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Venture Capital Update
Peter Carrescia – General Partner

Who We Are – VenGrowth Capital Partners Inc.

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- **Founded in 1982**
- **Over \$1.2 billion in assets under administration**
- **Technology & Traditional, Life Sciences and Mezzanine**
- **Retail and Institutional Funds**
- **Offices in Toronto and Ottawa**
- **Firm is independent and 100% employee-owned**
- **Later-stage investment strategy**
- **Invested over \$1 billion in 170 companies since 1982**

“The tremendous returns of the late 1990 increased demand for investment in Venture Funds to the point where the industry raised more money in two years (1999 and 2000) that it had raised in the prior 20 years”.

**Jesse Reyes
Vice President
Thomson Venture Economics**

The Venture Cycle

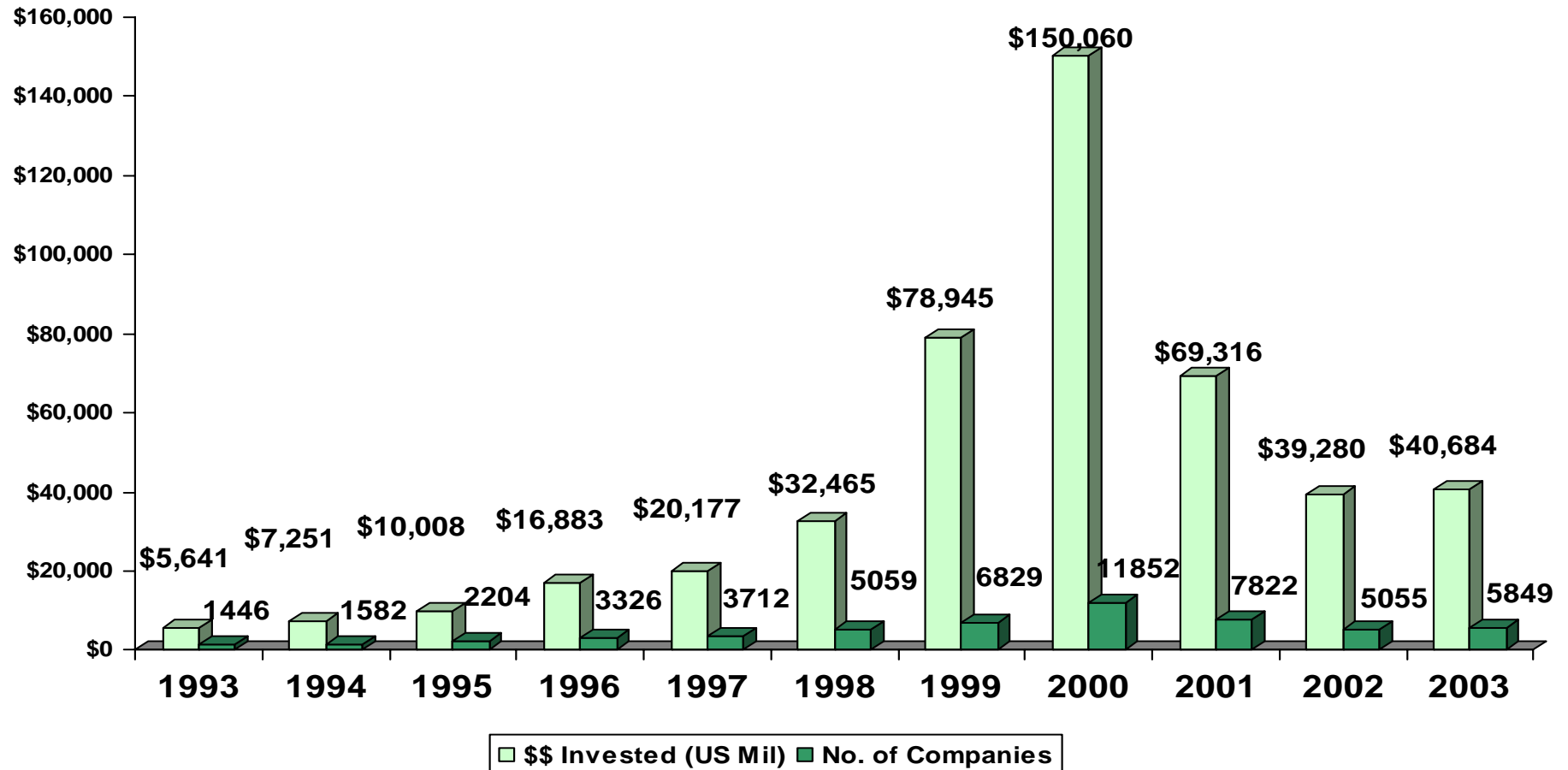
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**As prices (valuation, performance) increase, prudent
Investors decrease their size of investment . . .**

