

Entrepreneurial Boot Camp:

What an Early-Stage Fund Manager Wants

Dr. Basil Peters

CEO and Technology Fund Manager

The BC Tech Fund – A BC Advantage Fund



My background

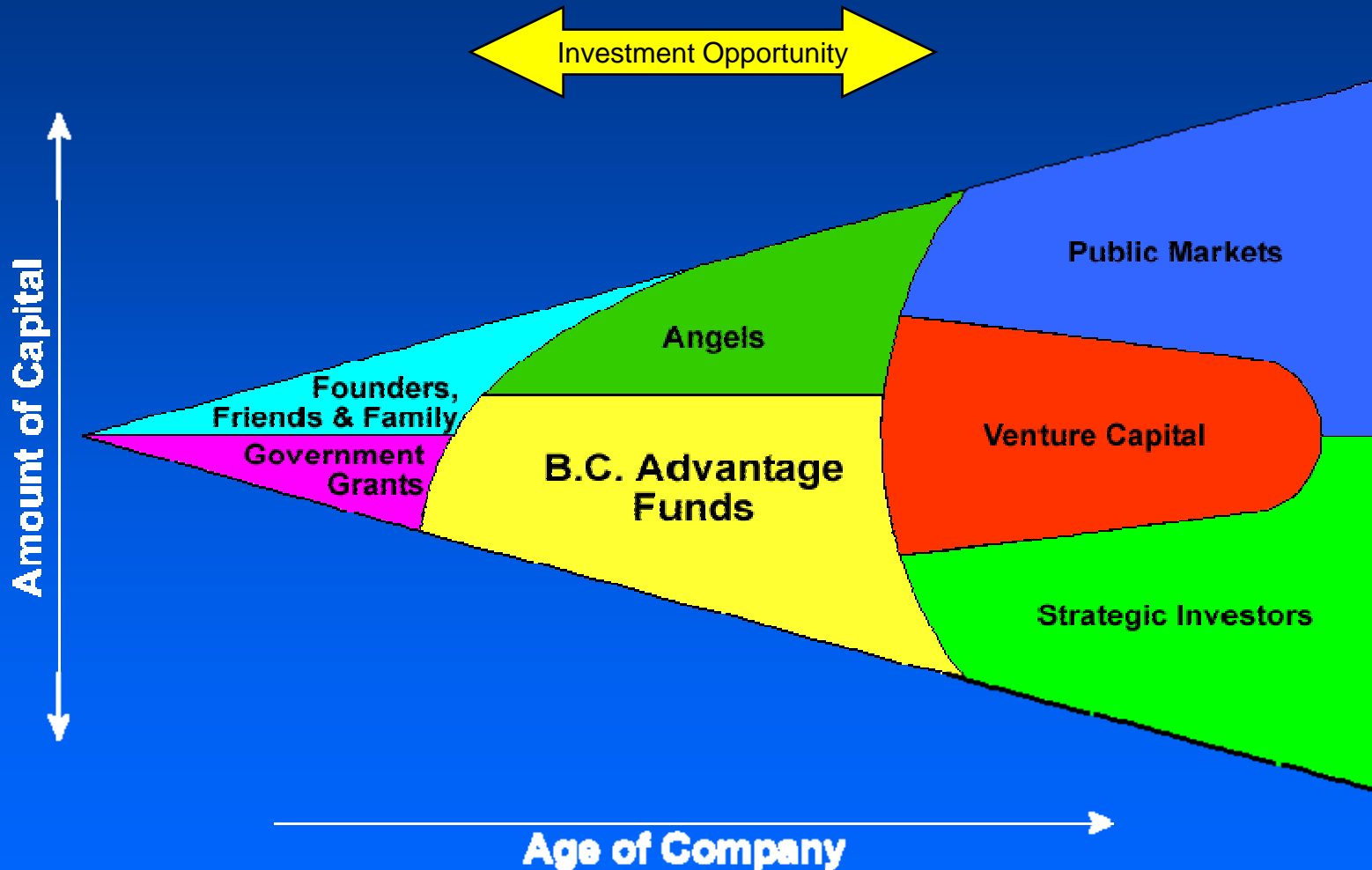
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- Technology Entrepreneur = grown up geek.
- BAsC and PhD, Electrical Engineering
- Co-founder, past Chairman and CEO of Nexus Engineering
- Past CEO of ICTV Inc., Silicon Valley
- Cofounder and/or Chair of about a dozen local companies
- Winner of 9 awards for entrepreneurship including BC Business Entrepreneur of the Year in 1991



