Canada's Venture Capital Industry in Q4 2008

THOMSON REUTERS

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Canada's Venture Capital Industry in 2008

Overall Canadian VC market trends

Deal activity in the Canadian venture capital (VC) market slowed significantly in 2008, reaching its lowest level in many years. Across the country, a total of $1.3 billion was invested, which reflects a drop of 36% from the $2.1 billion invested in 2007. Indeed, VC disbursements in Canada last year were the lowest recorded since 1996.

There were also comparatively fewer Canadian companies financed in 2008, though the year-over-year decline in these numbers was not as sharp as dollars invested. Firms securing VC totaled 371, or 10% fewer than the 412 firms of the year before.

Levels of market activity were especially slow between October and December of last year, when $302 million was invested in 120 firms, or 43% short of the $526 million invested during the same fourth-quarter period in 2007. Q4 2008 activity was also down from three months earlier, when $384 million was invested.

2008 trends were driven partly by a move away from large-sized transactions. Company financings averaged $3.6 million, as compared to an average of $5.0 million one year ago. This contributed to a much wider Canada-United States deal capitalization gap last year, with domestic firms capturing, on average, only 38% of the VC dollars going to firms south-of-the-border.

Trends in the US VC market

A pronounced downturn in VC market activity was visible across North America and on a global basis in 2008. Like Canada, disbursements in the United States fell for the first time per annum since 2003, but more moderately, with US$28.3 billion invested in 3182 companies, or 8% less than the US$30.9 billion of 2007.

Canadian VC trends by investor type

A key variable in the Canadian market slowdown was greatly reduced cross-border activity. American VC funds and other foreign investors brought a mere $371 million to deals in Canada in 2008, or 56% below the $845 million they contributed to deals the year before, and the lowest amount in five years.

Consequently, American and other foreign investors accounted for only 28% of all disbursements in Canada last year. This stands in sharp contrast with their 41% share in 2007, and helps explain the much smaller deal sizes, given the importance of cross-border cash sources to VC syndicates.

Canada's Venture Capital Industry in 2008

The activity of domestic investors was also sub-par on a year-over-year basis, though not to the same degree as foreign investors. Taken as a whole, Canadian VC funds invested $954 million in 2008, which is down 22% from the $1.2 billion they accounted for one year ago.

Canadian private-independent funds proved to be among the more active investor groups, deploying $330 million, which is only 8% shy of their $360 million in 2007. As a result, private funds held a one-quarter share of all disbursements this time around.

Not far behind them were LSVCC and other retail funds, accounting for $310 million invested and a relative share of 23% in 2008. However, in real terms, retail fund activity fell a more substantial 24% from the year before, when $406 million was invested.

Canadian VC trends by region

The overall decline in Canadian deal activity was experienced in virtually all regions of the country. Ontario VC activity involved $570 million invested in 119 companies, down a marked 40% from $950 million in 2007. The province also saw some erosion in its national share, taking 43% of all disbursements in 2008 versus 46% one year ago.

The year-over-year drop in Québec based activity was equally sharp, with $349 million invested in 141 companies in 2008, off by 46% from the $642 million invested previously. As a consequence, Québec garnered 26% of total activity in Canada, which is at odds with its 2007 share of 31%.

In British Columbia, a total of $259 million went to 51 companies last year, or 18% below the $316 million of 2007. However, because of the more considerable plunge in dollars invested in Ontario and Québec, British Columbia's relative VC share rose to 19% in 2008.

Canadian VC trends by sector

The slower market context in Canada impacted trends in all major technology and non-technology sectors, though clean-tech fared better than most. While IT continued to account for close to half of all disbursements in 2008, real activity fell 39%, with 174 companies taking $644 million, as compared to $1.1 billion one year ago.

Software led among IT sectors, consuming $172 million, though this was down 32% from 2007. Telecom firms followed with $143 million, down an even greater 44%. Internet-related activity absorbed the largest drop, obtaining $118 million in 2008 versus $413 million the year before. However, electronics firms achieved year-over-year gains, with $121 million invested, or better than triple its previous level.

Canada's Venture Capital Industry in 2008

Activity in biopharmaceuticals and other life sciences sectors was also reduced in 2008, with $359 million invested in 78 companies, or 43% less than the $632 million of one year ago. The relative share assumed by life sciences activity was also eroded, standing at 27% this time around as compared to 31% during 2007.

2008 levels of clean-tech activity, reflecting 31 companies financed with $187 million, more closely approximated trends in 2007, when $198 million was invested. This gave energy and environmental technology sectors an unprecedented 14% of all disbursements, up from 10% the year before, as well as the more typical 4% average of prior years.

Non-technology sectors saw $101 million invested in 75 companies last year, down 41% from the $170 million of 2007. On balance, traditional activity obtained a sub-par 8% of total VC activity.

Trends in Canadian VC Fund-Raising

New commitments of capital going to Canadian VC funds also fell in 2008, as they have almost every year since 2001. However, the year-over-year decline was slight, with $1.2 billion in new resources raised in total, or only 2% below the level in 2007. The results of VC fund-raising activity in Canada in both years were nonetheless the lowest on record since the mid-1990s.

Private-independent funds attracted the largest volume of new commitments this time around, or $672 million, which is actually up an appreciable 45% from the $464 million netted the year before. Consequently, fresh partnership capital comprised 56% of the total in Canada last year, as compared to its previous 38% share.

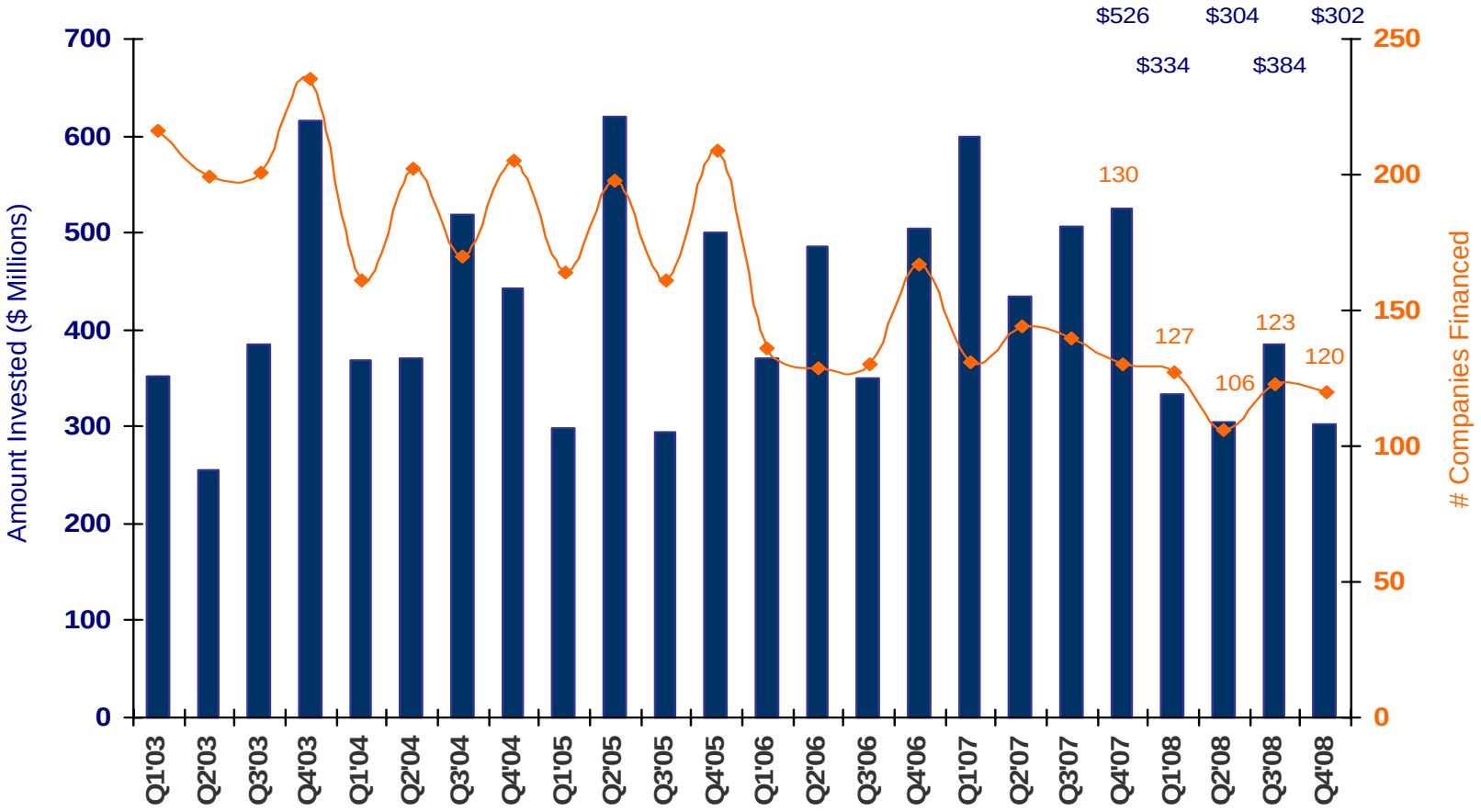
This trend was offset by a 30% decrease in new resources brought into the market by LSVCC and other retail funds. In 2008, retail fund-raising activity obtained a total of $532 million, as compared to the $755 million it accounted for one year ago.

Trends in US VC Fund-Raising

Like Canada, VC fund-raising activity in the United States was reduced in 2008, though this was the first such decline on a per annum basis since 2002. New commitments south-of-the-border totaled US$27.9 billion, down 21% from US$35.5 billion the year before.

