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David Shore's [Outlook vCard](#) (for easy importing if you use Microsoft Outlook.)

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## Capital For Growth In Today's IT Market

The money raising process today requires more preparation and strategy than any time in the last 10 years. Just a couple of years ago, venture capitalists and even the big banks were approving funding for projects with little more than PowerPoint presentations and a goal to capture market share at some indefinite time in the future of the exploding world wide web.

The pendulum has swung far in the opposite direction. Successful funding plans

today must articulate a clear vision with low investor risk. Plans with holes in management, market validation, or technical depth are having difficulty raising capital for growth.

For most sectors (aside from fuel cell and life sciences) revenues must be in place before venture capital investors will take a company seriously. (See "The Funding Chasm, page 3.)

Emerging companies in Vancouver are still getting

funded, as illustrated below, but typically, VCs have smaller funds available and increased deal flow, so the competition is high.

**Update:** Three Vancouver deals closed May 1<sup>st</sup>, 2002: [Angstrom Power](#), a fuel cell developer, [Galian Photonics](#), an optical photonics manufacturer and [Celator Technologies](#), a biotech firm.

## Recent Vancouver Early-stage Software Deals

### **gavagai Technologies**

[www.gavagai.net](http://www.gavagai.net)

content analysis software

**Amount:** \$3 million

**Round:** 1st

**Date:** March 20, 2002

**Lead Investor:** Pangaea Ventures

**Other Investors:** Growthworks Capital

### **Antarti.ca**

[www.antarti.ca](http://www.antarti.ca)

information visualization software

**Round:** 2nd

**Date:** March 12, 2002

**Lead Investor:** BDC

**Other Investors:** Bosa Ventures Inc., ASI investors WOF and Primaxis Technology Ventures

### **Colligo Networks**

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

mobile collaboration software

**Amount:** US\$3.5 million

**Round:** Series A

**Date:** February 7, 2002

**Lead Investor:** BDC

**Other Investors:** Growthworks Capital, Sierra Wireless, angels

### **Motivus Software**

Formerly Veratium

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

mobile enterprise connection software

**Amount:** approximately \$3 million

**Round:** 1st

**Date:** November 27, 2001

**Lead Investor:** BDC

**Other Investors:** RBC Capital Partners, eScotia

## The First Step: A Financing Plan

A financing plan helps to expedite the financing process so that funding can be achieved as quickly as possible.

Just as a business needs a business plan, the financing process needs a financing plan.

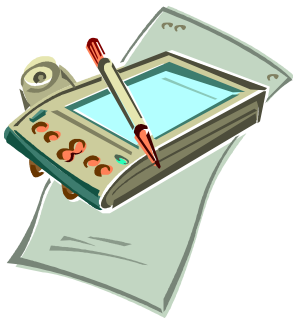
### Objectives

- To assess the financial needs of the company to determine funding amounts and the timing of funding rounds, while minimizing shareholder dilution.
- To organize the process so the management team can focus their primary efforts on managing and growing the businesses without being unduly distracted by the process of raising capital.
- To identify the most qualified equity investors who will partner to facilitate the development of the company.
- To assess the anticipated risks and challenges and to provide a solid mitigation strategy.
- To structure the process to provide flexibility so that a number of offers can be accommodated.
- To detail tasks and ensure sufficient resources are committed to the process from the outset.
- To share the financing process with all investors, lenders, employees, directors and stakeholders in the company, where appropriate.

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*“...be sure to include sufficient working capital.”*

## Marketing Your Financing Opportunity



Most entrepreneurs know a key to successful selling is taking the time to understand the needs of your target market, and this is certainly true with investors.

All investors have clear objectives that are usually stated on their web site. Create a list of investors that want your deal size and stage, industry sector and

location. Don't waste everyone's time by calling a life sciences firm if you are in wireless solutions.

Wherever possible, get an introduction for your first contact. Ask a favour from suppliers, customers, friends and associates – warm calls are always more effective than cold.

Ensure your documents clearly identify why investors should investigate your financing in as simple terms as you can. Technical white papers are for due diligence, not for early presentations.

Focus on why the market can't live without your product and back it up with client testimonials.

## Documents To Consider

### Word or Acrobat

- Business Plan  
20 to 40 pages
- Investment Summary  
2 pages
- Technology Summary  
2 pages
- Beta Invitation  
2 to 4 pages

### PowerPoint

- Short Presentation  
15 slides, 20 minutes
- Detailed Presentation  
40 slides, 45 minutes
- Technology Overview  
15 slides, 20 minutes

### Other Media

- Intranet Page  
1 for investors, 1 for insiders
- Detailed Actual and Projected Financial Spreadsheets
- Due Diligence Binders

## Due Diligence Preparation

The arduous task of preparing due diligence binders is often left to the last minute as a low priority. Yet completing these documents early can not only eliminate the delays for closing, but also allows

management to perform their own diligence on the investment risk and deal with issues before they become deal breakers.

The purpose of a due diligence review is to

identify and minimize risk wherever possible. Specific areas of investigation may include the ownership of intellectual property, assumptions in financial models, litigation, patent opinions and market defensibility.



## Term Sheet Considerations

### Valuation

The value of the company before funding is often the most important consideration in the deal and where many deals get stuck. Yet this should be a win/win negotiation. If the valuation is too low, founders and employees will lose incentive and future funding VCs may be wary. If it is too high, future funding may be a "down round" and founders will lose considerable equity (see anti-dilution protection).

