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Keeping up when the markets are down.

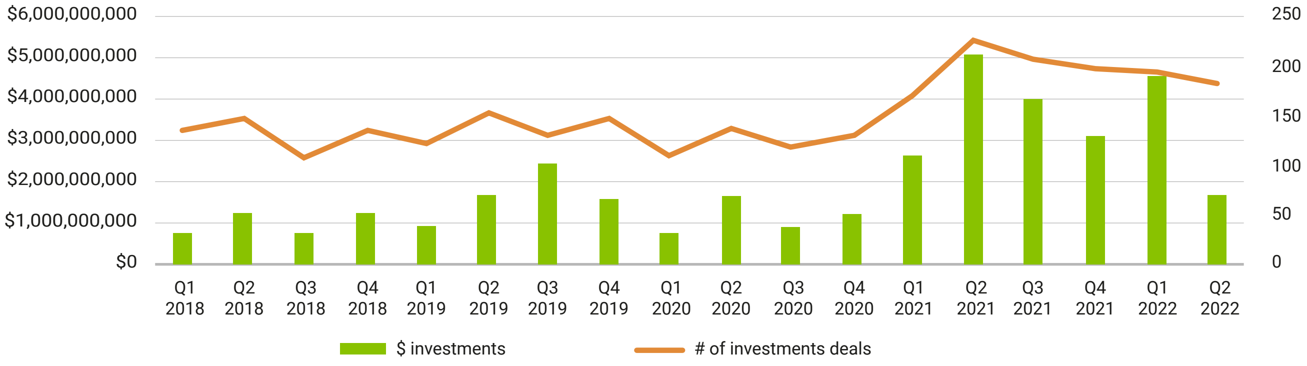
A practical guide for Alberta tech businesses in unpredictable times.

Leaders at technology companies in Alberta, like tech CEOs all over the world, are knee-deep in a shake-up in the capital markets. Money is no longer flowing like water.

For Alberta innovators that means the spotlight is back on revenue and profitability, and teams everywhere are calculating their runway with the capital and revenue streams they've got. And running parallel scenarios to buy time to the next raise.

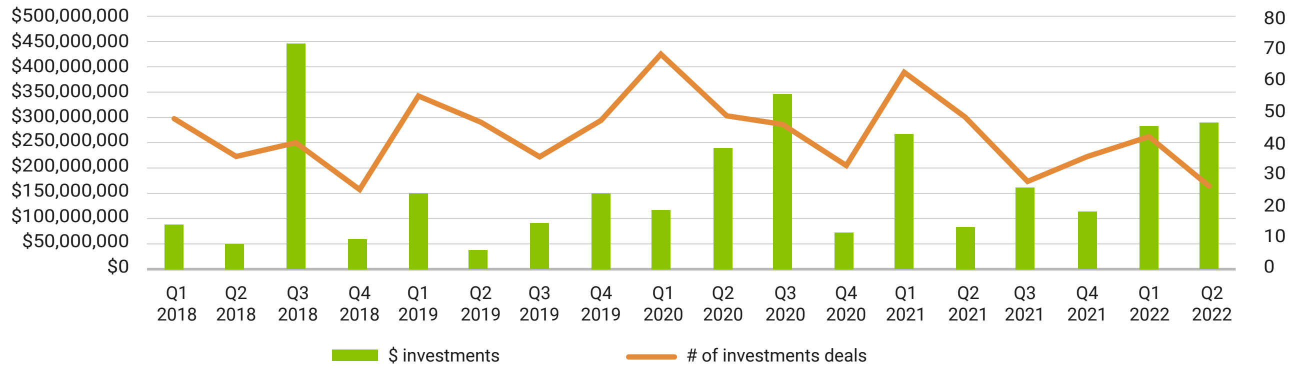
Alberta's record-breaking capital in the past two years made headlines in Canadian tech news. The investment growth was critical in building Alberta's profile as an emerging tech market and a cause for celebration. But the billions of dollars in programs and aid that poured in to get the economy going during the pandemic, coupled with low-interest rates, tipped a bull market in venture capital into bubble territory. A market correction was bound to happen.

