

## Reality cheque: Resilient Ottawa entrepreneurs are taking a down-to-earth approach in this fall's chase for venture-capital funding

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On the surface, Ottawa's entrepreneurs have rarely had it so rough. Collectively, they'll do well this year to attract more than \$200 million in new venture capital—the lowest total in six years and less than 15 per cent of the amount doled out in 2000.

But look a little closer and you'll notice a striking shift from past years. The new tech firms simply don't need as much money as they once did to jump-start their operations. Consider the group of 18 entrepreneurs scheduled to make a pitch for venture capital at next week's VC Fair at the Fairmont Chateau Laurier.

Their businesses run the gamut from DNA collection technology (DNA Genotek) to collision avoidance software (Vuenyx). What most have in common is a deeply experienced executive team that has a reasonably good fix on how to turn technologies into profitable lines of business. They hire only when necessary and spread the risk to outside specialists when it comes to manufacturing and special services such as printing and running computer networks.

The new entrepreneurs have been quicker to develop products with revenue-generating potential, which also reduces the need to raise money.

In another sharp departure from the experience of the telecom bubble, the new startups appear deeply reluctant to part with hard-won equity. During the bubble, many startups gave away half their equity, sometimes more, during the initial round of financing. This cavalier approach to ownership is increasingly rare.

"We're looking to raise up to \$2 million or so," says Rob Brennan, the CEO and founder of Almonte-based Triacta Power Technologies. "We think this will involve selling 10 per cent to 15 per cent of the firm."

Brennan is a poster boy for this year's crop of startup artists. He is modest, quietly ambitious and, when it comes to finances, deeply conservative. Equally important, he has used his lengthy tenure in the tech industry to develop a profoundly practical product. Triacta makes gear that measures power consumption by small businesses and suggests ways of shaving electricity costs.

Triacta, only 15 months old with 11 full-time employees, is already generating serious revenues. Forty-five of its energy monitoring systems are being tested by customers, including the Ottawa River Power Co. and another firm being billed as a "big retailer." Brennan expects to have annual sales of \$15 million within two years and is projecting \$100 million within five.

"We're solving real-world problems," says Brennan, a former senior executive with Marconi Plc. "We're already 12 to 18 months ahead of where we expected to be in terms of customers."

Brennan parted ways with Marconi early in 2002 when that company declined to take his advice about slowing down in the face of an industry-wide slump. Brennan, who grew up near Pembroke, signed on briefly as vice-president of engineering for Photonami, a Toronto-based photonics firm. He also decided to re-tool. He plunked down \$65,000 and enrolled in the Queen's University executive MBA program. By the time he graduated nearly two years later, he had closed Photonami's Ottawa office and launched Triacta. The idea for the Triacta emerged from conversations with friends who simply couldn't understand their electricity bills.

Triacta got a critical boost in April, 2004 when several angel investors injected some early capital. Among the key contributors: Purple Angel, a group of former Bell-Northern Research managers; members of the Band of Scoundrels, a collection of area entrepreneurs; and a number of business owners who were impressed with Triacta's technology.



*CREDIT: Wayne Cuddington, for Techweekly*

*Rob Brennan, the CEO and founder of Almonte-based Triacta Power Technologies, expects to have annual sales of \$15 million within two years and is projecting \$100 million within five.*

Angel investors, particularly the more organized ones, are playing a vital role these days. Part of it is a question of scale. Because many new startups require relatively little investment capital to develop prototypes and get them into customers' hands, a few hundred thousand dollars—which is usually all angel investors can afford—goes a long way. More importantly, the angels tend to be former tech executives with an extensive array of industry contacts.

Angel investors have assisted Gatineau-based Pinpoint Selling at several levels. The company's CEO, Henri van Rooyen, is a diligent investor in his own right. Van Rooyen emigrated to Canada four years ago from his native South Africa. Using some of the proceeds from the sale of his holding company, Groupman, Van Rooyen created a new fund dedicated to investing in software companies. Among the latter was Pinpoint Selling, which develops software for increasing the effectiveness of sales people.

"This company was more of a pure technology play during its first two years," says van Rooyen. "We started to change its focus in the summer of 2002."

That's when van Rooyen took on the role of CEO. Pinpoint is a prime example of a startup that has adapted profoundly to changed circumstances. Formerly known as VideoSpheres, it was launched in 2000 by a group of ex-Telexis employees. During the tech boom, the startup concentrated on developing a video services platform. Along the way, it raised \$3.5 million in venture financing.

When the bubble burst, it became clear the company would have to get practical in a hurry. A key influence in commercializing Pinpoint's technology was Don McLeod, a former Newbridge Networks sales manager and a member of the Ottawa-based Band of Scoundrels—a group of tech entrepreneurs and former executives led by Rainer Paduch.

McLeod understood the need for sales employees at larger corporations to quickly filter hundreds of different products, services and features to the satisfaction of potential clients. Pinpoint developed an interactive e-mail application that helps accomplish this.

Purple Angel, Band of Scoundrels and the Toronto Angel Group—among others—chipped in a little more than \$1 million to help re-launch Pinpoint. Armed with a key deal from Bell Canada, the startup is expected to post revenues of roughly \$2 million in the current fiscal year ending Feb. 28. Pinpoint is seeking up to \$5 million in VC money to expedite its marketing and development efforts.

