



Government  
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## Practices and Patterns of Informal Investors



Prepared on behalf of Industry Canada  
by  
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## EXECUTIVE SUMMARY

The work described here provides information with respect to the characteristics, practices, patterns and perspectives of Canadian informal investors. The work draws on empirical data to update profiles of typical individual investors. Breakdowns are presented of:

- investors' personal characteristics (education, experience, financial attributes, and occupation);
- investors' investment patterns including their expectations and investment patterns (investment size, sector, stage, frequency of investments, location of businesses);
- investors' experiences regarding the availability of investment opportunities.

It is found that private equity investors (also known as informal investors or angels) are well educated and report considerable experience as investors. They tend to hold other full time jobs, limiting the time they can devote to their direct investments; however, they account for a considerable amount of investment in new growth-oriented businesses. The 51 investors contacted in the short time frame of this study had made 142 investments involving more than \$107 million of direct investments over the last two years. Moreover, these investors hold almost \$47 million available for further investment in growing SMEs. These investments are usually at the earliest stages of business development, stages where it is often most difficult for growing firms to raise capital from other sources. These private equity investors would argue that a problem lies in the shortage of investment-ready businesses in which the principals are willing to partner with experienced investor-mentors.

The work describes the nature of informal investments and identifies key parameters of the investment process, focussing on investors' investment behaviour. In particular, the work addresses:

- how investors learn about and locate potential investments;
- how investors evaluate potential investments (including the due diligence process);
- investors' exit strategies;
- formal and informal networking and syndication patterns of Canadian informal investors.
- essential factors prompting investors to make an investment;
- investors' experience with the level of preparedness of small and medium size enterprises (SMEs) with respect to private investment.

Investors learn about potential opportunities mostly from business associates. Evaluation tends to be conducted informally, although some investors have developed extensive sets of due diligence materials. The key dimensions of investable business opportunities are the market

potential of the business and the capability of the principals to commercialize and market the service or product. Investors also seek the opportunity to make a substantive contribution to the success of the firm. Investors ideally exit through sale of their shares to third parties through acquisitions, buy-backs, and, occasionally, IPOs. Investors frequently exit because the business in which they have invested has failed.

The report documents private equity investors' perceptions of the investment climate in Canada and its regions (although no systematic statistically significant differences across regions were noted). These include comments about the effects of recent tax changes (the tax-free rollover of, and reduction in, capital gains taxes on small business investments). The work also documents investors' ideas about how equity financing of SMEs might be facilitated. Overall, respondents expressed the view that what is really needed is a generalized reduction of tax rates across the board. In their view, this would have the effect of both helping to attract managerial and technical talent (human capital) to Canadian businesses and increase the availability of financial capital.

Finally, the study took some first steps towards establishing a national panel of informal investors. The idea here is that through such a panel, governments can more readily monitor private investment activity on an ongoing basis and enter into dialogue with the panel with respect to public policy proposals and related matters. Private investors generally viewed this concept positively, with at least two-thirds of the participants signalling a willingness to take part, subject to suitable protection of their anonymity and that the panel would be an authentic and valued source of commentary.

## BACKGROUND AND OBJECTIVES

Private investors are active in equity financing between the stages of owners' personal financing and institutional venture capital or public financing<sup>1</sup>. This report documents the findings of the first phase of a specialized research study that sought to learn more about how private investors do business. The work investigated the following issues:

- the role that individual angel investors play in the growth of Canadian SMEs;
- the profiles, investment patterns, practices, and views of informal investors;
- the role played by angel networks, syndication patterns, and other intermediaries in the informal market; and
- how government might further encourage more, and more effective, angel investment in support of SME growth.

The work reported here represents the findings of the first stage of a two-stage study designed to address these research objectives. This first stage involved a preliminary exploration of these issues by means of a series of national round table discussions supplemented by background data and is described in more detail presently. The second stage is expected to involve a national series of interviews with an expanded set of investor respondents. Details of the second stage methodology will depend on the outcomes of this first stage of the research. Accordingly, the purposes of this initial series of roundtable discussions is fourfold:

- to begin the process of developing profiles of private investors;
- to learn about the ways in which private investors conduct their business;
- to obtain preliminary responses of private equity investors to recent initiatives; and
- to gauge the level of interest among investors with respect to creation of a national panel of investors. The role of the proposed panel would be to provide a means of monitoring private investment activity and to allow governments to engage in consultation with a substantive body of investors.

### SPECIFIC RESEARCH GOALS AND OBJECTIVES

The specific goals of the work described here are intended to yet better inform public policy with respect to the characteristics, practices, patterns and perspectives of Canadian informal investors. Research objectives with respect to investors' characteristics and practices included the following.

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<sup>1</sup> Private equity investors are commonly known as "business angels" or as "informal investors".

1. To update, from empirical data, profiles for typical individual investors. Profiles include breakdowns of, among other attributes:
  - investors' personal characteristics (education, experience, financial attributes, and occupation);
  - investors' investment patterns including their expectations and investment patterns (investment size, sector, stage, frequency of investments, location of businesses);
  - investors' experiences regarding the availability of investment opportunities.
  
2. To describe the nature of informal investments, with a focus on investors' investment behaviour including:
  - how investors learn about and locate potential investments;
  - how investors evaluate potential investments (including the due diligence process);
  - investors' exit strategies;
  - formal and informal networking and syndication patterns of Canadian informal investors.
  
3. To identify key parameters of the investment process, including:
  - essential factors prompting investors to make an investment;
  - investors' experience with the level of preparedness of small and medium size enterprises (SMEs) with respect to private investment;
  
4. To report on the investment climate in Canada and the regions, including:
  - angels' comments about the effects of tax changes on their actions, including further suggestions regarding the tax-free rollover of (reduced) capital gains taxes on small business investments;
  - investors' ideas about how equity financing of SMEs might be facilitated.
  
5. To take the first steps towards establishing a national panel of informal investors such that government can more readily monitor investment activity on an ongoing basis and dialogue with the panel with respect to public policy proposals and related matters.

## SCOPE OF THE WORK

This two-stage project ultimately entails the collection of data about how private investors decide on and undertake their investments and the creation of a national panel of informal investors. The roles of the panel are to allow ongoing monitoring of levels and patterns of informal investment, to engage members of the panel in dialogue with respect to issues of common concern to investors and government, and to track the experiences of private investors. This panel could also provide data on when and why informal investors cease to be informal investors. At present, little is known about the reasons why private investors exit the market.

This first phase of the study originally sought to conduct and analyze the discussions from a series of eight to ten round table discussions to be conducted nationally. In the event, eleven (11) round table discussions were held with the enthusiastic cooperation of many of the national CCIP sites. The locations visited were:

### **Eastern Canada**

- Mt. Pearl NF (5 participants)
- Halifax NS (10 participants; most were institutional venture capital managers)
- Moncton NB (3 participants)
- Fredericton NB (9 participants)

### **Quebec**

- Ste. Hyacinthe (3 participants)
- Ste. Therese (9 participants)

### **Ontario**

- Waterloo (9 participants)
- Niagara (5 participants)
- London (6 participants)

### **Western Canada**

- Canmore AB (6 participants)
- Victoria BC (6 participants)

Round table participants were asked to:

- complete a short questionnaire designed to provide baseline data (included here as Appendix A);
- participate in a roundtable discussion organized in collaboration with local CCIP site staff (discussion protocol is included here as Appendix B);

- discuss and indicate their willingness to join a national panel of investors. The role of the panel is described in more detailed elsewhere (information sheet and invitation form are included here as Appendix C). Members of the panel would agree to stand prepared to comment on program initiatives by occasional e-mail based queries, participate in the occasional round table discussion, and complete an annual survey that would monitor levels and directions in investor activity.

Quantitative data from the questionnaires were analysed using standard statistical methods. Roundtable discussions were audio-taped, transcribed verbatim, and the resulting qualitative data were analysed using NUD\*IST, a recently developed technique specifically designed for rigorous exploration and analysis of qualitative data.

## **RESEARCH FINDINGS**

## INVESTOR PROFILES

A total of 61 individuals participated in the roundtable discussions held in 11 venues across Canada. In addition to the targeted investors, a number of other individuals also participated in the discussion groups. These included, for example, the ten participants in the Halifax discussion group, most of whom represented institutional venture capital firms and were not private investors. In addition, participants in several groups included representatives from local agencies and banks. A total of 51 investors completed the questionnaire. The findings that follow are taken from quantitative data in the questionnaire as well as from the qualitative data comprising the roundtable discussions.

The geographic distribution of questionnaire respondents was as follows:

<i>CCIP Site</i>	<i>Proportion of Respondents (% of Total)</i>
Mt. Pearl	8.2
Halifax	0.0*
Moncton	4.9
Fredericton	14.7
Ste. Hyacinthe	4.9
Ste. Therese	14.7
Niagara	8.2
London	9.8
Waterloo	14.7
Canmore	9.8
Victoria	9.8
Total	100.0

\* Halifax participants did not include private equity investors.

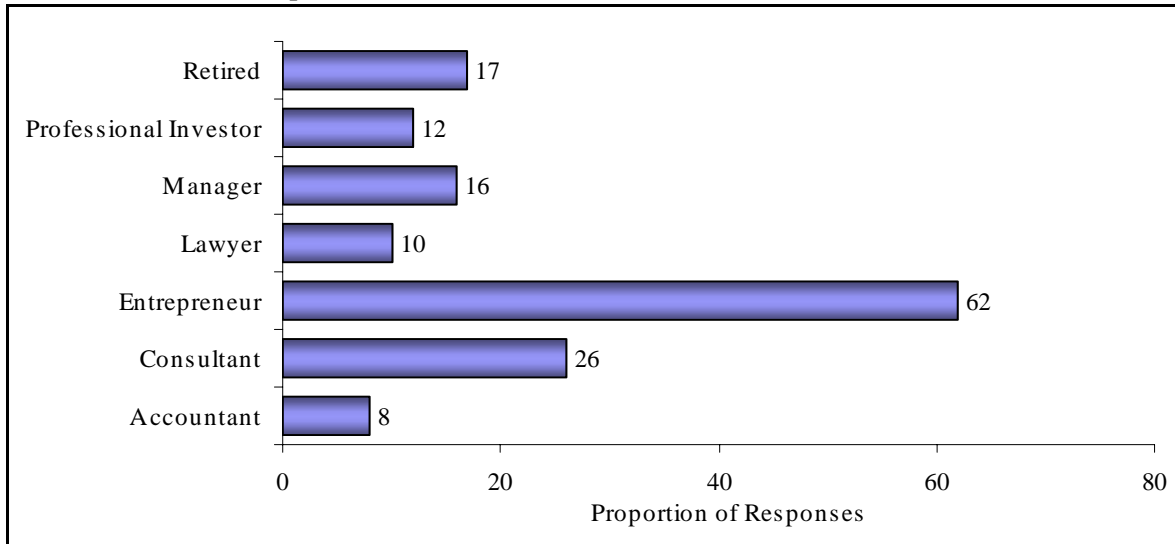
<i>Region</i>	<i>Proportion of Respondents (% of Total)</i>
Atlantic	28
Quebec	20
Ontario	33
Western Canada	20

### Investor Personal Characteristics

The investor respondents were well educated, with more than 44 percent of respondents reporting a post-graduate degree and another 24 percent having an undergraduate university degree. Forty-five percent of investors held professional designations, most frequently C.A.'s and Professional Engineers. Chart 1 provides a breakdown of the responses from when investors were asked to identify their full-time occupation. What is interesting to note here is that the vast majority of investor respondents held other jobs. Investing and managing their investments was not their primary occupation. This observation holds implications for how much time informal

investors can accord due diligence, post-investment management, and other aspects of private investment. Almost all respondents (91%) were currently business owners or had been business owners at some point in their lives.

