Toronto Venture Capital – Full Interview Transcription

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SPEAKERS

Stephen Dalby, Sarah Elharrar, Matt Golden, Matthew Leibowitz

Sarah Elharrar 00:00

I figured we'd kick things off by getting each of you to tell everyone a bit about yourselves, your firms and how you got into VC investing.

Matthew Leibowitz 00:10

Sure. So, I'm the co-founder of Plaza Ventures. We are a VC firm here in Toronto, we're a spinoff of Plaza Corp, one of Toronto's larger private real estate developers, which in and of itself has been around for almost 50 years. I started the firm, or co-founded the firm, just over 10 years ago now. Initially, our focus was on series A and Series B investing. Over the last number of years, we've been more focused on secondary transactions, investing in later stage, Canadian tech companies. Where they are, you know, looking to consolidate and clean up their cap table a little bit, either have ex co-founders or early angel investors looking for liquidity. And that's where we'd like to like to come in.

Matt Golden 01:02

I'm the founder and Managing Partner at Golden Ventures. We started in 2011 as a Micro VC fund, so we're focused exclusively on the seed stage, though we do follow on beyond the seed stage once we invest in a company. We're investing out of our fourth fund. We invest across North America, mainly in the U.S., and Canada, with a particular emphasis on Canada, and particularly Toronto and Waterloo, but our core investment GEOS are Toronto, Waterloo, New York, San Francisco, LA and then rest of Canada. We've been at it just over 11 years, I think I said we're investing out of our fourth fund. And yeah, I think that covers it.

Sarah Elharrar 01:55

Thank you. I thought we could focus today's conversation a bit more on sort of the VC space in Toronto. To that end, have you seen significant changes in the VC space in Toronto, in the last 10 years? And if so, what do you think has changed significantly? We can start with you, Matt Golden.

Matt Golden 02:21

Certainly. There's been a huge shift in the VC space in Canada in the last 10 years. So I guess that brings us back to 2012. But I think it's almost worth talking about sort of a seminal moment in the VC industry in Canada, which happened in 2009 when they normalized the tax code, which basically allowed for a freer flow of capital from the United States, or other regions into Canada without creating a huge amount of friction around company structure. What that did was all of a sudden, all these funds in the U.S. who would you know, maybe meet Canadian companies, but then realize that creating complicated exchangeable shares structures, might not be worth it. And what that also did was create a barrier to entry, which gave Canadian VCs the run of the walk in Canada to pick whatever companies they had and gave them way too much leverage. And exerted terrible behaviors, in my opinion, you know, taking way too much of a cap table too early, screwing it up and not really being found or aligned. And that was kind of the state of the industry.

Also, there was a ton of government sponsorship, prior to 2011, where they had what they call LSIF. labor sponsored investment funds, who then would collect tons of fees and never delivered returns. And so it soured the entire market on the Canadian venture landscape. And when 2009 happened, and they amended the tax code, and U.S. VCs can come in that all those protectionist barriers went away. And at the same time, certain funds like ours started in 2011, which were more micro VC that could invest in companies and bring in U.S. funds into their companies.

Sorry to go super long here but I think it's important background and context to the start of why, in the last 10 years, things have really started to ramp up and so then there was now this free flow of capital And with that came a lot of high potential founders starting to stay in Canada instead of moving immediately down south, because there's better capital and more sophisticated capital coming into our own ecosystem. And so maybe moving isn't necessary. And so we started to see that and with those opportunities, more founder state and more funds started to get funded. And then the government started to provide incentives in the right ways, like through VCAP, and VCCI, which funded fund of funds, which then started to only invest in emerging managers who really were high potential, and sort of had the right idea about growing venture scale companies. So that's all I'll hand the rest over to Matt. But I just wanted to give that context. You can do this since then, Matt.

Matthew Leibowitz 05:59

Well, first of all, I would echo that 100% was changing section 108. But also, I started my career at an LSIF that's in around the 06-07 timeframe. So I witnessed it, and part of it was part of it firsthand. And that's part of the reason why I left. I was just so despondent with how these VC firms were run. It made no sense to me. And we started or I started the firm as a direct response to that. So I would echo that 100%.