or not

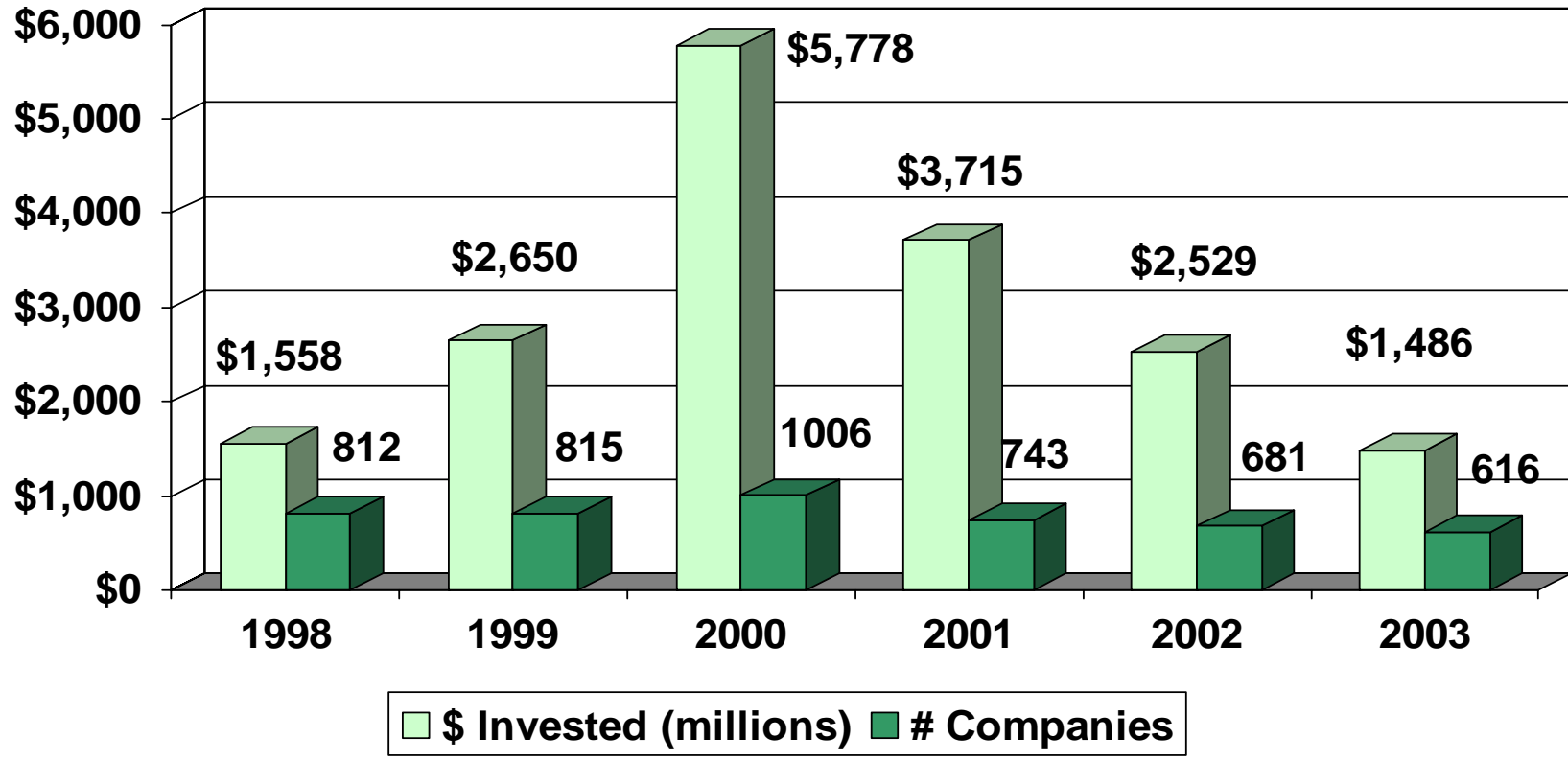
U.S. Venture Capital Investment Activity 1993-2003

