented by:



Technology Marketing
Resource Centre



Canadian Innovation Centre

In collaboration with:

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Introduction

The Ready Set Grow series presents webinars featuring subject matter experts and Canadian tech execs discussing topics of interest to the executives of young Canadian technology companies.

On October 20, 2009, Ready Set Grow looked at the topic of raising capital from investors through a session featuring a panel of experts and questions from the audience.

This document captures the content of this session.

Speakers

Jacques Dénommée,
Director Investments, BDC Capital

Jacques Dénommée joined BDC Venture Capital in 1996. He has accumulated over 25 years of corporate financing experience with small and medium-sized businesses through the BDC and CIBC, including the past 12 years in Venture Capital. He graduated from the Hautes Etudes Commerciales in 1983 with a specialty in Economic / Finance. In 1997 he received the certification of Chartered Financial Analyst (CFA) from The Association of Investment Managers and Researcher. Through the years Jacques Dénommée has occupied key positions on Board of Directors and advisory board of Company such as Miranda Technologies, Optosecurity, Vaperma, Triton Electronik and was instrumental in the execution of turn-around, mergers and acquisitions transaction and successful IPO with several technology companies. Over the years, Jacques Dénommée has assisted numerous companies with the implementation of sound execution plan and proper risk management practices.

Eric Bergeron,
President and CEO, Optosecurity Inc.

Eric Bergeron has 18 years of management experience in high-tech industries, including business development, sales, technology and finance. Eric founded Optosecurity in 2003, a leading edge start-up developing the world's first product that enables detection of weapons and liquid explosives in luggage and cargo. Prior to starting Optosecurity, he worked 1 year for venture capital fund Innovatech

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Québec. Before that, he worked for US-headquartered Invertix Corporation, where he held the position of Vice President and General Manager - Europe, based in Den Haag (Netherlands). Eric also served as General Manager at encryption software vendor ZKS Inc.(now called Radial Point), and worked 3 years for international mobile operator TIW Inc. where he worked on technology and business planning in Western Europe. He began his career at Bell Canada, spending eight years in various management positions Eric has a B.A.Sc. in Engineering Physics from Laval University, a M.Sc. in Telecommunications from the University of Quebec, and has completed a research internship at the École Nationale Supérieure des Télécommunications (Paris, France). He served as a Board Member of optical component company Photintech inc. and wireless company Cilys inc. until its acquisition by Openwave in 2005. Eric is a member of the IEEE and the Quebec Order of Professional Engineers (OIQ) and he sits on the Board of Directors of the Canadian Association of Defence and Security Industries (CADSI) as well as the Canadian Council on Science, Technology and Innovation.

Andrew Maxwell,

Director, Business Partnerships, Canadian Innovation Centre

Andrew Maxwell's experience includes the founding of two environmental technology companies, the creation of a wireless, medical device and web company and a technology incubator that helped create 30 technology businesses. He is currently with the Canadian Innovation Centre and pursuing a Ph.D. in the area of new venture creation at the University of Waterloo. He teaches at UTM and Waterloo in the area of technology entrepreneurship.

Seducing Business Angels: The Art of Courting Investors

Developing a Plan

"Typically 80% of the start-ups will either end up as a total failure or lifestyle companies." The reality is that competition is found at every corner and the odds of success in business are against the entrepreneur if there is not a good plan in place. It is advantageous to seek advice and coaching from others when developing this plan, particularly from those who have some experience in the field. Figure 1 illustrates what entrepreneurs need to go through to create a well thought out business plan that will lead to the success of the company.

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Figure 1: What an entrepreneur should know before they talk to an investor

Before entrepreneurs determine the goal of their business, it is important to research what is out there, what market opportunities exist and begin to understand the market landscape. Time must be spent to research and identify:

- Who are the competitors?
- Who are the service providers?
- Who are the early adopters?

Going through a systematic review will help you evaluate whether it is even possible to translate what you see as a market opportunity into value. This must be done objectively using the gathered information to really evaluate the idea.