Where we invest



My Job = Early/Seed Returns

| <u>Fund Type</u> | <u>5 Yr</u> | <u>10 Yr</u> | <u>20 Yr</u> |
|---------------------|-------------|--------------|--------------|
| Early/Seed VC Fund | 47.9% ✓ | 35.7% ✓ | 19.8% ✓ |
| Balanced VC Fund | 18.6% | 21.4% | 13.9% |
| Later Stage VC Fund | 7.3% | 19.5% | 14.3% |
| All Venture Capital | 24.2% | 26.2% | 16.1% |
| S&P 500 | -3.0% | 8.0% | 11.6% |
| NASDAQ | -3.1% | 8.7% | 12.7% |

Venture Economics' US Private Equity Performance Index
Investment Horizon Performance as of 06/30/03 (www.ventureeconomics.com)

My first experience

- Entrepreneurial experience.
- We were SO naïve.
- Our original structure and financing agreement.
- Time to complete our first two VC financings
- 14 months and 22 months.
- Nevertheless, we grew to be #2 in the world.
- Single biggest reason: Our Mentors.

Mentors – The difference between success and failure

- A good Mentor's most important contribution is:
- To prevent the entrepreneurs from blowing up the company.
- Seriously.
- In my first company, our angel investors / mentors / directors literally prevented that a dozen times.
- In my own investments, have done the same several dozen times.

How can they do that?

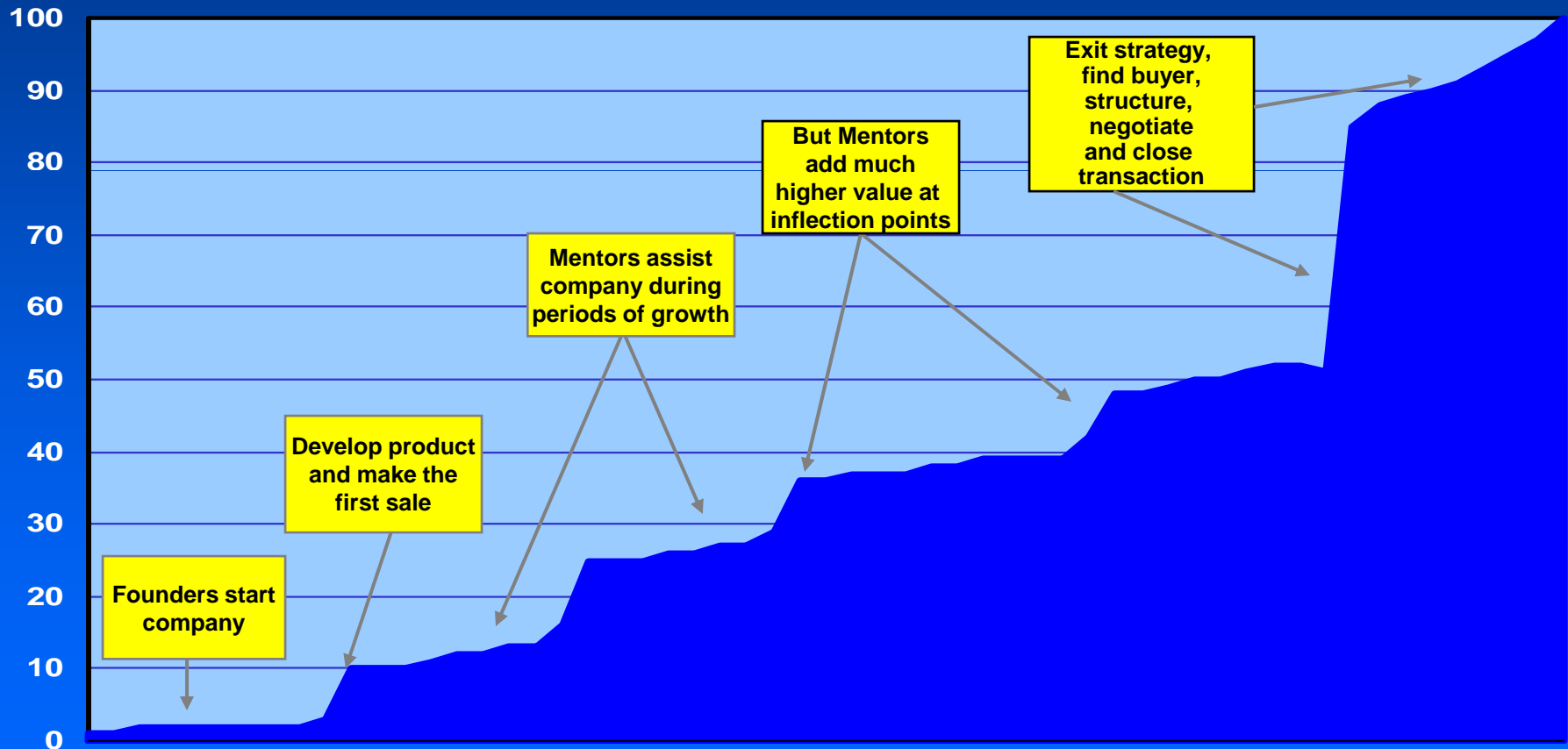
- It's simply experience.
- For example, many companies fail because they run out of money.
- That almost never happens to experienced entrepreneurs.
- Even a founder with an IQ of 160 can't learn enough, fast enough, to have the experience.
- Every successful company I have seen has mentors / good directors.