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Venture Capital Investment Activity in Canada

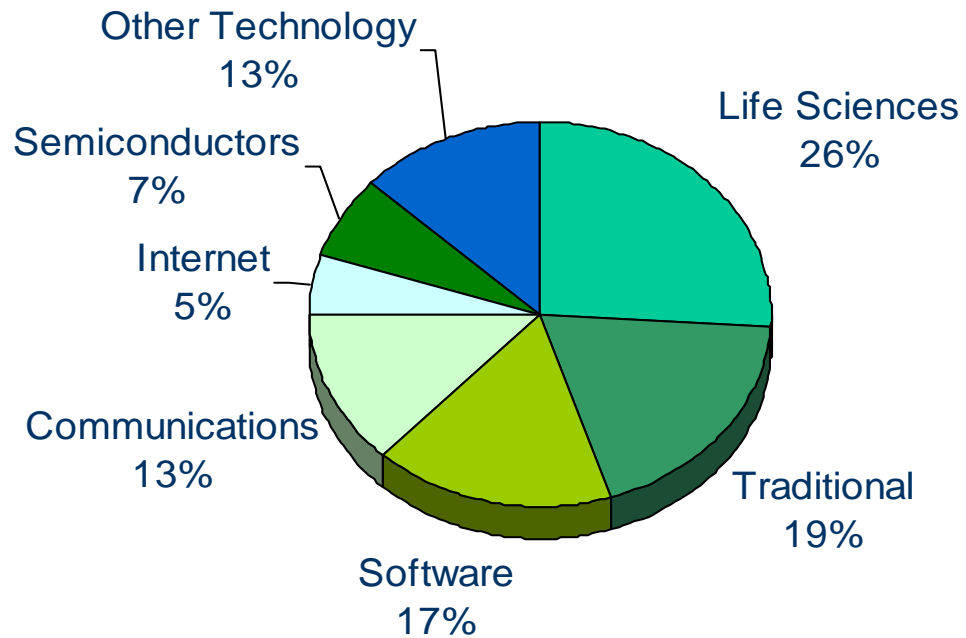
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Investment Activity in Canada For 2003

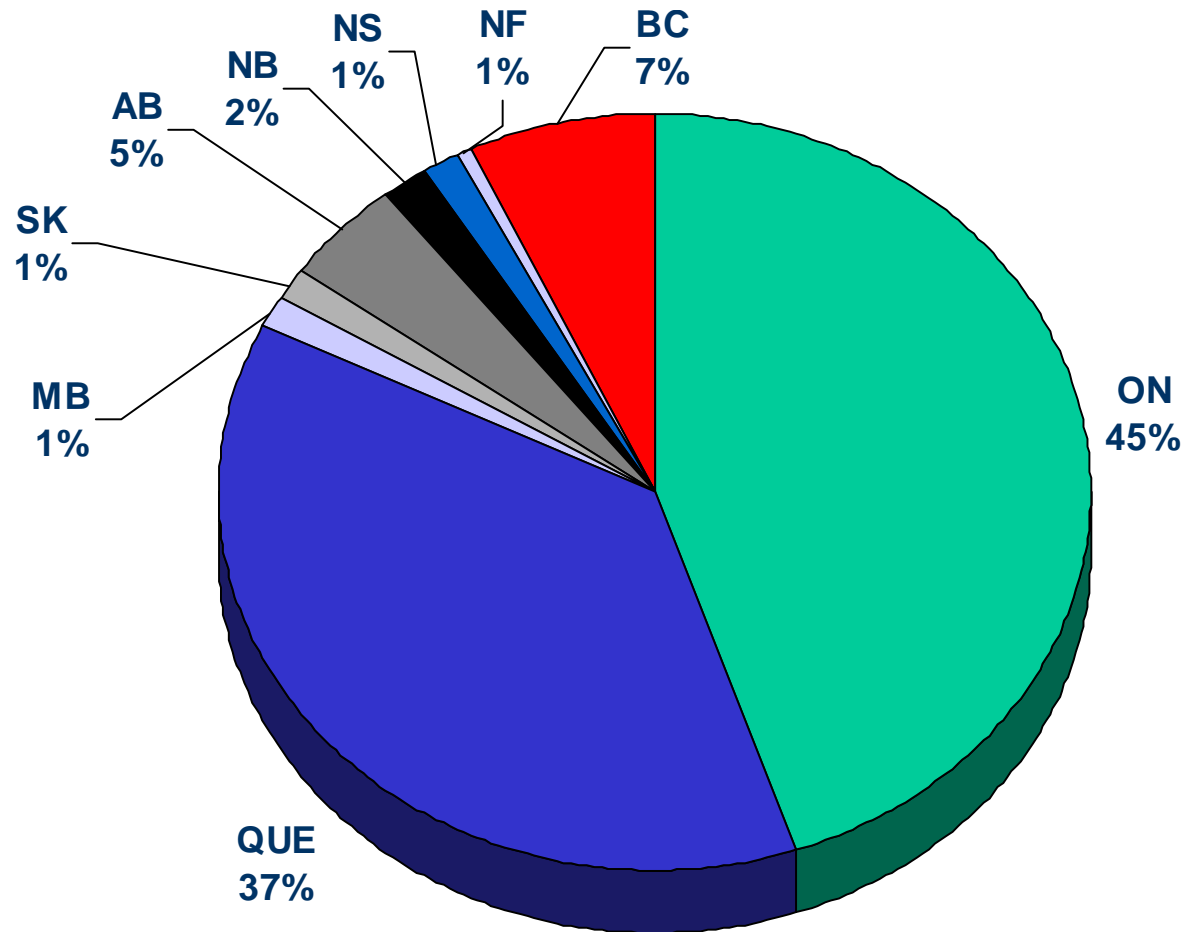
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Investment Activity in Canada by Location for 2003