$1.33 Billion of VC Invested in 2008

Dollars Invested and Companies Financed



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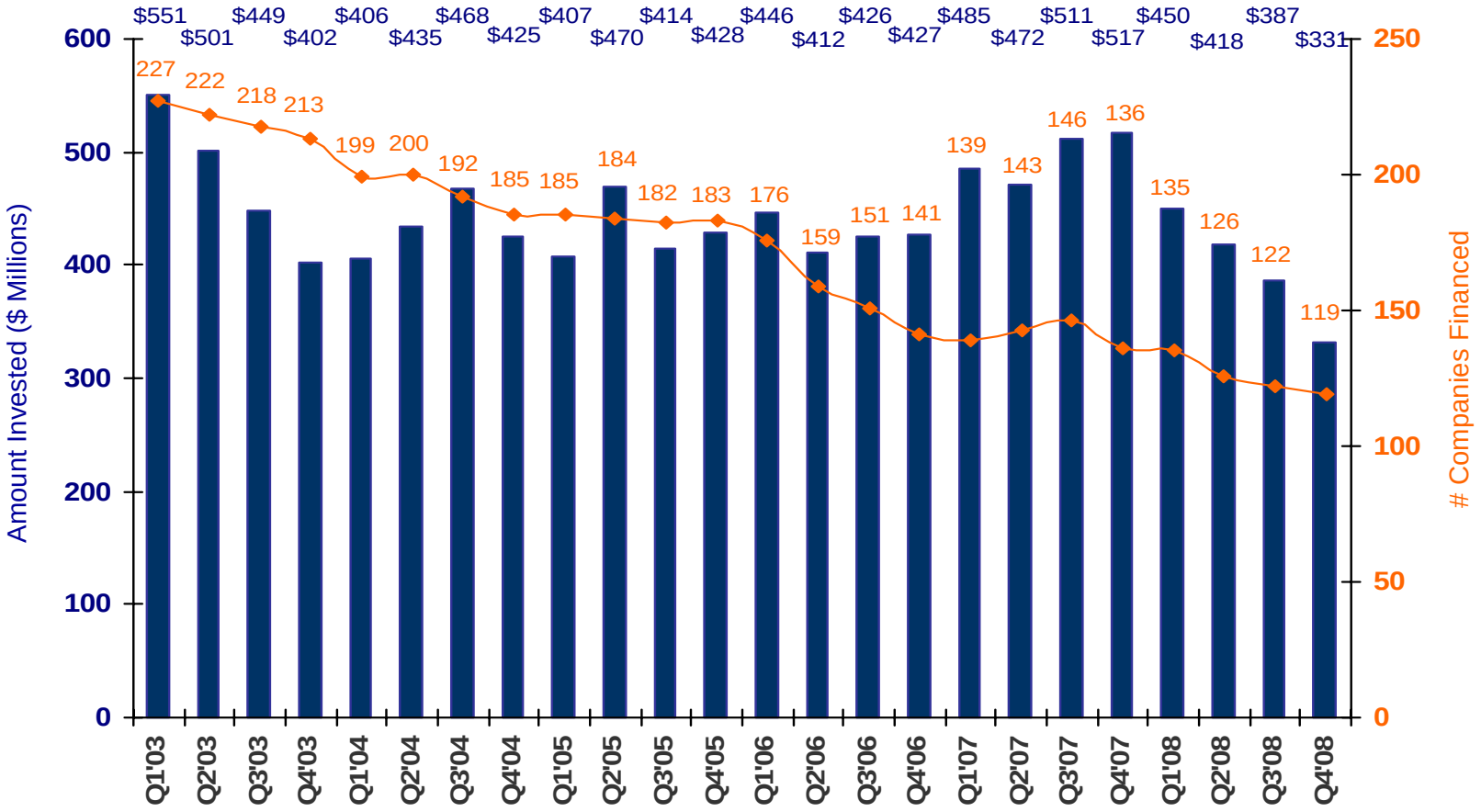
Trend Towards Less VC Investment in Fewer Companies

Dollars Invested and Companies Financed – Four Quarter Rolling Averages



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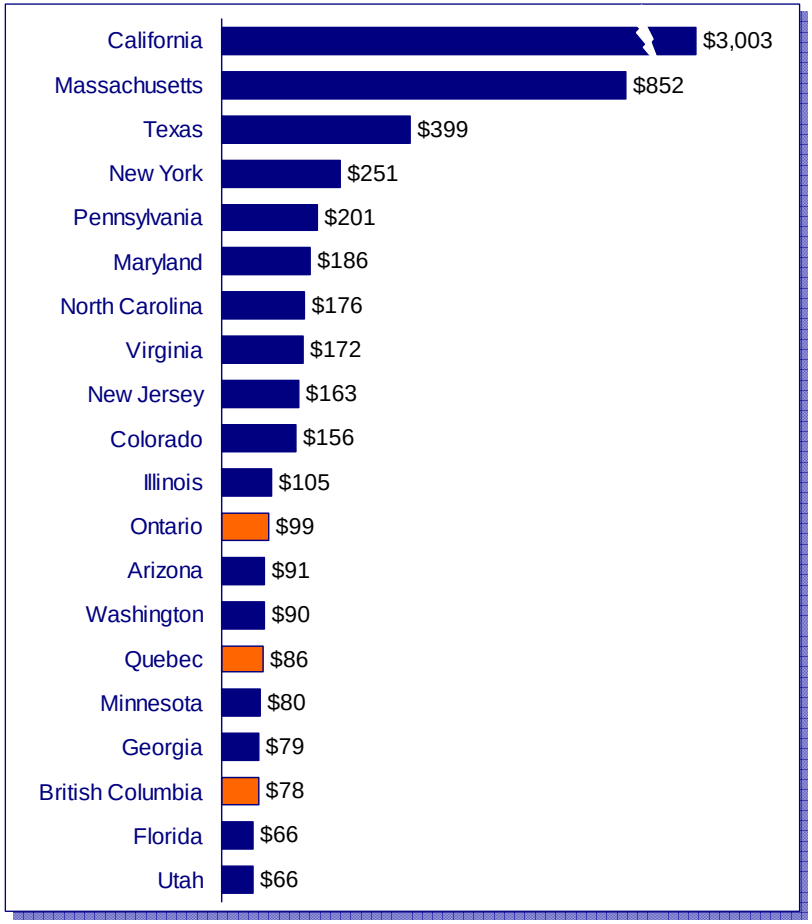
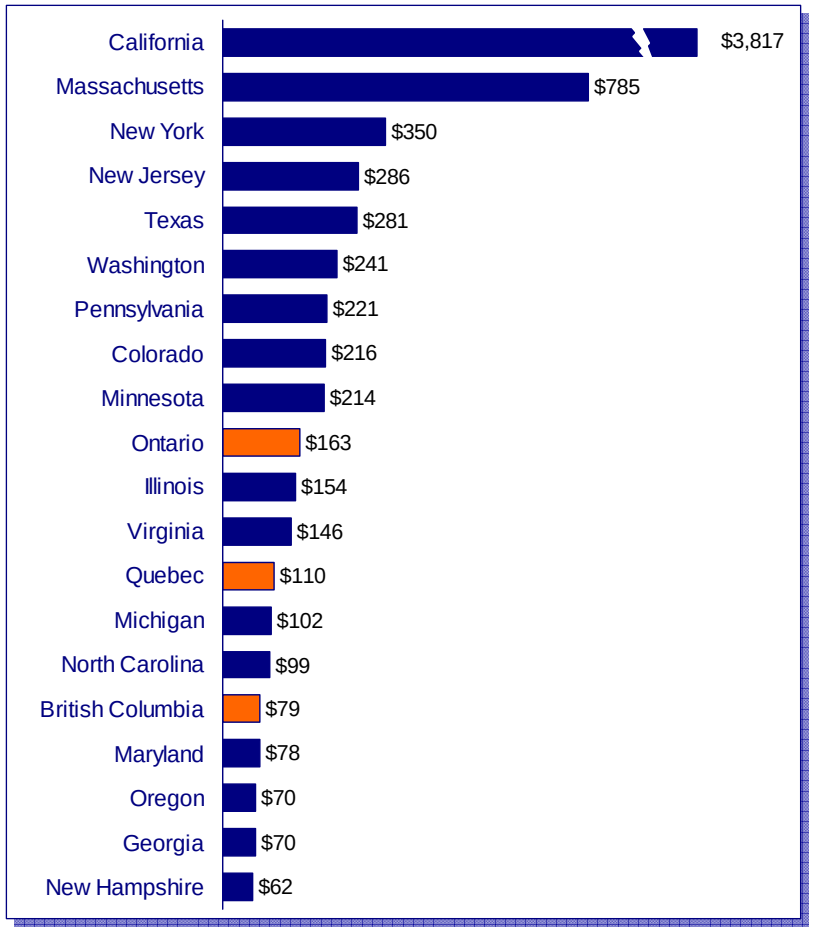
North American Context: Ontario, Québec, and B.C. Finish in 12th, 15th, and 18th Place

VC Disbursements by Province and State (CAD $ MM)