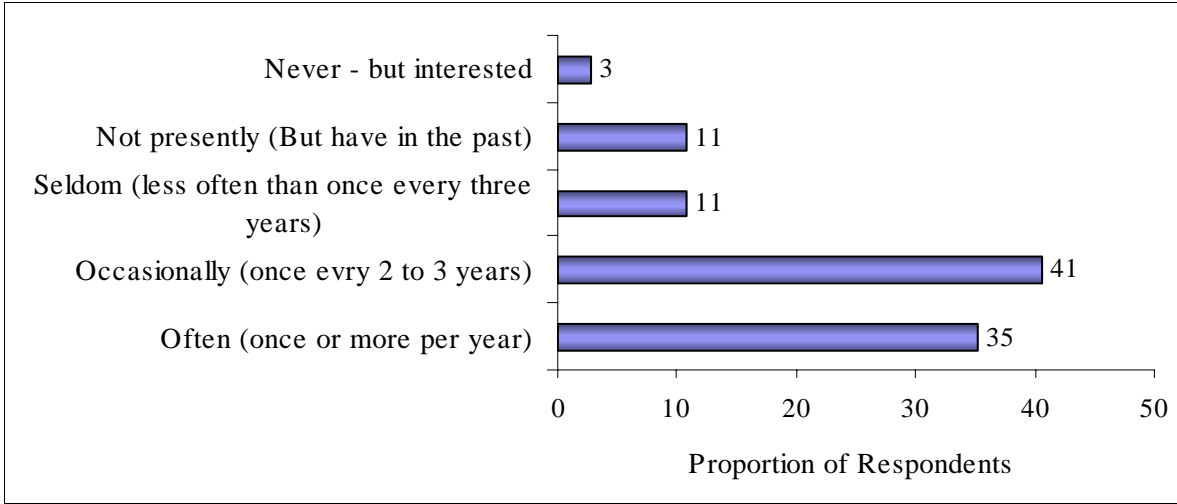
**Chart 1: Investors' Occupations**



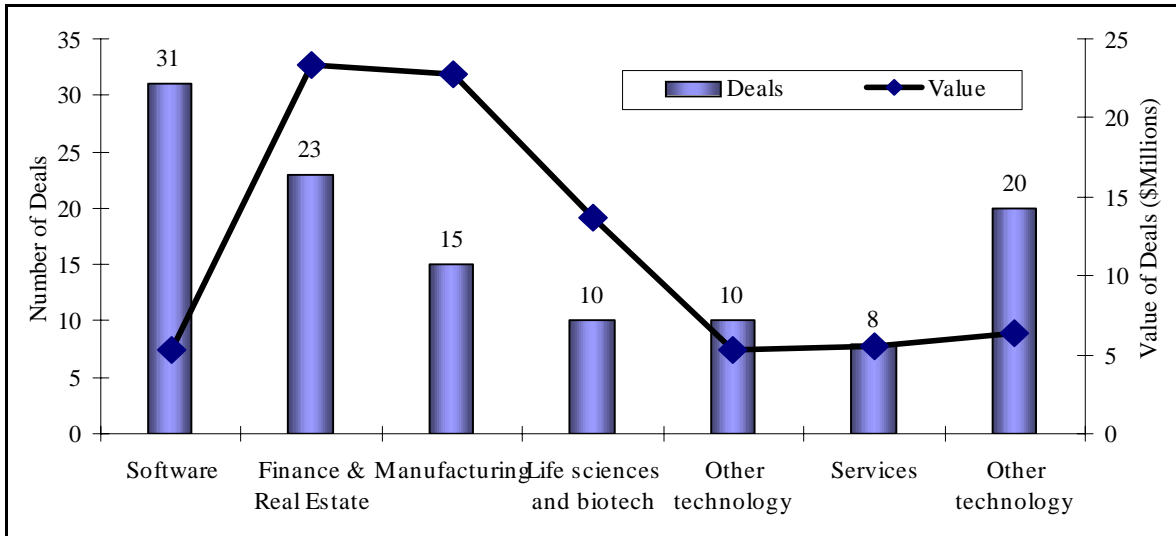
The 45 investor respondents who reported when they had started to invest represent a collective total of 522 years of experience as investors, an average of 11.6 years. As shown in Chart 2, Canadian angels tend to be repeat investors in the informal marketplace; with more than 70 percent of respondents reporting at least one investment every two or three years with one-third of respondents investing several times annually. Together, the 51 respondents report having a total of more than \$47 million available “for the purpose of making private investments in Canadian SMEs” an average of slightly less than \$1 million each.

Charts 3 and 4 break down the sectoral and stage of investment distributions of the deals reported by investor respondents. While software deals were the most frequent investments, the average size of such deals tended to be small. Of the 142 deals, 60 (42 percent) were to businesses described as being in knowledge-based enterprises. Deals in the finance and real estate sector accounted for a disproportionate amount of the capital invested. Most investors reported deals in multiple sectors. Also, as has been found in previous research, investments were predominantly placed in early stages, usually at the seed and start-up stages. As shown in Chart 4, below, more than 60 percent of investors had invested at the start-up stage and 50 percent of investors responded that they had invested at the seed stage of projects.

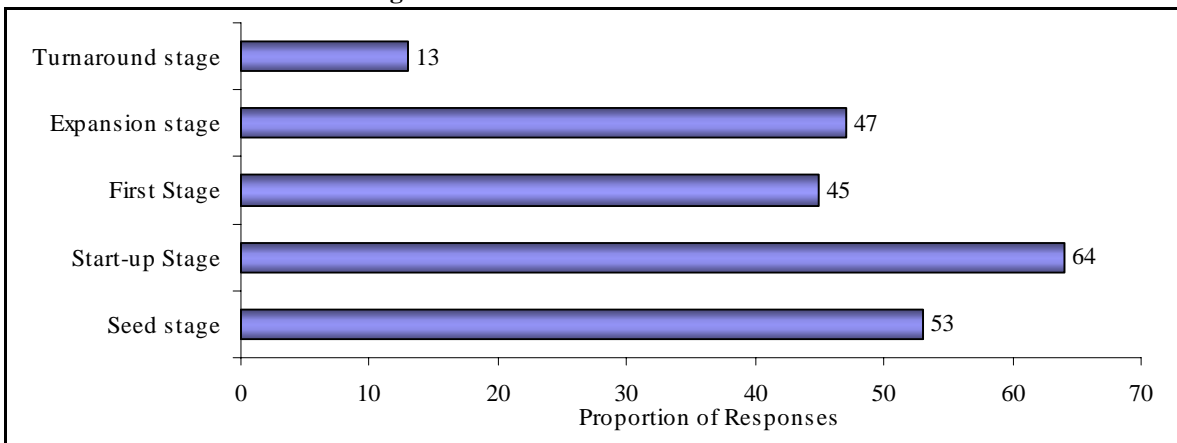
**Chart 2: Frequency of Private Investments - Investment Patterns**



**Chart 3: Investment Patterns: Sectoral Breakdown**



**Chart 4: Investment Patterns: Stages of Investment**





The 51 investors who completed the questionnaires and who participated in the roundtable discussions had been involved in 142 deals during the last two years, collectively investing more than \$107 million in these investments. In making these deals, the investors reviewed a total of approximately 1,200 proposals per year (on average, about 24 proposals per year each), resulting in an estimated acceptance rate of approximately 6%. Investments tend to be local, with 68% of the deals being located within 50 km of the investors' home or office.

### **Investor's Experience Re: Availability of Investment Opportunities**

Investors were split on the issue of whether or not they experienced a sufficient deal flow: 55% of respondents reported that they have a sufficient deal flow; 45% reported to the contrary ("*Nous avons peu de projets bien montés.*"). To achieve this deal flow, the questionnaire data reveal that each investor reviews, on average, 24 proposals per year. However, the roundtable sessions suggest that most investors are exposed to considerably more projects than this. Most potential deals are not pursued beyond very preliminary discussions before it becomes apparent that either the investor or the entrepreneur (would-be entrepreneur) is not interested in pursuing discussion further. A general finding was that entrepreneurs are not well-prepared for investment.

*"A guy phoned the other day and asked me to consider a project. I said 'I'll look at the venture, but I'll tell you right now, I'll want between 20 and 25% on my money.' The guy said 'we can go to the bank and get better money than that'. I said 'what did you call me for?' They don't realize the venture capital is looking for 20-25% return."*

*"For every 20 proposals I look at, there might be one I look at really closely. Everybody wants to be in business, but few know how to be in business. There are an amazing number of people who get into business because they have expertise in one little area whether its making something or selling something, but they really don't understand how to make a profit - that the biggest thing, knowing how to make money. I find people put all their focus on how they are going to develop the portal or idea without figuring out how they are going to make money off it."*

## **NATURE OF INFORMAL INVESTMENTS: CANADIAN INFORMAL INVESTOR BEHAVIOUR**

### **How Investors Learn About Potential Investments**

The primary means by which investors learn about potential investment opportunities is through referrals from business associates. A majority of participants in discussion groups in all parts of the country mentioned that professional contacts – including accountants, bankers, lawyers and other investors – are key sources for introductions to potential investments. Investors in each discussion group also count the local CCIP site as an important source of potential investment opportunities.

Many investors also note that investment opportunities find the investor - the individual becomes known as a potential investor. Potential investors are approached often with a wide range of investment opportunities; however, few opportunities are well-prepared for investment.

*“Nous pouvons avoir plusieurs choix de projets mais peu de projets qui sont bien préparés et prêt à l’investissement informel. Nous faisons face à beaucoup de projets boiteux et n’ayant pas de profondeur.”*

A number of direct quotes taken verbatim from investors participating in discussion groups further illustrate these conclusions:

*“Peu de succès avec les groupes professionnels. J’ai fait le tour des notaires, agents immobiliers, avocats”.*

*“It’s networking and who you know. When you’ve been around for a long time, your phone rings, you get business plans through people in the business community, bankers are frequently a good source...”*

*“Par le bouche à oreille et aussi par le CLD(Centre local de développement). Le CLD a été la source de plusieurs contacts.”*

*“Government is frequently a source, we have a bit of an unfortunate practice in the Maritimes. We tend to drag entrepreneurs across provincial borders, by giving them grants. Then the government thinks about how to turn these ideas into real businesses,... so if you’ve got contacts with these governments, you’ll get contacts with these businesses.”*

*“Once you start looking, then word gets out and more things will start coming... whether it’s the right thing or not, that’s a different story, but...even my accountant said look at this and look at that...”*

*“I get a lot of people phoning me, I guess they know that you’ve got some disposable cash – so I get direct phone calls from people I don’t even know, or someone has referred them to me. Or somebody I know phones me up and says ‘I think this is a good investment, do you want to take a look at it?’ Some calls are from people I’ve invested with before, some are cold calls.”*

*“The ones I run into are generally referrals from business associates ... or a guy I’ve invested with before is interested in investing and wants to know if I’ll take a look at a proposal. For most of us it’s a matter of having more guys [investors] looking at the proposal – trying to reduce our risk.”*

*“ I’m new here and don’t find I’m plugged into the business community – I didn’t find there was a whole lot of business opportunities – maybe because I’m out of the loop, this is where the CCIP site helped me out.”*

*“C’est très difficile pour un immigrant d’investir puisque nous n’avons pas de réseaux. Je n’ai pas eu de suivi à mes démarches et souvent les projets présentés ne sont pas bien structurés. Il y a de la résistance de la part des promoteurs de partager l’information privilégiée.”*

## **Evaluation of Potential Investments: The Due Diligence Process**

Private investors across Canada consistently mention that they are looking for investment opportunities (a) with the right people, (b) with market potential, and (c) where they can add significant value. These three factors were mentioned as key in every discussion group held during the course of this project. While there is strong agreement on these points, there are a wide variety of approaches that Canadian investors use in evaluating potential investments.

