

June 7, 7pm; Segal Graduate School of Business

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LIONS CAPITAL CORP.

Investing in the future of British Columbia



STIRLING MERCANTILE
CORPORATION

Lions Capital Corp.

- Fund manager of BC Advantage Funds (VCC) Ltd. and Lions Fund
- \$55 million under management
- Invest in promising emerging life science and technology companies in British Columbia
- Founded and managed by:
 - Dr. Don Rix,
Chairman
 - Frank Holler,
CEO & Partner
 - Jim Heppell,
Pres. & Partner
 - David Raffa,
COO & Partner
 - Tanner Philp,
CFO & Partner



BC Advantage Funds

- A Venture Capital Corporation (VCC) fund
 - 30% tax credit available
- Advantage Venture Fund
 - 28 portfolio companies
- Tanner Philp:
 - CFO and Partner
 - Funding, Corporate Finance and Advisory Exp.
 - Been on both sides of the table



About Stirling Mercantile

Sectors

- Mid market financings
- Early-stage VC financings
- Mergers and acquisitions
- Valuations and fairness opinions
- Public market advisory services




About Stirling Mercantile

<p>June 2004</p> <p>AVATAR Petroleum Inc.</p> <p>Has amalgamated with</p> <p>Quest Investment Corporation, Venergy Resource Corporation and Anapelo Capital Corp.</p> <p>Walling Missouri (Corporate provided financial advice) reviewed and prepared a Private Placement in the Independent Committee of the Board of Directors</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>February 2003</p> <p>CELERES</p> <p>Seed Financing of Common Equity plus Matching Warrants</p> <p>Provided by</p> <p>Advantage</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>June 2006</p> <p>BlueStar</p> <p>\$2,000,000 Subordinated Debt with Warrants</p> <p>Provided by</p> <p>Gilbert Capital Corporation</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>August 2006</p> <p>BlueStar</p> <p>\$25,000,000 Revolving Line of Credit</p> <p>Provided by</p> <p>FINOVA</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>April 2002</p> <p>cryopal</p> <p>\$3,000,000 Common Equity</p> <p>Provided by</p> <p>Claridge SBB Investments</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>January 2006</p> <p>US\$2,960,000 Debt Restructuring</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>July 2003</p> <p>efgroup</p> <p>Electronic Financial Group Ltd.</p> <p>\$3,500,000 Common Equity</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>June 2004</p> <p>GALEFORCE</p> <p>\$2,800,000 Series A Equity Financing</p> <p>Provided by</p> <p>TALYER'S VENTURE PARTNERS and VENTURES WEST</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>
<p>November 2004</p> <p>ISOTIS Orthobiologics</p> <p>Issued through the acquisition by Isotis U.S.A. of</p> <p>gen.sci</p> <p>The undersigned acted as exclusive advisor to Isotis for the 57% stake acquisition</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>November 2004</p> <p>Channing Thermal's Ltd.</p> <p>\$10,750,000 Management Buy-Out</p> <p>Financing provided by the vendor and</p> <p>FTI</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>July 2006</p> <p>Redstone</p> <p>MidMarket Lending Company</p> <p>\$7,000,000 Asset Based Loan</p> <p>Provided by</p> <p>CONGRESS FINANCIAL</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>February 2003</p> <p>Matanza Holdings Inc.</p> <p>Has purchased a 70% equity interest in</p> <p>Xenos Laboratories Inc.</p> <p>The undersigned acted as exclusive advisor to Matanza Holdings in issuing and registering the purchase of the company in 2003</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>July 1999</p> <p>MEDICARD</p> <p>Midland Finance Inc.</p> <p>\$5,000,000 Secured Revolving Line of Credit</p> <p>Provided by</p> <p>Bank of Montreal</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>September 1998</p> <p>MEDICARD</p> <p>Midland Finance Inc.</p> <p>\$400,000 Senior Secured Term Notes</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>February 2000</p> <p>ITL-GU</p> <p>ITL International Marine Supply Systems Inc.</p> <p>\$2,000,000 Subordinated Debt and Equity</p> <p>Provided by</p> <p>MERCANTILE</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>February 2000</p> <p>PRIME PAY</p> <p>\$1,300,000 Subordinated Debt with Warrants</p> <p>Provided by</p> <p>RBC Royal Bank</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>
<p>October 2003</p> <p>SHARP</p> <p>Sharp Plastics Manufacturing Ltd.</p> <p>Has been acquired by</p> <p>COMPTEC</p> <p>Composites International Ltd.</p> <p>Is a leveraged debt and equity transaction</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>February 2004</p> <p>Tantus</p> <p>Common Equity Through a Group of Private Investors</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>November 2006</p> <p>THE FIVE INVESTMENT GROUP INC.</p> <p>\$1,000,000 Senior Debt and Working Capital Facility</p> <p>Provided by</p> <p>RBC</p> <p>\$1,724,611 Equipment Financing</p> <p>Provided by</p> <p>Bank of Montreal</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>November 2006</p> <p>LAVINTECH</p> <p>The acquirer</p> <p>unity wireless</p> <p>Is a share exchange transaction</p> <p>The undersigned acted as exclusive advisor to Lavinitech and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>November 2004</p> <p>Uniserve</p> <p>United Communications Corporation</p> <p>\$3,400,000 Term Notes and Common Equity</p> <p>Provided by</p> <p>A Group of Investors led by Midland Finance including</p> <p>Bank of Montreal</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>December 2003</p> <p>unity wireless</p> <p>US\$926,537 Private Placement, Common Shares and Warrants</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>July 2004</p> <p>DIGITAL</p> <p>\$4,400,000 Subordinated debt and warrants and trade finance facility</p> <p>Provided by a group of investors led by</p> <p>FINANCIAL and RBC Royal Bank</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>June 2004</p> <p>metrobridge</p> <p>\$1,000,000 Seed Financing of Common Equity</p> <p>Provided by a group of investors led by</p> <p>Advantage</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the financing</p> <p>STIRLING MERCANTILE CORPORATION</p>