Q4 2008

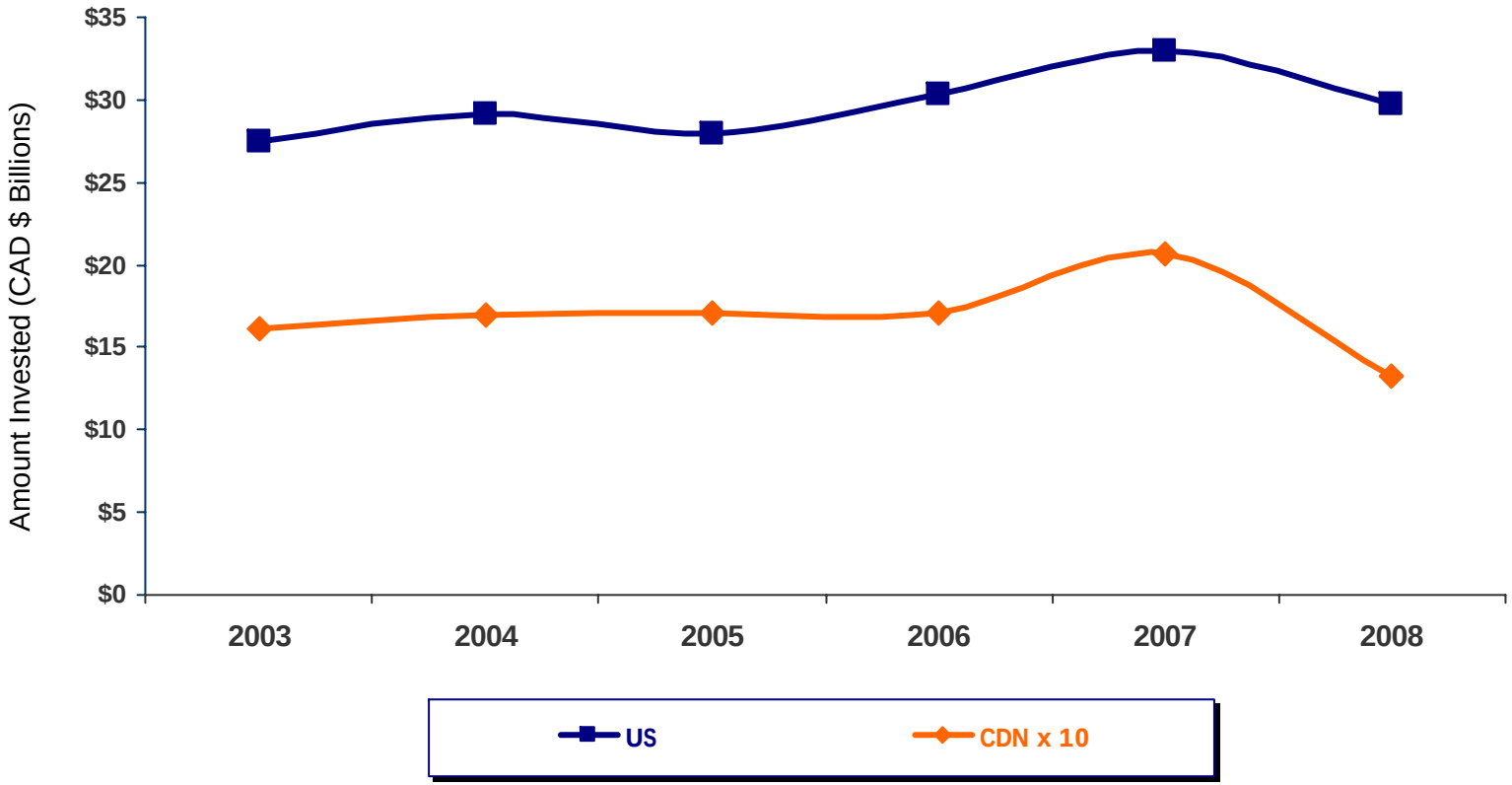


Q3 2008



Decline in VC Investment More Pronounced in Canada

VC Disbursements: Canada & U.S.



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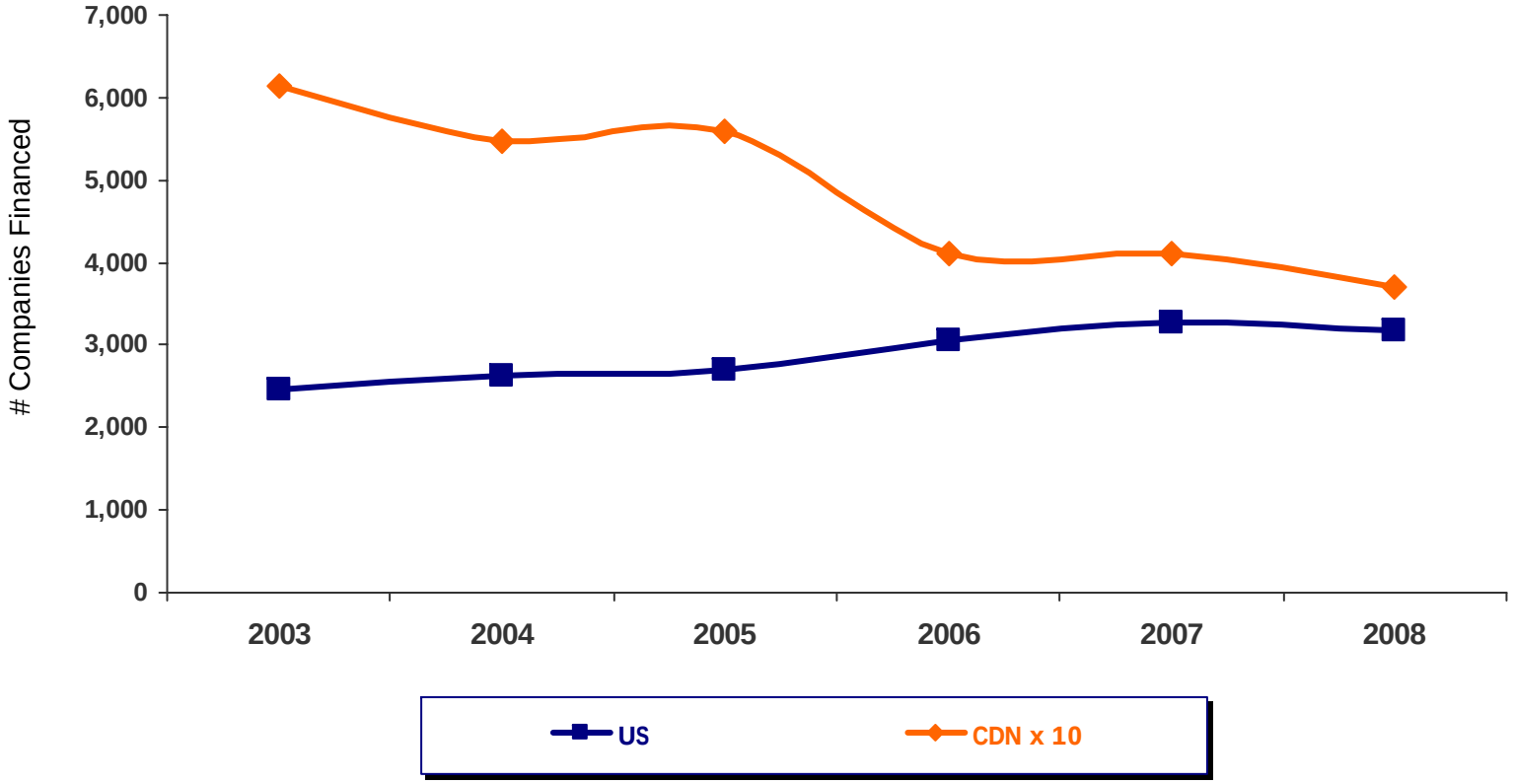
Number of Canadian Companies Funded Declines In ‘08

Number of Companies Funded: Canada & U.S.



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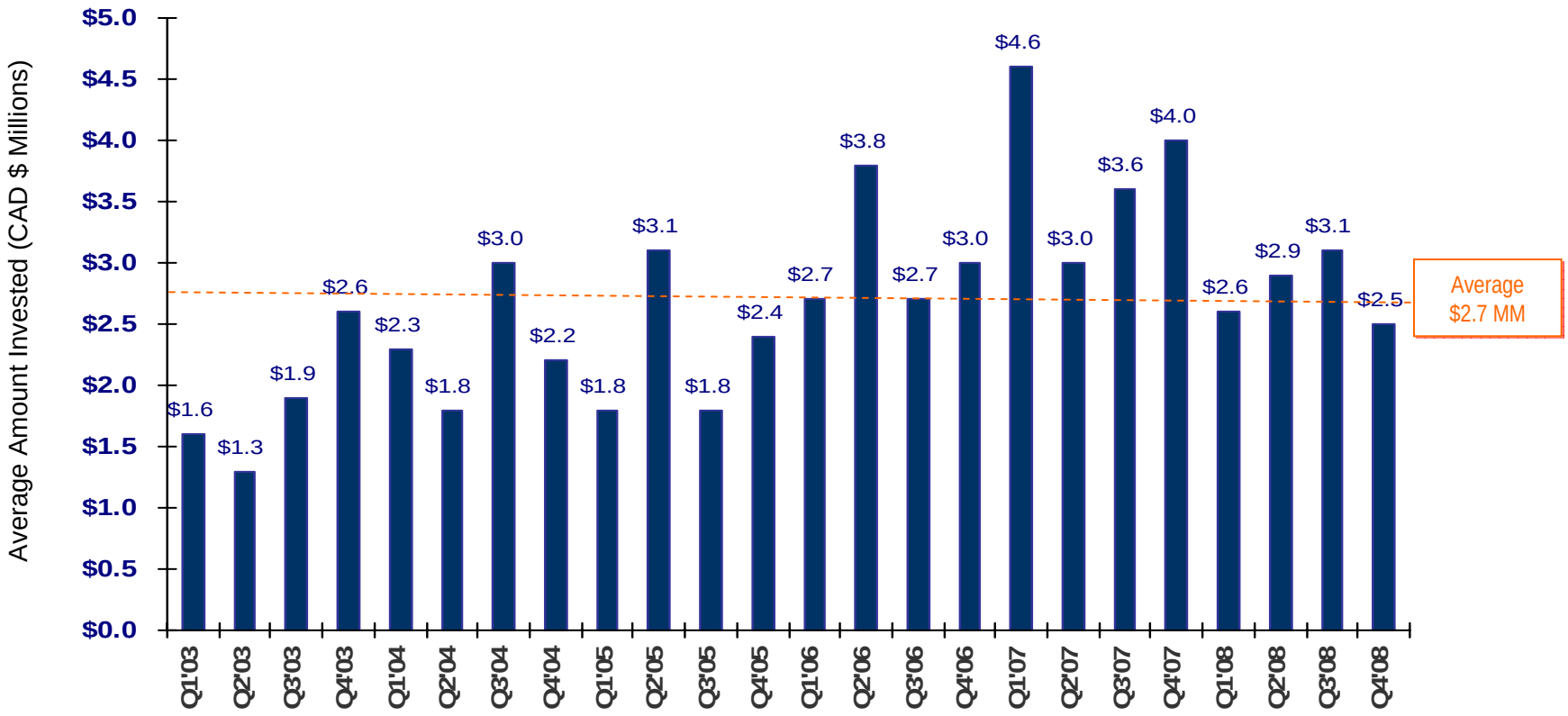
Average Financing Sizes Back to 2005 Levels