At one extreme, a number of investors indicate that their due diligence process is fairly informal. These investors report that they:

1. go over the financial statements and projections that are available re: the potential opportunity;
2. meet with the principals and get to know them over a period of time;
3. conduct informal reference checks on the track records of the principals.

Then they make a decision based on the results of these evaluations. Many investors using these informal approaches indicate that they use a ‘gut feel’ and have to feel that they can trust the people involved in potential deals and would like to work with them. Examples of comments illustrating this informal approach include:

*“I want somebody who is honest – I don’t really know how to determine that, but I check backgrounds and just get a feeling.”*

*“Ma démarche est rigoureuse mais aussi instinctive. L’élément émotif prédomine sur l’élément rationnel. Il faut être excité par le produit et aussi par les promoteurs.”*

*“You look at the people who have put the plan together, you look at the success of the people, the industry, divide the forecasts by 10, that is a start”*

*“I have certain red flags: ... I have identified similar patterns repeating in people’s lives. Therefore I look for a pattern because I expect to see it emerge again in the venture contemplated. For example, failed relationships with close business associates most always repeat.”*

*“Il faut tenir compte autant de la connaissance qu’a l’entreprise de son produit, dans sa capacité de gérer et aussi de mettre en marché le produit. Les trois éléments sont essentiels.”*

At the other extreme, a smaller number of investors (these tended to be larger scale investors) indicate that their due diligence process is very sophisticated. These investors report that they use checklists, hire assistants to examine all documentation and search out other evidence re: the principals seeking investments.

*“The available information varies but in every case I hired a data research company to turn individuals who play with my money inside out and I’ve learned some startling things along the way.”*

*“It is frequently boring and not necessarily productive but necessary to get my head far enough into whatever I’m doing so that I have developed a very keen understanding -- the best understanding I can have -- of the opportunity, the market, the people, [and] all aspects ... I work from a due diligence questionnaire that I have developed over the years...it’s probably 50 pages.”*

*“Il faut faire une analyse en profondeur pour voir si le produit ou le service est viable et peut attirer des investisseurs.”*

*“[I use] ... the stock exchange sophisticated computer system to do due diligence on the people just to make sure they haven’t been involved in fraud.”*

*“Il faut s’impliquer directement avec l’entrepreneur pour analyser les potentiels d’investissement, faire la pré-analyse, faire le montage financier. Il est aussi important avant de rencontrer le promoteur et de pouvoir faire enquête sur la crédibilité et la solvabilité de ce dernier.”*

*“...it depends on the scope and [whether or not] you have the resources. When you’re looking at a large operation, what we used to do, we’d go hire the best legal people and then we’d hire the best accountants and we’d turn them loose and put them together. ... I had five professionals whose total job was to savage any business plan which came across their desk. ... [but] if you are looking at smaller companies they don’t have the resources to do that, I think that’s different.”*

## **Exits and Exit Strategies**

Investors usually expect to sell out their share in investee businesses, either to the original principals of the firm or to third parties (for example, to an acquiring firm, to follow-on investors in subsequent rounds of financing, or as part of an IPO). Most investors anticipate rates of return on their informal investments of the order of 20 to 40 percent.

*“Nous attendons des retours sur notre investissement d’environ 30%.”*

Investors generally acknowledge the reality that most firms will not succeed. They understand that it will take from three to seven years before the firms in which they invest will reach the stage where exit can be expected, and that entrepreneurs do not often anticipate investors’ need to exit.

*“La plupart n’ont pas de stratégie fixe de retrait de l’entreprise”.*

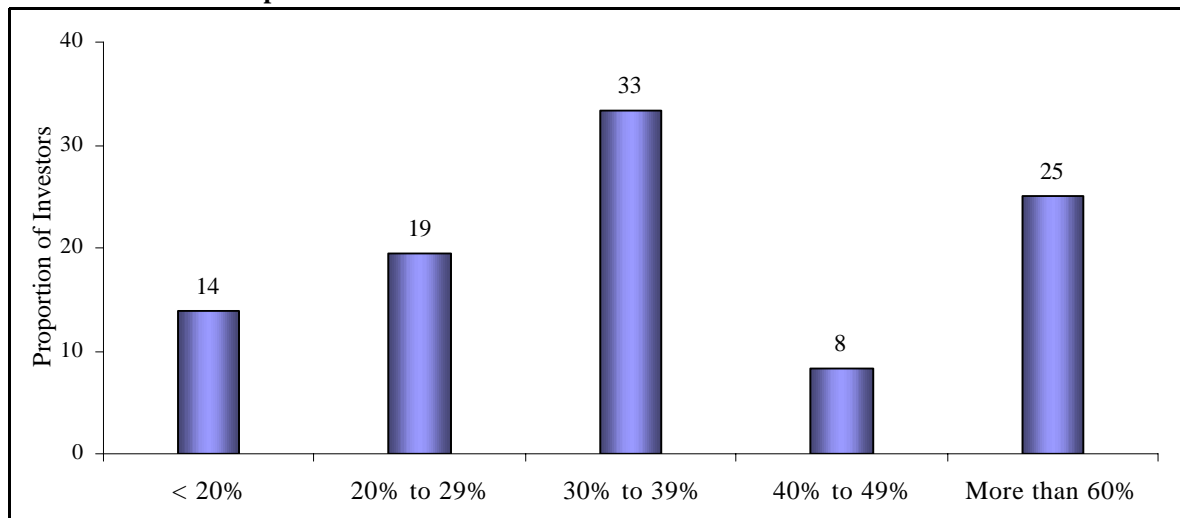
*“Exits aren’t quick and anybody who looks at these things like it is a two or three year cycle I think that every now and then that happens, but I don’t think it happens, not if you are doing this in an ongoing basis. You end up living with the companies for a long period of time.”*

*“Tout projet a un cycle de vie. Il faut profiter du plateau de profit pour se retirer. Mais il faut toutefois voir comment l’entreprise peut croître à long-terme et dans certains cas il est avantageux de continuer sur une plus longue période.”*

*“That’s the fun of being an angel investor -- staying in and watching that company grow.”*

For most investors, exit provisions are negotiated with business owners at the outset and are usually specified in the shareholders’ agreement. Several forms of exit provision were described. Charts 5 and 6 present, respectively, the distributions of private investor’s rate of return expectations and exit time expectations.

**Chart 5: Investors’ Expected Rates of Returns**



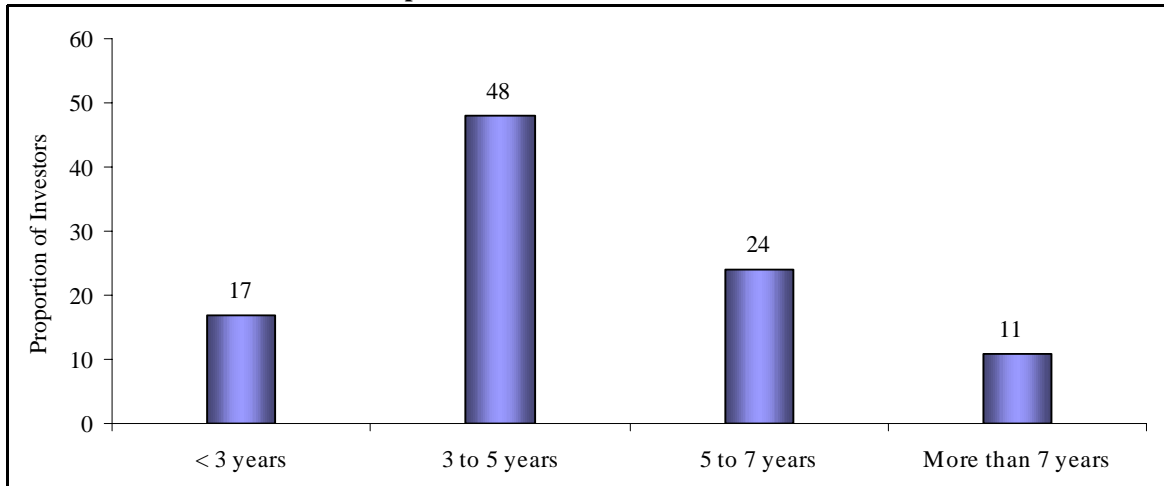
One example of an exit provision was described as a “retraction clause”. According to this approach, the investor maintains the legal right to force the business owner to repurchase the investor’s shares at an agreed and pre-specified price at particular points in time.

*“We’ve used a model in a number of cases which have in effect treated the money put in by the investors as ... an equity position which has a retraction feature that after 2, 3, or 5 years is exercisable by the shareholder. The theory is that it places the management of*

*the company under the discipline that if they re not doing well then people do have a mechanism by which they can vote with their wallet, and if enough people vote that way then in fact you've voted to dissolve that company."*

*"In one case it worked particularly well there were three, no there were two retraction dates and about 10% of the shareholders retracted, so there was a payout and it was for a dollar in two dollars out so you could look to double your money. It provided that safety valve."*

**Chart 6: Private Investors' Exit Expectations**



This approach also has the advantage of adding a ‘discipline’ on the business owners. The owners recognize from the outset that they might be obliged to come up with the cash necessary to buy out the investor(s) upon the investor’s demand. Thus, this discipline provides incentive to generate the requisite amount of cash. Alternatively, this clause provides incentive to the principals to build a business in which the investors would prefer to continue as principals.

Investors also understood that if they were to invoke such a retraction clause, they might well place the firm in jeopardy. At the extreme, if the business or its principals could not generate the requisite buyout cash, exercising a retraction clause might force the firm into liquidation. The inclusion of a retraction clause, therefore, is no guarantee that the firm will ultimately be able to accommodate investors’ exit intentions.

*"It's a setting where you're a minority shareholder and you say to them [the principal owners] 'We have the right to ask for our money out based on the accountant evaluation and has to be a fair market value and without a discount for being a minority shareholder', and you grab it all at once and the business goes under and can't pay you anyway so its usually a slow tedious way to get out."*

*"I would take back the loan and then you exit with everybody."*

*“The laws of insolvency and bankruptcy prevent you from acting on retractions because it would put the company further in debt and of course you can’t do that.”*

Exits tended to be triggered according to whether or not the firm had met predetermined milestones.

