FAQ

1. Why would an entrepreneur choose to work with Greenstone Venture Partners?

When founders Livia Mahler, Brent Holliday and Richard Osborn were launching Greenstone Venture Partners, their objective was to establish a venture capital fund with innovative structures and approaches. These included the following:

A focus on cross border opportunities - Greenstone correctly predicted that western Canada would increasingly become a source of early stage technology innovation and technology-based companies of interest to international investors and companies. We have worked to increase the visibility of this region in general, and our portfolio companies in particular, through active co-investment with US syndicate partners, joint US-Canadian operations in many of our companies and the Greenstone network of US investors.

An "entrepreneur first" service firm mentality - Greenstone believes that the real heroes of company creation are the entrepreneurs and their teams, rather than venture capitalists, investment bankers, lawyers, accountants, etc. We believe it's a privilege to work with such creative, talented, passionate and driven individuals. We believe that our role should be to support, inspire and at times challenge the entrepreneurs but never to forget where the real talent lies. Furthermore, as former entrepreneurs ourselves, we have experienced firsthand the manner in which some venture firms operate. We take pride in the fact that while we take investing very seriously, we also take ourselves far less so.

A U.S. style return-driven fund - Greenstone is designed to source, invest and manage in the best entrepreneurs and opportunities, regardless of the province, or state in which they happen to be. Free to invest across the U.S./Canadian border, free of any government or union supported tax schemes, job creation targets, or other potentially cumbersome restrictions, Greenstone is able to make investment decisions on the merits of what is best for the portfolio company. Further, by incorporating such U.S. style concepts as a "side car funds" and Special Limited Partners, Greenstone provides expanded value added capabilities, helping deliver additional resources to our portfolio companies and their teams.

A proven investment team – Greenstone's three founding partners have invested together since 1997 and during that time have invested in over 25 early stage technology firms throughout Canada and the Western United States.

2. How successful have the businesses you've invested in been?

In general, it's still too early to tell with most of the current Greenstone portfolio. The first investment from our current fund was made in mid 2000. Given current market conditions, we expect to hold our investments for a period of five to eight years. As evidence of Greenstone's focus on solid business fundamentals however, six of seven current portfolio companies are producing revenues and five of seven are expected to be cash flow positive by end of year 2003.

Some of the investments made by Greenstone principals in previous funds have performed remarkably well. These include Xantrex (TSE:XTX) NCompass (sold to Microsoft), AudeSi (sold to WindRiver), Anormed (TSE:AOM), MediaSeek (sold to Chalk.com) and MicronForce (sold to Suss, Dusseldorf:SMHG).

3. What are your focus areas?

Greenstone's principals are focused on investments in four technology sectors. These include:

Communications infrastructure

We believe terrific opportunities can be found in companies developing innovative applications and services within core infrastructure platforms such as SONET and Optical Ethernet as well as in the move to 40Gbps (and higher network speeds). As data volume continues to increase, innovative ways to increase revenue above the transport layer increasingly drive network operators decision making. The convergence of voice, data and video also drives equipment and application changeovers and start up opportunities to challenge incumbent equipment vendors.

Semi-conductors

Fabless chip companies developing value propositions in storage, image processing, multiple protocol support and power consumption are of particular focus for our fund. Market sector emphasis includes network equipment, security, cell phones and application specific memory design scenarios. Also of interest is companies that provide a specific piece of the design, test and verification value chain in an innovative/low cost manner or location.

Wireless

As infrastructure is transformed to allow un-tethered data transfer, the adoption and proliferation of new standards such as 802.11x, 802.16, OFDM, Wi-max, Edge, 1xRtt, 3G etc represent substantial opportunities for start up companies. Equipment providers, content and transaction-based application providers, and companies offering radically new business models for mobile Internet access are of particular interest to us.

Enterprise Software

We believe that a great deal of the enterprise software innovations of the last decade have primarily been associated with such customer facing business units as sales, marketing and product development. Our investment strategy is actively pursuing opportunities that will be extended to long neglected enterprise activities and business units, (e.g. IT), solutions that can be delivered cost effectively to companies both large and small. Innovations using open source platforms in the areas of database scalability, storage, integration and rich client computing are specific areas where we are being proactive in our efforts to identify opportunities.

4. What is your VC philosophy? How does it work?
Our philosophy is simple. We view the entrepreneur and his/her team as both a customer and a partner. We consider it our most important job to give these individuals the tools and support they need to be successful in their efforts to create shareholder value. When we enter into a relationship with a company, we constantly ask ourselves (and the entrepreneur) what is that we can further do to support and assist them in their daily efforts. Being an active, hands on investor requires lots of hard work and enthusiasm. We think that’s only fair.

5. Do you see any trends emerging in VC in Canada?

The most obvious trend that emerged is one we first spotted in 1999 when we established Greenstone, namely a considerable increase in cross border activity among technology players. Specifically, three trends are identifiable:

- US and international investors have increasingly been viewing Canada as a source of early stage innovation and technology. The number of successful venture backed Canadian or cross border start ups is growing and that will only increase the positive attention.
- Canadian companies have been seeking to improve their exposure to U.S. based players in order to access customer, strategic partners, investors and management talent.
- U.S. companies have begun establishing Canadian operations to benefit from access to quality technical talent, lower R&D expenditures and reduced operational costs.

