

Tech Survivors – Older, Wiser, Back In Action

January 6, 2006

Ottawa's technology industry has learned some hard lessons from the go-go years of the boom. A new wave of entrepreneurs is securing venture capital, creating jobs and making money.

When Brian Hurley got his management group together at his house a week before Christmas 2003, it was to make the toughest decision any entrepreneurs can face: whether to kill their nascent tech company. Hurley, the CEO of Ottawa-based **Liquid Computing Corp.**, unplugged the blinking lights of the Christmas tree, plugged in a borrowed digital projector, and shone a hand-drawn "mind map" onto the dining room wall. Their idea was to build supercomputers, and they had a radical plan to revolutionize the business, too. But even revolutionary ideas need funding, and in the throes of the meltdown, investors were scarce.

Such was life in the Ottawa area's high-tech sector in 2003. The burst bubble and subsequent crash had knocked the city for a loop. Multinationals like Nortel, JDS Uniphase, Alcatel and Mitel — which combined had employed nearly half of the region's 80,000 hightech workers — shed bodies faster than a plague ship. In all, 30,000 people found themselves out of work between 2001 and 2004, according to the Ottawa Centre for Research and Innovation (OCRI), a local business development group.

But a funny thing happened on the way to the unemployment line. Talented and well-connected professionals turned their

misfortune into opportunity by launching start-ups with their pick of some of the smartest minds in the business. Many of the city's new firms filled their rosters with proven all-stars, dumped by industry heavyweights when the bubble burst. "I look at the people I have and there's no way I could have brought them together at any other time," says Hurley.

The net result is, Ottawa has become a city of entrepreneurs, where those small and medium-sized businesses have led a resurgence in the high-tech sector. The entire tech economy, in fact, has restructured itself over the past five years, rebuilding on a firmer foundation. As a result, the total number of Ottawa tech companies has grown from 1,000 at the beginning of the decade to more than 1,700 today, and they are hiring. Employment is nearing its 2001 peak of 79,000. Equally important, venture capital is also picking up. Since the crash, each year has seen a decline in investment, from \$1.26 billion in 2000 to \$190 million in 2004. But last year witnessed a turnaround, with deals topping \$284 million.

Thinking about it now in his company's slick offices on March Road overlooking the Marshes golf course — Liquid has some 75 employees and more than \$20 million in raised financing — Hurley

seems well removed from the doom and gloom of 2003. "The amount of blood and guts they expended is remarkable," says **Pat DiPietro, a Managing Partner with VenGrowth Private Equity Partners**, one of the first firms to invest in Liquid. "Especially in the early days when there was no money. It was very arduous."

Today's Ottawa has learned some hard lessons from the go-go years of the tech boom. Back then, the boneheaded belief that the New Economy operated by different rules had investors lusting after tech stocks.

It took some time for the tech tsunami to travel from the epicentre in California's Silicon Valley, but when the shock wave hit, it hit hard. The beleaguered companies responded by slashing jobs.

While venture capitalists might confess that, collectively, they contributed to the feeding frenzy of the Internet bubble, they've now learned their lesson and have returned to the practice of funding companies that back up enticing ideas with strong business plans, a quality product, and solid management. Take **BelAir Networks Inc.**, for example. It builds wireless mesh networks — umbrellas of wireless access that allow people with laptops or smart phones access to the Internet from anywhere. BelAir has set up networks along Ottawa's Elgin Street,

at the famous Alamo in San Antonio, Texas, and most recently, the city of Waterloo. But what BelAir does isn't as impressive as how the company has positioned itself in a very healthy sector of telecommunications. Headed by industry veteran Bernard Herscovich, who worked for Nortel and Newbridge through the mid- and late '90s, BelAir managed to grow in an extremely tough environment.

Taking a lesson from the glory days when start-ups would spout off expectations and then fail to meet them, BelAir kept its plan quiet, even after receiving its first injection of capital funding in late 2002. The company kept a low profile for more than a year until it was ready to roll out its first product, and could back up its lofty

claims with something tangible. Those efforts have made the company a favourite of industry analysts. "BelAir, I think, is an example of a management team that is well seasoned, in a very interesting technology space, which over the next five years is going to grow rapidly," says Todd Coupland, an analyst with CIBC World Markets. "They're doing it in the right way. They're satisfying the needs of their customers and investors — things that weren't necessarily aligned back in the tech boom."

BelAir sold 16 networks in 2004 and 100 in 2005. In October, the company announced it had landed US\$20 million in new financing from the investment arm of Comcast, the biggest cable company in the

U.S., bringing total investment to around US\$45 million. Now, Herscovich says, the company is looking to go public "four or five quarters from now."

And that's what Ottawa needs to firmly get back onto its feet — a steadily growing number of success stories. "These companies have seasoned executives who've gone through the boom-bust of the tech bubble and have built a nice list of credible, well-financed and profitable private tech companies that are very likely going to be the next generation of public companies over the next few years," says CIBC's Coupland. "It's all very encouraging."

With over \$1 billion in assets under management, VenGrowth is Canada's largest private equity and venture capital firm managing both retail and institutional assets. Since 1982, VenGrowth's accomplished private equity managers have invested over \$1.1 billion in over 180 companies, building a strong track record of successful portfolio transactions. These investments have been made on behalf of over 180,000 individual investors and leading pension funds, banks, insurance companies and family foundations. Portfolio companies benefit from VenGrowth's substantial experience, resources, and hands-on investment style. VenGrowth's offices are located in Toronto (Corporate Headquarters) and Ottawa. "VenGrowth" means VenGrowth Private Equity Partners Inc. and its affiliates and the Funds that they manage as the case requires. For more information, please visit www.vengrowth.com.