*“The initial shareholder’s agreement created around this company described a number of milestones and those milestones either being hit or missed by certain dates triggers the sale of the company or a decision to alter the plan ... I think exit strategies need to be determined. We are also working with people and people need clear and common expectations about what the exit strategies are.”*

Other exit provisions included use of debt, secured by assets, with equity kickers such as warrants or conversion options.

## **Actual Exits**

As noted in the previous quotation, exits were important to the roundtable investor participants:

*“... they won’t go in unless they know how they’re going to get out.”*

*“Il faut se retirer quand nous sentons que notre investissement a aidé la compagnie à fructifier. Il ne faut pas devenir le gestionnaire de l’entreprise.”*

*“I think the greatest fear is to be in an investment that is successful and you’re not getting a return. ... if you don’t put any controls in and you don’t have a proper exit, and you don’t have the right to control management. [For example], what if we made a million dollars this year and he took five hundred thousand bonus and you took five hundred thousand bonus. “We are really sorry, we can’t declare any dividends. And if you can’t get out, they can do that to you forever. So that’s where you have to be very cautious on that, how you get out, how do you protect yourself. You can tie up management or you can be guaranteed a return, but you’ve got to do something.”*

*“Si l’entreprise a des projets d’investissements et de développement de nouveaux produits, ou que le promoteur a identifié des nouveaux marchés, ces différents éléments pourraient justifier de maintenir notre investissement à plus long-terme.”*

Several potential means by which private investors could exit were identified from the literature and are summarized in the following table.

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### **Types of Exit (Cumming and MacIntosh<sup>2</sup>)**

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<sup>2</sup> D. J. Cumming and J. G. MacIntosh, “Venture Capital Exits in Canada and the United States”, Working Paper, University of Toronto Law School, 2001.

<b>IPOs:</b>	the sale of investors' shares at the point when the business raises additional capital through the sale of shares to the public. Often, shares of founders and investors, however, can be subject to hold periods and escrow requirements.
<b>Acquisition:</b>	the sale of the investors' shares as part of the sale of the firm to a third-party acquirer. Often, acquirers are "strategic acquirers", buyers that have potential synergy to offer or that may be related to the business as suppliers or clients;
<b>Buy-Backs:</b>	the shares of the owner are repurchased either by the company or by the staff and other owners of the firm;
<b>Secondary sale</b>	the sale, of only the investor's shares to a third party investor. The acquirer could be a different investor or a strategic acquirer.
<b>Write off:</b>	the realization of a capital loss on the wrap-up of a business

Private investors certainly mentioned IPOs as a frequent means of exit:

*"...a lot of companies are turning out very solid returns, [have] very good management, [are] well run, and are trading at ridiculous multiples of earnings -- but it is a way out. Going public is one way of getting out ... if you can find a good broker and there are a few companies out there that will help you go public at a reasonable rate."*

However, concerns were expressed about one form of IPO, those made using the Junior Capital Pool (JCPs) vehicle historically available on the Alberta Stock Exchange (now available on the Canadian Venture Exchange and called Capital Pool Companies, CPCs).

*"...if you look at the listings at the Canadian Venture Exchange there are 35 pages of failures ... what used to be called the Junior Capital Pool. ... they [the firms] raised \$400,000, \$500,000 and if you look at it about \$150,000 to \$200,000 is scooped ... by the brokers and the accountants and the lawyers and unfortunately, some of the consultants as well. ... They come out of it with significantly less money than what they need in order to survive. ... Their stock broker pumps the stock, gets it up, unloads it, and the stock goes down to \$.06 a share, \$.03 a share, so they have no way of raising additional capital without some incredible dilution. ... There have been too many companies that have gone that route, a lot of companies with a lot of potential. They should have raised the half-million privately, but there just aren't enough sources."*

*"I'd like to comment because you've mentioned Junior Capital Pools. Junior Capital Pools from my perspective are a waste of time. You can't swing a cat for \$500,000."*

*"I feel ... the best exit strategy is to actually take funds. My big concern is that the Junior Capital Pool is ... getting far too many companies into it too early. ... I deal with young companies, start ups, ... looking for venture capital and they are already looking to expand into global markets ... [yet] in many cases, its still too early to go public."*

Investors generally recognized that IPOs were rare. Accordingly, the most frequently mentioned exit mechanisms were through acquisition.

*“We do see in this market is more acquisitions of companies from outside the jurisdictions than companies going public.”*

*“You either go public or get acquired. If a potential acquisition comes along that looks good, that certainly has a lot of appeal depending on the valuation you get.”*

Investors also identified various types of buy-backs as exit mechanisms.

*“Another exit strategy that is an extremely valuable one is an employee buyout strategy and employee share ownership program that allows for acquisition of the company by employees over time.”*

*“With my engineering business I transferred my assets internally to long term employees.”*

However, such exit mechanisms can take a long time before the investors realize their gains:

*“We always have a big window to get out... you have to because, as the business changes the relationship changes and certainly sometimes it had been a long slow tedious buyout. [For example ] where ... it’s a family business you’ve invested in and you know you re not going to become part of the family and you want your money out, you know you can t pull it all out at once.”*

Another investor provided an example of a secondary sale to other investors:

*“There were four partners and we had the opportunity to buy each other out based on the traditional shotgun ... to assess values and that sort of thing, so that is in place. We haven’t gone the next step in terms of what we will do with the company as a whole but it will be based on a business valuation, conducted by a third party and under the terms of a shareholder agreement that compels the company to be sold against certain milestone events, made or unmade.”*

Certainly, the write-off was well known as an exit mechanism:

*“Never ever had anybody ask me how do you exit? <everyone laughing> It’s just done for you.”*

## **Networking and Syndication Patterns of Canadian Informal Investors**

Investors report three modes of operation with respect to syndication. Approximately 37 percent of respondents are “lone wolves” in that they do not syndicate at all. At the other extreme are those who always invest as members of a pack (23 percent of respondents). The remaining 40 percent of investors reported that they syndicate some of the time, but not in all instances.

The role of networks is twofold for informal investors. First, networks play a significant role in helping to form and preserve syndicates so that investors can participate with other investors in ‘doing a deal’.

Second, networks are critical in helping investors learn about investment opportunities. Even though many investors tend to be ‘lone wolves’ in terms of their deal patterns, virtually all investors view informal networks as critical in learning about investment opportunities. As noted elsewhere in this report virtually all investors discussed the importance of referrals from business associates and from others in learning about potential investment opportunities. In the words of the investors themselves:

*“I think that perhaps this has come back to what we initially started on discussing which is how you find an angel investor or an investor. It is word of mouth, it is networks, it is developments.... Maybe it is at a golf course, a service club. It maybe meeting someone through someone or hearing about someone who does something and you phone them up...”*

*“It’s networking and who you know. When you’ve been around for a long time, your phone rings, you get business plans through people in the business community, bankers are frequently a good source...”*

A number of investors commented specifically about differences between formal versus informal syndicates or networks. As one investor noted, if the investor does not find the formal networks useful, he will simply not use them. In general, Canadian informal investors do not find that formal syndication works nearly as well as informal, fluid, project-based syndicates:

*“When I was talking syndication I was talking about something considerably less formal. If I’m going to go and put a little bit of money in something, I work with a couple of people, I know. I trust with them, and I just call up a couple of my buddies and say, ‘Oh listen, here’s the deal. Tell me, am I... missing something here? Does this make sense? Okay, I’ll put some of my money if you put some of your money in.’ It just means that I can take my money and spread it a little bit further and get a second opinion.”*

*“...in essence you are trying to syndicate a venture capital group and you are putting together a whole bunch of different investors with different points of view. It is not easy.”*

*“If you have a formal venture capital pool you’d scare people off. You have a meeting and get together ... that helps and so simply making the connections from one person to another so that they end up doing some deals later on. That’s all it really takes is a simple introduction and a lot people would carry it on from there.”*

*“I’m not sure what the definition of syndication is. If it means another overhead level that concerns me.”*

While networks are extremely valuable and play critical roles for Canadian angel investors, a number of disadvantages are also evident. The problems inherent in working with others on

investment deals include the problem of differential expectations and valuation regarding each investor's involvement and work, the problem of angels micro-managing businesses they are invested in, as well as the problems of managing groups of very strong willed people:

*“The idea was the group would put in money and we would look for deals. It just did not work because one, I find whenever I'm in with a large group ... that there is different amounts of effort put in and the result is that some of the guys within the group will work, some the guys will throw their money in and just complain. Depending on the project different personalities will come to the front so I don't think that having a group set up and then finding the projects works. I think you find the project attracts certain groups, and the project may maintain their interest both in terms of dollars and in terms of input. But I don't know of any sort of investments groups that really function well... maybe they are there but it hasn't been within our crowd.”*

*“The other pitfall I have found in groups is that because you are attracting very successful individuals by definition, they all believe that they know their business. And because of that, not unlike doctors, they believe they have the divine right of knowing everything about every business. So now you have six or seven great entrepreneurs all deciding the menus of the restaurant you just opened up. It can be a nightmare – we've been through it, and we're witnessing another group in town going through it. Yeah, with great delight (laughter). Yeah been there done that.”*

*“But as far as syndication is concerned I think the smaller the group the better. That's my personal experience.”*

*“So it means either you continually expand beyond the initial group because there is a burn up factor in the person who is doing of an investment project. You get tired of trying to drum up investors and you can't point to your last success because its way back there.”*

Most investors speak about their networks as being very informal, having a core group or a leader who “rounds up the usual suspects” to look at a deal. It is also clear that syndication deals reduce risk for the investor:

*“It is sort of plasma like ... .the same group sort of follows along, people come in and go out, it is reasonably ad hoc. The way it works with me is that if I get involved in a project to the point that I'm content to be a lead investor, it doesn't take very long before you drum up the usual suspects to come along. There is a nucleus.”*

*“Every syndication needs a leader and I think that, that's how it starts. I am involved in a variety of these and typically there is a group who have followed my investing, and it all comes down to networks I think.”*

*“We do business with people who we know, and have done business with. We will take a yield less than we can from a stranger to do business with a friend just because we know that everyone's going to keep their hands on the table and are not taking the risk.”*

*“The ones I run into are generally referrals from business associates ... or a guy I’ve invested with before is interested in investing and wants to know if I’ll take a look at a proposal. For most of us it’s a matter of having more guys [investors] looking at the proposal – trying to reduce our risk.”*

*“Je me suis bâtie un réseau informel de personnes qui investissent et qui acceptent de communiquer leurs informations. Ces personnes font souvent les analyses préliminaires de la valeur des projets et nous investissons soit seuls, soit en groupe.”*

*“Syndication is something that I love to do. Many deals I won’t even do unless they’re syndicated, because that way I get other people who not only money, but have an opinion. And it’s a way I can sort of get the most important deals.”*

But, it is important to realize that for many investors across Canada, a syndicate can be a lot of fun for the investors. A number of investor comments show that this aspect of investing is really important to them:

*“But one particular fellow has close contacts in other cities ... they sort of invite each other in and it’s like a club and they have some great fun. They go in heavy in all kinds of different deals and they go and have a fancy dinner and laugh about it... and if it doesn’t succeed they get involved and ... they have a lot of fun.”*

*“The investors in this group really have to have kind of the same culture. As Andy says, it’s fun money for them. They were in it looking for a big deals and some excitement and ... all of those things. But they don’t float around with a whole bunch of different partners they just have one or two partners and it’s always the same guys in that group.”*

While the notion of having fun as an investor was a strong theme in the discussion groups, it must be noted that some investors believe that involvement of unprofessional investors can cause significant problems. The view of some investors is that unprofessional investors can cause more harm than good by establishing unrealistic valuations at an early stage and from the provision of bad advice. This causes problems for the more serious investors who typically come along afterwards and has to try to clean up the mess.