Triacta and Pinpoint are not the only examples of local firms with practical technologies. Of the 18 companies scheduled to make a pitch for VC financing next week, roughly half are developing products with readily understandable applications. Several involve electronic payment or billing systems. Hivva Technologies, for instance, is developing a product that will encourage people to make electronic payments through their mobile phones.

ModaSolutions and Hyla have created products designed to let people who don't like technology, do business in an electronic world.

ModaSolutions began life three years ago as Active Potato. It was launched by Sheila James and Marwan Forzley, both former managers with Nokia. The initial idea was to develop an online payment system meant to be used by people attending trade shows and other events. But it didn't work out. The co-founders discovered that many people didn't like using their credit card to pay online. In other cases, for example with student crowds, many potential customers didn't have credit cards and preferred to pay at the door with cash. James and Forzley smelled a different opportunity.

A little investigation revealed widespread suspicion about the security of online payments—more than half the potential buyers of online merchandise simply balk when the only payment option presented to them involves a credit card.

So James and Forzley came up with a neat way around the impasse. They created a product that gives online shoppers another way of paying for their merchandise. Dubbed Secure e-Bill, the technology allows customers to make payments through their online banks (which they trust), a bit like using secure online debit technology, rather than credit cards.

The trick of course is that ModaSolutions must create technology alliances with the banks and online retailers alike. The startup is busy running trials of its technology with more than a dozen groups including banks and a major electronics industry association. ModaSolutions is already expanding into the U.S.

In short, Forzley and James have traveled a long way from their initial concept at Active Potato—which was to establish a website where everyone would pay by credit card.

"Where you end up may not be where you began," says James.

It's a sentiment that also rings true for John Ogilvie, the outspoken CEO and co-founder of Hyla. Ogilvie and a group of colleagues 18 months ago sold their interest in a previous startup, Killdara Corp., for a modest sum, estimated to be several hundred thousand dollars.

It was enough, though, to launch Hyla in the summer of 2003. Nearly all of the founding members of Killdara now work out of Hyla's head office, located in a refurbished textile mill overlooking the Mississippi River in downtown Almonte. Eight full-time employees have created a multi-faceted software platform capable of translating many forms of information into a common format.

It sounds esoteric but the platform is proving to be of immense practical value to financial institutions such as RBC Global Services and the State Street Bank of Boston. Hyla's founders discovered that the major banks are forced to

deal with a flood of incoming faxes because many customers, such as small and independent investment managers, don't want to invest in more sophisticated electronic networks.

Hyla's software takes advantage of the fact that data exists in electronic form before it gets printed and faxed. Hyla's technology platform converts the data into a format compatible with the one employed by each financial institution. Hyla has plans in the works for expanding into the health sector.

It's the third startup for Ogilvie, who says the decision-making gets a little easier each time.

The first imperative is to keep Hyla's expenses low. They've been careful about taking on staff and, because the firm's software is delivered over the Internet, very little travel is involved.

It's a far cry from the days of the software boom in 2000, when Ogilvie and his colleagues regularly entertained venture capital firms prepared to value Killdara at extreme levels.

Hyla has enough to get by. It raised nearly a million dollars last Christmas from Ottawa-based Axis Capital. Ogilvie sought out Axis after researching its track record; it was the only venture firm Ogilvie pitched. He's now seeking several million dollars more to allow him to expand into newer markets. But, in a telling sign of how things have changed for entrepreneurs, Ogilvie is prepared to wait if he doesn't get the right deal.

"If we don't get venture capital, we'll keep plugging away," he says. "We'll grow organically (i.e. by generating revenues)."

Hyla expects to break even next year on sales of slightly less than \$1 million, with annual revenues escalating steadily to \$9 million within three years.

That relatively modest level of revenues is OK for software companies, which generally don't have big upfront costs. But it's a different matter for tech startups specializing in wireless, optical and networking technologies. Engineering teams, testing equipment, sample gear and marketing expenses all help to drive up costs for telecom equipment startups.

The good news is that telecom service companies and cable firms are finally spending more money on newer technologies, making it easier for startups to develop credible business plans. This, in turn, helps to attract fresh capital.

Perhaps equally important, venture capital firms themselves are raising significant amounts of new money which they are preparing to sink into newer ventures. Many of the larger VC outfits, such as Celtic House Venture Partners, had reserved a good chunk of their capital for existing investments. The idea was to safeguard the future of the most promising startups.

With a tech recovery in prospect, some startups can now look to the public stock markets for necessary financing, leaving the VCs to invest in earlier-stage companies. Next week's presenters at the VC Fair hope they will be the beneficiaries.

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Startups presenting at the Ottawa venture fair Oct. 7-8:

BelAir Networks: wireless infrastructure gear

Metconnex: optical switching technology

BTI Photonic Systems: optical components

MODASolutions: online payment products

Cyrium Technologies: solar cells

Pinpoint Selling: sales rep performance software

DNA Genotek: DNA collection technology

RedSky Mobile: mobile applications

FreeBalance: financial software for government

Sedna Wireless: cellular/Wi-Fi bridge technology

Hivva Technologies: mobile payment system

SIPquest: Internet telephony software applications

Hyla: enterprise software

Triacta Technologies: electricity monitoring and control products

IceFyre: wireless chips

Vuenyx: collision warning system for vehicles

Liquid Computing: data centre servers

IMeriton Networks: optical access technology

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