Average Amount Invested per Company



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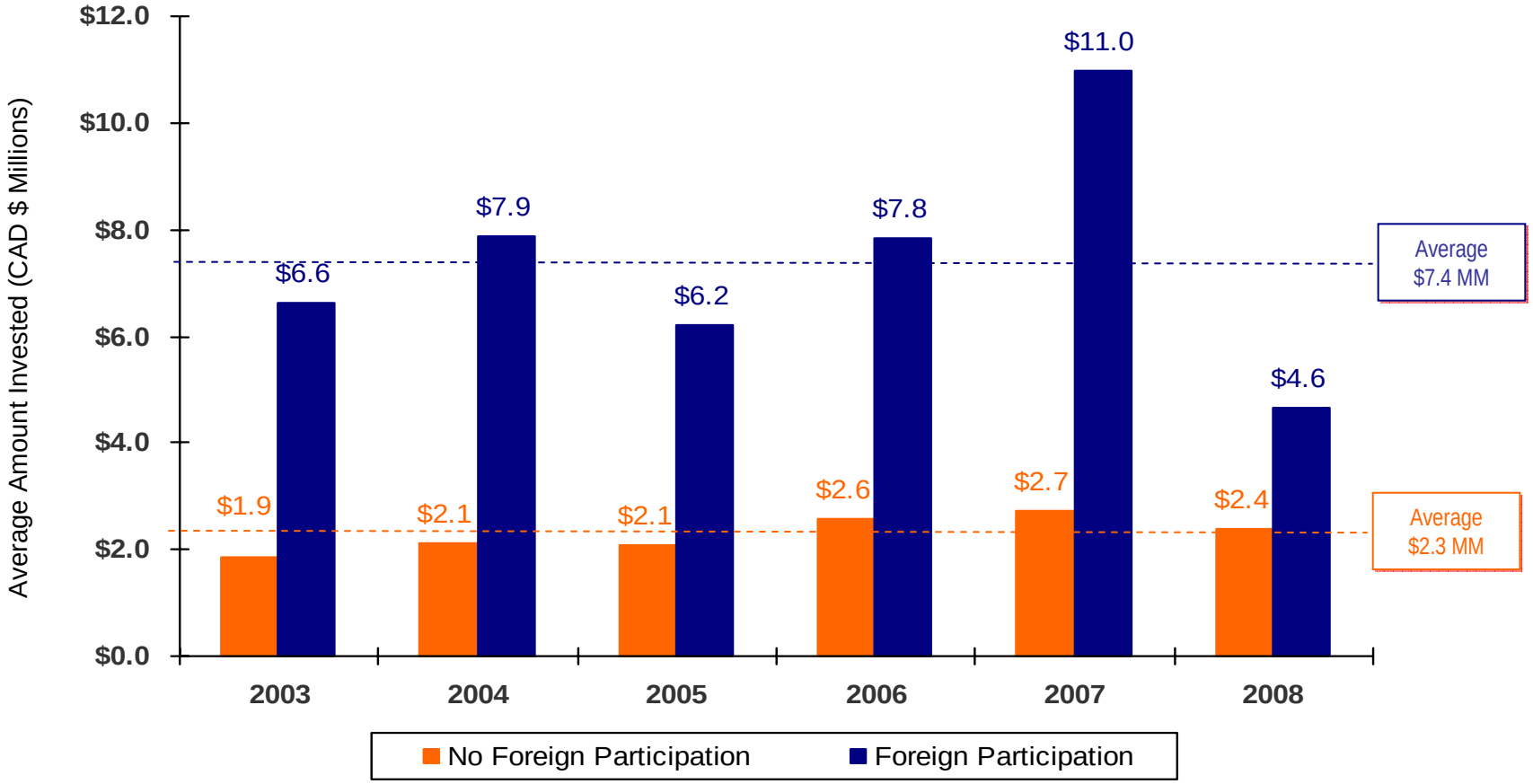
Foreign Involvement Signals Larger Deals

Average Deal Sizes: Deals With Foreign Participation Vs. All Canadian Deals



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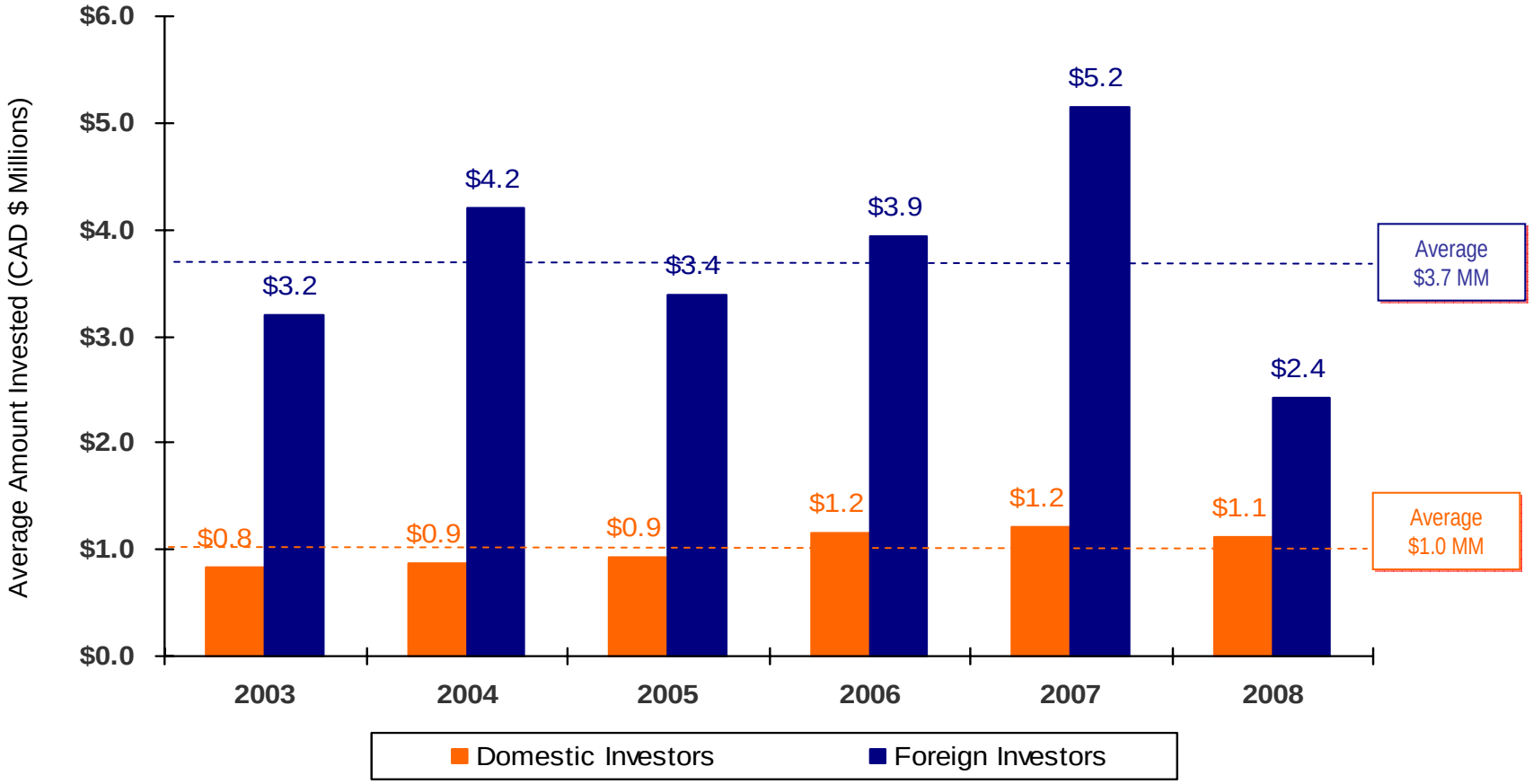
Foreign Investments Larger On Average Than Domestic