*“The casual investor who not only does themselves a disservice but kind of clogs up the system as well in terms of moving things positively forward. As a result of some availability of that money and source I think that entrepreneurs often get off to a bad start so that it would be very nice if there was a mechanism to take the casual investor’s interest in investing and make it professional.”*

One finding that was specific to Quebec was a “club d’investisseurs” described as an investment fund structured with three professional managers and 2,000 small silent investor participants. The fund managers sought a rate of return of 34-40% on its initial investments.

*“Je fais partie d’un réseau d’investisseurs (2000 investisseurs et trois gestionnaires) et c’est ce réseau qui me donne les contacts pour des projets valables”.*

## KEY PARAMETERS OF THE INVESTMENT PROCESS

### Essential Factors Prompting Investors to Make Investments

Investors across Canada in all discussion groups were very consistent in identifying and discussing three critical factors that prompt their investment in a project. The 3 critical factors are:

1. people,
2. the product and/or technology potential,
3. the non financial value that the investor sees he can bring to a project.

The majority of investors note that the people involved in a potential investment opportunity are the most critical factor in their decision to make an investment. Many investors note that they would be spending considerable time with these people, so it is important that the people be the right ones for the job and be individuals with whom the investor would like to spend some time. The importance of people is best stated by the investors:

*“I invest in jockeys not horses. Good jockeys will ride good horses. I am not capable of identifying which technologies will become new ‘platform’ or winning technologies and products”.*

*“For me, I only want to invest in entrepreneurs who are going to maintain control of their company, I’m investing in the person, I want them making the decisions.”*

*“Il faut tenir compte autant de la capacité de l’entreprise dans son produit, dans la capacité de gérer et aussi de mettre en marché le produit.”*

*“I didn’t always feel this way, but there’s only one thing that makes the world go round and that’s who are sitting around this table – people, and if you have people with the wrong expectations, then you are in trouble to start with. If you can get the right kind of people with the right tools that you want to work with, then that can make a whole lot of difference.”*

The investors noted that they look for people who:

- are honest;

*“I want somebody who is honest – if everybody is honest, you usually make money. If something happens, its not because they have screwed you, it could be bad luck or economic conditions.”*

*“Il faut s’impliquer directement avec l’entrepreneur pour analyser les potentiels d’investissement, faire la pré-analyse, faire le montage financier. Il est aussi important*

*avant de rencontrer le promoteur et de pouvoir faire enquête sur la crédibilité et la solvabilité de ce dernier.”*

- exhibit a strong work ethic;

*“A big thing is work ethic – are they willing to put in 60-70-80 hours a week to build the business.”*

*“Make sure the entrepreneur understands he gets paid a salary for working really hard - that’s his job and they better understand that in 10 years time if the shares are worth 2 million dollars, my shares are worth the same as his on a per share basis”.*

- understand what it takes to make the business succeed;

*“I look that somebody in the company has all the different knowledge needed – you don’t mortgage the building to fund cash flow.”*

*“Whether the entrepreneur acknowledges he is missing key ingredients and step 2 is on what basis is he willing to try and acquire that expertise.”*

*“The investments I’ve made have been structured pretty well as far as accounting, paper work and paper trail. When I was starting out in my business, I thought why would I bother doing all this 5 year forecasting stuff, I have no idea what my sales are going to be in year 2, I’m just starting out from scratch. But now that I’ve gone through it myself, you can see that the people who’ve at least taken the time to think about it - whether its right or wrong - tend to have a better chance of success.”*

- have invested in their own business;

*“The most critical thing there is, if I’m investing in somebody’s company, if they don’t have money in it, I’m not interested. They have to have something in it – not just sweat equity; sweat equity doesn’t mean a lot. If I’m standing there holding all the paper... there is a reason the banks like personal guarantees, they [the entrepreneurs] need to suffer if they are going to walk away from the business.”*

- and have a realistic notion of how to value the business.

*“What’s important to me is that the entrepreneur have an understanding of the relative value of the contributions of the necessary cogs of the wheel to make the idea work. If you work that way, you avoid some of the problems of the absolutes in valuation and you just say my contribution as the production manager is a 10% value of the ultimate success of this business. Whether its 10% of 100 million or 200 million I don’t know and some investment banker can tell us that in 3-4 years when we are about to go public...but its that relative value.”*

Not surprisingly, the market potential for the product or technology is also a key factor in determining whether Canadian private investors make an investment. For a minority of

investors, the product or technology is even more key than the people. Investors who express this point of view believe that they can always change or add to the people necessary to make a business successful, but what they really want is an extremely promising technology or product. These investors are often seeking new breakthrough technologies and their approach is to seek these opportunities and if necessary change the people involved in the venture.

*“Beyond that if you are looking at something that is coming to you across your desk I would tend to look more for a technology that is what you would call “a platform”, like something that has really great potential.....something that is exciting. After that a very key thing are the people involved.”*

*“Il faut comme investisseur être capable de visualiser comment l’entreprise pourrait se développer. Cette aptitude vient avec l’expérience.”*

*“What we look at are people, people and people, the other significant one is the magnitude of the market for the product.... We like at least North America or global markets - that is the upside potential, you’ve got to look at the upside potential in my opinion.”*

*“I look for management and the markets that they are looking to penetrate, are they looking just for the just the New Brunswick region, Atlantic, North America, these are key things... Once you look at what they are trying to achieve, does management have the ability to do that – do they have the proper skill sets? Can they execute?”*

A third major criteria mentioned by a majority of Canadian private investors is the value added that the investor judges he or she can bring to a given project. Virtually all investors believe that equally as important as the money they provide to a project is the mentoring, experience, contacts, and other forms of value they add to the projects with which they invest. (The nature of these non-financial contributions is discussed in a separate report entitled “*Value Added by Informal Investors: A Preliminary Study*”).

The following statement by an investor provides an excellent summary of much of the discussion:

*“Provided the business opportunity contemplated meets the first criteria [in this case, an acceptable fit with the investor’s personal priority for sustainable development] then second level considerations come into play. These are grouped as follows:*

*Prior to investing I am guided by the three P’s: People, their character, background and personality. I am influenced too by their network - by their other champions and mentors and whether their advisers think as I do? Patents. - strength of and who filed them?  
Products - competition and their products place in the market.*

*Prior to investment I also look for the 3Cs: Confidence -is the entrepreneur outgoing and well able to communicate; Character - is the entrepreneur really driven to succeed - and is this his overriding passion and is that passion driven by money, greed or ego? Is*

*he honest? Do others speak well of him. I would not care if his only asset was a fine reputation; Common sense - is the entrepreneur a realist and does he or she possess a practical down-to-earth attitude? Can he or she think on their feet? Are they flexible?*

*I am also influenced by the 3E's: Experience - background-breath of knowledge and a history of success. Ego - and temperament-drive and openness. I must know that an individual is a net contributor to his community - a giver not a taker. Eccentricities - these sometimes take years to unearth."*

## **Investors' Experience with Level of Preparedness of SMEs**

The investors are very consistent in their views that entrepreneurs and small business owners who are seeking investment are not well prepared to attract private investment. From the private investor viewpoint, there are a number of common ways in which potential entrepreneurs and small business owners are not well prepared. These include:

- business plans not well developed;
- expectations that large investments from outside investors would occur with little interference from those outside investors;
- unwillingness to relinquish control;
- poorly developed ideas about markets and revenue streams; and
- an inability to recognize the need to acquire the multitude of skills needed to develop their businesses.

Overall, these shortcomings can be characterized as:

1. the inability of most potential entrepreneurs to manage the commercialization process; and
2. inappropriate views by entrepreneurs (in the opinion of the investors) regarding the value of the firm as a whole and, within the firm, the value of an idea compared to the overall value of a business. Most investors note that potential entrepreneurs overvalue the idea and undervalue the contributions (both financial and non-financial) that are required to grow and develop a business.

Quotes that illustrate these investor views include:

*"To get to your question about whether businesses are at a stage where they can properly use financing, in my experience, about 95% are not. The business plans are not well thought through and often there is no pragmatism for the approach... There is a lack of entrepreneurial culture, which means that people who have an idea - which I generally refer to as a widget - 'I've got the widget, I've got the widget' - give very little thought towards growing the business. Once they have the idea they move to asking 'Now where's my money for my business?' They give very little thought towards business*

*planning or cash flow – it's a very high percentage that are not ready for cash, but are ready for assistance.”*

*“Il y a un manque de vision à long-terme puisqu'on peut toujours se réadapter.”*

*“Manque de préparation dans les plans d'affaires.”*

*“... a lot of times they have a great idea, but have no idea about how the cash is going to come in. I can think of cases where my first question is 'How is this idea going to pay your bills?' They say 'Well, I don't know'. I say 'Well it's a great hobby then'. It's not a business until they can answer some of these questions.”*

*“I think the biggest challenge is the recognition that the entrepreneur does not have the necessary skill set to be successful... they are probably really good at one item like developing software or whatever, but they are lousy at marketing or management. Our biggest problem is do they recognize that and get the help they need – sometimes it takes a long time to convince them...”*

*“There is a misunderstanding of the value of an idea compared to the value of a business. We can sit around this table and generate good ideas that would be quite executable, but it's the execution and the preparedness to take risk with it that makes a difference. If you have management that not only don't see what their own limitations are, but at the same time, they place the value of their idea at 95% of the enterprise value. They are not willing to slice the equity value of the business in a way that reflects the important contribution of those 4-5 components that are needed for business to succeed – be it to attract the right talent or financing. Most entrepreneurs are unrealistic, are likely to overvalue the idea and if they do that, they won't get the talent or the equity that they need.”*

*“Souvent le promoteur aimerait avoir l'investissement en comptant, sans avoir aucune autre forme de support ou de participation de l'investisseur. Le promoteur a peur de perdre le contrôle de son entreprise.”*

*“I have seen opportunities where 30% of the company was represented by \$300,000 or \$400,000 and 70% was represented by less than \$1,000 and they wanted to look at raising more money.”*

*“I think it is the entrepreneur that doesn't want to let go, doesn't want to let go of control.”*

## **THE INVESTMENT CLIMATE IN CANADA AND REGIONAL DIFFERENCES**

Investor respondents were asked to rate the importance of a variety of factors intrinsic to the local and national investment climates. Chart 7 graphs the average ratings accorded various potential inhibiting factors. The most important inhibitors to investment are entrepreneurs' expectations and valuations, and the tax environment. This is in keeping with investors' sense, noted earlier in this report, that business owners are not generally well-prepared for informal

investment. In addition, it appears that investors perceive entrepreneurs' understanding of the investment process as a problem area. Of lesser concern are time demands and other regulatory issues.

