

International credit crisis trims the industry fat

Investors are pausing to assess how the market turmoil will redraw the financial landscape

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Somebody forgot to tell the **Vancouver Angel Network for Technology Companies** (Vantec) that the world is in the grips of a credit crisis.

It was standing room only on at Vantec's October 7 gathering of angel investors and the entrepreneurs who are vying for their attention.

Basil Peters, CEO of the Vancouver-based **Fundamental Technologies II** angel fund, regularly attends Vantec's events, as well as events hosted by the **Angel Forum**, Vancouver's other anchor for early-stage businesses that are seeking angel funding.

"I'm seeing record attendance of both investors and entrepreneurs at both those events," said Peters, suggesting that the current investment market debacle hasn't bridled entrepreneurial eagerness among B.C. early-stage innovators.

Nonetheless, much of the conversation among developmental-stage companies in B.C. inevitably veers in a single direction: How is the credit crisis affecting the access to capital in B.C.?

BIV contacted industry insiders at each level for the answer.

Seed financing

The bulk of assets of angel investors are in larger capital equity markets and the debt markets, which have both been hit hard by the credit crisis.

All of the angels that Peters has spok-



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en to in recent weeks are stepping back and examining the affects that the economic turmoil will have on their current and future investments.

"As a result they have definitely slowed down their investing rate over the last couple weeks," Peters said. "I'm sure that this will impact their willingness to invest over at least the next two quarters."

That said, Peters noted that angels still have capital, and are particularly interested in companies that build their business models around interactive and social technologies known as Web 2.0 technologies.

Web 2.0 startups don't need large infrastructure and can develop in relatively short timeframes.

Quick exits, noted Peters, are attractive to angel investors, who typically invest in the range of \$25,000 to \$250,000.

Venture capital financing

Indel Therapeutics, a Vancouver-based company that is developing antibiotics based on a proprietary antimicrobial drug discovery platform, raised its first seed capital in September and is closing its second seed round at the end of the month.

The company's next step is to raise a larger multimillion-dollar round sometime in the new year.

To do so, Indel is not only courting venture capitalists, but also examining opportunities for additional seed financing and licensing

and partnering opportunities with strategic investors.

“In the current environment, I think you have to be very creative and open to a range of possibilities,” said **Malcolm Kendall**, a co-founder of **Indel** and the company’s CEO.

Kendall lived through the burst of the technology bubble in 2001 as a venture capitalist with **Intersouth Partners** and **MDS Capital**.

Through his previous experiences managing venture capital funds, Kendall believes that the best technologies and teams can still access venture capital.

He noted that venture capital fund managers are still obliged to put their money to work, despite the current economic turmoil.

“They may take a couple months hiatus to let things settle down and to figure out how this is ultimately going to affect their investment strategy,” noted Kendall. “But they have raised hundreds of millions of dollars from institutional investors, based on a strategy they have to stick to. They have to put their money to work.”

That creates opportunity for companies with strong technologies and teams that have raised angel financing but are not ready for a public offering or strategic exit.

“A recession clears out the noise,” Kendall said, adding that biotechnology giants like **Genzyme Corp.** and **Amgen Inc.** were formed during recessions. “The best teams get funded, but they have to really focus and be frugal. In a sense, that helps build stronger companies.”

Public offering

In mid-September, Vancouver-based **Med BioGene Inc.** (TSX-V:MBI), a life science company developing diagnostic tests for cancer and cardiovascular disease, completed the second, and final, tranche of a \$1.6 million public offering that it first announced in July.

“You can create a company worth \$10 million, \$20 million or \$30 million in a few years without a lot of capital and can find lots of people wanting to buy you for cash”

-Basil Peters, CEO, Fundamental Technologies II

said Peterson ok is tech and biotech for the next little while.”

It’s all about revenue, according to Peterson.

“If you can show some revenue or you can

Med BioGene is a client of Vancouver’s **Peterson Capital**, which works with public companies that are looking to raise capital through a second or third public offering.

Rick Peterson, president of Peterson Capital, said the key to raising capital on the public markets during the credit crisis is to keep your company highly visible to potential investors.

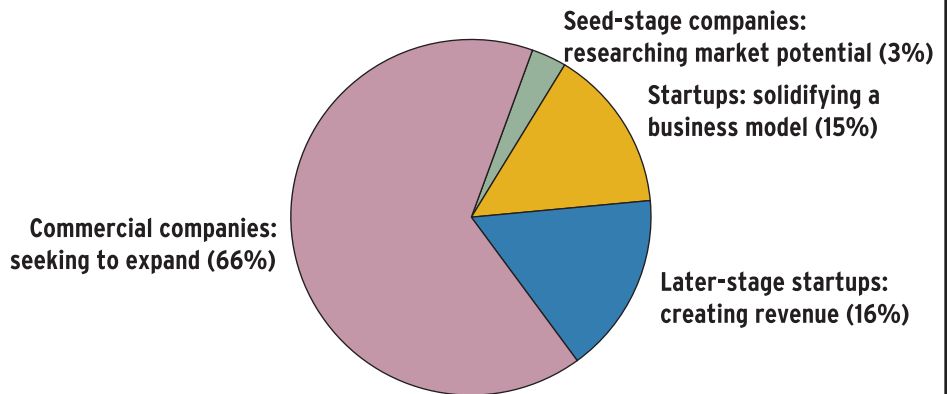
Peterson and **Errin Broshko**, Med BioGene’s CEO, continue to contact brokers and fund managers quarter after quarter, despite market conditions.

“You show that you hit your milestones, no matter what’s happening in the market,” said Peterson.

With commodity prices continuing to lag, Peterson noted that it is particularly challenging for resource companies to access public capital right now.

“Accessing capital in the early stage public markets is really tough for everybody,”

B.C. companies received \$310 million in venture capital in 2007



SOURCE: THOMSON REUTERS

show some visibility for revenue in 12 to 18 months down the road, then you have a good chance,” said Peterson. “If you’re still on the R&D side, it is going to be tough.”

Merger or acquisition

Peters keeps a list of mergers and acquisitions in the technology sector that occur for less than \$30 million.

“You can create a company worth \$10 million, \$20 million or \$30 million in a few years without a lot of capital, and can find lots of people wanting to buy you for cash,” said Peters.

Acquisitions are being led by companies like **Google**, **Yahoo** and **eBay** – companies with plenty of cash on their balance sheets that prefer to grow through acquisitions than to invest in the research and development required for organic growth.

In the life sciences, the credit crisis may stall big pharma’s drive to use acquisitions to replenish its drug pipeline, but it won’t stop it.

“They have tens of tens of billions of dollars of drugs going off patent and their research and development engines have not been productive enough to fill the void,” said Kendall.

As a result, a developmental company being acquired by a **Merck** or a **Pfizer** may receive up to four times the value it could through a public offering. ■

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