Building Company Value

Founding = 10%

Equal Tactics & Strategy = 40%

Exit Strategy & Execution = 50%



Board Evolution

- In the very early days, the board is often the founders.
- That is OK because they are often the only shareholders.
- As the company matures, the board must too.
- One of the most common reasons that companies fail to attract good quality investors,
- Is that the board is not ready.

Corporate Governance Today

- Probably the biggest change for early-stage companies over the past few years.
- Much more important than five years ago.
- Corporate Governance will continue to increase in importance for many years.
- Enormous topic – would also take days to do justice to.

Minimum Governance Guidelines For Externally Financed Companies

- Boards must be real and:
- Have a majority of independents.
- Who are successful and experienced.
- Who should have a real financial interest in the company.
- Should only have one member of management, the CEO.
- Chairman cannot be CEO.

Harder to attract good directors

Business in Vancouver February 18-24, 2003

Insurance hikes force lawyers off boards

Clark, Wilson discourages appointments; partner off DataWave board

Tracy Tjaden

U.S. corporate governance scandals have pushed insurance rates sky-high, forcing one Vancouver law firm to discourage its lawyers from sitting as directors of public companies.

Bernard Pinsky, a partner of corporate law firm Clark, Wilson, resigned from Vancouver-based DataWave Systems Inc.'s board of directors February 7.

In total, Clark, Wilson lawyers have resigned from half a dozen boards in recent months.

Two years ago, its lawyers sat on about 25 boards of public companies, Pinsky said. The firm's lawyers are in the process of resigning from all public company boards.

The firm's insurance costs for directors' and officers' liability insurance shot up 150 per cent this year over last year. That's after a 75-per-cent increase last year over the year before.

"It's the big corporate governance failures in the U.S. that have driven rates up because [the insurance companies] are paying out billions," said Pinsky.



