

# Two is better than one

**Do we need two government agencies managing programs for venture investment in Canada? You bet.**

By Rick Nathan

**T**his edition of *Private Capital* has explored the roles of the Business Development Bank of Canada (BDC) and Export Development Canada (EDC) in the Canadian venture capital market.

As Crown corporations owned by the Government of Canada, they share the Canadian taxpayer as their funding source. They each manage separate programs for venture investment across the country, investing in venture capital funds and directly into emerging companies. They have separate teams that source investments, conduct due diligence, negotiate deals, sit on boards and manage portfolios. They cover the same industry sectors and geographic regions.

Some people might suggest that this is duplication, that we don't need two government entities doing much the same thing, that we should consolidate them into one body to reduce expenses.

Not me.

Two investors are better than one. Way better. While they may cover the same market, each one has their own investment strategy, their own industry sector viewpoint, their own network of contacts and their own experience. They have their own likes and dislikes, in a highly subjective environment.

Entrepreneurs create companies from ideas. They take risks and work hard, and they need financial partners. Sometimes their ideas are pretty farfetched and they don't appeal to everyone. The point is, they don't need to. They just need to find one investor that's a match. The more investors that are active in the market, the more likely the entrepreneur will get funded and create a company. If there is only one, and that one says no, then it's all over before it even gets started.

The shortage of venture capital in Canada has been well documented, largely in terms of total available dollars. But that's only part of the story. We face a severe shortage in the number of investors, completely separate from their capital base. Entrepreneurs have only a handful of active VCs to approach if they want funding for their company.



If you are a Canadian venture capital firm trying to raise a new venture fund, your list of prospective investors is even shorter. This is a very serious challenge. In today's market, a Canadian venture firm has only five or six prospective institutions to call upon that are prepared to act as major limited partners in their fund. If one or two decide, for their own subjective reasons, that they would prefer to invest elsewhere, you're sunk. The math doesn't work, since none of them want to take more than a minority position in a fund.

Sure, you might be able to add some capital from individuals or occasional investors in the sector, but these cannot lead your fund into any sizable market position. They can really just top it up. And without domestic sponsorship, there is no chance of raising funds from foreign investors.

## More players

Everyone has some experience with failed business partnerships of one kind or another. If you lose a key customer, it hurts but you can usually recover. Same with investors. If an investor in your fund, or your company, doesn't work out for some reason, you have to find a replacement. Sometimes it's just a personality conflict, unrelated to merit. Sometimes the two of you just don't match up – you're offering "vanilla" and they're looking for "mint chocolate chip." This happens every day in the investment arena, and that is why it is critical to have as many active players as possible. By supplying two active institutions to the Canadian venture market, the Government of Canada provides a great service to entrepreneurs. Not only as a supplier of capital, but by presenting us with two different doors to knock on. Two perspectives, two tries. Two partners.

Our friends and colleagues at BDC and EDC effectively amount to two independent investment firms, each with the critical mass of capital required to be serious players. It's not clear today if this was the intended result of government policy. Historically, EDC focused internationally while BDC covered the domestic market.

But over time, our economy evolved to the point where virtually all Canadian businesses need to cover both domestic and international markets from day one, especially in the emerging technology sectors. So BDC and EDC followed their customers, responded to natural market forces and ended up in similar positions. They are two market oriented investors, with experienced teams and two different perspectives.

We are lucky to have them both.

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