

# The Venture Capital Perspective

**Know your audience!**

**Tech Capital**  
P A R T N E R S

A venture capital firm focused on building  
seed and early-stage technology companies

- **Only three ways to finance growth**
  - Equity
  - Debt
  - Profits
- **While there is a vast array of “innovative instruments”, they will fall into one of those categories**
- **A private company will likely see**
  - Subordinated Debt
  - Common Shares
  - Preferred Shares

- **Debt**

- Repayment required
- Interest rate
- Often regular payments
- Can take security over assets
- “Gain” limited to interest

- **Equity (traditional)**

- No ongoing payments
- “Gain” is unlimited
- No security

- **A VC is accountable to its Limited Partners—the institutions and people who have invested money in the VC’s funds**
- **A VCs only responsibility is to make money for its “Limiteds”**
- **Each fund has a specific mandate that the VC must follow in making its investments**
- **Willing to take risks to realize high return but looking for every way possible to mitigate that risk**
- **VCs are looking for companies that have the potential to become “home runs”**
- **We see 2 to 3 business opportunities per week**
  - **Our goal is to fund 2 to 3 businesses per year**

- **Invest in companies that will make money for our Limiteds**
  - **Generate deal flow**
    - Speak at events
    - Network
    - Develop relationships with service providers
  - **Evaluate opportunities**
    - Email/phone
    - Read business plans
    - Meet with entrepreneurs
  - **Due diligence**
    - Need to understand the opportunity, the business, the team
    - Can take 6 months
  - **Present, negotiate and close deals**
    - Term sheets
    - Lawyers and legal fees

- **Work with portfolio companies**

- Involvement depends on stage of company and management experience
- Focused on:
  - Generating revenue – getting customers and sales
  - Making sure the company doesn't run out of money
    - Budgeting – burn rate
    - Fund raising
  - Successful exit – this is what we are measured on and what we care about!

- **Fund raising**

- Every four years or so
- Must justify mandate
- Must show track record
- Takes about 1 ½ years to raise a fund – with a good track record!

# Getting venture capital



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- **Not every technology company needs venture capital...**
- **Need to ask:**
  - What problem does this technology solve
  - Can I create a product out of this technology?
  - Will anyone be willing to buy this product?
  - Is the product idea compelling enough for people to change their behaviour?
- **Make sure the problem you are solving is something that people care about– something that causes pain**
- **Rule of thumb**
  - 10x better, 10x cheaper, 10x more reliable
  - Improve by an order of magnitude in more than one performance indicator or metric
- **A word about “agents”**

- **Unique solutions to very big problems**
  - Simple enough for VC to understand yet unique enough that VC thinks it is something special
  - “Secret sauce” vs. “Marketing plays”
  - Disruptive technology
    - Disrupt an existing market
    - Create a new market space altogether
  - Solves “pain”: “Pain killer” vs. “Vitamin”

- **Large market size**
  - Understand the “real” market – segmentation
- **Potential customers identified and engaged**
  - How are you going to make money – revenue model
- **Management team**
  - Domain expertise
  - Stage adjusted
  - Willing to “share the wealth”
- **Intellectual property “IP”**
  - Clean...
  - Protected...
- **Exit strategy**
  - How will the VCs realize a return for their Limiteds?

- **2 types of entrepreneurial opportunities**
  - **Lifestyle entrepreneurs**
    - The founder wants to be the majority owner
    - The founder wants to be the boss
    - Growth funded through profits and bank debt
    - Examples:
      - Consulting firms, retail, distribution, sales agencies, service firms
    - Can be highly profitable
  - **VC backed entrepreneurs**
    - Founder is okay with a smaller piece of a bigger pie (2% to 5% at liquidity)
    - Founder does not need to be the CEO but needs to see the business succeed
    - Growth is funded through 3<sup>rd</sup> party capital
    - Founder makes money on liquidation of his ownership
    - Examples:
      - Some technology companies, some manufacturing companies

- **Look for a lifestyle business if:**
  - Your aspirations are to start a business without prior experience
  - You want to be running the company in 15 years
  - You want to learn by doing
- **Consider VC backed business if:**
  - You understand that you probably won't be the boss
  - You know what you don't know
  - You want to focus on your strengths and rely on other good people to do the rest

# Tech Capital Partners Inc.

[www.techcapital.com](http://www.techcapital.com)

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