Greenstone has invested a great deal of time and effort in the cultivation of cross border networks and expertise. All 8 of our portfolio companies have U.S. syndicate partners while 4 of 8 have joint U.S. and Canadian operations. We foresee these trends continuing to develop and the cross border activity taking place at all stages of company development, including start-up. Entrepreneurs looking to cost effective locales in which to ramp up development have long looked to such locations as Israel, India and even Europe. We believe Canada, and BC specifically, will increasingly be a logical choice.

6. What do you expect from this year? Next year?

We believe that the venture capital business has returned once again to levels of realistic (i.e. pre-1997) expectations. Investments are made with five to eight year horizons, not one to three years. Entrepreneurs are once again rewarded for building cash generating, profitable companies, not fundraising vehicles. Quality opportunities now have the ability to attract talent at more reasonable wage and remuneration levels. There is less noise to confuse vendors and channel partners. We are extremely bullish on this “new” environment. As industry sectors begin to stabilize and large customer buying activity increases, we believe this is an excellent time to be making investments. We plan on being extremely aggressive in the pursuit of quality investment opportunities in 2004 through 2005.

7. How much do you invest in a single company?

Our investments range from approximately $250,000 to $5,000,000 per company.

8. How much of the fund do you have left to invest?

As of May 2004, Greenstone had nearly one third of a $40 Million fund remaining to invest.

9. Who is your typical investee?

Each company and entrepreneur is different, and as such defining a typical investee is difficult. Greenstone has a strong preference for companies looking for their first round of institutional money. In other words, a company that perhaps has raised some seed capital from friends and family, or even better, from an initial customer deployment, and that is now looking to bring in a professional investor like a VC fund. Our portfolio companies tend to be in high growth stages, i.e. just prior to first product launch, or just prior to first paying customer delivery, etc. We typically look for people who clearly understand the benefits that venture capital brings, as well as the close working relationship that goes along with it.

10. What do you look for in a potential investee company?

The first, and by far the most important factor continues to be management. The experience, vision and credibility of the existing entrepreneur or team is paramount. Other features include manageable technical risk, a significant market opportunity, potential for market leadership, a clear understanding of the competitive environment, Return on Investment (ROI) potential, liquidity potential (within 5-8 years) and finally, favorable investment terms and pricing.

11. What is the process a company that approaches you goes through?

All Greenstone investee companies move through three stages of due diligence.

Step 1 is best described as an initial overview. Each Monday, the Greenstone partners meet and discuss existing investments and each partner has the opportunity to introduce one new opportunity at that time. A brief summary is presented, along with the partners assessment of the key strengths, weaknesses and risks of the company. The partners then vote whether to engage in detailed due diligence or whether to reject the opportunity outright.

Assuming the vote is positive, Greenstone then begins an active diligence phase. This can last from 2 to 12 weeks. Each area of the opportunity is examined, oftentimes in conjunction with a written business plan, supporting materials and independent examinations of the technology and customer base. Areas of analysis include technology, sales and marketing plan, business model, competitor analysis, financial model assessment, management reference checks, etc.

The third and final stage involves negotiating terms for investment and price (assuming that Greenstone is leading the investment), conducting final diligence steps and bringing other coinvestors along for participation. In total, the due diligence process can last from 4 to 16 weeks.

12. What are the biggest challenges facing new tech companies that you can address?

Having been direct investors and board members in more than two dozen early stage firms, in addition to having founded, operated, consulted and advised nearly three dozen others others, the Greenstone principals have seen companies across a wide variety of sectors and stages of growth.

What is interesting is that amongst all of these different companies, the challenges facing the entrepreneurs and management are oftentimes remarkably similar. These include raising the first round of outside capital, hiring and replacing senior management, making the transition from a development to customer driven organization, implementing channel strategies, developing effective marketing and branding plans, negotiating supplier, vendor and strategic investment agreements, navigating mergers and acquisition decisions and ultimately divesting, selling or exiting the company. Our experience in each of these specific areas, as well as numerous others, is oftentimes a valuable and critical resource for our investee companies and their management teams.

13. Where do you source your deals?

We receive a number of business plans through our networks of CEO’s, investors, Special Limited Partners, side car investors as well as service providers we work with. These include accountants, consultants, lawyers, investment bankers, other VC’s, and executives of the various companies we know. Fundamentally though we don’t wait for the plans to come to us. We are constantly on the lookout for promising companies headed by passionate and determined entrepreneurs. We spend a great deal of our time finding, meeting and learning from them about the areas they believe are important in the coming years. While we receive several thousand plans a year, we make a continual effort to read each and every plan, and where possible to provide some measure of feedback to the entrepreneurs, regardless of our level of interest in the opportunity.