So since then, I would also add, what's I've noticed over the last number of years is the influx of immigration into the Greater Toronto Region. This has also been, I think, very impactful for the startup ecosystem. It has been a huge boon for the ecosystem. I mean, when I look at our portfolio, and I look at the founders, and/or co-founders, you know, the management teams of our product…and I actually haven't counted, but just sort of taking a cursory look at it, I would say at least half if not the, quote, unquote, majority of the founders are either immigrants and or, you know, first gen, or children of immigrant families. They just have this incredible drive, and are willing to take that extra risk, and build a business. So I think that also, you know, the immigration to Toronto, and the GTA has also led to the influx of additional capital because people are willing to take risks.

In addition to that, corporate Canada is starting to get more engaged with startups and the venture ecosystem as well. And, again, prior to 2010, I mean, we almost never saw that, it was virtually unheard of, for a Canadian corporation to be involved in a startup. Further to that, of course. And I forget the year, the first one came out, maybe Matt, you can help me with this. But the when VCAP was the first VCAP, that was probably 2011. Around that was the first day of Venture Capital Action Plan, which was what it was called initially, which gave capital to a number of fund managers who then allocated to various GPs throughout Canada. Obviously, that was a massive boon for the Canadian venture ecosystem.

So in addition to the things that Matt (Golden) mentioned, when you add immigration, corporate Canada investment plus VCAP, now, VCCI, to me, that is one of the main reasons.

When I say immigration, I would expand that to expat Canadians, who were living and working in the valley or in New York and have recently returned. I come across people all the time, who are now moving back to Toronto, or the Toronto region, or Metro Vancouver, who had been working at, say, a Microsoft or an Oracle for the last 12 or 13 or 14 years, and they've really learned how to build there and run a large P&L and bring that talent and expertise and know-how back to the, you know, sort of the startup ecosystem. I think that's also been very beneficial as well.

Matt Golden 09:19

Yeah, and it's a bit more so "what now", on the capital side, you know? We have a number of really, world class funds investing in companies where the funds are actually based in Canada. And that segment keeps getting more and more sophisticated. And the other piece is that we've seen that it is possible to grow venture scale companies in Canada, which is critical. Like having a Shopify, which is a global juggernaut, actually having been created in Ottawa. And then, you know, obviously they have more employees in Toronto now, but I mean, it really is headquartered in Ottawa, which is amazing and demonstrates you can really build a venture scale company in Canada. And what does that do for future founders? Entrepreneurs? Like, they now think "I don't need to go anywhere". If you can build a Shopify in Canada, what am I going to San Francisco for? And, by the way, it's really tough to go to San Francisco and California and anywhere in the U.S. now because of Visa issues. So we're kind of winning on the immigration front. And like Matt pointed out and, and also so there's, I think Canada is kind like what New York was five years ago. New York's really having a tech moment. And it feels like there's enough of the component parts coming together, where Toronto and Canada generally should be on a very, very strong trajectory.

Sarah Elharrar 10:55

That's very exciting for all of us in Toronto. And I think we've all seen those changes happen and a lot more attention being put on the Toronto VC space. So are you finding, obviously there is a lot more competition from U.S. VCs? Are you finding that they're coming in at the later stages? Are you seeing competition at the seed stage? Like really young companies? Are they looking at young Canadian companies? Or is it really like once the companies have been vetted by Canadian VCs who have seeded them than the U.S. VCs come in at later rounds?

Matthew Leibowitz 11:26

I'm going to let Matt answer this one. Matt, in my opinion, has done probably the best job of anyone in Canada connecting and partnering with us VCs on deals and bringing them into deals early and getting that exposure. So go for it Matt.

Matt Golden 11:45

Thank you, Matt. So I think there's kind of like pre-pandemic, pandemic, and post-pandemic, and so on. I think a lot of the behaviors have shifted meaningfully. I think pre-pandemic, there were certain U.S. VCs that targeted Canada and have built a core focus here. But for the most part, at the seed stage, at least, you don't really typically see, a lot of U.S. VCs come in and work on deals in Canada. And that's because to some extent, seed is kind of a local sport, so, to some degree, I think having a local partner is really meaningful.

That being said, during the pandemic, you started to see very large funds writing big seed checks at crazy valuations into these companies, some of which would call us and say " do you want to partner and come in for a small check to our very large check?" which sometimes we do, depending on the fund and so on. But I think there's going to be a reversion to the mean, now that the pandemic is over, and there's a much more sober outlook in terms of technology, generally, and innovation. And so I think it'll probably revert to the mean. And so at the earlier stages, you probably won't see a ton of U.S. VCs, except to the extent that we build syndicates.