**Chart 7: Relative Importance of Potential Inhibitors to Investment**



The importance of taxation issues was echoed in the roundtable discussions. While much of the commentary was directed at the taxation of capital gains, it was recognized that the tax and regulatory environments had additional and complex impacts. For example, given that the primary shortcoming associated with potential investments was the shortage of managerial talent, the imperative of retaining and attracting competent and experienced managers for growing enterprises was seen to have tax dimensions. As, one Waterloo-area investor noted:

*“It is ... impossible to attract American talent to come to Canada ... I think the income tax rate is a big attraction of the United States, a big deterrent to Americans coming to Canada. ... [Attracting talent] is a big factor to a business that’s maturing and may be [trying to] get experts who live in New York or California to want to live in Canada. They won’t go and you end up setting up offices in United States. ... For the Canadians, ... seven states in the United States have no state income tax including Texas and Florida and it’s a huge disadvantage to Canada vs. living in one of those states.”*

*“I have 400 employees [and do] about 150 million dollars a year in revenue and we gave up trying to get Americans to come to Canada. We hired close to 50 Americans over twenty years. We ended up with offices in the United States and they [the American talent] would move back into the United States. Of the 50 Americans, I think one actually stayed in Canada. ... Many [of] the people we talked to just wouldn’t consider moving to Canada. ... You need that expert to relocate [to here] and move from California and if his taxes are lower [in California] then you end up paying him some huge amount of money.”*

The problem of attracting talent is exacerbated because of the ways in which stock options and profit sharing regimes are perceived to be taxed:

*“... another difference between the States and here [relates to taxation of stock options. In the U.S.,] you can ... exercise them with out actually realizing a gain. That really helps as an incentive to the employee. In that situation it is very hard to take a massive [taxable] paper gain.”*

*“If you’re a public company and a manager of a public company part of your compensation can be options [however] ... if you’re a private company you can still get the options but there’s a lack of good [liquid] stock [which] has been said to penalize private small companies.”*

Moreover, even though regulatory issues were not viewed as being as much of a barrier as other factors, they were nonetheless recognized as a problem. For example, according to one investor:

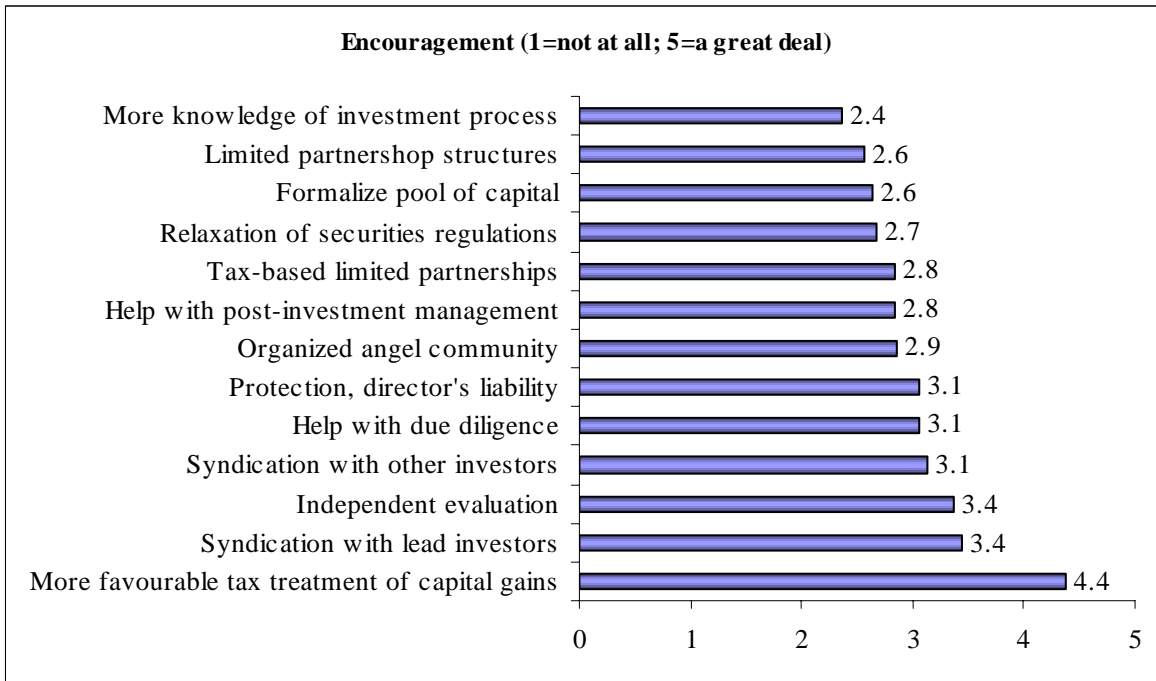
*“if you’re an angel ... unless you’re willing to put in \$150,000 at a crack you’re not welcome to invest.”*

Roundtable participants were also asked to rate a series of factors that might potentially encourage additional private investment. The chart that follows ranks the mean responses to this set of factors. Again, the importance of taxation (especially taxation of capital gains) was identified as important.

*“With a better tax overall climate it would have to increase ... investment.”*

*“There should be better tax treatment for risk capital. I am not to interested in risking dollars now for 50 cent dollars later.”*

**Chart 8: Factors that Encourage Private Investment**



### Regional Differences

So far, these results present the national perspective. In general, the findings reported above did not vary significantly by region; however, it must be recalled that samples within each region were small, in keeping with the exploratory nature of this study. Questionnaire responses were used to assess differences, by major geographic region (Atlantic, Quebec, Ontario, West), as to investors' experience, education, capital availability, investment activity (investment frequency, stage, sector (including knowledge-based sectors), expectations, proposals reviewed, etc.), perceptions as to deal flow, use of syndicates, etc. Based on one-way ANOVA, no statistically significant region differences could be identified in any of these parameters. As an illustration, the following table breakdowns the number of *deals per investor* by major geographic region.

Region	Geographic Region				Total
	Atlantic Provinces	Quebec	Ontario	Western Canada	
Manufacturing	0.23	0.33	0.53	0.44	<b>0.4</b>
Services	0.38	0.5	0.12	0.11	<b>0.24</b>
Primary Sectors	0.08	0.00	0.12	0	<b>0.07</b>
Construction, Finance & Real Estate	0.54	0.33	0.71	0.78	<b>0.62</b>
Technology	1.31	0.33	1.47	1.67	<b>1.31</b>
Other	0.38	1.17	0.35	0.33	<b>0.47</b>
<b>Total</b>	<b>2.92</b>	<b>2.67</b>	<b>3.29</b>	<b>3.33</b>	<b>3.11</b>

Because of the small sample sizes, any differences implied in this table are merely suggestive and not statistically significant. The results suggest, for example, that technology deals are

general more common than deals in other sectors, a result consistent with other research on private investors. The findings are also suggestive that deals in the technology sector may be less frequent in Quebec; however, the data set is not sufficiently large to support definitively any such conclusions.

Regional differences were noted in the sense that most investors (75%) responded in the affirmative when asked if their province differs from other provinces. In particular, investors in Western Canada and the Atlantic Provinces were more likely to hold the view that their regions differed and investors in Quebec believed that Quebec investors were more conservative. No statistically significant regional differences were found with respect to investors' rating of the inhibiting factors summarized in Chart 7.

Thus, while most investors are convinced that their home region is different, no systematic differences in investor behaviour were noted. Within regions, however, investors did articulate ways in which they thought their particular region was unique. Within Ontario, for example, investors in the Waterloo area believed that their area was unique with respect to the availability of investment opportunities.

### **Response to Tax Changes**

The budgets announced during 2000 included two provisions directed towards private investors: a reduction in the inclusion rate on capital gains in Canadian controlled private corporations and a provision whereby such capital gains could be 'rolled over' into subsequent investments with the result that capital gains would be deferred. To further explore these issues, roundtable participants were asked to comment on these recent federal taxation initiatives.

Both were viewed as positive steps, usually with the qualification that additional steps in this direction are necessary. The reduction in the capital gains inclusion rate was widely recognized and universally seen as a positive step. The most frequent comment was that this was a good first step. The rollover provision, however, was not as well known. Moreover, those who were aware of it viewed it as cumbersome and perceived it as being overly complex. Moreover, several investors pointed out that the time limit between cashing out and reinvestment to qualify for the rollover was unrealistic: that they had little control over the timing of when a new potentially profitable investment would become available.

Examples of the comments follow:

*"If the government keeps bringing down the inclusion rate on capital gains, that's better for everybody and then people will take more risks because there's more opportunity to keep more."*

*"Il faut une stratégie globale de pénétration de marchés. Il faut diverses formes d'incitations (formation, conscientisation, mesures fiscales, etc.) pour mieux répondre aux besoins de l'investisseur et du développement régional."*

*“ I came back to Canada from the States a few years ago and people asked ‘why are you doing that, going from a low tax to a high tax situation?’ I said ‘that is not why I’m doing it. I had a choice to set up [a new] company in Seattle or Victoria, one of the issues was capital gains tax because I was bringing in U.S. investors and there is serious danger then, having to pay capital gains taxes. We actually decided to set it up here because the capital gains tax had come down somewhat.”*

*“Let us be competitive on the world stage and if we want to create an environment where entrepreneurs feel taking the full risk they have to take to start a company and move it forward. Having low capital gains taxes ... works for everybody.”*

*“But it doesn’t really put Canada at a competitive advantage just by being close ...”*

*“L’État doit aider les investisseurs à prendre plus de risques en offrant de meilleurs incitatifs tel que crédits d’impôt. Un tel crédit d’impôt pourrait aider l’investisseur à aller chercher un retour sur investissement plus élevé. Ceci ne coûte pas cher à l’État puisque c’est un impôt reporté et pourrait se rembourser assez vite en accélérant le développement de l’entreprise.”*

*“L’échéancier de 90 ou 120 jours pour le réinvestissement du gain en capital (rollover). J’ai perdu 90 jours de ma vie puisque ce n’est pas réaliste de penser que nous pouvons réinvestir dans une telle période. Une période d’un an serait plus valable puisqu’il faut trouver un bon investissement, rencontrer les partenaires, monter le plan d’affaires, monter un projet de partenariat.”*

*“They give me a reason to hate the government less which is obviously not a possible endorsement. I don’t think an entrepreneur or an investor sits there and says ‘gee, if I make a hundred alright I’m going to include fifty and provided it’s the basis on which this country can count I’m going to include fifty as capital gain and I’m going to pay tax .... I think at the early stages I can make a ton and in which case I don’t mind the government being my partner because I’m making a ton anyway.’ So the rearranging the deck chairs on the Titanic doesn’t have an effect. Oh sure its nice instead of being seventy five its now fifty and yeah I can roll it over into other stuff.”*

## **Investors’ Suggestions**

In each roundtable discussion, participants were invited to provide suggestions about ways by which government might encourage additional private investment. Most comments focussed on taxation aspects. Overall, respondents expressed the view that what is really needed is a generalized reduction of tax rates across the board. In their view, this would have the effect of both helping to attract managerial and technical talent (human capital) to Canadian businesses and increase the availability of financial capital.