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Corporate Finance

Quality advisory services
More than just money

Stirling Mercantile Corporation

Welcome

The partners of Stirling Mercantile Corp have extensive knowledge and contacts in the senior debt, growth capital and equity markets and bring this experience to bear in assisting growing companies with their financial plans and funding requirements.

We hope you find this site resourceful.


Sectors

- Mid market financings
- Mergers and acquisitions
- Early-stage VC financings
- Valuations
- Public market advisory services

Recent News

- Stirling client Celeres Systems Inc. closes seed round with first investment by the Venture Fund of BC Advantage Funds [More...](#)
- Stirling raises \$3.4 million of debt and equity for Uniserve Communications Corporation's expansion plans [More...](#)
- Stirling client GaleForce Solutions Inc. receives \$2.8 million first round equity financing from Ventures West and Yaletown Ventures. [More...](#)

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Overview – Dialing for Dollars!

- Financing Strategy
- Financing Process
- Investor Characteristics
- Investment Criteria
- Investment Structure & Terms
- Red Lights & Green Lights



Financing Strategy

- 3 Legged Stool: R&D, S&M, Financing
- Set a Financing Strategy
 - Fund to milestones
 - Leave a cushion
 - 4 – 9 months to complete a financing
 - Don't worry too much about dilution
- Expertise Required – Unlikely to Succeed Otherwise



What You Need To Do - Sales Approach

- Package – Exec. Summary, PowerPoint, Business Plan
- Identify Targets
- Contact Targets
- Complete Due Diligence
- Negotiate Terms
- Close Investment
- RED LIGHT: the process can easily break down at each step



Sources of Financing

- Equity – family, friends, employees, angels & VCs
- Debt – banks, subordinated lenders & others
- Grants – governments and government supported agencies
- Revenue – be careful with ‘consulting’ though, can be too distracting



Angel Investors

- Angels, Private Investors, Friends & Family
 - Active & passive investors
 - Likely had a successful exit
 - Tend to invest in what they know
 - Less powder; issue for multiple rounds
 - Faster moving
 - Tend to invest early
 - Don't overlook Friends & Family
- Some of the above is true and some is not



Venture Capitalists

- Venture Capital Funds
 - Active & passive investors
 - Focused or diversified
 - Participate through multiple rounds
 - Slower to move
 - Tend to invest later than Angels
- Some of the above is true and some is not
- OTHER: yourself, banks



Understanding Venture Capitalists

- Institutional vs. Retail
 - Large or small shareholders
- Time Horizon = 5 to 10 Years
- Fees - 20% performance fee; performance hurdle
- Fiduciary Responsibility & Personal Motivation
 - Maximize returns to shareholders
 - QUERY: are VC's aligned with management?
- Motivated Solely by return on investment



Decision Making

- Who makes the decision?
 - Angel – he / she, one decision point
 - VC – lead contact, partner, investment committee, multiple decision points
- DO: understand the process up front
- DO: know where you are at all times



When you bring in equity investors

- Dilution
- Shift of control
- More governance and oversight
- Capital to accelerate development
- Access to broader network
- Added business insight



Targeting Investors

- DON'T: Shotgun
 - Target investors that understand your company and have done similar deals
 - Industry, term preferences, structures etc.
 - Look at portfolios on websites (VC's) and CV's (Angels)
 - Learn who's who from your lawyer, an entrepreneur, an agent and www.cvca.ca
 - Find the right person at each firm – based on their background and portfolio
 - GOAL: maximize chance of funding and minimize resources expended