Resigned: Lawyer Bernard Pinsky left DataWave board due to insurance costs

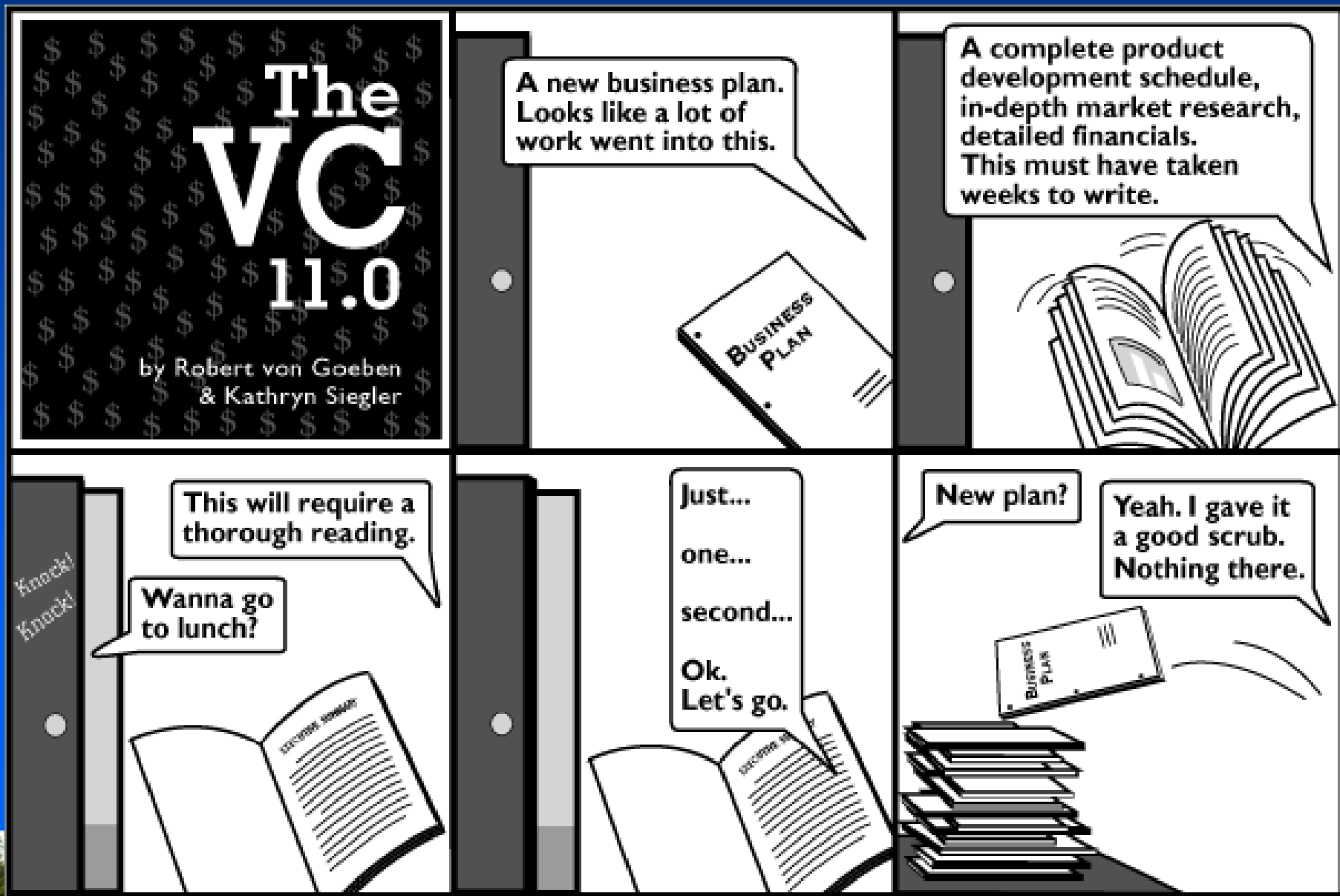
Board Commitment

- It's much harder to recruit a good board today.
- No, an advisory board won't do.
- Directors must make a meaningful investment.
- If you can't get a good board committed,
- Do you really think its fair to ask someone to invest?
- Good news is that early-stage funds and angels will often help you build a good board.

The Business Plan

- Very simply – an intelligence test.
- The format must be perfect.
- If you have a web browser, there is no excuse.
- The financials are the hardest part.
- Except possibly for the bios.
- If you've only done a couple of dozen, get coaching!