But you'll typically see a Canadian VC leading or a meaningful part of that cap table further downstream. Certainly, U.S. capital is flowing in all the time. And if you are a Canadian growth VC you're certainly seeing competition all the time. But you know, again, wherever you're located, I think you definitely have a great advantage. If you are here, and you are thoughtful about building the relationships with these top companies, that could be your targets. So I think in the end, yes, there is more and more competition. But as the funds here get more sophisticated, they know how to manage that.

Stephen Dalby 14:02

Earlier, you both mentioned or drew parallels to San Francisco and the Valley. Obviously, there are material differences between the Toronto VC ecosystem and those locations, but building on things you've already said on this call, what do you envision as the next phase? How do we reach Toronto's VC potential? Are there particular changes that you envision in your mind to help us get to that next stage?

Sarah Elharrar 14:28

Or is anything holding us back?

Matthew Leibowitz 14:31

Yeah, I think there are a number of things. But at the same time, I've always said that we don't need to be Silicon Valley or New York, we just have to be us. And do us well, whatever that means. We just have to be proud of who we are and understand our limitations and what our capabilities are as well too and work to those strong suits. So I've never really liked the question "how do we become the next value for any geography?" I think you should just focus on what your what your strong suits are.

But having said that, I mean when I look at the differences, obviously, there's quite a few. But I think really a lot of it starts at the ground level, in that if you go to the valley, you know, people have derived their wealth from the tech ecosystem. There's now a couple generations of folks who have made a lot of money in the tech industry. Whereas in Canada, we have some, obviously, but certainly not to that extent. We have extraordinarily wealthy people and large corporations, that are very successful, but typically, they haven't made their money in the tech industry. So they're not as likely to re-invest or invest in the tech industry at the early stages, or even later stages, because it's just not their domain of expertise. It's not what they know. So moving, wealth, if you will, from, say, the real estate sector or you know, picks and shovels types industries, into more of the innovation economy, to me, I think, is that one major difference, and certainly every day that is changing, and I think in a good way. But that's going to take a while. It doesn't happen overnight.

Second, in addition to something that I mentioned before about Canadian corporations, even though they're more engaged now, compared to American corporations, they're light years behind American corporations. Almost every relatively even-sized American corporation has some either CVC or venture strategy in some capacity. Whereas here, even our largest corporations have typically a tiny venture strategy.

And then another thing that ties to scalability, is bringing folks like ex-pat Canadians who used to work for Microsoft, Oracle, who ran a large p&l, who's hired and fired hundreds of people, who really understands what it takes to scale a company from, you know, 100 million to a billion dollars in revenue, to come and join a startup, is becoming easier now. Because if you were to relocate that person from say, the Valley, or New York to come back to Toronto, or come to Toronto for the first time, you know, uproot their families, and have them settle down and put down roots in Toronto, if that job doesn't work out, that person is kind of stuck. But now, there's options. There are quite a few companies north of 100 million in revenue. So an individual like that will have options [if the first job doesn't work out]. Attracting and breeding talent like that, to me is where we need to play catch up. Inserting that sort of scale up talent, sales talent, if you will, into our into our ecosystem, to me is something I'm really passionate about, and that I think we really need to focus on.

Matt Golden 18:08

I think that was very well answered, I don't have a ton to add. I mean, we are starting to finally see companies that have achieved scale creating a cadre of people who now have experience [achieving scale]. Hopefully [these individuals have] made some real money and are investing in the next generation of founders. And, more importantly, the executives, hopefully are joining the next companies that they think are going to achieve going public or having a huge exit. So now you're finally starting to see talent released back into the ecosystem, which I think really bodes well. Because, you know, you have to have been there and done that at certain stages of companies to be able to come in and have a huge impact. That's one of the amazing things about Shopify, that they really trained their talent internally and then later obviously started bringing in talent from all over the world. So I think we're on a great trajectory.

Stephen Dalby 19:45

That's terrific, all more reasons to be excited for the future of the Toronto VC space. Continuing on the theme, comparing the Toronto VC space to elsewhere, but turning our attention back to Canada. How would you differentiate the VC space between Canadian cities, namely Toronto, Montreal or Vancouver?

Matthew Leibowitz 20:07

Do you mean the VCs, the investors or the tech ecosystem?

Stephen Dalby 20:12

All.