Some investors expressed concerns that tax incentives to providers of risk capital were unevenly distributed. Of particular concern were incentives to encourage individuals to invest in labour-sponsored venture capital funds when no such incentive attended higher-risk private investment in new businesses. For example:

*“When you look at some of these tax credits for labour funds ... you’re creating problems You’re creating the wrong kind of investment objectives”*

*“Labour-sponsored funds ... have diverted what would otherwise be money available. ... These kinds of funds have amassed large amounts of money sitting in T-bills. And it seems that the investments they do make are in large established companies because they have such a large amount of capital under their control so [these funds] probably actually deflect direct investment.”*

*“Il y a de l’argent mais peu de bons projets prêts à l’investissement. Il faudrait faire de la formation et de l’accompagnement auprès des promoteurs pour bonifier leur projet et le rendre ‘investor-friendly’.”*

*“We have all worked long and hard and paid the tax to get the money we have in our pocket and are a little reluctant to hand it over to risky investments. If there is a tax credit available upon the investment then at least you’re getting some return immediately from something that might be gone. REPLY: The problem with tax credits is sometimes the investment becomes more of a tax reason as opposed to an investment reason. ... just simpler tax laws, lower tax laws, rather than targeting. ... The danger with [targeting is] that [when] you start pushing in one place ... you’re [hurting] some other entrepreneur somewhere else. I’m in the grape industry, and I saw where the business was going. So we pulled out all the crap grapes, put in good grapes. Right after we do that, [government initiated a] new incentive programs for all the slugs in the industry who wouldn’t do anything [and then they] got grants to pull out the grapes and replace them. Why would I be on the leading edge when the slugs get the money from the government?”*

*“As many angels have sold out of [investments held for many years], they paid capital gains. Then if they were to lose money going forward on a new investment, they could only carry the loss back three years. ... So, it [seems to make sense that], for angel investments, government should find some way that the tax loss carry-back on those kinds of investments could be extended [back farther]. Then you at least you’re taxed evenly [on gains and losses] as opposed to buying stock in the stock market that is so liquid that you can get out if you’re negative right before the end of the three year.”*

*“Il faudrait mettre en place des guichets uniques d’information et d’accompagnement pour aider le maillage des entreprises et éviter aux investisseurs de cogner à trop de portes pour connaître les possibilités d’investissement.”*

*“Il faudrait que les organismes régionaux de développement économique tel que les CLDs accroissent les maillages entre investisseurs et promoteurs et fassent de*

*l'accompagnement plus soutenu dans les relations investisseurs-promoteurs qui se développent.”*

Other suggestions related to the \$500,000 lifetime capital gain exemption for individual investors and tax incentives. It was observed that the \$500,000 lifetime exemption from capital gains in CCPCs was designed during the 1980's and that and upward revision in the ceiling was arguably overdue.

## **TOWARDS A NATIONAL CONSULTATIVE PANEL OF INVESTORS**

The vision of, and need for, a national consultative panel of private equity investors was articulated at the end of each of the roundtable discussions. Responses were generally positive with almost two-thirds (64 percent) of participants expressing a willingness to take part in a panel as described in the Appendix. The primary qualification they articulated was that the panel be taken seriously.

*“I don't think anyone minds investing their time, I think every one is interested but you don't want to feel that you are really wasting your time and tax dollars.”*

*“I think what you're doing is laudable but to be involved in a so-called 'national panel' to input into some black hole is absolutely no interest on my part. I'd have to be convinced that someone is going to listen to what you are feeding back.”*

*“Anything is worth a try and, therefore, to advance the cause of this ... I am personally more inclined to try and test what the result is in the end and if we find that it's a black hole we won't respond to it.”*

*“You might also provide a valuable resource in linking private venture capitalists together from coast to coast.”*

## **SUMMARY AND CONCLUSIONS**

The work described here provides information with respect to the characteristics, practices, patterns and perspectives of Canadian informal investors. The work draws on empirical data to update profiles of typical individual investors. Breakdowns are presented of:

- investors' personal characteristics (education, experience, financial attributes, and occupation);
- investors' investment patterns including their expectations and investment patterns (investment size, sector, stage, frequency of investments, location of businesses);
- investors' experiences regarding the availability of investment opportunities.

It is found that private equity investors (also known as informal investors or angels) are well educated and report considerable experience as investors. They tend to hold other full time jobs, limiting the time they can devote to their direct investments; however, they account for a considerable amount of investment in new growth-oriented businesses. The 51 investors contacted in the short time frame of this study had made 142 investments involving more than \$107 million of direct investments over the last two years. Moreover, these investors hold in excess of \$47 million available for further investment in growing SMEs. These investments are usually at the earliest stages of business development, stages where it is often most difficult for growing firms to raise capital from other sources. These private equity investors would argue that a problem lies in the shortage of investment-ready businesses in which the principals are willing to partner with experienced investor-mentors.

The work describes the nature of informal investments and identifies key parameters of the investment process, focussing on investors' investment behaviour. In particular, the work addresses:

- how investors learn about and locate potential investments;
- how investors evaluate potential investments (including the due diligence process);
- investors' exit strategies;
- formal and informal networking and syndication patterns of Canadian informal investors;
- essential factors prompting investors to make an investment;
- investors' experience with the level of preparedness of small and medium size enterprises (SMEs) with respect to private investment.

Investors learn about potential opportunities mostly from business associates. Evaluation tends to be conducted informally, although some investors have developed extensive sets of due diligence materials. The key dimensions of investable business opportunities are the market potential of the business and the capability of the principals to commercialize and market the service or product. Investors also seek the opportunity to make a substantive contribution to the success of the firm. Investors ideally exit through sale of their shares to third parties through acquisitions, buy-backs and, occasionally, IPOs. Investors frequently exit because the business in which they have invested has failed.

The report documents private equity investors' perceptions of the investment climate in Canada and its regions. These include comments about the effects of recent tax changes (the tax-free rollover of, and reduction in, capital gains taxes on small business investments). The work also documents investors' ideas about how equity financing of SMEs might be facilitated. Overall, respondents expressed the view that what is really needed is a generalized reduction of tax rates across the board. In their view, this would have the effect of both helping to attract managerial and technical talent (human capital) to Canadian businesses and increase the availability of financial capital.

Finally, the study took some first steps towards establishing a national panel of informal investors. The idea here is that through such a panel, governments can more readily monitor private investment activity on an ongoing basis and enter into dialogue with the panel with respect to public policy proposals and related matters. Private investors generally viewed this concept positively, with at least two-thirds of the participants signalling a willingness to take part, subject to suitable protection of their anonymity and that the panel would be an authentic and valued source of commentary.

**Dr. Allan L. Riding**  
**Equinox Management Consultants Ltd.**  
**May 15, 2001**

# APPENDIX A

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## CONFIDENTIAL PRIVATE INVESTOR QUESTIONNAIRE

## *Confidential Private Investor Profile*

As mentioned in the attached letter, we are working with Industry Canada to establish a national panel of private investors to help guide policy formulation with regard to the financing of small and medium-sized enterprises (SMEs). Our role is to act as intermediaries between government and the panel of investors. In part, our role involves collection and interpretation of the panel's insights and recommendations. This requires the collection of background information. Our role is also to maintain the confidentiality of such information and to use it only as a means of providing government with aggregated breakdowns of participants' responses. Hence, your responses, like those of other respondents, will be completely anonymous. We estimate that it will take no more than 10 minutes to complete this background questionnaire – most of the questions are of the convenient 'check-off' variety.

### SECTION A: INVESTMENT PATTERNS

1. ***How often do you invest in private companies?***
  1. Often (one or more per year)
  2. Occasionally (once every 2 to 3 years)
  3. Seldom (less frequently than once every three years)
  4. Not presently (but I have in the past)
  5. Never (But I am interested in doing so)
  6. Never (Please advance to Question 20)
  
2. ***At what stage(s) of business development are the firms in which you have invested (Check as many as apply)?***
  1. Seed (Concept stage)
  2. Start-up (at or near market-ready)
  3. First stage (initial sales)
  4. Expansion (expanding markets)
  5. Turnaround
  6. Other (Please specify: \_\_\_\_\_)

3. *Please list how many investments you have made during the last two years in each of the following industrial sectors alongside the average size of the investments in each sector.*

Sector	Number of Deals	Typical Size of your Deals in the Sector (\$)
Agriculture and agribusiness		
Fishing, Mining, Logging		
Construction		
General Manufacturing		
Software		
Computer Hardware		
Telecommunications		
Health/Life Sciences/Biotechnology		
Transportation & Communications		
Wholesale & Retail Businesses		
Financial & Real Estate		
Services		
Other: _____		

- (1) *Of the investments listed in the previous question, how many were located:*

- 7. Within 50 kilometres of your home?
- 8. 50 to 350 kilometres from your home?
- 9. More than 350 kilometres from your home?

- (2) *Approximately what proportion of the deals in which you have been (and are now) involved were made as part of a syndicate?*

\_\_\_\_\_ %

- (3) *Over the last 24 months, what proportion of your investments were to businesses in the knowledge-based sectors?*

\_\_\_\_\_ %

(4) *With respect to your investments in small firms (those with sales of less than \$5,000,000 or with fewer than 50 employees), what ROI do you look for from your investments?*

1. Less than 20%
2. 20% or more but less than 30%
3. 30% or more but less than 40%
4. 40% or more but less than 50%
5. 50% or more but less than 60%
6. More than 60%

(5) *Over the last 24 months, approximately how many investment proposals have you reviewed?*

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Not applicable | <input type="checkbox"/> fewer than 10 | <input type="checkbox"/> 50 - 74       |
|   | <input type="checkbox"/> 10 - 19       | <input type="checkbox"/> 74 - 99       |
|   | <input type="checkbox"/> 20 - 29       | <input type="checkbox"/> 100 - 200     |
|   | <input type="checkbox"/> 30 - 49       | <input type="checkbox"/> more than 200 |

(6) *After how many years to you expect to exit profitably from your investments?*

1. Less than 3 years
2. 3 - less than 5 years
3. 5 - 7 years or less
4. More than 7 years

(7) *At what state of business development do you expect to exit from the firms in which you have made investments?*

(8) *By what means do you expect to exit from the firms in which have made investments?*

## **SECTION B: CLIMATE FOR PRIVATE INVESTMENT**

4. *On a scale of 1 to 7, where 1 = Not at all and 7 = to a great extent, to what extent would each of the following encourage you to make more investments?*

More favourable treatment of capital gains taxes	Not at all	---	2	---	3	---	4	---	To a great extent
A formalized pool of capital	Not at all	---	2	---	3	---	4	---	To a great extent
Syndication with other investors	Not at all	---	2	---	3	---	4	---	To a great extent
Syndication with reputable lead investors	Not at all	---	2	---	3	---	4	---	To a great extent
Better protection against Director's liability	Not at all	---	2	---	3	---	4	---	To a great extent
Tax-based limited partnership structures	Not at all	---	2	---	3	---	4	---	To a great extent
Independent expert due diligence assistance	Not at all	---	2	---	3	---	4	---	To a great extent
Independent expert evaluation of product/service	Not at all	---	2	---	3	---	4	---	To a great extent