What happens to your plan



Getting a VC's Attention

- What it looks like from my perspective.
- Dozens of business plans per week.
- You need an introduction.
- Ideally from someone who has written a cheque.
- And has credibility with me.
- Ideally one of our fund's mentors.
- Sorry it's not easier.

Just Don't Feel Like It

The VC

Life at the conference table

by Robert von Goeben
& Kathryn Siegler

<http://www.thevc.com>

THE BRUSH-OFF

We like your company a lot, but we'll have to pass.

"Can you tell me why?"

We did extensive due diligence so let me give you some feedback. First off, the market is too small.

"But Forester projects this space to be \$3 trillion by 2002!"

Uh ... OK, the technology isn't defensible.

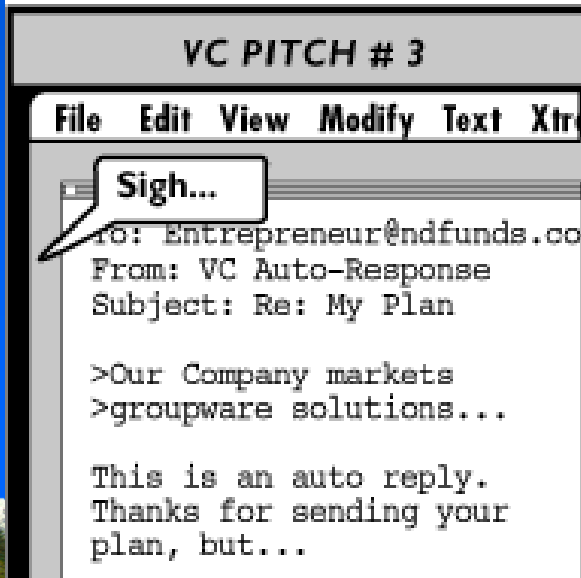
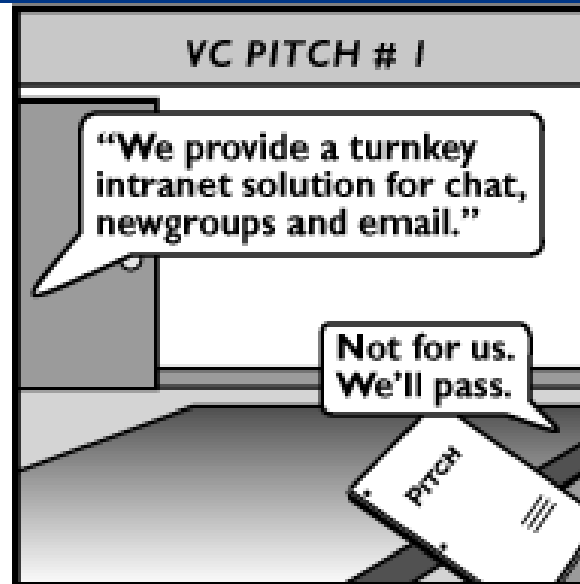
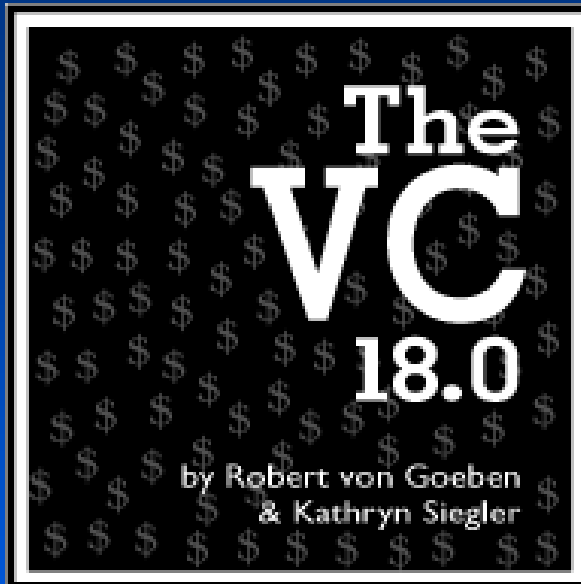
"What do you mean? We hold twelve patents in the area!"