Average Investment Sizes in Canadian Co's: Domestic vs. Foreign Investors



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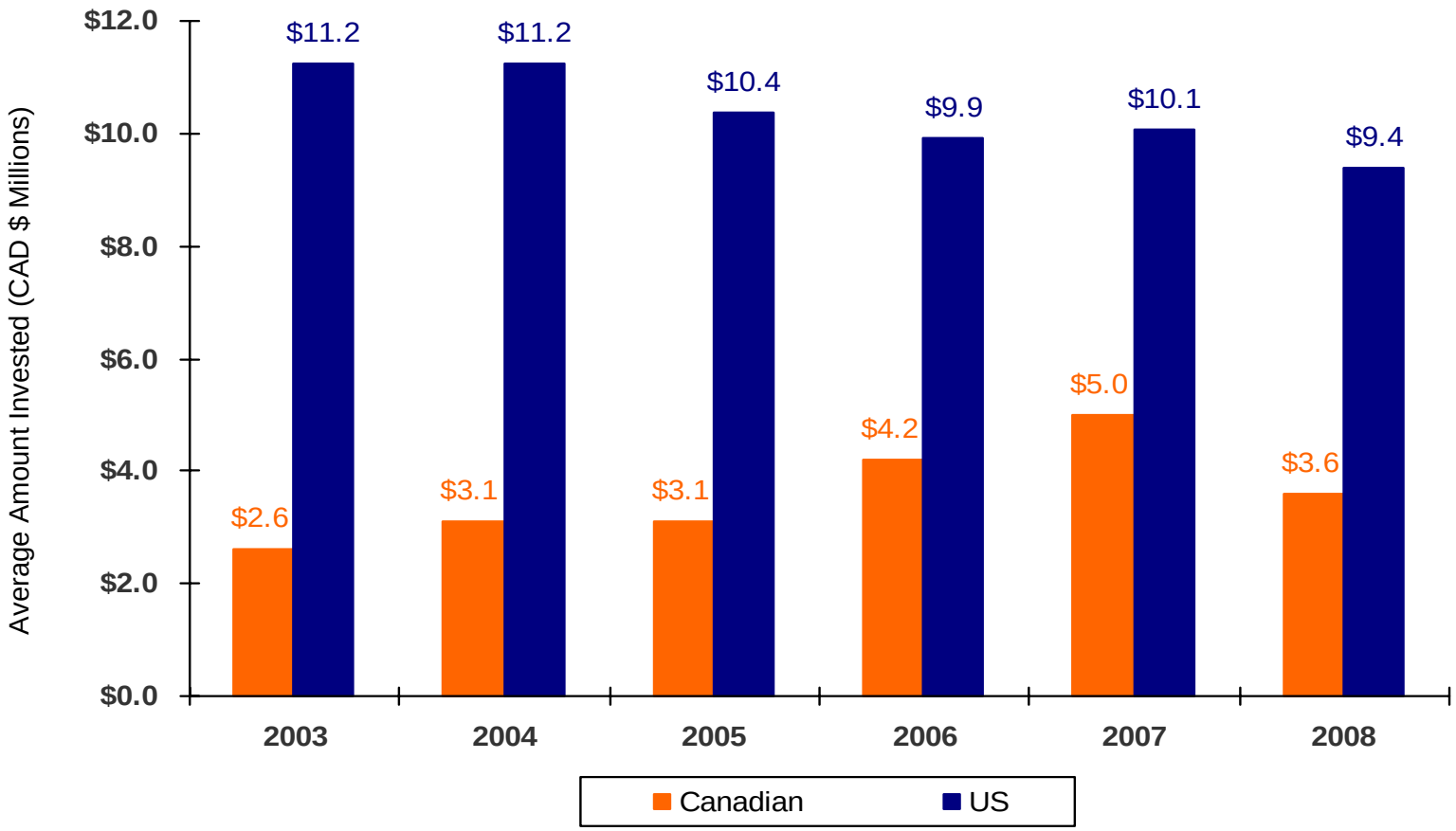
U.S. Financings 2.6X Larger on Average, Gap Widens

Amounts Invested per Company, Canada & U.S.



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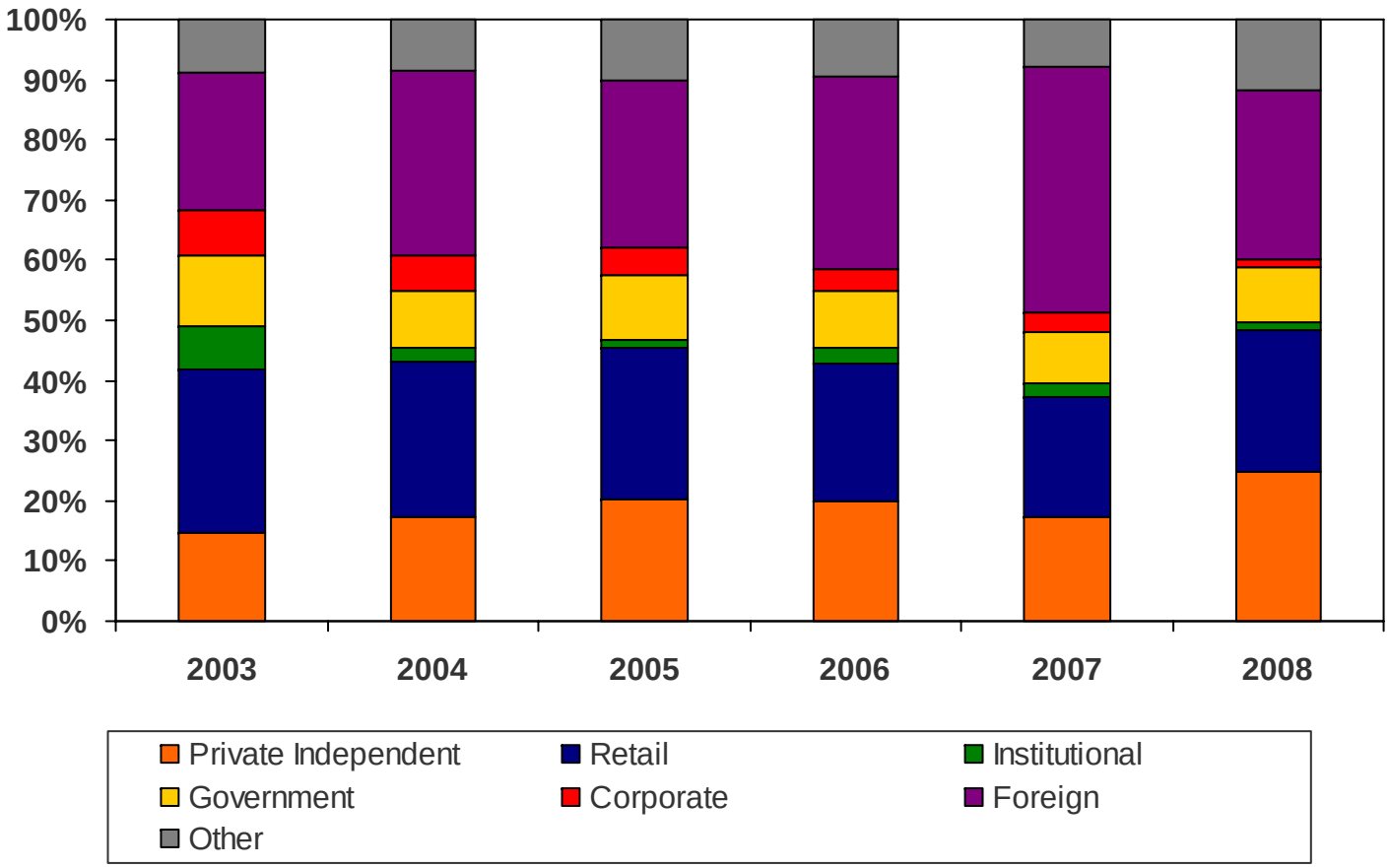
Foreign Investment Sharply Down From 2007

Share of Dollars Invested by Investor Type



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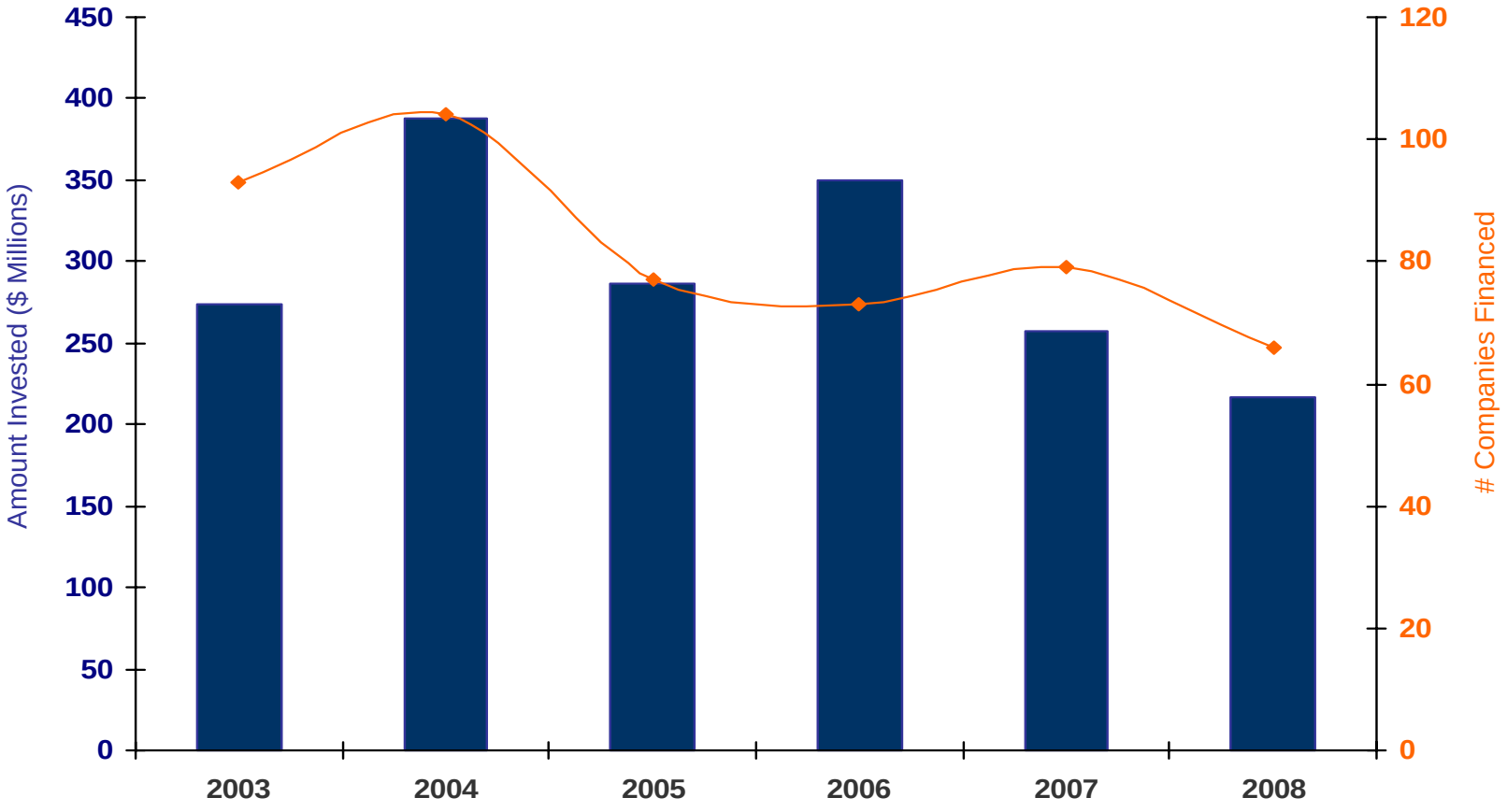
Foreign Investment by Canadians the Lowest Since ‘99