Independent post-investment management	Not at all --- 2 --- 3 --- 4 --- To a great extent
More knowledge of the investment process	Not at all --- 2 --- 3 --- 4 --- To a great extent
Limited partnership structures	Not at all --- 2 --- 3 --- 4 --- To a great extent
An organized “angel” community	Not at all --- 2 --- 3 --- 4 --- To a great extent
Relaxing securities regulations	Not at all --- 2 --- 3 --- 4 --- To a great extent
Other, please specify: _____	Not at all --- 2 --- 3 --- 4 --- To a great extent

5. ***On a scale of 1 to 5, where 1 = not at all and 5 = to a great extent, to what extent do you think each of the following inhibits private investment activity?***

Existing tax laws	Not at all --- 2 --- 3 --- 4 --- To a great extent
Director’s liability issues	Not at all --- 2 --- 3 --- 4 --- To a great extent
Unrealistic entrepreneur evaluations	Not at all --- 2 --- 3 --- 4 --- To a great extent
Unrealistic entrepreneur expectations	Not at all --- 2 --- 3 --- 4 --- To a great extent
Entrepreneurs’ lack of market knowledge	Not at all --- 2 --- 3 --- 4 --- To a great extent
Post-investment management time demands	Not at all --- 2 --- 3 --- 4 --- To a great extent
Lack of quality investment opportunities	Not at all --- 2 --- 3 --- 4 --- To a great extent
Lack of general investment knowledge	Not at all --- 2 --- 3 --- 4 --- To a great extent
Securities regulation	Not at all --- 2 --- 3 --- 4 --- To a great extent
Other, please specify: _____	Not at all --- 2 --- 3 --- 4 --- To a great extent

6. ***What are the three most attractive features about investing in your home province?***

7. ***What are the three least attractive features about investing in your home province?***

8. ***Do you think your home province is different than other parts of Canada in terms of investment opportunities?***

- Yes
- No.

If YES, what are the key differences?

## **SECTION C: PERSONAL ATTRIBUTES**

1. ***What is your full-time occupation? (Check all that apply)***

- 1. Entrepreneur/Business Owner
- 2. Accountant
- 3. Lawyer
- 4. Professional Investor
- 5. Manager
- 6. Consultant
- 7. Retired
- 8. Other: \_\_\_\_\_

2. ***If you are not currently the owner or principal of a business, have you been the owner or principal of a business in the past?***

- Yes
- No

3. ***In what year did you first make an investment in a private company owned by another party?***

\_\_\_\_\_

4. ***What is the level of formal education you hold?***

- 1. Completed elementary school
- 2. Completed high school
- 3. Completed some university
- 4. Completed university undergraduate degree
- 5. Graduate degree

5. ***What professional designations, if any, do you hold (e.g., C.A., CFA, etc.)***

\_\_\_\_\_

6. ***How much capital do you have available for the purpose of making private investments in Canadian SMEs?***

- |   |   |   |
|---|---|---|
| <input type="checkbox"/> Less than \$50,000     | <input type="checkbox"/> \$150,000 to \$249,999 | <input type="checkbox"/> < \$750,000 to \$999,999 |
| <input type="checkbox"/> \$50,000 to \$99,999   | <input type="checkbox"/> \$250,000 to \$499,999 | <input type="checkbox"/> \$1,000,000 to 1,999,999 |
| <input type="checkbox"/> \$100,000 to \$149,999 | <input type="checkbox"/> \$500,000 to \$749,999 | <input type="checkbox"/> More than \$2,000,000    |

7. ***Given the amount of capital you have available for investment, are you able to find a sufficient flow of investment-ready business opportunities?***

- Yes
- No

8. ***Would you like a digest of the results of this study?***

- Yes
- No

If YES, please advise us of the best mailing address for you

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Name:	Tel.:
Company:	Fax:
Address:	E-mail:

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For your convenience, you may tear off this portion off this section and mail it to us at:

Dr. A. Riding  
School of Business  
Carleton University  
1125 Colonel By Drive  
Ottawa, Ontario K1S 5B6

Or fax this section to us at (613) 523-2363 or (613) 523-0976

***THANK YOU FOR YOUR TIME, EXPERIENCE, AND CO-OPERATION.***

# APPENDIX B

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## ROUNDTABLE DISCUSSION PROTOCOL

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## **CANADIAN INFORMAL “ANGEL” INVESTORS: PROTOCOL FOR NATIONAL DISCUSSION GROUPS**

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### **Introduction to the Discussion Group**

We would like to welcome you all to this panel discussion with regard to the financing of small and medium sized businesses in Canada. My (our) name(s) is (are) \_\_\_\_\_, and I am a Professor of X in the School of Business at Carleton University in Ottawa. My colleague is \_\_\_\_\_.

We are working with Industry Canada to form a National Panel of private investors from across Canada. Industry Canada is mandated to develop public policy to best support the financing growth and development of new and small and medium businesses in Canada. So, we have organized 10 meetings comprised of informal investors across the country similar to this meeting this morning (afternoon). As important players in the financing of Canadian business, the purpose of each of these discussion groups is to collect information directly from you to inform public policy with respect to the characteristics, practices, and perspectives of informal investors like yourselves.

Today, we would like to ask each of you to do 2 things:

1. First, we would ask you each to separately fill in a brief questionnaire about yourself and your investment practices. The purpose of the questionnaire is to collect background information about each of you. We will summarize this information and it will be aggregated with the information collected from the other approximately 100 private investors that we will meet with. The information that you provide to us will be completely anonymous and confidential. We anticipate that it will take about 10 minutes to fill out the questionnaire.
2. The second part of today’s agenda is to hold a roundtable discussion group focussing on your investment views and practices. We estimate that this discussion will take about 1 and ½ hours. We would like to tape this discussion and have set up a tape recorder in order to do so. Our plans are to transcribe the tape from this discussion as well as the other 9 groups we have organized. We will then analyse these tapes and summarize the results for Industry Canada. Again, we want to assure you that your comments will be completely anonymous.

Does anyone have any questions before I hand out the Background Investor Profile Questionnaires?

Please feel free to grab some coffee, juice or snack at any time as we move along today.

HAND OUT AND COLLECT THE “BACKGROUND INVESTOR PROFILE QUESTIONNAIRES”. SAY AS HANDING OUT “ I’ll give you about 10 minutes or so to fill in these ‘Background Investor Profile Questionnaires’”, then we will move into the discussion group.

AFTER COLLECTING QUESTIONNAIRES, SAY “Let’s begin today’s discussions.”

ENCOURAGE ALL TO SIT AT DISCUSSION TABLE. BE SURE THAT TAPE IS RECORDING.

Before we begin today’s discussion, could we ask everyone to introduce themselves, so we know who we are talking with. INTERVIEWER HAND OUT TABLE SIZE NAME TAGS FOR PARTICIPANTS TO PLACE IN FRONT OF SELF AND MAKE SEATING PLAN ON PAPER.

### **THE MAJOR DISCUSSION QUESTIONS**

(Reminder Note to All Discussion Group Facilitators: Always try to prompt for specifics and specific examples if possible. For example, can use prompts like “Can you tell us specifically what you mean by that” or, “What do you mean when you say xxx”).

#### **1. (SPEND ABOUT 30-35 MINUTES ON QUESTION 1)**

We’d like to begin by asking about the availability of investment opportunities for you.

- (a) How do you find potential investments?
- (b) From your experience, are the owners of companies in which you are considering investing well prepared to attract private investment? Are they prepared to work with private investors like you? In what ways are they well prepared? In what ways are they not well prepared?
- (c) Can you tell us how you evaluate potential investments? How do you conduct your due diligence process?
- (d) In your experience, what are the most common shortcomings of the business opportunities that you have reviewed recently?
- (e) What are the essential factors that prompted you to invest in the firms you chose? How difficult has it been for you to find investment ready firms? Have you been able to find sufficient numbers of investments?

#### **2. (SPEND ABOUT 20 – 25 MINUTES ON QUESTION 2)**

We’d like to move to talking about how you work with the companies in which you invest:

- (a) What level of involvement do you have with your investee businesses? Can you give examples of the non-financial contributions that you make to your investee firms?

- (b) Can you tell us how you typically work with the companies in which you invest?
- (c) Can you tell us about the ways that you try to exit from the businesses in which you have invested? What exit strategies have worked very well for you? What strategies have not worked well?

3. **(SPEND ABOUT 10-12 MINUTES ON QUESTION 3)**

Are you involved in syndication or networking groups with regard to placing investments?

- (a) Can you tell us about how these groups function? (PROMPT FOR “How stable are these groups over time – are they stable and loose, or do they shift frequently?”).
- (b) Do you find these groups to be useful to you? How are they useful? How are they not useful?

4. **(SPEND ABOUT 20 MINUTES ON QUESTION 4)**

Moving towards the last of the questions we would like to discuss with you, we’d like to talk a bit about tax measures. Do you have any suggestions about what the Government of Canada could be doing to encourage more private investor activity?

- (a) Last year, the federal government introduced a number of measures to stimulate angel financing. These included reduced taxes on capital gains and tax-free rollover. What are your views on how these tax measures will stimulate equity financing in Canadian small businesses?
- (b) What are the three most attractive features about investing in your region (NAME IT)? What are its 3 least attractive features?

**CONCLUSION AND DEBRIEFING**

Thank-you very much for meeting with us today. We really appreciate learning from your experiences and look forward to passing on your views to the public policy makers in Ottawa. We look forward to meeting you again. If anyone wants to receive the document summarizing these cross Canada discussion groups – just check the appropriate box on the paper that we are passing and if you provide your name and address (either mail or email) we will send one out to you.

Again, thanks so much.

# APPENDIX C

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## **NATIONAL PANEL DESCRIPTION AND INVITATION**

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## INVITATION TO BE PART OF A NATIONAL PANEL OF INFORMAL INVESTORS

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Would you be willing to be part of a national panel of informal investors in Canada? As a member of this panel, your views, experiences and opinions would be used as input to the formation of public policies and tax policies re: investing in Canadian business. You would also have the opportunity to receive summaries of research done by us on informal investors such as yourselves. We envisage that your role in such a panel would be threefold:

- (a) you might be asked to join a discussion group such as this one – no more than once per year,
- (b) you might be asked to fill out a short questionnaire – probably once per year, and
- (c) you might be occasionally asked to participate in a short telephone or e-mail interview on an as needed basis on a specific topic.

We would summarize the information obtained from the panel and report upon it to Industry Canada for input into policy development. You may, of course, resign from the panel at any time and we would keep your name and contact information confidential to be used only by us in the ways described above. If you are willing to be part of our National Panel of Investors, would you please check the box below and give us your coordinates and contact information.

1. I would be willing to be part of a National Panel of Investors:  Yes  No

I can be reached at the address below:

Name:  
Phone:  
Fax:  
Email:  
Address:

2. I would like to receive a summary copy of the research results gathered from the National Panel of Investors:  Yes  No

Name:  
Phone:  
Fax:  
Email:  
Address:

We thank you for the opportunity to learn about your ideas, views and experiences and look forward to working with you in the future. A sincere ‘Thank-You’ from the research team!

Dr. Allan Riding  
Principal, Equinox  
Professor of Finance  
School of Business

Dr. Judith Madill  
Research Associate,  
Equinox  
Professor of Marketing  
School of Business

Dr. George H. Haines Jr.  
Research Associate, Equinox  
Professor of Marketing  
School of Business