


# Giving life

Venture capital boosts B.C. tech startups



Todd Tessier is vice-president of the B.C. Renaissance Capital Fund, a Crown corporation set up by the province with capital provided by the federal Immigrant Investor Fund program

By Corey Van't Haaff

It's a circuitous route that links a company treating wastewater here in B.C. to a \$4 billion venture capital fund in San Francisco and also to a Canadian immigrant investment fund. Yet that route is providing significant benefit to tech companies right here at home, with more to come.

Ostara Nutrient Recovery Technologies Inc. recovers usable products from wastewater using core technology developed at the University of British Columbia. The extractions – called nutrients – are converted into high-grade, environmentally friendly fertilizer that is then used in the agricultural chain. If not for the company's proprietary process, disposal of the wastewater would become a headache for the plant.

"We eliminate that ... nuisance for the treatment plant," says Phillip Abrary, president, chief executive officer and one

of Ostara's founders. "They must deal with it. Our clients can't just discharge it into the environment. We give it a positive exit mechanism."

After Ostara raised private money (with partial incentive from B.C.'s Investment Capital Branch tax credit program for B.C. investors) to go through proof of concept, its first commercial-scale installation went live in Edmonton in 2007. A full-scale facility is now being constructed in Portland, Oregon.

The company's aggressive commercialization (Ostara is currently looking at a number of opportunities in the U.S. and Europe) wouldn't have been possible without venture capital led by VantagePoint Venture Partners, a \$4 billion fund. This \$10-million US injection enabled Ostara to deploy its technology assertively, hire talent and execute its projects.

"If we hadn't got it, we'd be in trouble, in light of what's

happened in the financial markets since October 2008," says Abrary of the investment. "The market meltdown has brought financing activity almost to a halt."

Steven Hnatiuk is co-founder and general partner of Yaletown Venture Partners, a private venture capital firm that invests in clean energy technology and information technology companies in the Pacific Northwest. He says that Yaletown always enters a deal at an early stage of development.



Ostara Nutrient Recovery Technologies Inc. extracts nutrients from wastewater and converts them into high-grade, environmentally friendly fertilizer used by agriculture



Simply put, venture capital consists of independently managed, dedicated pools of capital that go towards equity investments in private, high-growth companies. Companies backed by venture capital almost universally operate in technology-focused industries. Managers of venture capital funds are dedicated specialist investment teams, as opposed to the more generalist teams within large financial institutions that would finance various sectors and stages of companies.

"Venture capital investment is a necessary ingredient if we are going to improve the overall competitiveness of the British Columbia economy," said Hnatiuk. "Venture capital investment makes it possible to take advantage of British Columbia's wealth of scientific research, innovation, entrepreneurial start-ups and successful technology industry leaders. These companies create high-paying jobs, grow at rates that exceed other industries and further the overall competitiveness of B.C.'s economy. I think that benefits all citizens of our province over the long term."

As to VantagePoint, a small portion of its assets comes from the B.C. Renaissance Capital Fund, a Crown corporation set up by the province with capital provided by the federal Immigrant Investor Fund program.

"VantagePoint didn't need our money but saw, in B.C., clean technology. It was a good pipeline for them to evaluate opportunities using the resources we have in the province," says Todd Tessier, vice-president, B.C. Renaissance Capital Fund.

The purpose of the fund is to invest in top-tier venture capital managers. A total of \$90 million was committed to

the fund, and after an exhaustive RFQ process, six managers were selected to share the total. Three already have reached their capital requirements, while the other three must still raise a total of \$80 million each to get their slices of the provincial pie.

To make the short-list, applicants (managers of venture capital funds) had to meet a test. Sixty per cent of each of their scores was based on the applicant's ability to raise additional capital and deliver returns; the other 40 per cent was what made the RFQ process unique.

"What did they know about B.C. and the four sectors: clean technology, life sciences, information technology and digital new media? That was the B.C. angle," says Tessier.

The province, he says, has invested heavily in core research at universities. Both venture capital and management skills are essential for getting a return on

this investment – or a return on innovation.

"B.C., on a per-capita basis, holds its own with per-capita venture funding. A lot of capital is available for early stage; there's not a lot to create into anchor companies, like the next Creo or EA. This isn't a spray-and-pray program," says Tessier.

In other words, the climate of investment is particularly attractive in the startup arena, to nurture the stars of tomorrow.

The Renaissance Fund gets its money from immigrant investors who may park \$400,000 for half a decade. The money must be repaid, but until it's due after five years, the federal government gives it to the provinces to be used for economic development, says Tessier. It's a perfect partnership, considering the alternative.

"Traditional resource sectors have assets to collateralize. Not so technology. They have people and bright ideas. They need venture capital to bring it to life," says Tessier.

While Canada's venture capital market is strong, Tessier contends that it remains 15 to 20 years behind that of the U.S. "That's why we need a robust, savvy marketplace for venture capital. Government needs to be involved, but involved to a certain degree. We have to encourage other investments and leverage for this model. The key word is 'leverage.'" ■



Steven Hnatiuk of Yaletown Venture Partners