Dollars Invested Outside the Country by Canadian Investors



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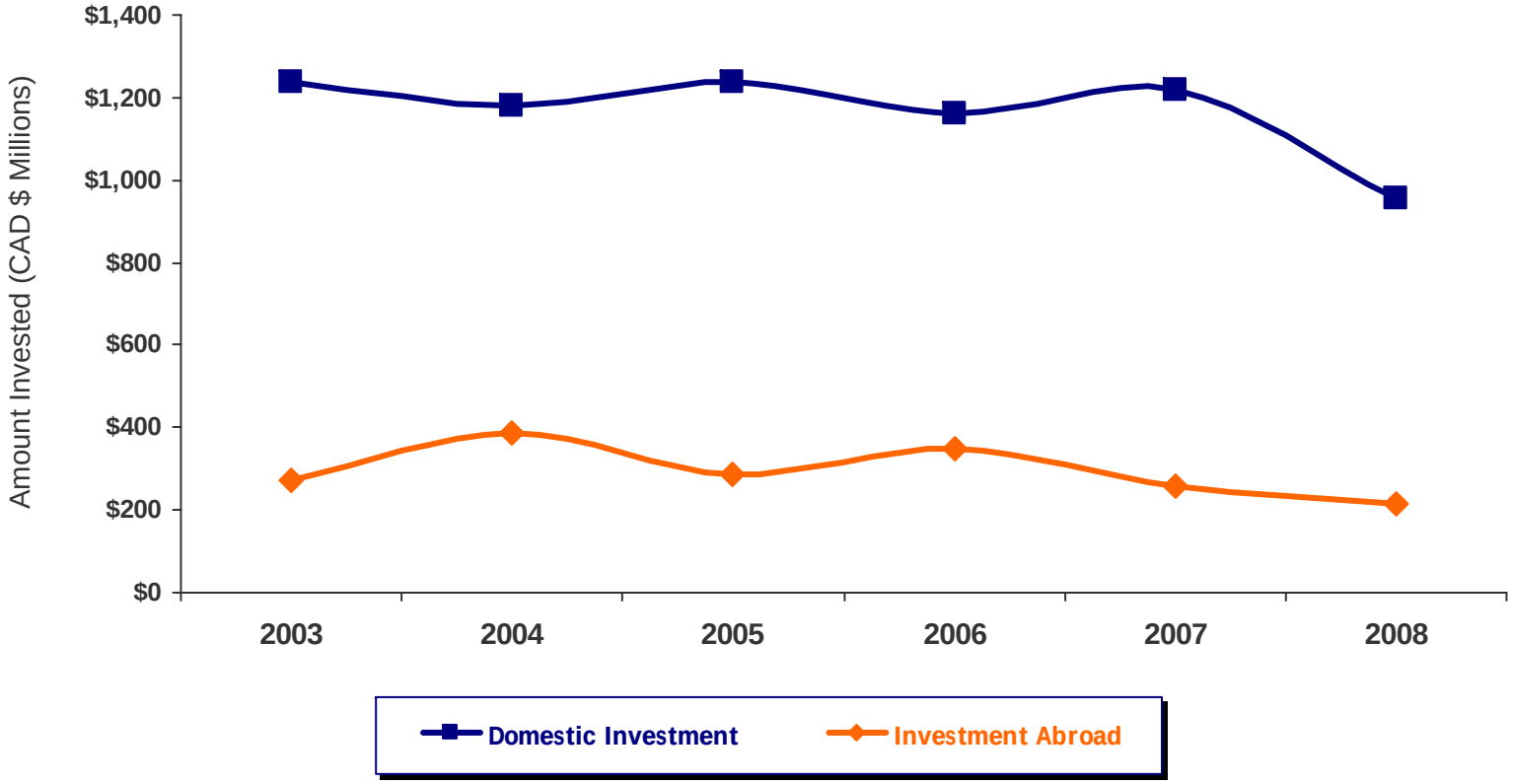
Canadians Investing Less in Canada, Elsewhere

Canadian Domestic Investment vs. Canadian Investment Abroad



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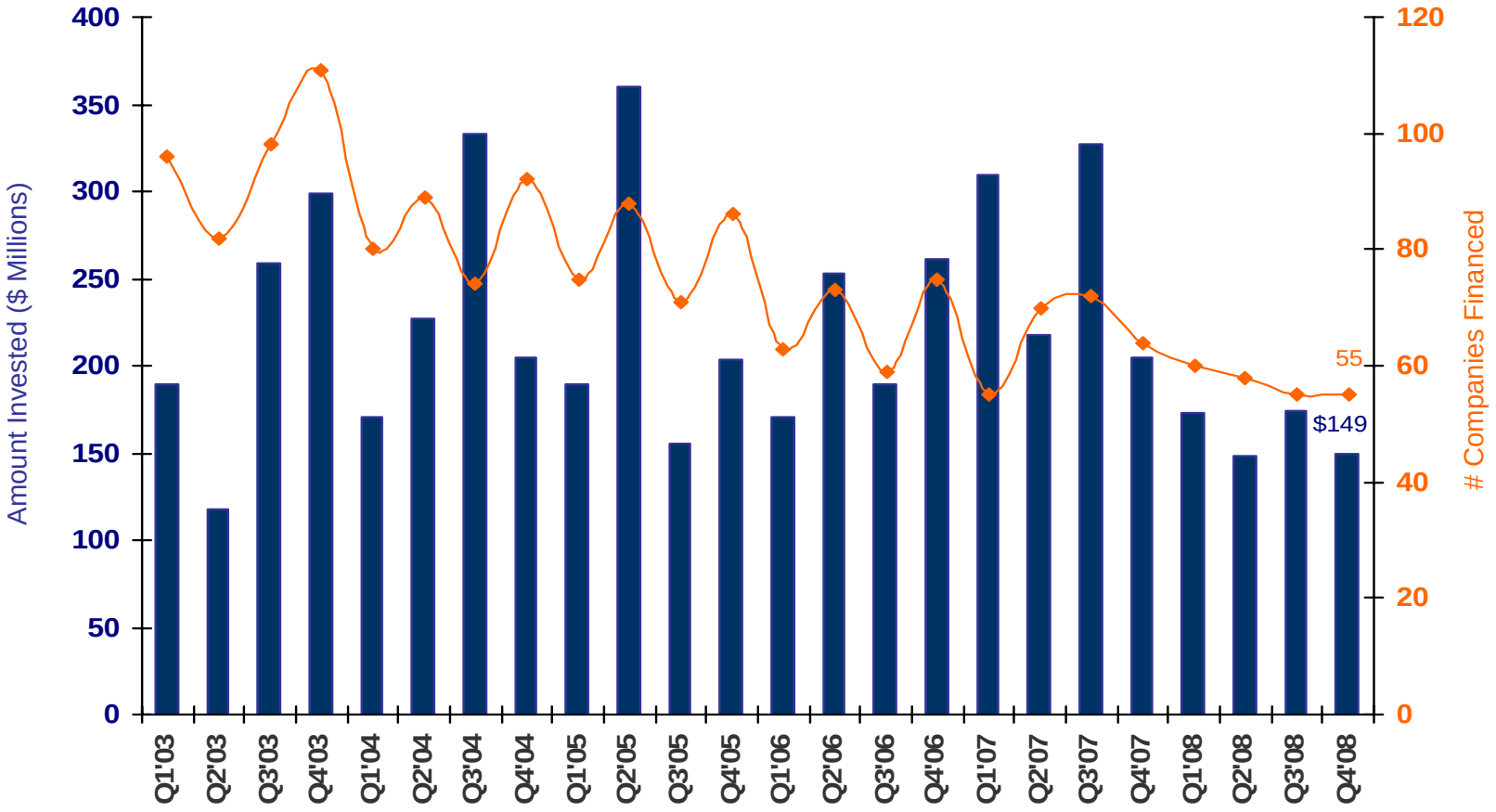
IT Secures 49% of Disbursements in 2008