Venture Capital Investments in Canada



Source: 2022 Canadian Venture Capital Market Overview H1 2022, Canadian Venture Capital Association

Venture Capital Investments in Alberta

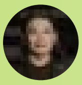


Source: Start Alberta deaflow platform August 2022

At the time of publishing this article, the CVCA just released data for the first six months of 2022. The report conveys that "Alberta experienced a strong first half of this year, with 56 deals and $481M invested [from January to June 2022], already surpassing investment activity in both value and deal count compared to 2020's annual total, and is on pace to exceed 2021's record year. Although the bulk of dollars invested was largely closed in Q1 ($411M in Q1 vs $70M in Q2), the province did see a 55% increase in deals closed quarter-over-quarter."

While the CVCA reports that early stage, particularly seed stage investment into Canadian companies remained strong in Q2 2022, like other investors, we are advising founders to take **a cautious approach in the current investment landscape.**

There is a lot of uncertainty right now. How long will it take for the market to rebound? What will the impact be and for how long? We don't know as we are in the swing. But as you go through successive market swings, the trend has been towards faster recovery times. As Venture Capital is a long-term strategy, a carefully constructed portfolio can help mitigate market fluctuations.



Arden Tse, Investment Manager, Accelerate Fund II & III

As past operators, we have our own scar tissue from the 2000 era tech crash.

Thinking back to when I led Burnstand, in hindsight, we should have acted faster on cash preservation, spent more time understanding the macro-economic trends and considered customer risks like default on payments and cancellations of projects.

David Edmonds, Chairman Industry Committee at the A100 & Member of the Accelerate Fund II & III

With the luxury of experience on our Accelerate Fund team, and a macro view across our portfolio, we share this article in hopes it's a practical guide to Alberta startups about capitalizing on your strengths and business fundamentals to come out strong after this market cycle.

No founder needs another frantic article advising you to hunker down and preserve capital right now. Our aim with this piece is to help Alberta founders and tech businesses navigate the swing with shared lessons in three areas:

1. Building strong companies
2. Being a strong leader
3. Raising the right capital, at the right time

The Alberta Context

The Alberta tech ecosystem is still early in its own growth stage. Over half of Alberta's innovation tech companies are in the first two stages of growth: ideation and early customer adoption.

Alberta companies have been very successful over the past few years in raising capital to scale their businesses and the results show year-over-year growth. We have seen some great maturing companies over the past two years raising significant capital and expansion of their teams.

We're fortunate to have some of the next-generation companies recently financed like Benevity, Absorb, Userful, Symend and StellarAlgo. But even these companies with a strong market demand will have to adjust to this market swing.

The good news is that Alberta is no stranger to boom and bust cycles. We have the benefit of considering lessons learned from past cycles.

> *Take the downturn of the early 2000s, where some of Alberta's strongest tech businesses found footing. Solium rose through ashes, and 20 years later is a great story. Lots of great companies will survive this, but the market swing will be hard to navigate.*
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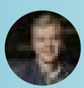
> 
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> **Brad Johns, Partner, Yaletown Partners Inc.**

Among those that survived and thrived through the 2000 tech bust are:

- Video game developer **Bioware** founded in 1995 was earning $16 million in revenue by 2004 before its acquisition by EA in 2007.
- Liquid cooling specialist for computing environments, **CoolIT Systems** was founded in 2001 and earning more than $110 million in sales in 2021.
- Wireless connectivity provider for surface mining **3D-P** was founded in 1996 and earning revenues of about $14.5 million by 2020, then acquired by Epiroc 202.
- Land and financial software provider **Pandell** was founded in 1997, hit $1 million revenue in 2001, then $10 million revenue in 2013 and continues its rapid growth.

1. Building strong companies

In the last few years, advice from popular media to tech founders was overwhelmingly weighted towards how to raise capital and perfect your pitch and grow at any cost. However, founders need broader fundamental operating skills to build a resilient business including sales, cost management and revenue optimization.