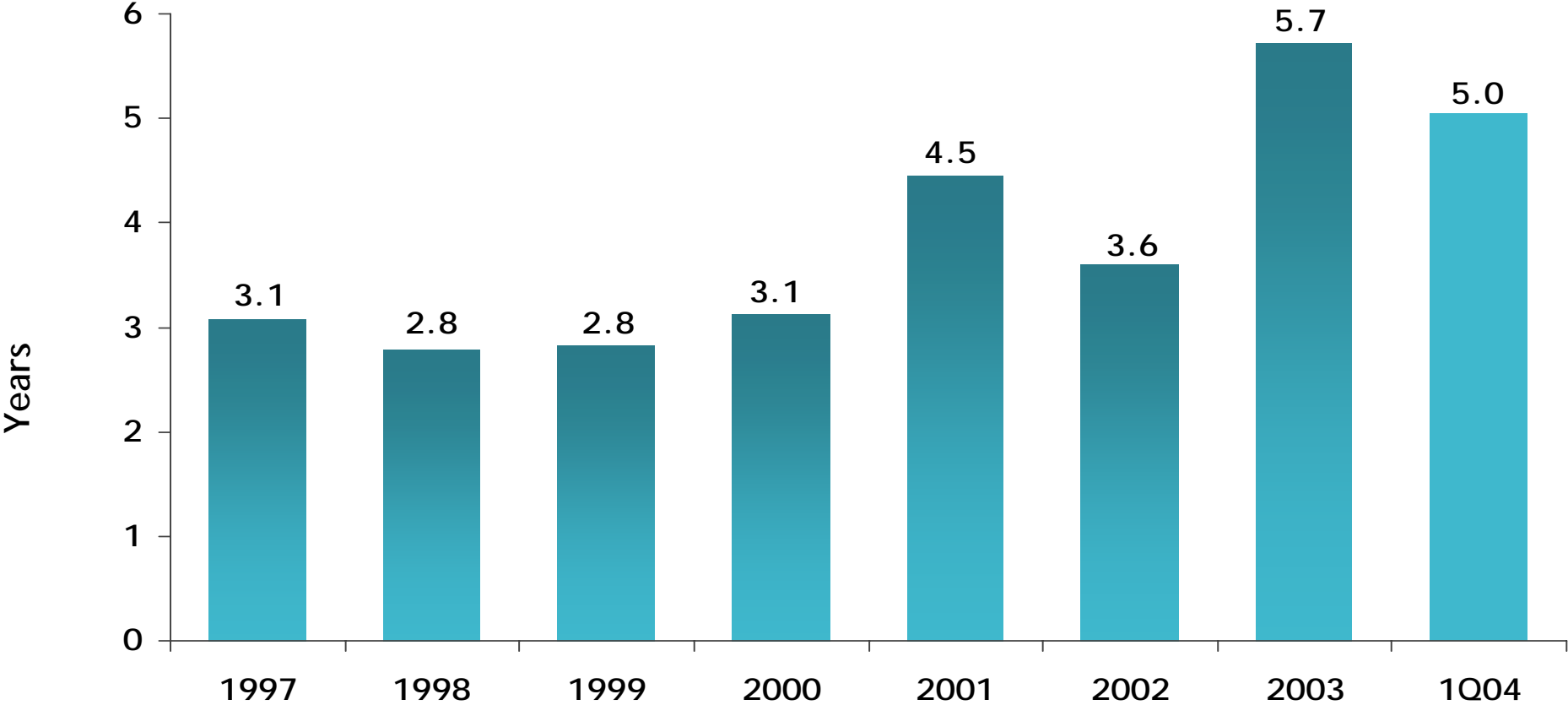
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IPO Companies Older