Your CTO is inexperienced in the space.

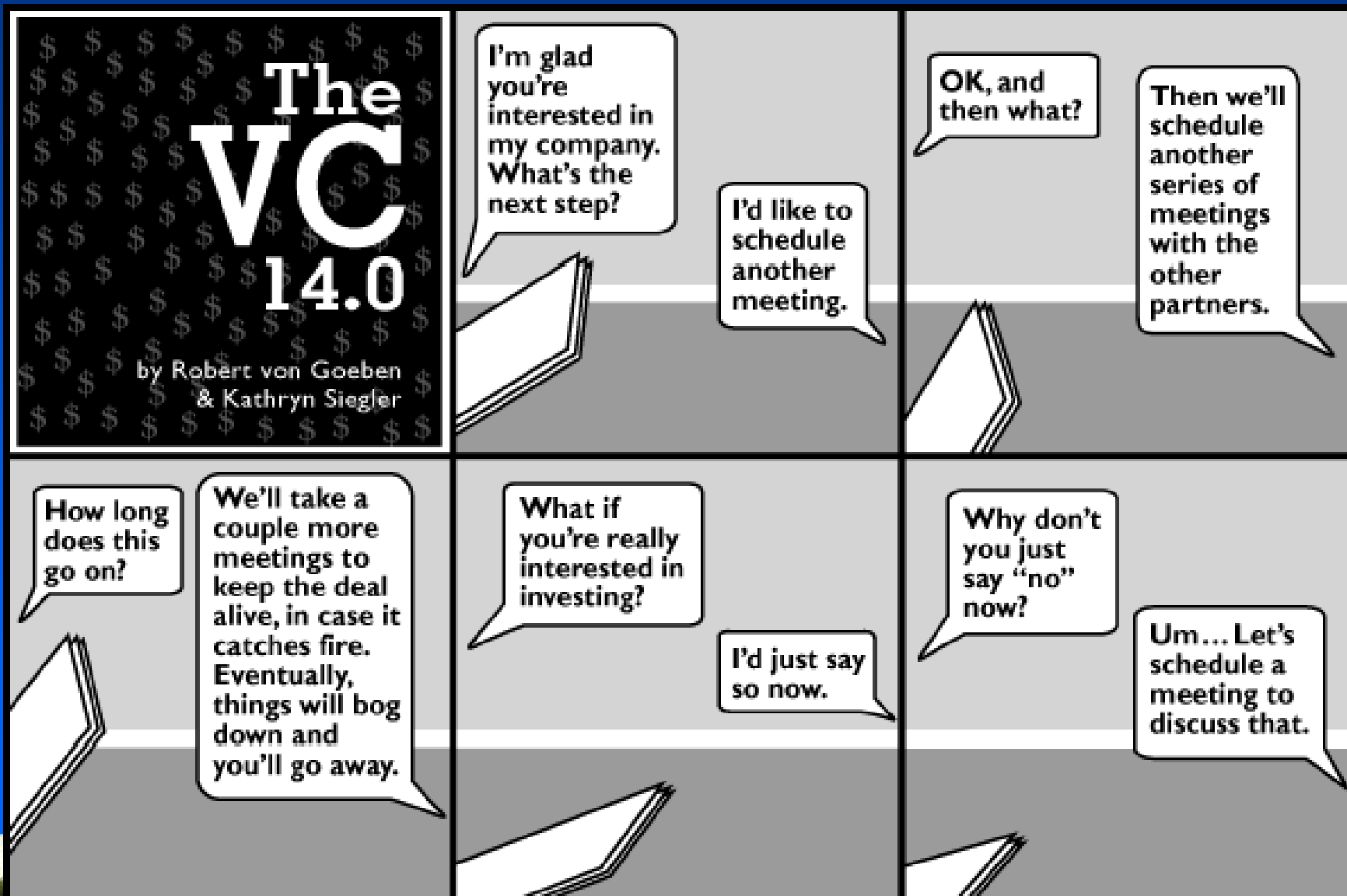
"The Guy's authored three books on the subject. What more do you want?!"

