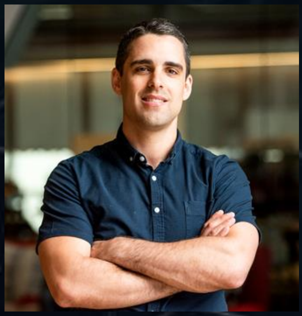
diffusetap
Virtual Event Series

IPO vs. Venture Capital

Guest Speakers:

Shafin Tejani
President & CEO
Victory Square Tech



Matt Bailey
Founder & CEO
GameOn

Hosts:

Kenny Estes
CEO & Founder
Diffuse

Ayla Kremb
Chief of Staff
Diffuse

DiffuseTap: IPO vs. Venture Capital

Last time on DiffuseTap, **Shafin Diamond Tejani, CEO at Victory Square Technologies,** and **Matt Bailey, Founder and CEO at GameOn** talked about going public on a global scale – in baby steps – and why some startups might forgo the traditional partnership with a SPAC or VC and decide to take the IPO route, instead.

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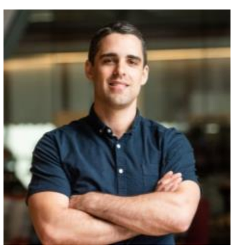
Meet the Speakers

Shafin Diamond Tejani, CEO at Victory Square Technologies, a VC firm and startup incubator. He is also a volunteer Director at Vancouver Social Venture Partners and Athletics for Kids, as well as a Venture Philanthropist at The KidSafe Project Society. A serial entrepreneur and investor, Shafin has pioneered a unique venture-build model to unlock true value not just by funding, but also by offering motivated leadership expertise. LinkedIn: @shafindiamond



Matt Bailey, Founder and CEO at GameOn, a gamified sports and entertainment prediction platform, is on a mission to empower sports and entertainment content providers. Matt is also Founder and Director of the Brooklyn Kings Rugby League and has driven brand partner revenue for teams like the Brooklyn Nets and the New York Islanders; venues such as Barclays Center and Nassau Coliseum; and event platforms like Electric Zoo and Life in Color. LinkedIn: @gameonmatt

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DiffuseTap

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KENNY ESTES: Today's speakers are Shafin Diamond Tejani and Matt Bailey. Shafin, do you want to start off briefly and tell us what you're all about?

SHAFIN DIAMOND TEJANI: Thanks, everyone. I appreciate you guys for inviting me and Matt. For my background, I started working in the online dating space in the mid-90s out of my dorm room at university, and I saw how the Internet was going to disrupt the way we accessed information, worked, played, and communicated.

We were very fortunate to have a business at that time that was generating revenue. And we built this business model where we would buy, build, and invest in businesses that we could drive users from our dating site to. Or businesses that were solving pain points in our existing business. And we referred to this as a venture build model.

Twenty years later, we've been very fortunate to have had success for over two decades being early on successive waves, from Internet 1.0, to mobile, to really disruptive tech like crypto and blockchain, and AI.

Victory Square Technologies was formed in 2017. It's publicly traded on the Canadian Securities Exchange (CSE) in Canada, the OTCQX in the US, and on the Frankfurt Stock Exchange. The goal of VST was to democratize access for retail investors to get access to the next best tech companies around the world. That means ground floor access. And our portfolio companies are in sectors such as digital health, gaming, blockchain, VR, and AR, cybersecurity, and cloud computing.

KENNY: That's really fascinating, appreciate it. I'm going to look up those tickers in the not-too-distant future. Matt, do you want to briefly talk about your background and GameOn?

MATT BAILEY: Yes. Thanks for having me again. I see some familiar faces from the first time we were on. I'm Matt Bailey, CEO at GameOn Entertainment Technologies. We work with content providers in sports and entertainment. That includes teams, leagues, networks, sportsbooks, and we work with them on making their content more social and engaging through things like prediction games. That's kind of the overview of the company.

From a business standpoint, we're working with Shafin and the Victory Square guys on taking the company public on the CSE in just a few weeks. We wrapped up a pre-IPO financing of about 5.8 million CAD not too long ago. And like I said, we're a few weeks away from listing on a small market cap exchange, which is kind of an alternate path to the traditional VC route that startups at our stage take. I'm excited to share that experience with everyone here today.

KENNY: Congratulations on the pre-IPO raise, that's really exciting. And a much bigger congratulations because you are actually the first speaker who is on DiffuseTap twice. This is how you know you made it.

MATT: There you go, nice.

KENNY: Yeah. My partner in crime here at Diffuse, folks, is Ayla Kremb. Ayla, do you want to take it away?

AYLA: Absolutely. One of the core questions I want to ask is, why not go with a venture capital for the pre-IPO round? Why did you make the decision to actually go with an IPO versus a larger round?