Unless you're working in deep tech or life sciences that require a large R&D budget, most founders can find ways to test their value propositions and increase sales that are not highly capital dependent.

> *If I was an entrepreneur right now, I'd focus on the business. Don't worry about raising capital for the next 2 quarters. Many investors are focused on supporting their existing portfolio right now and are being very particular with new investments. Wait it out and watch the market, then size up if you can raise capital under terms you're comfortable with.*

Brad Johns

PayShepherd

PayShepherd, an Accelerate Fund III Portfolio company, armed with the right business fundamentals and foundation, ended up doubling its revenue targets in 2021. Their executive team focused on the building blocks for success: establishing a sales team and building a scalable sales process. This led to higher-revenue growth and ultimately attracted attention from investors to secure their next round of funding.

Extend your operations runway

Now is the time to play the game of cash flow. How can you hack to save your business? Get really creative on how to get more money in the door, and upfront.

Look to other industries. In SaaS, customers receive a discount for paying a subscription upfront. Sign more clients with price reductions and longer-term contracts. Talk to your customers. Are there opportunities to bring in cash that is in the best interest of you and the customer? Consider consulting services as an add-on or opportunities for non-recurring engineering.

> *Consider all potential revenue streams, even smaller revenue streams help keep the lights on and help sustain your growth. Think beyond marquee customers and big contracts. Growing revenue from smaller sales can lead to shorter sales cycles and is also less risky if customers delay a project or worse, cancel.*
>
> **Yasmine Al-Hussein, Associate, Accelerate Fund II & III**

Truffle

Truffle, one of Accelerate Fund's most recent investment companies, just signed a sales channel partner to increase its sales capacity in the University food services market and continue winning clients across North America, while still operating with a lean and effective core team. Channel partners can be a great way to scale up sales without incurring the costs of hiring on a large sales team.

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Tighten your spending

How can you tighten cash flow and slow your burn rate to survive the next 6 to 12 months? Focus on what you can actually influence your operating costs. Consider reducing R&D discretionary spending and even voluntary pay cuts.

As you evaluate operating costs and options, understand the return you are expecting on every investment, whether it’s in people, processes, technology, or infrastructure.

Melania Antoszko, Investment Analyst, Accelerate Fund II & III

Be intentional in where you’re spending time to run your business and how you can grow revenue. For example, know why you’re going to a conference. If you don’t know your Ideal Customer Profile (ICP) and it will not lead to immediate revenue, don’t go to costly conferences and business trips. Call up your customers instead.

Can your company go beyond the break-even point and invest in your growth? Every company is different but you need to understand your cost levers and protect your profit margin.

G2V

G2V Optics has always been very efficient with capital and smart about managing its cash flow. It recently hit a traction point where its customers are its primary funding source including a $1-million contract from NASA which has fuelled the company’s ongoing growth, increasing its workforce by about 50% in the past year.

2. Being a strong leader

For many young Alberta tech companies, this may be one of the most difficult times founders have faced. Strong teams start with strong leadership. Leaders' mindsets set the tone for the whole company. Often that means being humble, decisive, realistic, and transparent while galvanizing the team to be opportunistic.

Leading like that all requires taking care of your own mental health. Resist isolating and letting the stress pull you under. Turn to your friends, family and peers for support and ensure you continue to socialize outside of your business circle.

Be realistic

Founders, this is your moment to leave your ego at the door and make an honest assessment. Are you going to be able to sell and build customer revenue through this?

If you truly believe in the business and don't want it to fail, find a means to get traction. Avoid being delusional or emotional. A strong board or advisors will help support you by looking at real-case scenarios.

For example, your best opportunity may come from partnerships. Many early-stage companies can highly benefit from an M&A that creates an overall stronger company, with top talent, sales channels, and perhaps even better funding potential.

If you recognize you won't achieve your vision on your own capital, seek out founders that share your goal, where you can establish mutual understanding and integrate to create a path to survival. Do a tuck under or a share-based agreement with rewards if the collective entity succeeds.

