

Angels
VC's or
Going
Public



After the Angels: VC Financing or Going Public Early?

Which is the best way to finance
your high tech company?



Disclaimer

- Opinions are entirely my own.
- Based on direct experiences and observations financing ten high tech companies through more than 25 rounds of equity financing.
- Many will disagree – some violently.
- Results will vary.



Macro Trends in Equity Financing

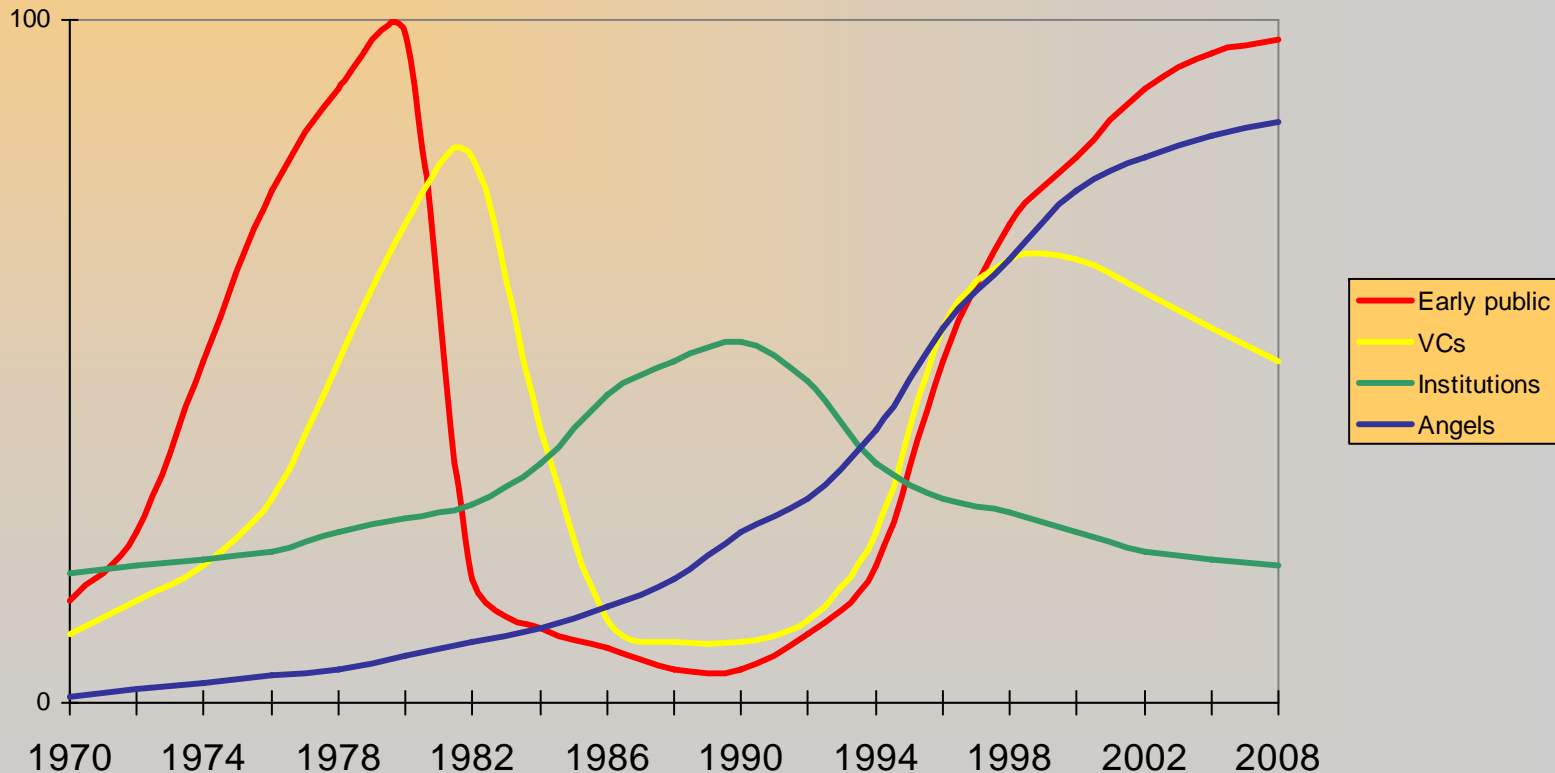
- Optimum financing strategies for companies have to evolve,
- because the financial industry changes.
- Incredible herd instinct.
- Changes slowly – cycles take around a decade.

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Relative Equity Availability for Local High Tech Companies

Extremely simplified. One guy's opinion. For illustrative purposes only. All future predictions highly suspect.