Sarah Elharrar 20:13

Well, we know in Toronto, for example, we have the Waterloo corridor. So that's obviously a huge advantage, [making Toronto] very different from Vancouver and Montreal. I guess in terms of the opportunities you're seeing, the incentives, I know there's different government incentives generally in Vancouver to be more use of shared credits, for example.

Matt Golden 20:35

The highest level of activity is Toronto and Waterloo by a pretty wide margin. But that doesn't mean that these other ecosystems, [aren't starting to enjoy] tremendous success and finding their own areas of expertise [as well].

Vancouver is really interesting. I mean, if you look at companies that went public in Canada in the last few years, and particularly during the pandemic, [Vancouver] added, like a really outsized number of companies, some of which I hadn't even heard of, probably because they got started even before our fund really kicked off, and grew up kind of quietly. But now that there's more cohesiveness in each of the ecosystems, they're all building a much better framework for marketing themselves. And that matters a lot, right? Because you need critical mass and ecosystems generally. And so as you may know, my partner, Jamie Rosenblatt has been in Vancouver the last three days, and he's spending an increasing amount of time there.

Similarly, there are a lot of great companies that have come out of Montreal like Lightspeed and Opera. They were built right in Montreal with big, huge scale, world class companies. So we're bullish on all the ecosystems.

Critical Mass definitely helps us because, [like] with talent, and that release of talent, we're building bench strength, and mentorship [opportunities] and more people who will invest in tech. So that's kind of the answer I think there are a number of cities including Calgary now, that are really finding their feet. But they're all at different stops in the long journey of creating a standalone venture scale tech ecosystem.

Sarah Elharrar 22:37

That makes sense. Toronto might be a bit ahead in terms of development, also, because we're lucky enough to have Waterloo right there, getting some great tech entrepreneurs into our market. So pivoting a bit to advice for founders, what would be your best advice for pitching? [And what's the] worst thing you can do when pitching? The biggest pitfall and maybe the, biggest red flag in a cap table?

Matthew Leibowitz 23:11

So I would just say, frankly, do your homework. If you're an entrepreneur, do your homework on me, on how we invest, who we've invested in, how we work with other CEOs and what's our what's our investment mandate? And ask us the questions. I mean, you know, this is a partnership for however many years, [so we need to] get to know who [we're] potentially partnering with. So, I'd say, understanding that what our push and pull factors are, what our motivations are, frankly, is really, really important because we want to be cognizant of everyone's time.

For example, I have people that pitch me literally every day. I get pitched seed deals or early stage deals. I mean, we that's not what we do. Right? So part of what I tell people [is that] I'm a professional no-sayer, I say no a lot because it's just not part of what we do and that's fine.

I love getting to know entrepreneurs early, but if you're coming to me today for a check tomorrow, and you're a seed stage deal, that's not something we would do. [But if you come to me and] say "Hey Matt, Matt, I know you don't do seed and I know you do later stage secondary, etc, etc. but I just want to get to know you [and share] what we're doing" [so we] get on each other's radar screen and build a relationship, but you don't need anything from me today to me, that's the best way to come into my office and pitch if you're an earlier stage company. I love personally when people do that, and also when they [balance] their vision with their metrics and unit economics, because it can't just be the vision, at least at the stage that we're investing. It has to be both. So from my perspective, it's build a relationship early but lead with your vision and the hard unit economics and metrics that you're using to operate your business.

Matt Golden 25:25

For us, I think it goes back to resourcefulness. As a founder, there are so many amazing resources out there that can really help founders put together the narrative, and it's really important to be able to elevate out of the weeds and put together the story that you're going to pitch to a potential investor. It needs to be contagious. You really need to hook people into wanting to back your story. And there's, numerous approaches to storytelling, [so] you have to find a voice that's really authentic, and really put the whole story together in the right way that works for you.

I think one of the mistakes that founders make, and I totally get why, is they're in the weeds working their butts off to build something, but [they] really, to stop and say, "Okay, now I have to elevate myself and tell this story and spend time on putting together a deck."

Because fundamentally, there you have three jobs a founder or CEO has: one is to make sure there's money in the bank, which means you [have to] tell your story and attract people to it. The second is painting the vision, which is all part of the storytelling. And the third is attract amazing talent, right? And that's it. Obviously, you need to execute in order for those things to happen. But fundamentally, a lot is about being charismatic and exciting people about your company. And that means putting the right team together so that when you actually deliver that narrative, to Matt's point, it can't all be vision, it's got to be, you know, what are the proof points. And so it's like finding that right balance, but being authentic and really connecting with the people who might fund you.