> *Everyone is going to be strapped for customers. Look at smart opportunities with competitors and market adjacent players to consolidate sales channels and customer bases. Sure a competitor may run out of cash before you, but you both may both go down without pooling resources*

David Edmonds

Gradient MSP's CEO Colin Knox knows of all his competitors and connects with them constantly. This keeps him in a more strategic position than other founders who bunker down and don't talk to anyone. It's not easy to shift from ultra-rapid growth to limited spending, but his deep knowledge of their target market, and partnership options, will help him pivot as needed.

Be decisive

One of our top pandemic lessons? Founders who changed their mindsets and direction the quickest were the most successful. Strong leadership requires knowing all the pieces of your business and which levers you can pull to get immediate results.

StellarAlgo CEO Vince Ircandia had a plan A, B, and C depending on how quickly the economics of business changed for survival within 20 days of the first mention of the pandemic being longer than 3 months. And when capital markets started constricting in early 2022, Vince saw it 2.5 months before most did, and had already run multiple scenarios including how to get profitable in 20 to 40 days.

Be transparent

Relaying the realities with your team while being an uplifting leader will be hard to balance, especially as you might be letting people go. But you need to keep the boat afloat.

In times of complexity, in times of stress, you have to over-communicate. You can't assume others see what you see and know what you are juggling. Tell them twice and have them repeat it. Even then, some things will fall through the cracks.

Brad Johns

Stick to your clear long-term vision. Communicate what's the throughline to win along with the hard choices you have to make right now. It's not going to be easy. Don't sugarcoat it if it's a time for everyone to roll up their sleeves, and that you need resourceful thinking. And express gratitude often, really often, for those stepping up and pushing through.

You will likely lose some people who need a certain, stable job for their life circumstances at this moment. That's ok. If they're an all-star, keep in touch, you'll win them back at the next growth wave.

Yasmine Al-Hussein

During the pandemic, Userful's CEO John Marshall was honest with his leadership team. He shared a clear plan and convinced leaders to not take salaries for a few months. He then went to employees and shared openly that he could either let go of half the team, or everyone could forgo salaries for a while. Those were brutal conversations to have, but Userful got through and survived without a single layoff, as the entire company took no salary as well.

Be opportunistic

The race for the right talent is still on here in Alberta. As most of Alberta's tech companies are in the early stage, we foresee Alberta likely won't be hit the same in terms of job losses as other Canadian tech hubs.

The recent layoffs in other Canadian tech hubs like Ottawa, Toronto, Montreal, and Vancouver are a great opportunity for Alberta tech companies who've raised funding before the downturn to access tech talent and continue growing.

Melania Antoszko

Virtual Gurus raised $8.4M in Series A funding in March 2022 and is looking to more than double its number of employees in downtown Calgary.

Helcim raised $16M in Series A in April this year and has gone from 85 employees late last year to 145 today, with plans to continue growing the team in 2023.

Resist isolating

Maybe the firefighting of a market downturn is bringing out the best in you. Or maybe after two years of handling serial crises through the pandemic, you've turned to biting all your fingernails down to the quick. If you're feeling like you're alone in this, pop into the bank to see all the other CEOs there extending their house mortgages.

> *Avoid isolating. Take the shame out of it if you're struggling. We've all been there and are happy to share lessons learned. Stay open to advice and support from others.*
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> **David Edmonds**

This is the time to draw on the experiences and perspectives of others who've navigated previous boom and bust cycles. It shows maturity to ask for help and guidance. Talk to other founders with experience adapting their business. Use your network as a resource. Look to organizations like The A100, VMSA and Startup TNT.

3. Raising the right capital, at the right time

We expect to see financing continue, but less of it as well as an uptick in M&A activity and more private equity opportunities. If you can pause fundraising for the next few months, it's best to wait out and see.

If you can't raise money a year from now, what are your options? And what's your minimum threshold of revenue to be able to survive?