Time From Initial Equity Funding to IPO

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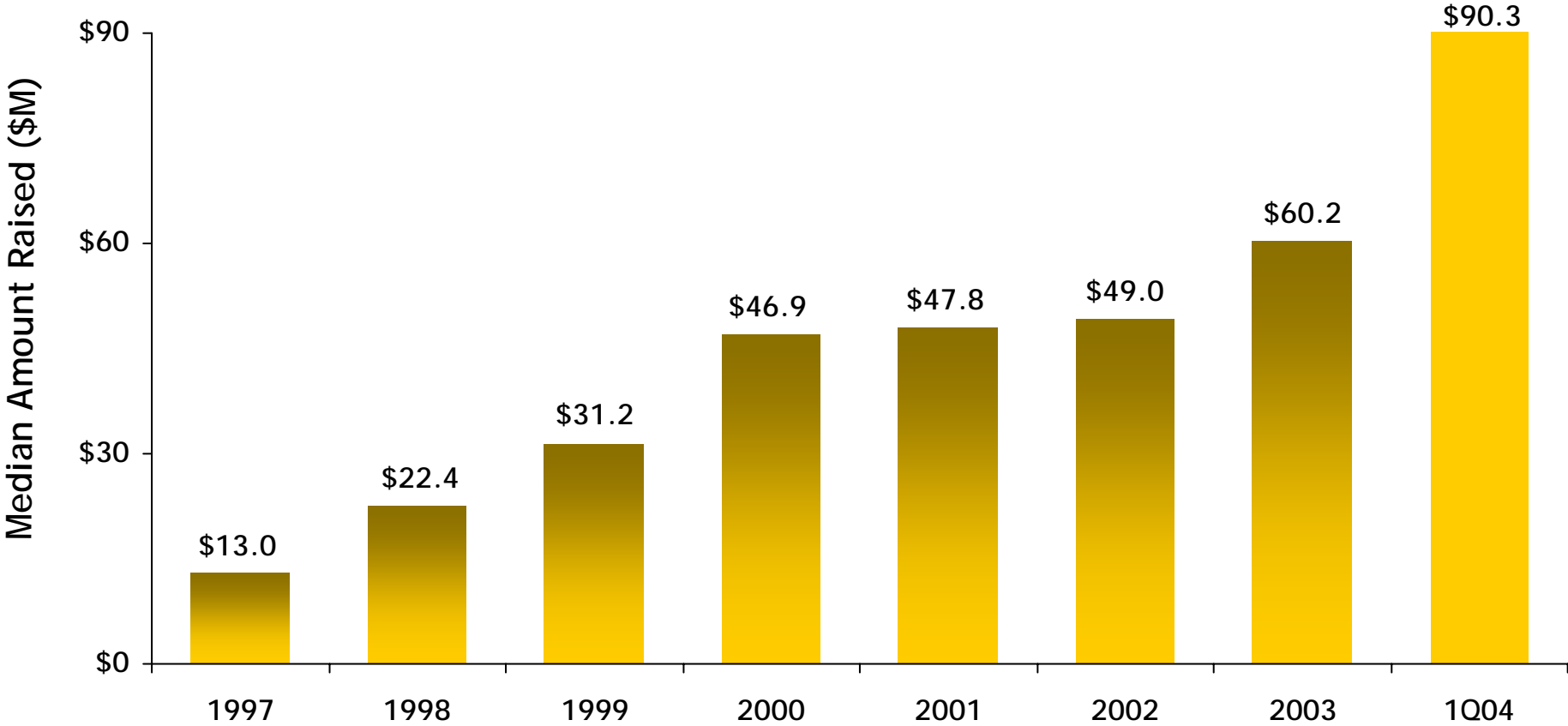