Stephen Dalby 27:56

That's great. We've already covered the past, we have looked to the future, now we're turning to the more immediate present. Look, it's no secret that the market is a bit tumultuous at the moment. Any advice for startups on how to weather the storm? And any advice for emerging VCs on how to raise capital in this kind of environment?

Matt Golden 28:19

Yeah, I mean, we're constantly providing advice in this regard. And as it relates to companies, we don't pretend to be macro economists but there's very clear signs that we're heading into a pretty rough economy for a prolonged period of time. So, depending on the stage of your company, if you are later stage, you need to ensure that you have properly capitalized, and extend your runway meaningfully, so that you can weather what is to come. If that bad storm doesn't arrive, no problem. You'll have capital and you can start hiring again and so on. So [ensuring you're properly capitalized] means looking at all of your expenses from labor to all other expenses in the company, adding a greater emphasis on unit economics, as it relates to your cohort [which the market is demanding more]. So stay on the runway, focus on your unit economics, get back to basics,

And hold on for seed companies. It's really tough, right? Because you don't have a ton of runway to begin with. But whatever you do have make it last and ensure that you are going to hit milestones that are still really attractive to the next layer of capital. [That next layer will] appreciate that you've [achieved those milestones] in a really capital efficient manner. Because it says a lot about a team [if they're] be able to execute in environments like these.

So that's the two sides of the equation, but you have to do a lot with a little right now, which is not necessarily a bad thing. It creates really good, disciplined behaviors around company building.

Matthew Leibowitz 30:35

I would just expand on that. I actually think, frankly, although, you certainly don't want to see people lose money, I certainly don't want to see people lose their jobs, but I actually think this correction is healthy for an ecosystem every number of years. I don't want it every day or every year, but every once in a while, I think it's healthy, not only from an evaluation perspective, although that is a nice benefit for us an investor. But really, as Matt alluded to, I do think it forces behavioral discipline. Like I said, when times are good, and it's easy to raise money at premium valuations, it's one thing to just spend, spend spend. When times are tough, that's really, I think, when one shows their true mettle, and you have to really manage that p&l and expense in your expenses daily, or at least you should be managing it daily, and really be cognizant of what you're spending money on to make sure that the ROI is there. Because you probably can't afford to make too many mistakes, if you haven't done that back testing on ROI, on terms of allocating your capital and resources internally.

And so to me, it's a healthy thing in the long run. And I think it will actually make better management teams and better employees down the road. It kind of reminds me of when the pandemic first hit back in March of 2020. I mean, that was more of an overnight kind of forced event where everyone went, "What's happening? What are we going to do?", [while] this is more of a slower moving. But really, when I think back to March of 2020, and being on however many calls with all of our CEOs, literally they had to go through all of the p&l line-by-line and understand what [they were spending money on]. Because we [didn't] know what [we were] getting ourselves into. And I think there are some parallels to that [now]. And I think like I said, I think it's a healthy thing. And when I look back at our portfolio, by the end of 2020, because most of our companies were forced to become more capital efficient, most of them actually had record years as a result of that. I'm sure that you probably saw similar thing, and 2021 as well, too, because it forced them to be efficient. And again, I think, frankly, in the long run, it's a good thing.

Matt Golden 32:59

Yeah, and the interesting thing is, though, you have to be careful. The responsibility of being an investor is a big one because you're often dispensing advice [and] you need to be very careful about the advice that you're giving. As an example, a lot of a lot of people are like, "Look, don't worry about growth, just either get to profitability, or operational breakeven make your cash last, that's okay." The reality is, it's not okay. Because venture capitalists do not fund at the next layer of capital, they don't fund slow growth companies. And so sure, you want to be able to say don't worry about growth. But the reality is, that's horrible advice. So you have to find that middle ground, just because the next layer of capital is more focused on unit economics, it doesn't mean that should be at the expense of your growth. Now, understand, like, if you reduce the size of your team, maybe you won't grow as quickly. But you have to be careful to find the balance of what you need to show at that next stage. And so you have to you have to be very, very thoughtful about these things. And in the end, the advice you dispense.

Sarah Elharrar 34:16

So you know, as bleak as things are looking this might be an opportunity for some startups to set themselves apart, using resources wisely. That's all great advice. Thank you guys so much.

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