

# Why Meshwear Technologies ended up turning down \$500,000 from all five dragons



[Mary Teresa Bitti](#) | March 10, 2014 7:00 AM ET



*Glenn Lawson photo for National Post* Blair Beattie, founder of MeshWear Technologies. The company makes work-wear with mesh ventilation allowing workers to stay cool in their protective work clothing on hot days, where shorts are prohibited.

**Each week, *Financial Post* contributor Mary Teresa Bitti revisits CBC's previous week's episode of *Dragons' Den*. She captures what the cameras didn't and in the process provides a case study for readers, zeroing in on what pitchers and dragons were thinking and what the challenges for the deal are going forward.**

**The pitch** Blair Beattie, owner of Ancaster, Ont.-based Meshwear Technologies Inc. appeared on the show with models sporting his brand, Coolworks Workwear, convertible ventilated work pants. The concept was developed about 10 years ago by a friend, who was looking for an alternative to work pants that he could wear on the factory floor in the summer because safety regulations prohibited wearing shorts onsite.

"One night after sweating through the day, he hit on the idea of pants featuring mesh legs," Mr. Beattie says. A trip to a fabric store for mesh material and another store for bathing suit trunks, coupled with help from his mother and his friend had a prototype. Management approved the pants and it wasn't long before he was fielding requests from his co-workers.

Applying for a patent proved no easy feat: First the factory worker had to find a patent attorney who would agree to apply for the patent then he waited two years before being granted one for the U.S. and Canada. Mr. Beattie became a partner early on and is now sole owner of the brand.

During the eight years Mr. Beattie spent growing the business, manufacturing has moved to China and the expanded product line, which includes high-visibility T-shirts and sweatshirts and coats, is available in about 800 locations across Canada — a mix of independent safety and work wear retailers, industrial safety supply companies and many Mark's Work Wearhouse locations.

In the last few years, a new, unexpected distribution channel has become part of the mix: promotional products — companies that outfit employees are looking to put their logo on items — Mr. Beattie says.

When he appeared on the show, sales for the previous fiscal year were \$1-million with revenue forecast to hit \$1.8-million in 2013. Margins sat at about 35%. Still, his biggest challenge to growth has been financing.

**The deal** Mr. Beattie asked for \$500,000 in exchange for a 25% equity stake valuing the company at \$2-million. "We wanted the money to pursue the U.S. market. We are not doing any business there now and it's a huge opportunity," Mr. Beattie says.

"We also wanted to expand our product line. We've built a decent distribution base. Adding more pieces to the line would be another way to build the existing business."

All five dragons made an offer of \$500,000 for 33% equity plus a 5% royalty until they recouped half their investment, which Mr. Beattie accepted on air. However, in the long run he turned them down.

“At the time, we were looking at another potential strategic partnership. And to enter into the beginning steps of exploring a deal with the dragons there is a contract that has a break-out fee attached. Given that, I felt there was likely a stronger choice out there than what the dragons were offering,” he said.

Mr. Beattie is still actively looking for a strategic partner who can help him enter the U.S. market. “Our patent applies to any type of clothing that employs vented legs. The concept could well be incorporated into recreational or sporting apparel. The opportunity is huge.”

**A dragon’s point of view** David Chilton was prepared to take the lead on this deal and had a few conversations with Mr. Beattie before the entrepreneur decided to walk away.

“I like businesses that make sense to me. One of my big concerns was around the patent. My plan was to hire a top IP lawyer to review it carefully because I felt anyone could knock it off ... and probably find ways to manufacture more efficiently and garner distribution more quickly,” Mr. Chilton said.

“Is he the right guy to move the business forward? I know he’s excited about all the different areas he can pursue, but he has to pick one or two, get the marketing and distribution right first,” he said.

As for breaking into the U.S. market, Mr. Chilton recommends tapping the expertise of a marketing accelerator-type firm that has strong connections with the appropriate distributors and retailers to make it happen much more quickly.

“He should also look into selling the patent on a licensing basis to a manufacturer. Another option is to approach one of the major retailers and give them an exclusive for a year or two and they license it. In exchange for the exclusive, they will pay an outsized royalty.”

**An expert’s opinion** Brad Cherniak, partner at Sapient Capital Partners in Toronto, is also worried about just how easy it is to engineer around the patent.

“U.S. competitors will suss out quickly whether or not he has the legal budget to protect his patent. The U.S. is still an aggressive market and apparel is a brutal business. Not knowing all the facts and just how sound the patent is, my counsel would be to approach a manufacturer and license the technology, let them fight the battles and set up relationships. Everyone from Walmart down are trying to cut distributors. Companies like this with just one product are exposed,” he said.

The other option is to stay niche and take a targeted approach to entering the U.S. market, Mr. Cherniak said. “Pick a region with a strong manufacturing or construction industry or big Defence contracts, cold call small suppliers with a regional footprint and cut a deal. This will allow you to stay under the radar while establishing a foothold and then get bigger or not. It could still be a healthy niche business with growing sales. It all depends on his overall strategy.”