MATT: We were at a stage where we were hit significantly from the pandemic, and sports kind of fell off the edge of the earth. But then, we did our first white label deal, and that got us some cash in the door. It got us into an exciting new period, with new opportunities for GameOn. We were about to go out and try and raise our first real seed round. We had raised a few hundred thousand already before that, from friends, family, TechStars, and a little bit of angels, but we hadn't raised that seed round yet. And just as we were about to, Shaf came to us. I'd known him and the crew for about a year at that point, and he just put a different opportunity on the table and said, look, merge with our existing company V2 Games based in Vancouver. You'll be the CEO, we'll bring all the assets over, and we'll list and go public and raise money that way. The diligence for that took a long time, but we got people to go on board with it, like Jon Moses, our chairman, who's currently a director at Take-Two Interactive.

He was a big mentor of mine, still is, and was a big part of doing the diligence with me. Getting him on board, and talking to others, and just taking a few months to really look at the opportunity got me excited and got the team excited about doing this. We wouldn't have done it without a partner like Victory Square being there with us.

I'll let Shaf jump into some of the things they've done before GameOn, because they have a track record. They have the investor network, and they really are the partner in all things going public and raising capital via those markets, while we are focusing on the product, the business, and growing the team. Shaf, do you want to jump in and give your thoughts on VC versus the public market?

SHAFIN: Yeah. It's interesting because at VST we're both investors and entrepreneurs. Looking at it from both perspectives, we got exposure to the public markets, about five or six years ago, when we had three portfolio companies that weren't cash flowing. They were more forward looking. One was in the sports betting space, one was in the cannabis space before legalization, and the other was in the blockchain space. They were all based in Canada and were all struggling to get access to VC funding with good terms.

So, they all ended up going public via this CSE route, where you go public in Canada first, then the US, and then in Europe. And what we noticed was all three industries connected with investors and customers from all over the world. From an entrepreneur's perspective, by going this route, these companies were able to access capital from retail investors and institutions globally that had an appetite for these verticals and spaces.

Once listed, each of these entrepreneurs found it easier to raise capital under better terms. That means no ratchet clauses, no clawbacks. Each of these entrepreneurs still maintain board control, management control and budget control of their businesses. And then they're able to use stock as a currency to roll up assets and grow. What was interesting to us is, normally, when you, as a VC, invest in a private company, you're locked in for a period of time. Your investments are not liquid. You're limited to the type of companies that are based in your geographic region or within your network, and the companies are rarely audited. There's not as much transparency.

And what we found was, in each of these three cases, the markets were giving these companies such forward-looking valuations, because they're all kind of disruptive and early. But as an investor, what was amazing is that you had liquidity. Also, the companies were audited, so there's transparency. But most importantly, as an investor, you're not locked up for 10 years, or five years, for that matter. You had liquidity to sell off some of your position as the business progressed, and then reinvest that into other projects. So we found this very interesting and advantageous from both a company perspective, and as investors ourselves.

One last thing I would say is that the cost and timeline wasn't too challenging. Within 90 to 120 days, if the company had its paperwork together, or had an audit done, it could be listed within that time frame. To go through that whole process might cost about 250 grand in Canadian dollars. Annual costs weren't as expensive as we would have imagined. So, we found it to be strategic for what our business model revolved around.

KENNY: A lot of the folks here are going to be pretty familiar with SPACs. How does your model contrast with the more traditional SPAC? And then when Shaf has had a chance to answer, same question to you, Matt. I'm assuming you looked at other SPAC sponsors, so what did that look like?

SHAFIN: It's interesting because we've been familiar with the special purpose vehicle and SPAC model for years. It's been around for a while. But in Canada, there is a very similar model called an RTO (Reverse Take-Overs), where you'll have a shell that will have some cash in it. It won't have $100 million dollars, but it might have three to $10 million in it, and then it goes and looks for a deal.

We've always been familiar with this model. This has been a model that's been prevalent on the Canadian side for a while. But what was interesting is that we've brought our companies in our portfolio from all over the world to Canada through this program called the Startup Visa. And when you're doing your seed round, or even your series A, you're able to do them both concurrently via this RTO model and be public fairly quickly. We saw this as an easier path for earlier-stage companies.

For technology and startup companies that were trying to do both their seed and series A concurrently, we felt that this was a better model, because VCs want you to be more established. And with SPACs, I think you need to hit a minimum threshold of 10 million ARR to fit that model. So, we felt like this was a really good fit for GameOn and for a lot of the projects that we look at.

MATT: I think Shaf just hit the nail on the head in where we're at with GameOn and how early we are. We wouldn't qualify for the traditional SPAC requirements, and we weren't really looking for something even like that. Truly, I didn't know that this was an option for such an early-stage startup like us, and nor do many other founders, to be honest.