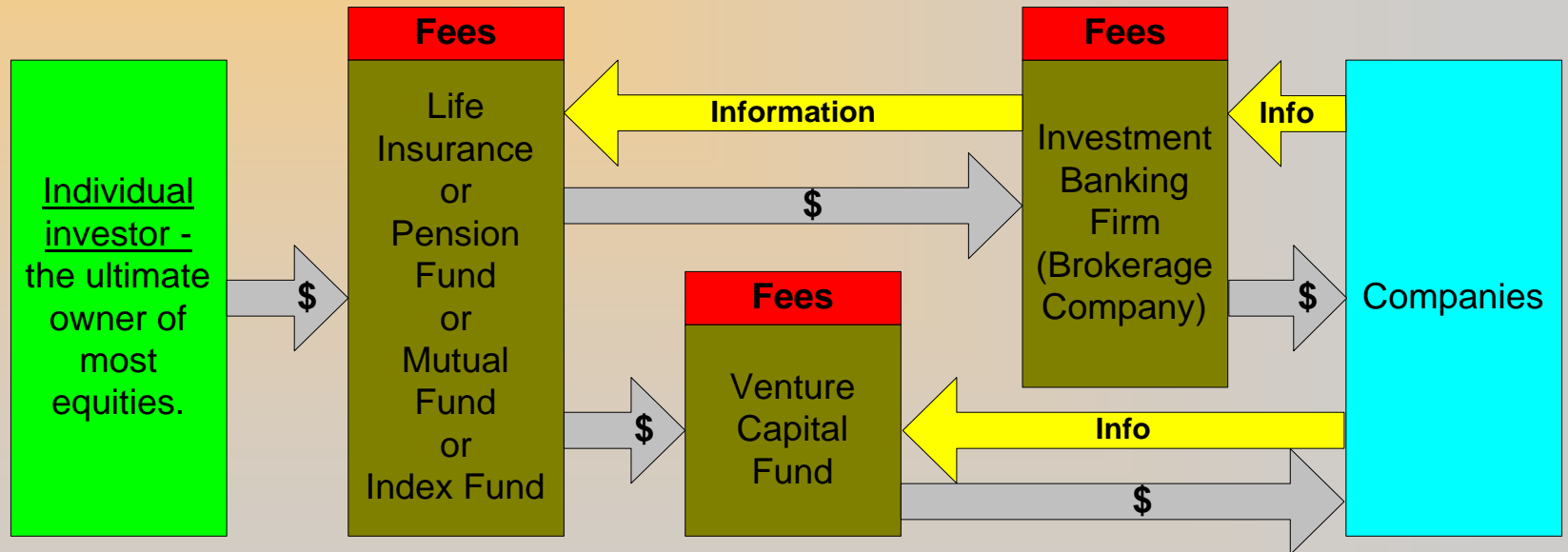
Where the money is

- Was in institutions (pension funds, life insurance companies, etc.) during 80's.
- Then it was mutual funds - early 90's.
- Then index funds - later 90's.
- Now its self-managed and online brokerage accounts.
- Boomers want returns and to have fun.
- Looking for private equity deals and IPOs.



Follow the money

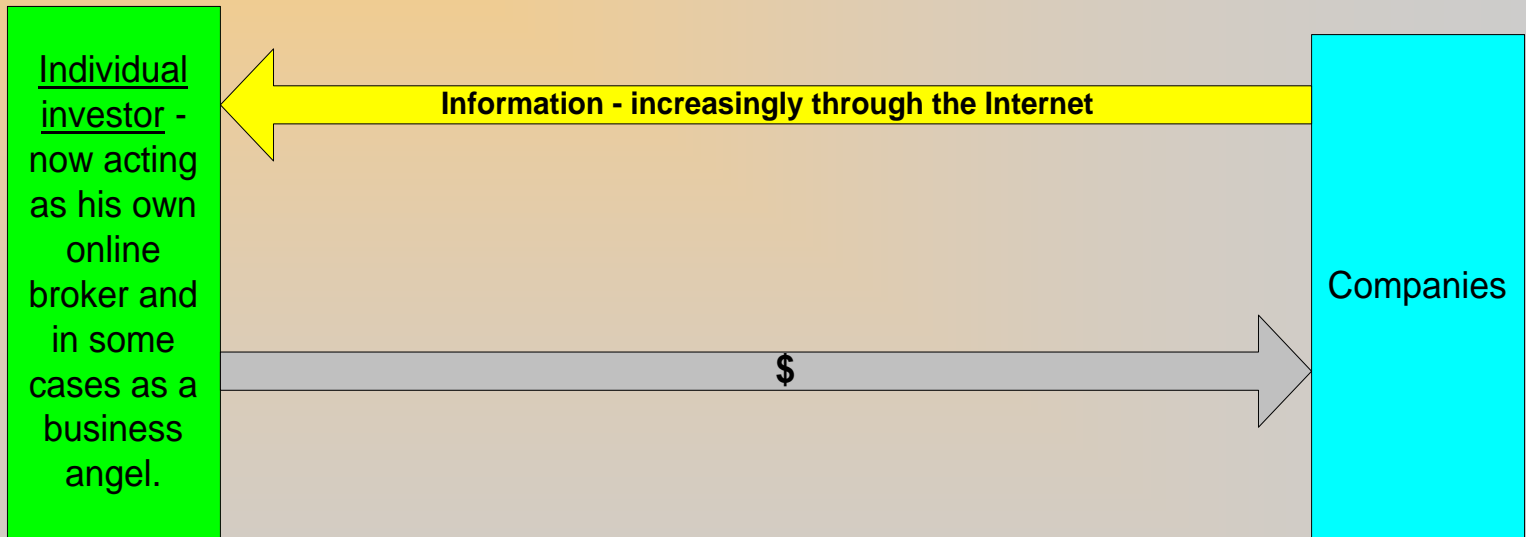
The way it worked last decade.





