

Angels sifting through new business pitches

Angel investing sessions a regular feature of BC business landscape

BY SCOTT SIMPSON, VANCOUVER SUN MAY 5, 2011 6:25 AM

METRO VANCOUVER - At a brisk-paced breakfast session earlier this week at Simon Fraser University downtown, 13 anxious entrepreneurs pitched their early stage business ideas to an exclusive audience of angel investors.

The theme of the session was technology, and the nascent businesses pitched to the angels — in a classroom setting at the SFU campus — ranged from upholstery care to a pedestrian alert system for forklift operators.

Most got three do-or-die minutes to tell their stories, but a few were highlighted for 20-minute presentations that included responding to some tough — and even skeptical — questions from the audience.

The session is a regular event, staged by the Vantec Angel Technology Network, with the objective of connecting entrepreneurs and investors. Sponsors include SFU, University of B.C., KPMG, Ernst & Young, Fasken Martineau and Rocket Builders.

Other themed Vantec sessions in the series, which commenced in 1999, look at green technology and life sciences, or biotech. The leader is **Mike Volker**, a fixture on Vancouver's angel investing scene, who is director of SFU's Innovation Office as well as chairman of GreenAngel Energy Corp.

Angels typically invest their own money in companies whose prospects they find attractive, in exchange for a share of ownership. The risks are high, since good ideas don't always mature into viable businesses, as is the payback if a company succeeds or gets bought out by a larger investor.

It is not for the faint of heart, nor the undiscerning investor.

Canadian securities regulations exclude small investors from the angel market. You need at least \$1 million in financial assets (cash and securities) before taxes, or your net income before taxes must exceed \$200,000, or you must have at least \$5 million in net assets. None of those qualifications, however, lessen your risks.

One of the angels at the Vantec session, Gary Yurkovich of Espresso Capital Partners, reckons that out of 100 pitches there may be two companies that would attract interest from a venture capital company. "Historically, venture capital has always been the big kahuna. But 98 per cent of the companies will not get VC finance. Two per cent of companies at this stage will likely get a VC financing.

"If somebody is going to cut a multimillion-dollar cheque as a VC would, they're going to make sure you've got the management team, the strategy, the distribution channels, the product development team — they're going to make sure that's all there.

"That leaves 98 per cent of the companies with no chance of getting a VC funding. A lot of companies can build very intelligently using alternative financing means — angel investors — where you need a half a million dollars or a million dollars. That's quite do-able at an angel level."

Yurkovich held senior positions at two British Columbia-based startups, Creo Products and BrightSide Technologies, that grew large enough to attract multimillion-dollar buyouts, before moving to Espresso, which specializes in obtaining financing for new companies.

"At the end of the day I really enjoy working with startups, early-stage companies. I just enjoy the dynamism, the trials and tribulations. I enjoy working with those kinds of companies, so doing angel investment is a way

of applying the knowledge I've gained over 30 years in business and technology, and helping smaller companies take advantage of that and perhaps making a nice reward for me down the road.”

Vantec's Mike Volker said the median amount sought by companies is about \$500,000, although many are looking for \$1 million to get themselves well established. “A lot of companies have come through, hundreds of companies, and hundreds of those have been funded. Typically they get not just the money they need to get started, they also get help from the investors and others,” Volker said in an interview.

Volker said a trend toward angel investors, and away from venture capital investing, has emerged for several reasons and not just because venture capitalists see angel investing amounts as too small for their efforts. “There are more angel investors. There are fewer venture capitalists. A lot of the institutional funds that provide the capital that venture capitalists manage are not providing the funding because they are not getting the returns.”

The startups often need more than just money. Someone with good technical skills and a smart idea may not have the gravitas needed to be a CEO, or the business acumen to manage finances. Angels can nudge them to understand that, or provide timely advice to someone with raw executive skills but no experience.

By and large the startups don't mature into Googles or RIMs, but they can grow into companies that those larger entities are interested in acquiring, Volker said “Google buys roughly a company every month. That's what keeps it innovative.”

Volker created GreenAngel Energy last year as a retail investment vehicle trading on the TSX Venture exchange and offering smaller investors, those who don't qualify as angels, with access to startups — which are invariably privately held. He's not downplaying the risks. He figures that startups have about a one-in-10 chance of emerging as a “big winner.” Those odds, he add, are further diminished by the fact that “you could be in 10, and none of them could pay out.”

To date, GreenAngel has taken positions in six B.C.-based companies that have graduated from Vantec and are actively pursuing business. Volker's company has a \$2.8 million market cap and an average daily volume of 11,000 shares, trading at 18 cents per share this week in Toronto.

One of the companies in GreenAngel's portfolio, Rapid Electric Vehicles, or REV, is modifying heavy-duty vehicles for all-electric service for pilot clients that include the United States military and commercial and government fleets.

REV was one of a handful of B.C. companies that pitched their stories to Silicon Valley investors — venture capitalists — last month as part of an event billed as the Northern Cleantech Showcase. REV CEO Jay Giraud came away with nine business cards and the company is already into investor due diligence with three of them.

Giraud first honed his skills in front of Volker's Vantec angel investor group.

“Learn or die,” Giraud said is his best advice. “Learn fast. My very first pitch was at Vantec in January 2009 and from the six investors that approached me after the pitch, one [Gary Yurkovich] invested. He was my very first angel investor. He's now the chairman of the company. “You just have to stick with it. If you don't have the ability to pitch successfully like a CEO does, figure it out really quickly. Read books, get in seminars, do whatever it takes.”

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