### Retraction and Redemption

At a defined period of time, often five years, the investors will likely want the option to retract or sell their shares back to the company with a healthy premium, like four times the purchase price. If the company can't afford this, a royalty of gross revenues will be set-aside for it. For companies performing well, the option to redeem the shares under the same terms is usually available.

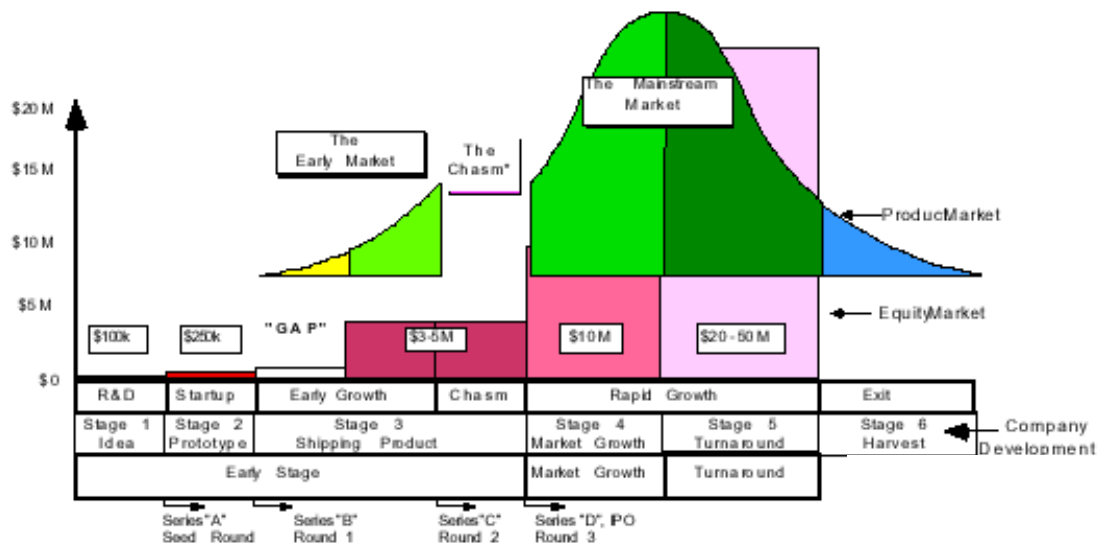
### Anti-dilution Protection

The investors will usually protect themselves against pro-rate dilution with the founders in the event of a lower valuation for subsequent financings. The founders, therefore, pay for the difference! It is more common today to see a weighted average where the ratio is based on an average of the number of shares and the price.

## Today's Funding Chasm

This graphic is from Geoffrey Moore's groundbreaking book, *Crossing the Chasm* and illustrates the stages of company growth from R&D to exit. The "GAP" between startup and "The Early Market" is funded by a seed round and 1<sup>st</sup> round of financing.

Today's venture market is making it tough for IT companies to bridge the gap between seed funding and revenue generation. New funds like Yaletown Ventures and Mentor Capital may help.



\* G. Moore, "Crossing the Chasm"

## New Capital Raising Rules in B.C.

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*“The new rules make it easier to bring in angels, associates and even strategic partners while remaining private.”*

The BC Securities Commission has significantly reduced the red tape and restrictions previously required for companies to raise private capital.

Previously, the Company Act limited how much money early-stage companies could raise, who they could approach, and how many investors they could bring in.

With these new rules, private companies can approach an unlimited number of investors with no minimum or maximum subscription

amount. Eliminating the minimum may open the door to pooling investments from employees, associates, family and friends that don't have the ability to risk \$25,000 or \$97,000 as in the past.

The paperwork is much easier as well. The BCSC has created two new forms of offering memorandum that are significantly easier for companies to prepare and for investors to understand. Yet the offering memo is no longer required for employees, friends, family, directors, business associates or accredited investors.

There are some new protections to investors like a risk acknowledgement form and the right to rescind or cancel the agreement for up to two business days.

The new rules make it easier to bring in angels, associates and even strategic partners while remaining private.

The new capital raising rules are available from the BCSC website at [www.bcsc.bc.ca/news/cap\\_e\\_xemp.asp](http://www.bcsc.bc.ca/news/cap_e_xemp.asp).

## About Galvin Corporate Finance

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*“What has remained constant is the need for entrepreneurs to... focus on the business development activities that will make an investment attractive.”*

Much has changed with the way investors screen opportunities over the last 18 months; some rules have changed and the focus on third-party validation and due diligence on execution has intensified dramatically.

What has remained constant is the need for entrepreneurs to juggle the time-intensive money raising process with the required focus on the business development activities that will make an investment attractive.

Galvin Corporate Finance assists emerging IT

companies with the process of raising private equity and debt for growth while enabling entrepreneurs to keep focused on their business.

Services include:

- Financing Plans
- Business Plans
- Presentations
- Presentation Practice
- Due Diligence Prep
- Marketing to Investors
- Deal Structure
- Negotiations
- Closing

The principal of Galvin Corporate Finance is David Shore who has 12 years of experience in mid-market mergers and acquisitions and raising debt and equity investments. Recent clients include Payroll Guardian, TAP Ventures, Crystal Quartz Canada, Aggredata and CIBC Investment Banking.

David has a broad network of lenders and equity investors in Vancouver, Seattle and Toronto, and has recently closed financings in this rather cool investment market.

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