

The venture market in a world of Eeyores instead of Tiggers

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Tough times still ahead, but innovation remains strong in Ottawa, says

Celtic House's Andrew Waitman



Andrew Waitman (photo supplied)

While the storm clouds still don't appear to be clearing for the local venture scene, transitions within fashionable areas of technology, bootstrapping and innovation means local companies could still "survive and thrive," according to Andrew Waitman, managing partner of Celtic House Venture Partners.

Mr. Waitman, who is speaking at the Ottawa Centre for Research and Innovation's Technology Executive Breakfast this Thursday, talked with the *OBJ* about clean tech, the effect of the U.S. downturn on the venture market, and why it could still be a good time for companies to get started.

OBJ: Tell us a little bit about what you'll be talking about at the Technology Executive Breakfast.

WAITMAN: I'm going to give my perspective on the current venture environment in Canada/Ottawa, what the implications are for building businesses, and I'm going to give some insight for what I think successful startups do. It's a bit of a macro discussion of how I see the environment evolving and how companies can respond to the venture environment.

OBJ: So what is the venture capital market like today, especially in Ottawa?

WAITMAN: Broken – it continues to be an echo of the boom-bust cycle, but it's currently exacerbated by the significant increase in perception of risk, which in the current macroeconomic environment is driven by the whole housing collapse and the subdebt crisis. So there's two things in mind: there's a micro environment which is specific to Canada and Ottawa, and there's a macro environment in which the perception of risk has gone up dramatically. Those two forces have created and will continue to create, probably through a U.S. recession, a difficult time.

The venture industry component is being driven by an overinvestment during the late '90s, the echo of which is still being felt in terms of investors feeling for returns from venture investments. In Ottawa specifically, we're talking several billion dollars and very few positive outcomes, so what you're going through now is kind of a right-sizing or a Darwinian housecleaning with regards to what venture firms are going to survive and what startups are going to survive and thrive.

I will be talking about the need to rethink the kind of businesses that entrepreneurs build, and the money and the investments will really need to come from angels and customers. There will, of course, be venture money ... but it will be a lot harder; you're not going to see a lot of venture money because of the investment success rate. So it's going to be some lean years, but once ... companies like Diablo, Third Brigade, dna13, Overlay.TV demonstrate their potential, people will start to become optimistic about the ability to build companies and you'll see more investment, both domestic and foreign.

OBJ: What's new with the downturn in the U.S.?

WAITMAN: Buying from a startup tends to be a risk proposition (in general) from a purchasing manager's perspective, and with the whole mood being that the world is full of Eeyores instead of Tiggers, it just gets harder and harder (for startups). There are, of course, fashionable areas – virtualization is a very hot area in technology right now, clean tech I think has had a bit of an overinvestment in the last couple of years, but it's still a relatively fashionable area thanks to the whole green movement.

The thing to understand is that while issues locally need to work themselves through, there are major food chains going through significant disruption and creating opportunities, so the entire entertainment food chain, premium content television and online video, whether it's user-generated or premium content, those food chains are all transitioning.

Also, there's always a great deal of randomness in the world that people don't appreciate, and that randomness is what allows a Microsoft to be created when IBM thinks they own the PC world. It's what allows a Google to be created when everyone thinks Microsoft is the only player. There's always spaces for new companies because the world is too chaotic, too random, too unknown to be completely understood by the big companies. There's lots of innovation going on in Ottawa, it's actually a very vibrant community ... but venture capital is one sort of capital that if you demonstrate returns then it flows into the city like it did back in the late '90s and it will. It just takes time.

But the M&A environment has suffered, the IPO market is almost nonexistent right now. There's a complete parallel in the biotech world, because if you pay attention to the valuations in the biotech world, IPOs, M&As, everything has gone down in the last three to six months and it's all related to the big concern about the flowing of the global economy, exacerbated by the U.S. problems created by the housing bubble.

OBJ: What's the trend you see going forward?

WAITMAN: The trend is tough, from a financial perspective. It's interesting: Canada's a tale of two worlds. On the one hand, food prices are going up, commodity prices are going up, oil and gas prices are going up and so the country and most of the provinces that benefit from those things are all booming, absolutely booming ... the country's probably never been in better financial shape from a federal financial perspective and unemployment. But, on the other hand, there are pockets that are very U.S.-sensitive, and the venture market is highly correlated with the Nasdaq, so when the Nasdaq is down, flat or going sideways, that affects the venture market.

I don't see that turning around dramatically in the next 12 months, so I think companies with a fair bit of cash are obviously going to weather the storm, it's going to continue to be tough to raise money, but ... there are always great companies started through good and bad times. All that really happens is during good times there are a lot of companies – many of which shouldn't be started – getting started, and during tough times they are fewer, but they tend to be the stronger, better companies. It can be done, it will be done.

There's the fashionable areas, the hot areas, and then there's the "grinders" that kind of work their way slowly and quietly. Then one day, they're a \$100-million company and everybody goes, "Who knew?"

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