Source: VentureSource

Companies Raise More Prior to Going Public



Median Amount Raised in Private Round Prior to IPO

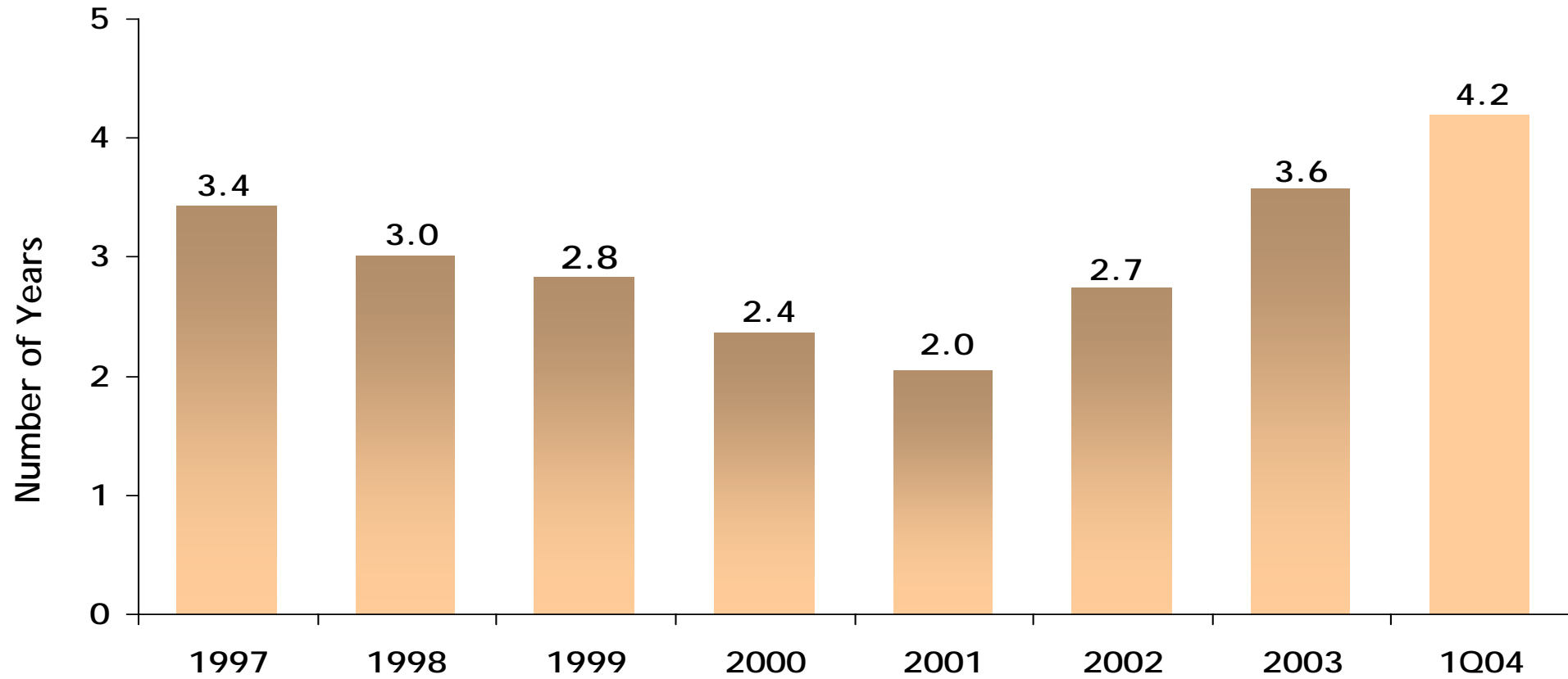


Source: VentureSource

