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COMMENT, Professor King: The charge has been made that venture capitalists sometimes want to support companies with innovation that has already been market tested, that there is some conservatism on the part of venture capital people to try to back a proven product.

COMMENT, Mr. Barton: Well, there are two or three large partnerships that by their very charter will only invest in later-stage companies. Several others only invest in mezzanine financing. These people will accept a lower rate of return for a lower risk, and that's fine.

Our company, and the majority of the companies we deal with, will invest from seed stage up to, but not including, mezzanine, because mezzanine is too expensive. I don't really see a trend there. I think the latest statistics from *Venture Economics* show an unheard of surge in new investments in the last year and a half.

QUESTION, Dr. Strub: My European contacts on venture capital say they can only make a living by stepping into a company in the second or even the third round of financing, when the dirt has been washed off a little bit, or else they say that they have to make their money with fashion, champagne, perfumes and so on in order to be able to afford some of the really interesting high technology business.

Could you comment on the fact that you seem to be stepping into ventures very early as well as concentrating on high technology? Is this an exception?

ANSWER, Mr. Barton: It is certainly fashionable to invest in the fashion industry, particularly in the United States. A friend of mine made $170 million in eighteen months. He bought a sport shoe company that was in the doldrums, tuned it up a bit and sold it to Reebok. He bought it for $13 a share and sold it for over $160 a share. It is not very glamorous, but it is tough to turn down. I don't think those deals are very common.

There were five new funds formed in 1987 specifically to look at the retail business. The investments in these funds were incremental compared to the very healthy amount of money that was raised in the more entrenched venture capital areas, generally high technology. We don't do fashion or retail or anything like that and we don't see any movement away from the traditional hard-core technology-based companies.

QUESTION, Mr. Allen: How much of the motivation behind the venture capital activity is directed toward putting together a package to go public in order to realize short-term gains on the market appreciation versus trying to create a business that is sound and expected to thrive over an extended period of time?

ANSWER, Mr. Barton: Well, there are two climates on this continent. In North America there is a big difference between the standards that are applied in the United States and those applied in Canada. Unfortunately, there is a tendency in Canada for a venture to go public very early, often before it could even truly call itself a company. In the United States one has to spend anywhere from three to seven years building a durable business with a solid balance sheet and a history behind it to have a decent public offering.

Certainly, the motivation for a venture capitalist is to create a business and to cash-out. I think we are in the business of building either businesses for public offering of the stock, or businesses of sufficient value to be acquired by a corporation once the corporation has seen the validity of the innovation behind the business.

COMMENT, Mr. Blackburn: I'm very interested in what Mr. Barton has said about the stage of the innovation cycle where he sees venture capitalists concentrating, because we hear from small high-tech companies in Canada that the venture capitalists are mostly interested in mezzanine financing and various acquisitions, or real estate because of its fast return and high return opportunities, and they're having trouble dealing in many new technology areas.

I was talking to a venture capitalist in the Montreal high-tech business about this last November. He gave an account of how he spent six months trying to identify any good investment opportunities in the biotech industry. At the end of that period he basically closed his file and decided it was too early, he had to wait and let the industry mature another year or two.

It sounds as though that might not be the case with the information technologies. Maybe the venture capitalists are dealing better with information technologies. Maybe in biotech, there are different views of the readiness of the technology, or how to attract a very early stage venture capital investment. I am intrigued by your comment because it is a new one for me. I have been hearing other comments from small high-tech businesses.

COMMENT, Mr. Barton: Well, I did a start-up in Ottawa late last year. It was a pure technology start-up, which I can't reveal because the patents have not been issued yet. There is at least one company — ours, which will look at start-ups.

As for looking at a particular sector of an industry, such as biotechnology, and being disappointed with the results, I went through that myself two years ago. I became very interested in computer-aided software engineering. Computer-aided hardware development ("CAHD") was a venture-backed industry sector, and very successfully so. Ten years ago it didn't exist. Now it is a multi-billion dollar industry. I spent six months and looked at forty companies who were promising to do for software engineering what CAHD had done for hardware engineering. I found forty emperors with no clothes, and I walked away from the deals. I intend to go back and look, but I guess the situation is the same as your friend discovered. They were not viable schemes.

COMMENT, Ms. Veverka: My experience in the biotech arena is similar to what you've expressed. I was approached by the CEO of a Canadian biotech firm just last week with that very dilemma. Increasingly, I think that what venture capital firms are investing in is a track record, not necessarily from a technology standpoint, but from an individual standpoint.

So as you see the people leave Hybritech, which was a very early success, and go out and start additional companies, they are the ones who are finding it very easy to attract the venture capital funds. They may still be going after very innovative and unproven technologies, but they themselves have demonstrated a track record in developing that technology.

QUESTION, Dean McNiven: Mr. Barton, you said that you expect to fail on four out of five of your investments. What is your philosophy? Obviously, you're looking for winners, but are the people who put money into your company prepared to lose it all as a form of basic research, or do you have to show a return over a five to eight year period?

ANSWER, Mr. Barton: The objective is not to lose four out of five, it is a statistical reality. There is a rule called the 2-6-2 Rule, which says that two investments will make you your return, which in the overall fund must be better than 30%. Six will stumble along and really ought to be put out of their misery, and two will expire almost within a matter of minutes.

It's a bit like advertising — you could cut your budget in half, but you don't know which half to cut out. It is not an objective to lose those bets, it is just historically the way the numbers fall.