We're advising founders to prepare for multiple scenarios, with not only a tightening of capital and valuation but a trickle-down effect on customers. There will also be a potential for revenue constriction and much longer sales cycles. Consider other options like bootstrapping or self-funded. Champion your clients to contribute to early development.

To be a technology business, you need cash flow, revenue, and customers. You need to get out of the startup phase of growth as quickly as possible, but can you do it without new capital? And do you really need venture capital? Not everyone is best served by venture capital.

Arden Tse

Absorb LMS is a great example of the real potential of bootstrapping. They bootstrapped before they raised $59M, then were acquired for more than $630M.

If you are raising money now, go out and talk to investors. See where they are at, what they are specifically looking for and when they are comfortable writing cheques again.

If I'm fundraising now, I need to work with my past investors. But consider where their fund is in its own cycle. Are they struggling to close a round, saddled with business failures in their portfolio they need to prop up or walk away from? If they are not realistically going to get me additional funds, do they know someone better able to?

David Edmonds

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Shift your pitch

Good quality capital is still available for those companies that can demonstrate growth demand, a scalable model and a reasonable cost to grow.

As early-stage investors, two key questions we have always assessed:

- **Can you really sell? Is there market demand for your product?**

  Product-market fit is a requirement. Show us with data that you can maintain or ramp up sales in a scaleable, repeatable process.

- **Have you thought through realistic business plans?**

  Where will the capital get you and what's your contingency plan? We don't want to only hear about the positive projections. Tell us about plans A, B and C. And what will you do if you can't raise money for two years or more? You can't just raise capital to get to the next capital raise. Investors don't like to write survival checks.

> *Growth investment to serve demand is still on the table, just not growth at any cost. Demonstrate revenue and cash flow. Focus on the bottom line. How can you grow at a decent rate, but not so fast you're not profitable or running out of cash in the next 12 months?*

Brad Johns

Navigating the swing

How long will this last? What will recovery look like? We're all making informed guesses. Neither investors nor founders have control over the market. But we do have control over our approach.

In 2021 and 2022, Accelerate Fund III chose to pass on a number of companies. Founders were looking for funding at a high valuation and we couldn't make numbers work. Some of those that pitched didn't come close to hitting their projected growth targets and struggled to get going - so in hindsight, sticking to our investment thesis served the portfolio well. But when we sit out on a deal, capital doesn't get deployed, and we miss the potential upside. That's a trade-off we weigh constantly.

As a venture capital investment fund, if you're too conservative, you can lose out on outsized returns. If you're too risky, you can lose your capital. We're always trying to find balance and land in the middle. Luckily things have worked out for us but things can easily go either way depending on which way the markets swing.

Arden Tse

For tech company leaders in Alberta, there are months ahead of hard decisions about cutting team members, merging with competition, shelving new product developments, and how to pay bills for one more quarter. But this is also a time when the strength of the Alberta tech community can kick in. Where great minds and great partners will come together and formulate unexpected growth paths forward.

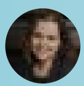
During the downturn of the 2000s, the tech community was tiny and founders didn't have many people to turn to. You didn't know what you didn't know. This time, it's different. There are a lot of veteran tech CEOs willing to share experiences. That's a gold mine of insight for founders willing to listen right now both within the A100 and beyond.

David Edmonds

Kim Furlong, Chief Executive Officer, of the CVCA says it well: “In a lot of ways, 2021 was an abnormal year, particularly when it came to company valuation. What we are seeing now, is the correlation between the decrease in public markets slowly permeating the private markets. In choppy waters, we need to continue to ensure Canadian companies have access to capital.”

Accelerate Fund is committed to seeking out more early-stage investments in 2022 and beyond, while supporting our portfolio companies in evaluating opportunities to survive and thrive ahead. As active members of the Alberta startup community, we’re always happy to speak with founders to share our observations on the markets, and lessons learned as operators and advisors to local technology companies.

> *The silver lining is that great companies will come out of this. Skilled founders will come out of this. Strong leaders always persevere even if that means folding and starting up something new when markets turn.*



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