Time to M&A Lengthens

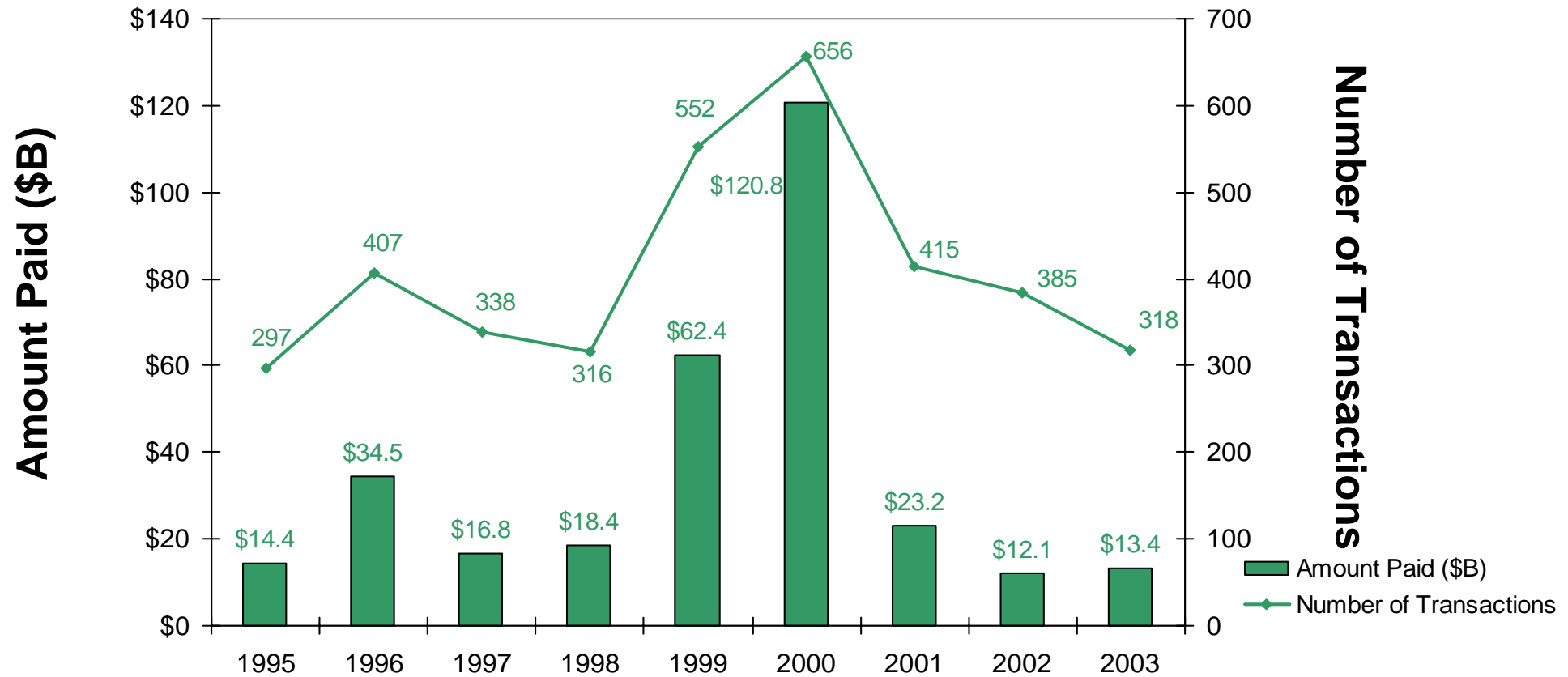
Median Time From Initial Equity Funding to M&A

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M&A and IPO Activity is at Mid-90's Levels

