

TechnoCap: More than high-tech venture capital

By Allan Meltzer

By any measure, last year was a very good year for TechnoCap, a venture capital company with offices in Montreal, Toronto and Boston and investments in Ottawa including webPLAN, netPCS and FreeBalance.

TechnoCap increased committed capital from \$100 million to \$250 million. Companies in which TechnoCap invested won five major investor choice awards in Canada, and one in the United States. Twenty-five new U.S. Corporate and U.S. Institutional Investors signed on including Intel, Siemens, Enron Broadband, GE Equity and Morgan Stanley. TechnoCap was also the founding investor of the largest deal at the time in Canadian venture capital history, a \$100 million deal involving Hyperchip, the petabit routing company.

To add to this, TechnoCap had an internal rate of return of 68 per cent and has averaged 34 per cent since its founding in 1993. TechnoCap investees' companies "TechnoAffiliates" also generated 500 new jobs.

Richard Prytula is the founder, president and managing partner of TechnoCap. Born and raised in Saskatchewan, he's a 25-year technology business veteran. Prior to founding TechnoCap he was president of Capital Turncap, and President and CEO of LNS Group. He holds a degree in electrical engineering from the University of Saskatchewan and an MBA from the University of Western Ontario.

"Last year was a very good year for TechnoCap," says Richard Prytula. "The venture capital business is a very risky business and it's very difficult to predict with only two out of 10 companies winners. But TechnoCap's foundations are good, so TechnoCap will do well in 2001."

Richard Prytula is confident of TechnoCap's future because of TechnoCap's world-class team. "The team works at WebSpeed and is extremely focussed," he says. "They have expertise in diverse areas, and have one objective and that's to help young companies. To do this, TechnoCap is focussing on helping the TechnoAffiliates to get funding in the US financial markets. Last year, four of us spent 469 leverage days in the US. TechnoCap is a bridge between the big investors on Wall Street and Canadian start-ups."

Estelle Havva, Vice-President, TechnoWallStreet, is a very important part of this bridge. Estelle works with Wall Street financial analysts and investors on a daily basis. "TechnoCap has a database of more than 300 Wall Street analysts and Estelle is on the phone with them daily and meeting with them regularly," says Mr. Prytula.

TechnoCap has invested more than \$25 million in Ottawa area high tech firms including: webPLAN (e-business supply chain network), netPCS (web communications network), FreeBalance (e-government network).

TechnoCap has a world class line-up of investors: including Bombardier Trust, Sofinov of the Caisse de Dépôt, Desjardins Pension Fund, Solidarity Workers Fund, National Bank of Canada and TechnoAnge Inc. (TechnoCap's management, employees and selected technology executives).

TechnoCap has three investment funds. TechnoCap Classic is for start-ups. In the Ottawa area, webPLAN, netPCS and FreeBalance were funded through TechnoCap Classic. TechnoCap is an active investor and sits on the board of directors of companies funded by TechnoCap Classic.

The second fund is TechnoCap Lite. "It's designed for expansion companies that are about to go public," says Mr. Prytula. "With TechnoCap Lite, we're a passive investor. TechnoCap doesn't have a representatives on the board of directors."

TechnoHedge investment fund is tailored for public technology companies.

TechnoCap has a modern view of the venture capital process for technology start-ups. "Launching a start-up is like raising a child," says Richard Prytula. "The entrepreneur is the father and the venture capitalist the mother. First they find out a lot about each other and discover they have a lot in common and get married. They have a child - the company."

Companies, like children, start growing and maturing says Mr. Prytula. They start as infants drinking green milk day and night (\$\$\$), and then they reach the terrible twos, onward to elementary school where they learned new skills, to high school and then to university. When the companies graduate from university they get married to large public firms.

Richard Prytula says that the TechnoAffiliates are like a family. "It's important to establish an open culture that allows each company to find its own way to success."

If you're looking for a TechnoCap office in Seattle, Edmonton, Los Angeles or Columbia, Maryland — or in any other city in which TechnoCap has interests — you won't find one. "We don't have offices. We have TechnoCap's Team in Boston, Toronto and across the Montreal Urban Community with all our TechnoCap's Team working out of their home offices".



Confident of TechnoCap's future: Richard Prytula, left, is founder, President and Managing Partner of TechnoCap. Above, Susan Read, Vice-President, TechnoBrainGain and Estelle Havva, Vice-President, TechnoWallStreet.

Richard Prytula's house in Montreal is TechnoCap's nerve centre with a boardroom. "You're either in your house with your family or with a client. These days' people are stressed because they have to deal with traveling between office, clients' offices and home. If you cut the office part out of the equation, we found that you reduce some of the stress. TechnoCap also provide the entire infrastructure our team need," says Mr. Prytula.

"We are a private venture company that invests in massively scalable and massively parallel technology companies," says Mr. Prytula.

"You can't make a lot of money investing in companies offering one-off solutions," says Marc Balevi, TechnoCap's Executive-Vice-president and managing partner. "TechnoCap doesn't want to deal with those companies. TechnoCap invests only in massively scalable and massively parallel companies that build the infrastructure that everyone needs to build systems. TechnoAffiliates are much like the infrastructure provided by the transcontinental railway upon which this country was built."

TechnoCap's investment strategy is very focussed. "TechnoCap is in the business of building companies at web speed, and our focus is on net-law-based start ups," says Richard Prytula. Net law asserts that Internet infrastructure doubles every three to four months. These net-law-based companies develop technologies built on many, many processors. "Each of these technologies develops a tidal wave of information two or three orders of magnitude greater than the last. We only invest in massively scalable companies that can be the platform for the industry," says Mr. Prytula.

"Working with net-law-based, massively scalable and massively parallel businesses requires longer research and development's time. When they get developed, they are far more powerful and tend to have superior performance," according to Mr. Prytula.

"TechnoCap doesn't look at companies that push all users through a single processor," says Richard Prytula. These companies are based on Moore's law, which states that computer power doubles every 18 months.

"We specialize in investing in markets, not niches. TechnoCap researches what's going on in a major market and focus its energy on that market preferring to invest in one company in each sector

Susan Read Vice-President, TechnoBrainGain likes to add, "Providing venture capital is one of many ways TechnoCap supports the TechnoAffiliates. Through TechnoBrainGain, TechnoCap is enticing Canadian senior executives, managers and engineers back to Canada to develop leading edge technologies here in Canada".

Is it successful? "If it attracts one person, it's successful," says Richard Prytula. TechnoCap is not only focussed on Canadians. "One of our TechnoAffiliates, VIPswitch hired an Alcatel senior executive from Paris who had received a couple of job offers from Silicon Valley," he says. "Another one of our TechnoAffiliates, Yotta Yotta, hired a senior marketing executive from Boston to work in Edmonton. He's got 15 years of marketing experience, and his wife is manager of technical writing so it was a two-for-one deal." TechnoBrainGain is having another effect on TechnoCap's start-ups. "Last year our companies had one internal recruiter. Now they have 16 full-time internal recruiters in the individual companies searching for new talent." TechnoBrainGain is not only about recruiting. It's also about professional development and training, as well as motivating and maximizing TechnoCap's Team potential. "Susan Read, TechnoBrainGain works with our companies' presidents and senior people to create the right culture. To make a billion dollar plus company, you have to develop the right culture," he adds.

Where is TechnoCap now and what does the future hold for Richard Prytula? "We're in the university stage of the Venture Financing process. When TechnoCap goes beyond this stage, perhaps I can fulfill my ultimate career ambition: to be a professional snow boarder."