Disintermediation

The way its increasingly being done now.





Start with Angel Investors instead of VCs

- “One advantage of dealing with angels is that they move quickly”
- “VCs have a whole team of people coming up with hurdles. It's a great sport for them. Most entrepreneurs get exhausted from jumping the hurdles and agree to a lower valuation.”
- “Nor do [Angels] drive as hard a bargain as their VC counterparts”
- “In terms of experience and relationships, they bring more to the table than VCs, with one exception-- financial relationships.”



Angels have more money

- There are over 250,000 active business angels in the United States.
- Each year they invest between \$20-30 billion in approximately 30,000 businesses each needing between \$250,000 and \$5 million.
- In comparison, 500 venture capital funds invest approximately \$10 billion annually in fewer than 2,000 ventures each generally needing more than \$5 million.

From: US Small Business Administration report on ACE-Net, 1996



After the Angels: In Canada we have more choices

- In the US, its pretty much standard practice to do a VC round after the Angel round.
- But in Canada, our financial industry has evolved differently. Partly due to our economic base in natural resources.
- We have several venture capital stock markets: VSE, ASE, CDN and ME.



Many companies are going public earlier

- ..”companies are going public earlier in their market development life cycle to capitalize on first-mover advantage, using the huge inflow of capital to accelerate the build-out of an infrastructure or a brand”

Geoffrey Moore, Chairman of The Chasm Group and author of Crossing the Chasm



After the Angel round: VC or Early Stage Public?

- How do you decide?
- Important questions:
 1. Pricing
 2. Terms and Conditions
 3. Who your new partners will be
 4. What they will add beside money



First: Being Public is Not for every company.

- Business must be understood by average investor after only 30 seconds.
- Investors must 'like' the type of business.
- Extremely high growth
- Needs lots of capital.
- CEO and CFO must be 'sales' personalities, and enthusiastic to build up an expensive, time consuming investor relations department.



Getting the deal done

- VCs tend to form local cartels. Underwriters more competitive.
- VCs demand a better type of shares than founders (recent change). Public investors buy common shares.
- VCs want to control the company – even when they own only small percentages.
- Public market investors don't even want to be on the board.



Getting the deal done con't

- VCs changing hundreds of years of corporate governance evolutionary wisdom by demanding to over-rule the board.
- VCs almost always require the right to change the CEO.
- VCs will effectively control the financial future of the company.
- Including being able to force the company to go public.



Papering the deal

- Very few lawyers outside Silicon Valley, and virtually no young entrepreneurs can even understand a VC definitive agreement -- or what it will really mean to their company.
- A public market financing agreement is relatively simple.



Either way its expensive

- Extremely difficult to analyze how much either option really costs over a company's lifetime.
- Many of the VC costs are hidden (in the funds carried interest and fees.)
- Ongoing investor relations costs and benefits hard to quantify.
- Both probably cost a similar amount.



Different ways to 'Go Public'

- VSE reputation is still poor – especially in the US.
- Good news is that it is no longer deserved – now one of the most modern, best regulated exchanges in the world. Opinion is shifting.
- Be careful about reverse take-overs.
- And especially wary of NASD Over the Counter Bulletin Board structures – that is not NASDAQ.



When things don't go well

- In any company: Stuff happens.
- This is when the real implications of either type of financing really become known.
- VCs, underwriters and public investors all act very differently.
- The differences are 'genetic'.



When things don't go well

- VCs can get very nasty. Wash out financings, board problems, replace management, take overs, etc.
- Public market investors much more straightforward – they just sell.
- Underwriters help. Their reputations and investments are at stake. Almost always the most helpful when a company is in trouble.



Its all comes down to the people

- There are lots of local entrepreneurs with excellent VC or Public Market experiences.
- But there are many more with absolute horror stories.
- It all depends on the people.
- **Do your own research: Ask around.**



Other recent changes in early stage public markets

- Venture Capital Pools (VCPs) can take you public almost instantly without many of the disadvantages of other reverse take overs.
- New Canadian Venture Exchange will combine and re-brand the VSE, ASE, CDN and ME. **EXCITING!**
- Right idea at the right time.



You probably want to go public eventually

- Unless you are very lucky and get bought out early, most companies aspire to a NASDAQ listing.
- So its really a question of when not if.
- Makes sense to go public in a small market, with a small float, so management can learn how to be public before the big leagues.
- Starting on a small exchange is an excellent way to get to NASDAQ in smaller steps.



So how do you decide?

- One of the most important decisions in any company's life.
- All decisions are irreversible.
- Can't learn from books.
- Ask as many people as possible.
- Be honest to yourself.
- Rely on mentors and directors.



VCs or Early Public Financing

- Many successful companies have gone both routes.
- But many companies have failed because the board made the wrong choice.
- No easy answers. Do your research.
- **GOOD LUCK!**