Dollars Invested and Completed Transactions in IT



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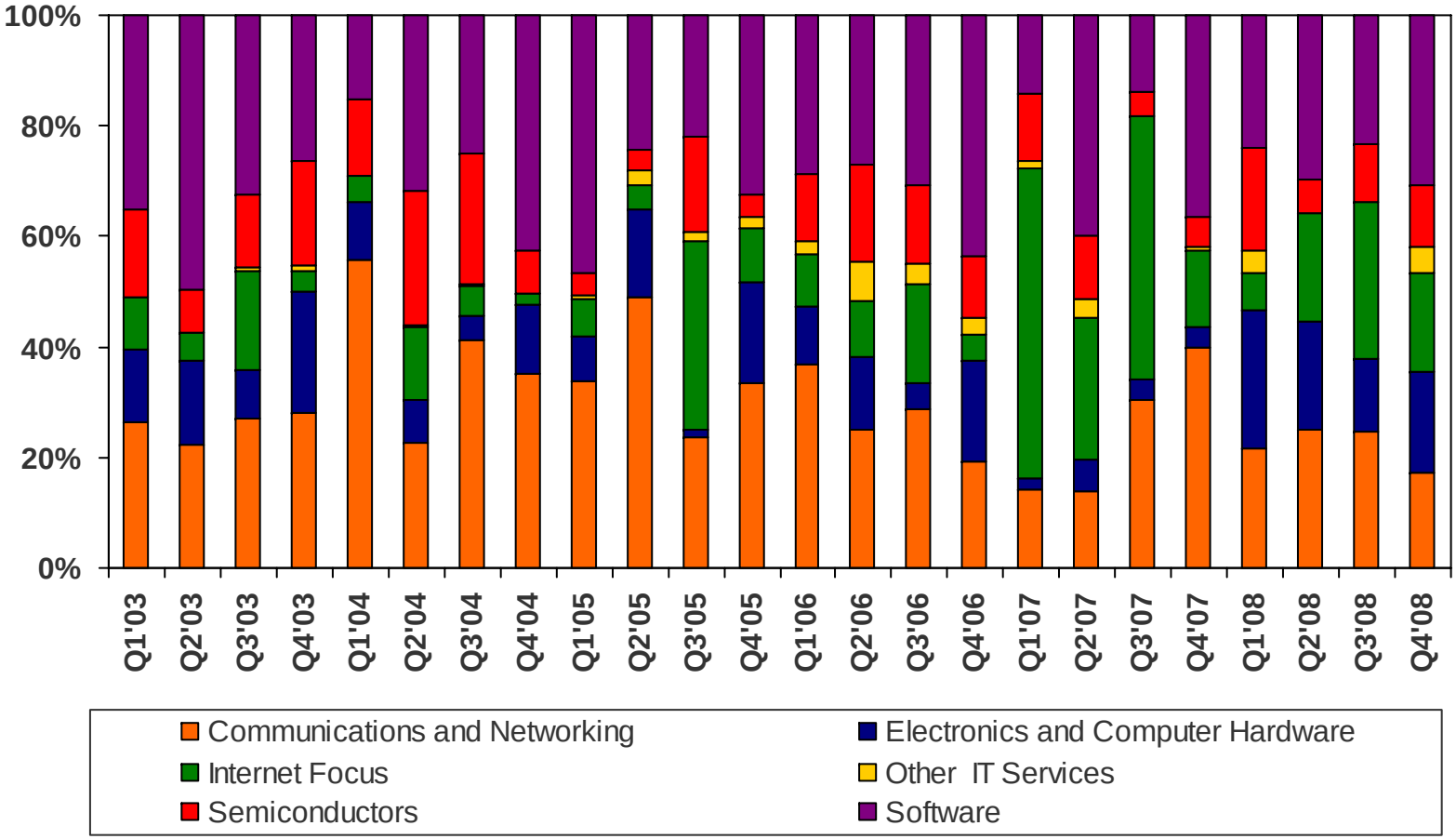
IT Investment Spread Among Sub-Sectors

Dollars Invested in IT by Sub-Sector



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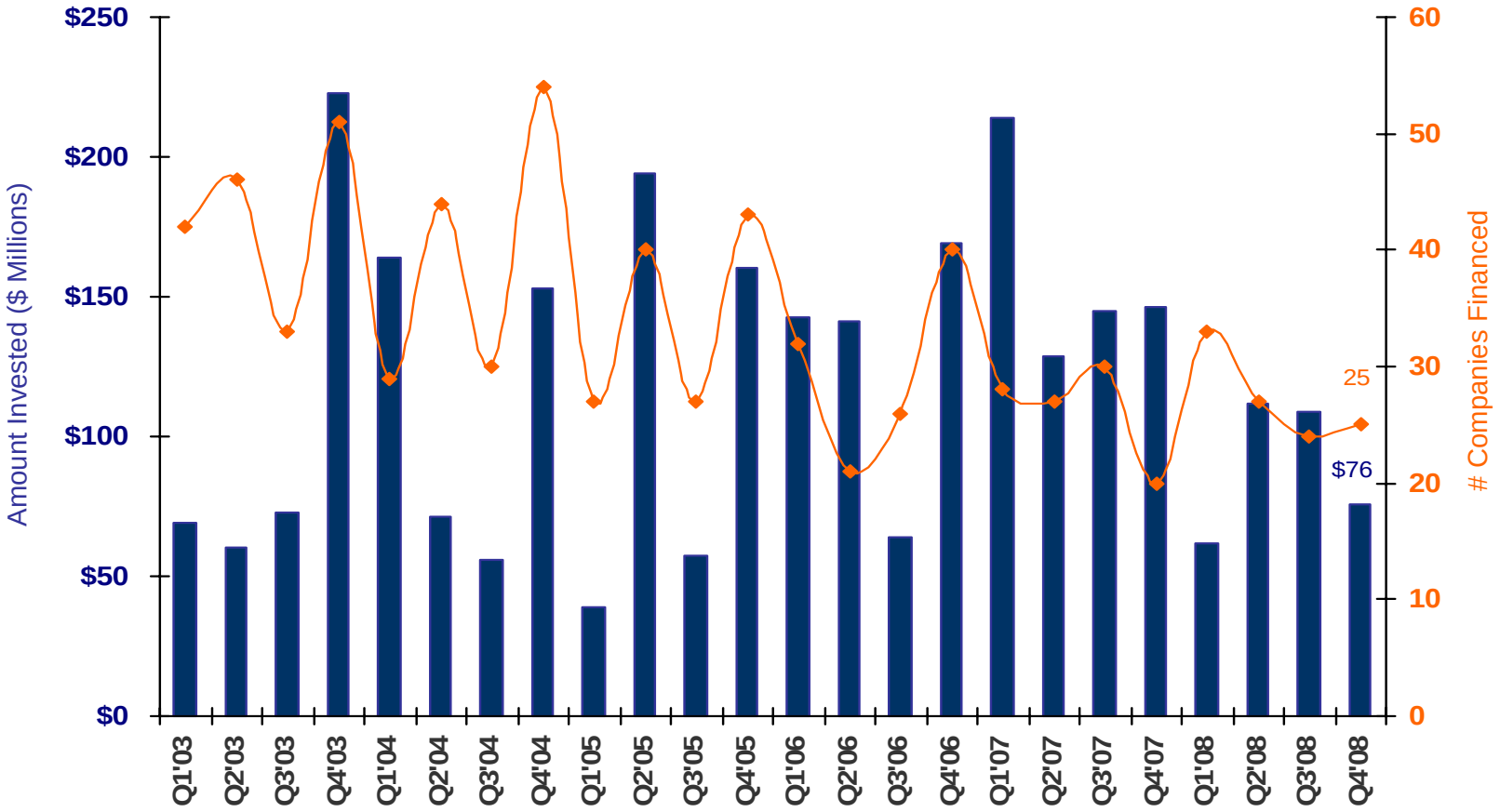
Life Sciences Investment Captures 27% of 2008 Total

Dollars Invested and Completed Transactions in Life Sciences



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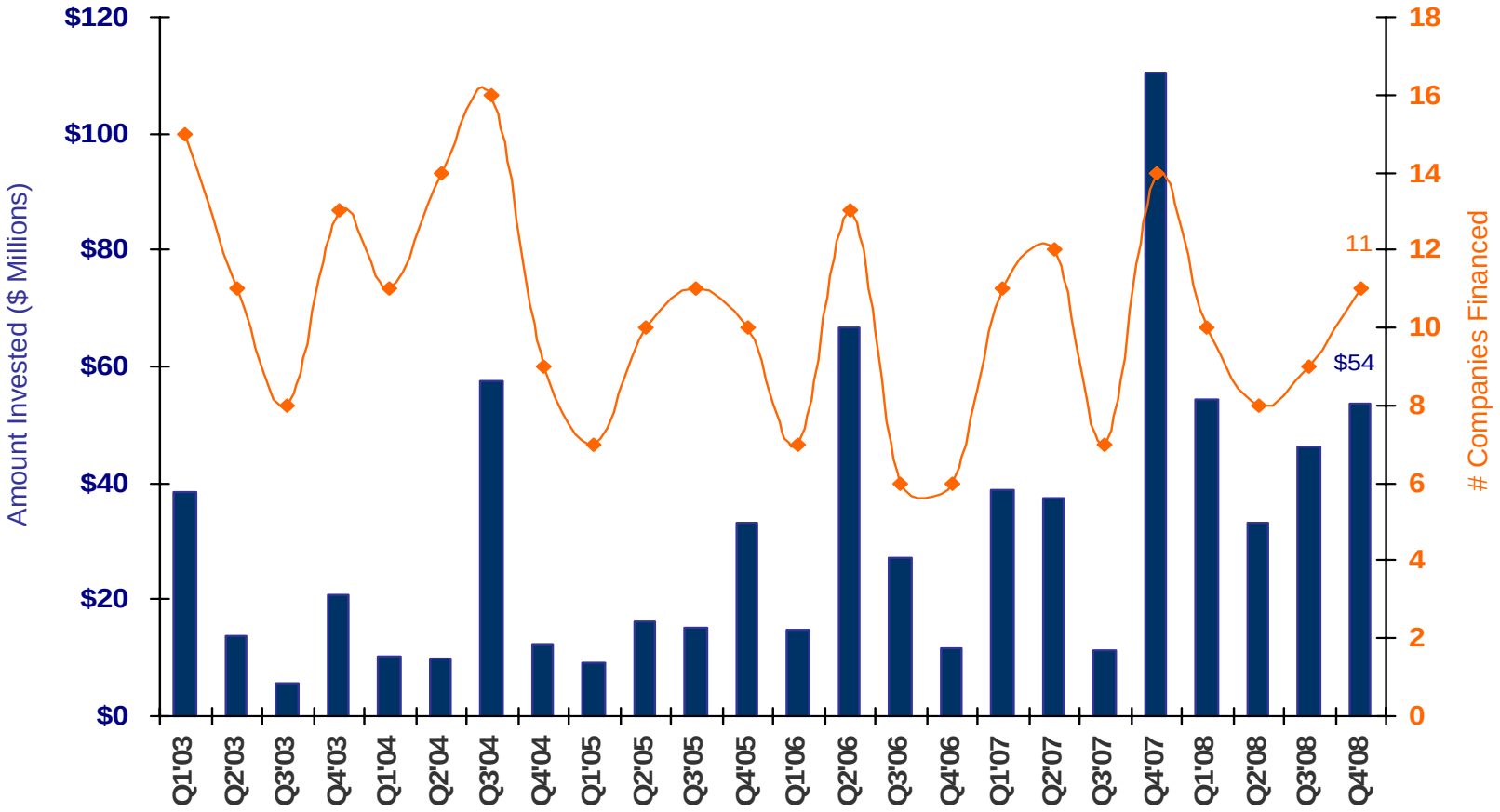
Cleantech Investment Very Strong – 14% of Total in 2008