Contacting Investors

- Existing Relationships are VERY Helpful
 - Common to lever an advisor or Board member
 - Consider the services of a banker if needed
 - GOAL: get an introduction
- Recommended Process:
 - Contact & submit package
 - Follow up with email or phone call
 - GOAL: get a coffee meeting and then a presentation
- Lever your contacts to understand where you are in the queue –
DON'T: fight the queue



Contacting Investors – First Steps

- First Contact
 - Get an introduction
 - Don't close for a presentation meeting, go for a coffee first
 - Talk about the business - who you sell to, why they buy, etc – not the technology
 - Ask about his/her portfolio and deals s/he would like to do and why
- Follow-up
 - Write back a thank you note the same day - 2am is better than the next day
 - Answer all questions you couldn't earlier and ask a few of your own
 - Suggest another meeting and primary topic



Executive Summary

- Keep it concise!
 - Start with a simple description of who your clients are and why they will buy from you
 - Keep it down to about 2 pages
 - Use grade 8 English, and test it
 - Ask yourself if each paragraph helps to explain why this company has value
- Avoid Saying ...
 - Our projections are conservative
 - We have no competition
 - We have a first mover advantage
 - We only need to capture x% of the market share



Presentation Etiquette

- Pitch Time = 1 Hour (20 minutes of slides plus interaction)
- Ideal Presentations :
 - 12 slides
 - Cover Product, Market, Management etc.
 - Interactive discussion
- GOAL: get the investor to initiate due diligence
- DON'T: bring your entire team
- DON'T: focus too much on the technology
- DO: confirm that questions have been answered



Due Diligence

- Typical DD Items:
 - Management references and CV's
 - Technical review
 - Market analysis
 - IP review
 - Etc. etc. etc.
- DO: be prepared with a DD Binder ahead of time
- DO: know where you are in the DD process at all times
- DON'T: take a long time to respond to queries
- GOAL: get a term sheet



Due Diligence Binder

- Business Plan and Executive Summary
- All material contracts
- Details of financials and revenue models
- Don't leave out anything salient
- Management CV's and references
- etc.
- etc.



What are Investors Looking For?

- Standard Response:
 - \$1B market opportunity
 - Experienced management team
 - IP blocks
 - Market Validation
- Realistic Response:
 - Opportunity to earn 20-35% compounded annually
 - Experienced management team
 - Sustainable competitive advantage
 - Market Validation



What Do Investors Need?

- Strong team, with integrity
- Clear, lucrative and sustainable value proposition
- Large market opportunity and the ability to scale into it
- Realistic valuation and deal terms
- Traction from the target market
- Appropriate deal size and/or market sector for their fund



What are Investors Looking For?

- What investors are thinking:
 - Would I invest in this person?
 - Would I buy or use this product?
 - Would I invest my own money?
- What Investors DON'T want to invest in (LOTS):
 - MORAL: if you can't fund, you need to consider two of several possibilities:
 - Your business is a bad idea
 - You are targeting the wrong investors



What To Look For in an Investor?

More than money

- People that understand your space, perhaps even specialize in it
- People you want to spend time with - good times and bad!
- Synergies with their portfolio – sales and exit opportunities
- Experienced management, corporate governance
- Contacts
 - for additional management
 - for customers
 - for partnerships



Deal Terms and Structure

- Common vs. Preferred Shares vs. Debt
 - DO: understand the alignment issues
 - DO: recognize that you need to finance
- Preferential stock:
 - Paid first upon liquidation
 - Protection against dilution
 - Right to purchase more
 - Varying levels of control over business
- DO: Understand all structural alternatives



Deal Terms and Structure

- Structure should match stage
 - < \$1M typically an Angel round
 - > \$1M typically a VC round
 - Public listing alternative
- Alignment
 - Different structures create different motivations
- DO: strive for a structure that aligns investors and management
- DO: do what it takes to finance
- DON'T: say no to a structure on principle alone, do the math



Negotiate Terms

- Investors often have more experience than management
- Consensus is when both parties are equally unhappy
- DO: remember that investors are future business partners, expect the same in return



Valuation

- Start-ups are very hard to value rationally
 - Not based on investments previously made or discounted cash flows
 - Based on ROI to the investor and incentive for management/founders
- Be realistic
- Usually \$1 to \$3 million



Close the Investment

- Deals can fall apart easily at this stage
 - DO: get good legal counsel
 - DON'T: renegotiate terms
- GOAL: as fast and as cheap as possible
- AGAIN: get help if you need it



Red Lights and Green Lights

- Red Lights
 - Founderitis, not willing to give up or get help
 - Due diligence doesn't check out
 - Can't explain the value proposition, can't sell the company
- Green Lights
 - Responsive to queries and follow up
 - Management experience
 - Well prepared for due diligence
 - Do what you say you will do