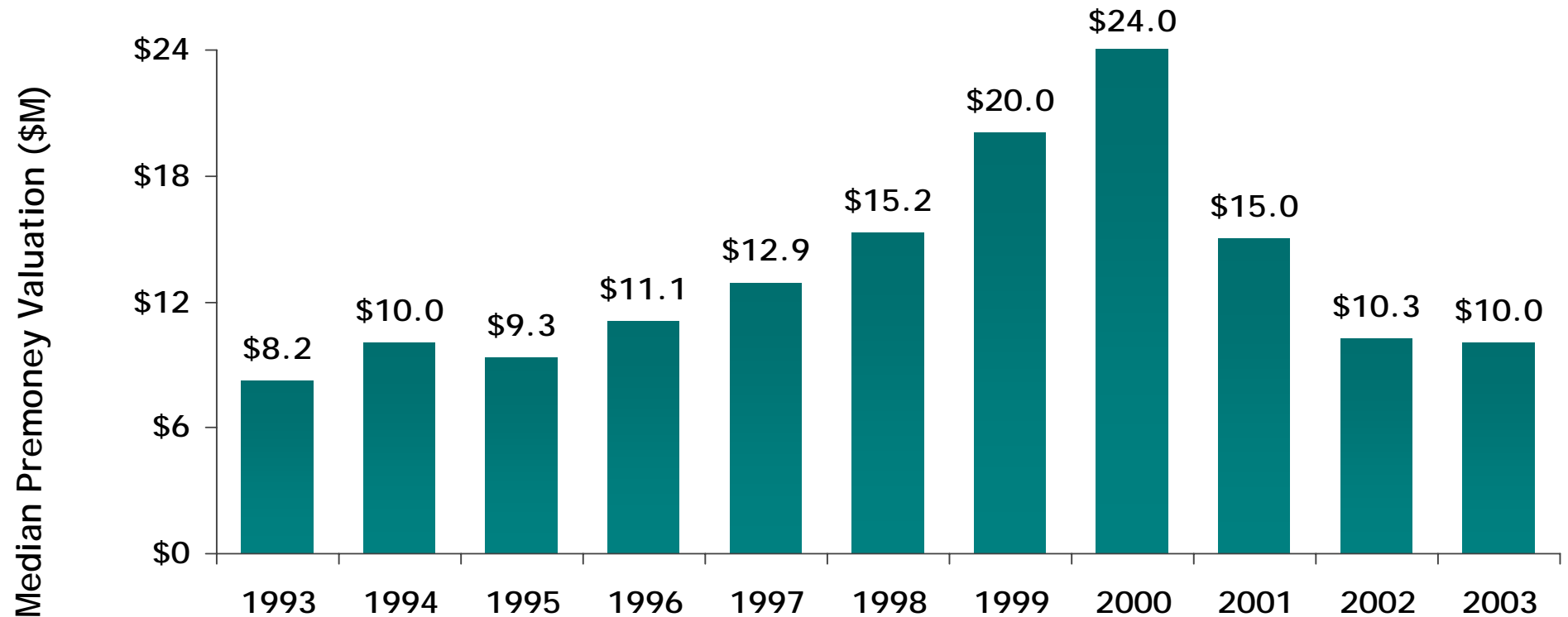
\$ Value and # of Transactions – IPO and M&A Activity



Valuations at Mid-90's Levels

Median Premoney Valuation by Year

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➤ **Hard factors**

- **Capital structure**

➤ **Soft Factors**

- **Management/market/technology**
- **Valuations**
- **Partners**
- **Marketing**
- **Customers**
- **Influence**

- **Overriding criteria has to be fairness**
- **Post bubble extremism**
- **Pendulum swinging back from the right**
- **But**
 - **Preferential ranking still a requirement**
 - **Some form of dilution protection**
 - **Board role**
 - **Stake in key decisions**

- **Management**
 - Vision & passion
 - Track record
- **Product**
 - Value vs. Price
 - Sufficiently differentiated
 - Barrier to entry
- **Market**
 - Size counts
 - Rapid growth
 - Tenure

Venture Capital Industry Impacted by significant reduction in higher value private company exits.

➤ **Valuation**

- **Premoney company valuation sets IRR parameters**
- **Allowance for successive rounds of finance**
- **Downrounds**

Proactive Business Development Effort

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➤ Partners/Channel/OEM Strategy

- **Must start early – pre sales**
- **Common customer opportunities, wins or integration**
- **Commonality of vision**
- **Rapid means of integration**
- **Reverse engineering from the company business plan**
- **Needs a quarterback – rarely understood in Canada**

Getting traction means solving a pressing problem

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Customers

- **More difficult than partnerships**
- **A couple of customers does not equate to a sample population**
- **Critical feedback loop**
 - **Functionality**
 - **Features**
- **Reference accounts early on**

➤ Influence

- **Ownership stake must be meaningful and significant**
- **Board seat is critical**
- **Reputation and track record of VC helps**
- **Veto's and other negative options**
- **Select your partners carefully**

Thank You

www.vengrowth.com