Well, ... um ... Look, we just don't feel like it, OK?

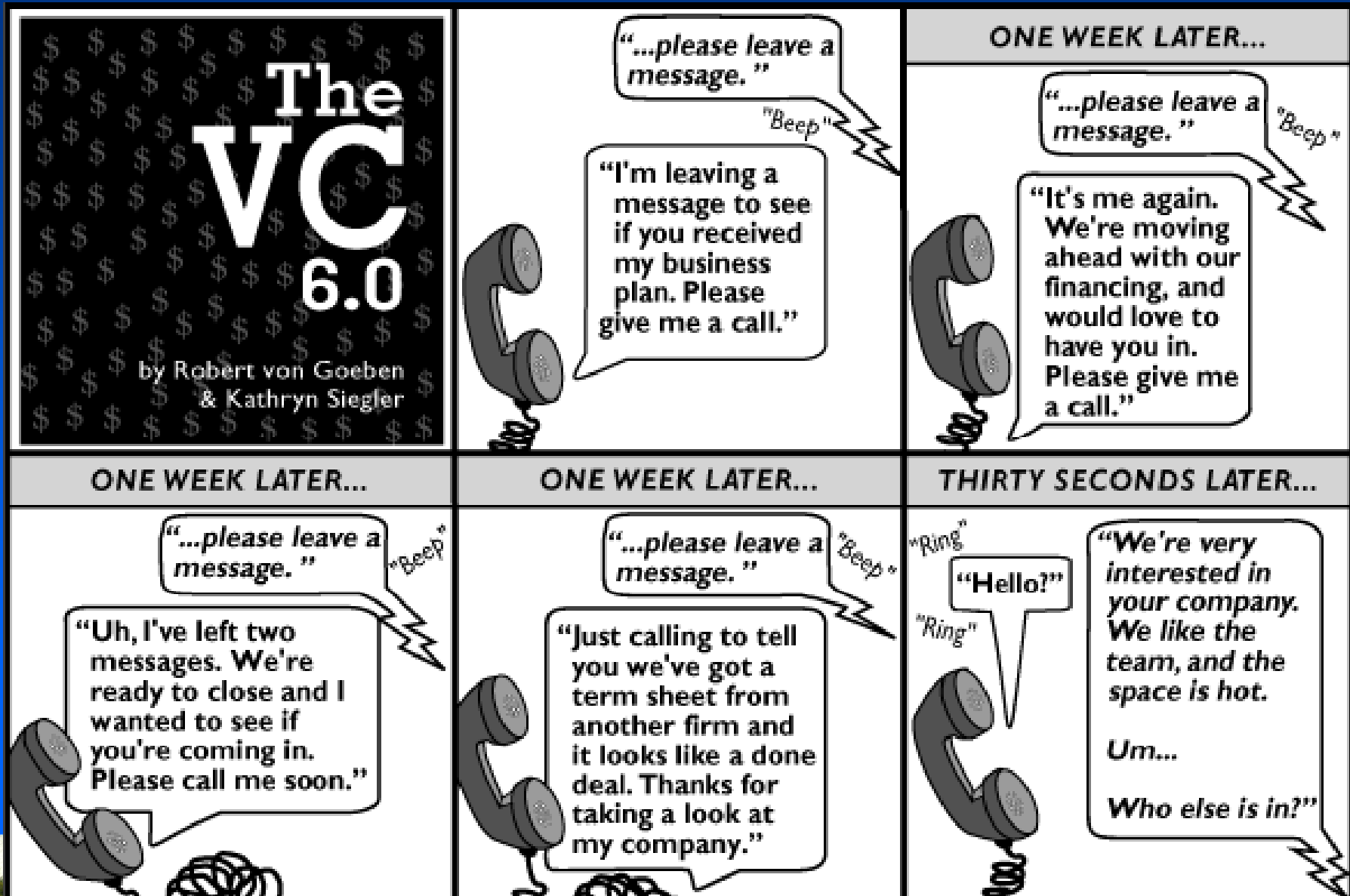
Packaging can make the difference



Never Saying "No"



Creating Urgency



Good Luck!