That's one thing that I'm surprised with. Why didn't I know that this was a path I could go down? Shaf and team proactively came to us about it and we were already in their network, but it still blows my mind. And I still don't know the answer as to why startups don't understand that this is a path to access capital, to access growth and get liquidity, as opposed to the traditional VC route. It's not a sure path to guaranteed success, but it's a viable path. And for us, it's not just capital. It's provided a tangible stock to bring on people like J Moses on our board or bring on our Chief Product Officer Santiago Jaramillo, who just built NBA Top Shot at Dapper Labs, and before that, built FIFA and EA Sports and more. Bringing on that caliber of talent is so much easier when we have that tangible stock. It still blows my mind why startups just don't understand or are educated on this path as a way to tap capital.

SHAFIN: I have just one thing to add to what Matt said, and that is it's inevitably coming. You can look at equity crowdfunding, and the changes to Reg A financing, or even token generation events like that where the current model is being disrupted for earlier stage companies. This also applies even to the creator economy, and for people putting their own social tokens to how their audiences fund their development and growth. This system is being disrupted in different manners for projects starting off earlier. I think you're going to see more and more of it in what we do.

The last couple of years, the biggest influx for us was in seeing companies in the cannabis, psychedelics, blockchain spaces, esports spaces. These very forward-looking and innovative businesses. We've seen a big number of projects coming because they're not big enough for VCs, and they don't have enough traction for VCs to invest in them.

And it's harder for them to get capital because their businesses are not cash flow positive. Today, they're businesses that require a lot more risk capital to push them another one or two years before they're at that stage. I think you're going to see more and more startup companies or earlier stage companies looking at alternatives to this to this VC model.

AYLA: One question that comes up immediately for VCs in the room is how should they work with the startups that are in their portfolio right now to make sure that they don't accidentally somehow disqualify themselves from being able to go public at a future date? Are there any missteps they can avoid, or any structuring issues that would disqualify them? What should they keep in mind?

SHAFIN: Yeah. The first thing that comes to mind is, don't commit fraud. Make sure you don’t have any bad skeletons in the closet. If it's a business or an investment that's been keeping its books in order, and it is fully regulatory compliant, then in general, it'll be eligible. And also, we've talked about the positives of going public, but there's also a lot of challenges to it as well.

But I would say structure is key, or more particularly, I think your structure upon listing is key. You want to have a good base of supporters upon listing. If you’ve got a tight structure at the time of listing, the share price can be traded at a bit of a premium. That helps the business use its stock as currency to roll up assets at a premium or raise money on the equity market at a premium.

So, if you have a bad shareholder base or a bad structure, while it won't eliminate you from the listing, it will make the experience more negative. Because then, you're focused on fighting stock that's hitting the market immediately upon listing.

KENNY: Alright, fair enough. I'll pick up a question from the chat from Frank Cid, and he told me to ask you, Shaf, about CPCs, which are kind of the Canadian SPAC. What's your outlook on CPCs? Where is that industry going? Where is the growth?

SHAFIN: Yeah. It's interesting because in the breakout session, we were talking about a portfolio company we had last year, where we did an RTO, which is where we use someone else's shell to spin that asset off. Now, it's worked out well, but there were tremendous challenges, because that shell had a lot of older shareholders that had different cost bases that weren't happy with their investment. So, the company that's public had to spend a lot of time dealing with shareholders that wanted to just get out and sell their stock.

So, the challenge with buying a shell, or going down this RTO method a lot of times is, who are you buying it from, and what is the cap structure. CPCs are good in that they're built from scratch and there's a three-year escrow. So, anyone that builds the CPC, their stock is locked up for three years.

So, when you inherit that, or buy that, or use that to take your company public, it can be strategic for two reasons. One, because the structures are generally better. Two, a lot of times, what we look at is (and this is the same thing in GameOn's case) if we can strategically bring in investment bankers that are going to be able to help later. In the case of the CPC or the shell, you're strategically bringing people into that deal early to help on the post market and to help the business do a follow-up financing.

Direct listing is what we're doing for GameOn. So, in that case, we're not using a shell or CPC. If you just hit the criteria of over 200 shareholders, audited financial statements, and an approved listing statement, then you can list directly.

So, for us, direct listing is the preferred method. But if you're choosing between a shell or a CPC, CPCs are cleaner. There are tighter restrictions on the shares, which is good. But in both cases, whether you use a shell or a CPC, we've always found it strategic to have a tight structure that's going to bring good investors into the business. So, if you are going to do that, then you know that you're getting a really good support group that's going to help with post listing and follow-up financings.

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Corporate Director, CME Group

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