With the aid of advisors and market research the completion of a systematic review will lead you with a clearer road map. This will help you define what it is you are trying to accomplish, and whether you have the right skill set on your team. The right team is only right if it fits and is the right tool for the right job. This is a common mistake among entrepreneurs; they will build a team initially without examining the unique skill set that is needed for their business to grow. This then results in a mismatch between the skills the team has and what the business really needs. Once you have the skill set and you've examined opportunity, you will be able to develop or acquire a technology or product that will allow you to serve this market opportunity.

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The next phase is to recognize what can go wrong. With this you'll be able to structure your business in a way to minimize risk. At this point you must evaluate whether this opportunity is truly worth pursuing. Do the benefits outweigh the costs? Is there a real potential to make money? These are the answers that investors will be looking for. Investors want to see that you have done the research and know how you will move your business forward.

Business Proposal

Investors need to understand:

- The core business value
- The value proposition
- The road map
- The building blocks
- The risk factors

Before speaking to an investor, you need to understand what defines your business and where its value exists. These are the things that you are going to protect with patents, trade secrets or both. You must be able to define the value you are bringing to your clients. What are the benefits for your client to acquire the product?

It is important to spend some time to identify what it is you want to accomplish and what are the steps you must take along the way. The key is to understand what the first steps are to really get the business off the ground. These building blocks will then help you position your business to move forward. Lastly, spend some time to evaluate the risk factors and not only what your solutions will be, but how you will deliver it.

What Investors are Looking For

Some fundamental questions investors always ask include:

- Where is the pain?
- What are the market drivers?
- The competition landscape
- The value chain matrix and procurement practices

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The entrepreneur may have invented a great product, but

Is there a need?

Will people see a value in it?

Is it killing a pain that people have?

It is important to realize that a market can be quite resilient to change, and people must see the product as a good enough solution that they will be willing to adopt it. Further, when identifying market drivers, one must examine whether this market is just a temporary bubble, or is this market not going to change for the next 20 years or so. You want to enter a market that will continue to increase, and where people will continue to need a solution for their pain.

The competition landscape is the first thing that investors will ask. They will want to know who else is out there and what the competition is like. A big problem is that entrepreneurs will often reply that they have no competition, however, competition always exists. Competition is not limited to companies that are doing exactly what you are doing. You must examine the alternatives. Are there any other solutions to the pain? You need to show your investors that you really understand who your enemies are, and that you know the market landscape.

Lastly we look at the value chain matrix and procurement practices. Entrepreneurs need to examine who will need to partner with you, are there any regulators, and are there early adopters. By understanding exactly how the market acquires new products you will be creating a market pull rather than just a technology push.

Finding the right Investor

"Investors should be able to speak the truth between each other and have sufficient trust and confidence in each other that they will find a solution together, and that's a true relationship."

Jacques Dénommée,
Director Investments, BDC Capital

What you must know before talking to an investor

- What is the market you want to be in?
- What is your business model?
- Who are your potential investors?

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“The challenge is to find the right investors that understand the optimal business positioning for the right market”. Matching all three things is very important, and often a company will have a defined market, but mismatched investors, which can be proven detrimental. It’s important to realize that once you have received the cash from the investors, you will have to live with them, and even though you may go through the cash very quickly, the investor will still be there. You want to do some research and learn about the investor before forming a relationship. Proper research into potential investors should help you answer questions such as:

What experience does this investor have with starting a new company like mine?

What experience does this investor have with the industry?

Is the investor comfortable with the level of risk associated with my business?

Will this investor help me alleviate this risk?

Ideally, you want an investor that will bring you more than just money; you want someone with experience who will be able to coach you.

Profile: Optosecurity Inc.

BDC is a crown corporation with a mandate to help create and develop Canadian businesses through financing, venture capital and consulting services, with a focus on small and medium-sized enterprises. BDC's services are available across Canada in both official languages through a network of more than 100 offices. Its head office is in Montreal.

BDC capital is a major venture capital investor in Canada since 1975 and has invested in over 400 companies

For more information, visit <http://www.bdc.ca/en/home.htm>

Case Study: Optosecurity

Optosecurity is spin-off technology from a R&D establishment in Quebec, with a license agreement in place for exchange of shares and royalties. The target market consists of homeland security, liquid explosives detection and weapon detection.

When Eric Bergeron first started the company, his plan was to raise money on his own, only after which he would begin to form the right team. His aspirations were high, hoping to get financing within 6 months, however, this quickly turned into an 18 month process. Although finding investors is difficult, it is important to avoid discouragement. From every failure there could be a lesson learned. Optosecurity was turned down by 240 investors on three continents before finding one.

"Financing always takes more time than you think."

Eric Bergeron,
President and CEO, Optosecurity Inc.

The first round of financing brought in \$2M, half from venture capital and half from an angel. This is a great scenario, it gives Angels the reassurance that the company has value, and VC's are happy to see more money put into the company. What was equally important from this round of financing was the relationship formed between Eric and the investors. Investors will become very involved in the company and will often offer knowledge and experience coaching you through the process.

What you want for your company is to find a strong lead VC that will be a good fit with the company. When referring to a good fit, the VC must fit in terms of sector, stage and style. You want investors who have experience and understand the risks associated with products at your stage and in your sector. Not only do you need to be compatible on the product front, but an investor must be someone you feel comfortable with, and they must be someone you can see yourself forming a relationship with.

VC's will often only give you an opportunity to pitch if they have a referral, so it is important to set up a strong network. They are also looking that you are completely focused on the company and moving it forward, that this is not a part time job for you. It also works to your advantage if you have enough cash to survive 2 years without pay.

Lastly, it's important to keep in mind that there is never too much financing, you can never have enough money. If there is an opportunity for raising money you should take it. And always remember that R&D, financing and sales all takes longer than anticipated. When structuring a business plan this should be taken into account.

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Profile: Optosecurity Inc.

Founded in 2003 by Eric Bergeron, Optosecurity Inc. develops breakthrough security products for the Transportation and Critical Infrastructure markets. The unique systems developed by Optosecurity improve the performance of existing baggage, parcel and cargo screening systems, empowering security personnel to work more efficiently and consistently to detect and classify potential threats, such as guns, gun parts, dangerous gels and liquids.

Optosecurity is a technology spin-off from the National Optics Institute (INO), a world-class center of expertise in business applications for optics and photonics.

For more information, visit <http://www.optosecurity.com/en/index.php>

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Results of Real-time Poll

Below are the results of the polls conducted during the webinar:

Poll #1: What stage is your business in securing finance? (Choose one answer)

- | | |
|---|-----|
| ○ Concept stage – not ready for financing | 16% |
| ○ Seeking initial financing | 34% |
| ○ Initial financing in place | 4% |
| ○ Seeking expansion capital | 30% |
| ○ No current financing needs | 16% |

Poll #2: Which sources of financing do you hope to use? (Choose one answer)

- | | |
|--|-----|
| ○ Personal investment and family and friends | 4% |
| ○ Bank line of credit and credit cards | 7% |
| ○ Government agency offerings | 19% |
| ○ Business Angel Investment | 46% |
| ○ Venture capital investment | 22% |

Poll #3: What would be of most assistance in securing the financing you need?

(Choose one answer)

- | | |
|--|-----|
| ○ Assistance developing a strong business plan | 9% |
| ○ Market research data to validate business concept and market | 22% |
| ○ Coaching on the financing process and options | 17% |
| ○ Assistance developing an investor presentation | 6% |
| ○ Introductions to Angels and VC's | 45% |

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Links of Interest

Export Development Canada <http://www.edc.ca>

Canadian Association of Importers and Exporters <http://www.importers.ca/>

Canadian Manufacturers & Exporters <http://www.cme-mec.ca>

International Chamber of Commerce <http://www.iccwbo.org/>

Service Canada www.servicecanada.gc.ca/

Business Development
Bank of Canada <http://www.bdc.ca>

Canadian Innovation Centre <http://innovationcentre.ca>

Technology marketing
Resource Centre <http://www.tmrc.ca>

Canadian Advanced Technology Alliance <http://www.cata.ca>

Articles and Books of Interest

Exporting for Dummies

Available via http://www.edc.ca/english/publications_11934.htm?cid=red1608

Exporting to the USA , Edward G. Hinkelman | World Trade Press | July 16, 1999

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