Dollars Invested and Completed Transactions in Clean Technologies



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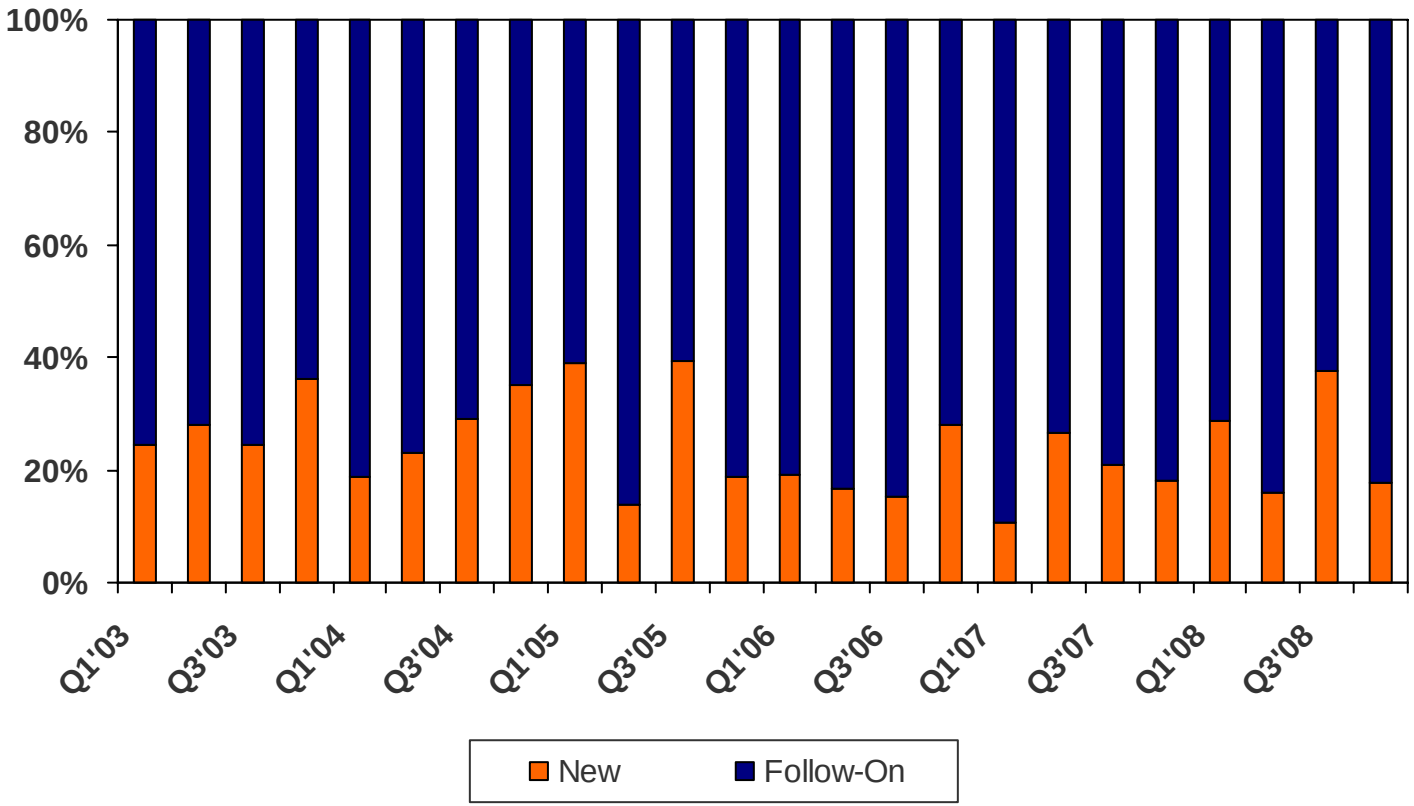
26% of Dollars Went To New Financings in 2008

Dollars Invested, New vs. Follow-On



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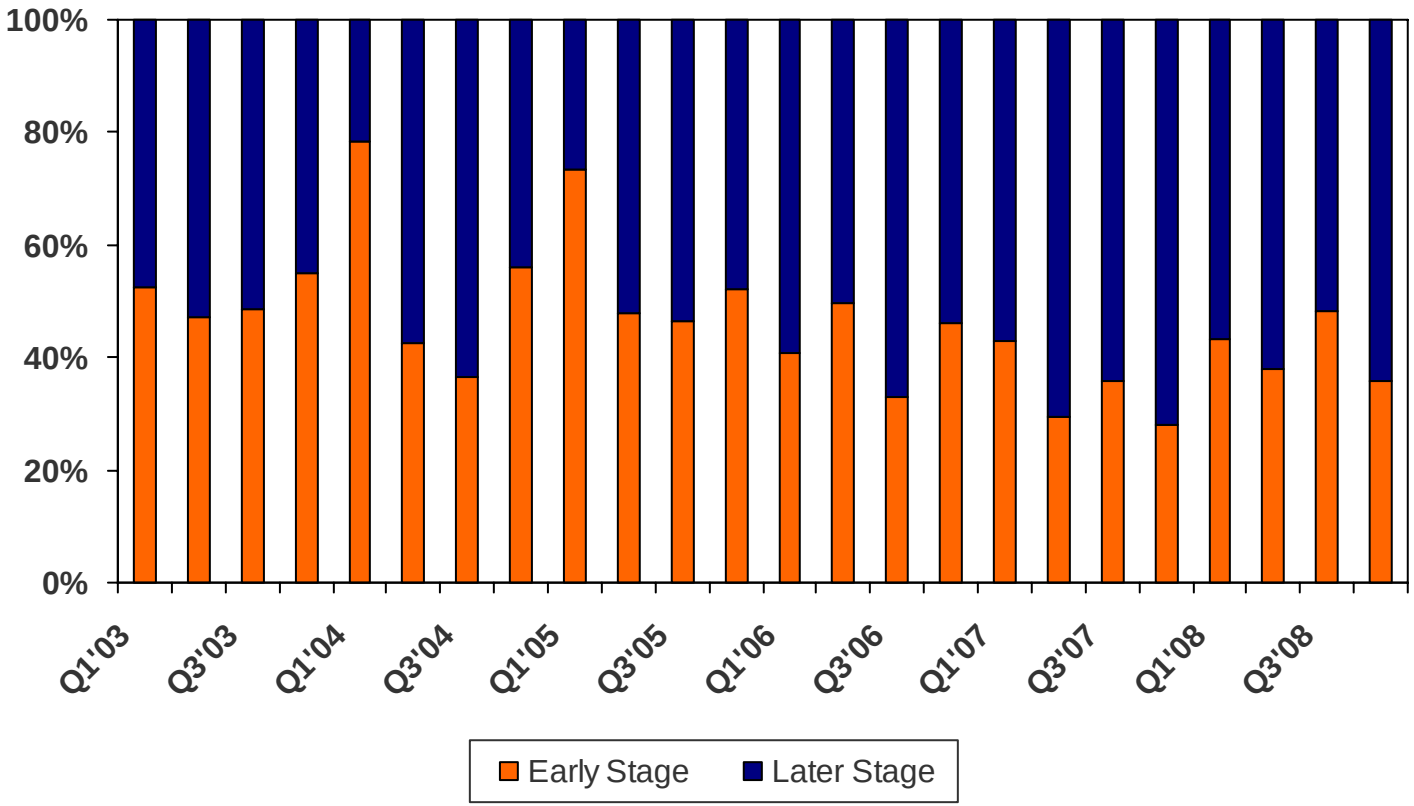
42% of Dollars Invested In Early Stages in 2008

Dollars Invested by Stage



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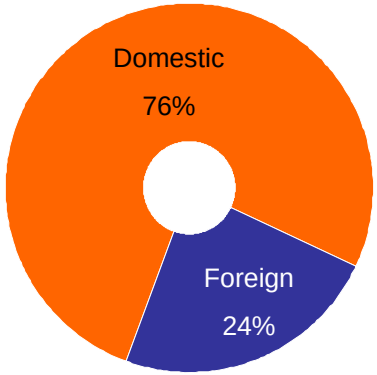
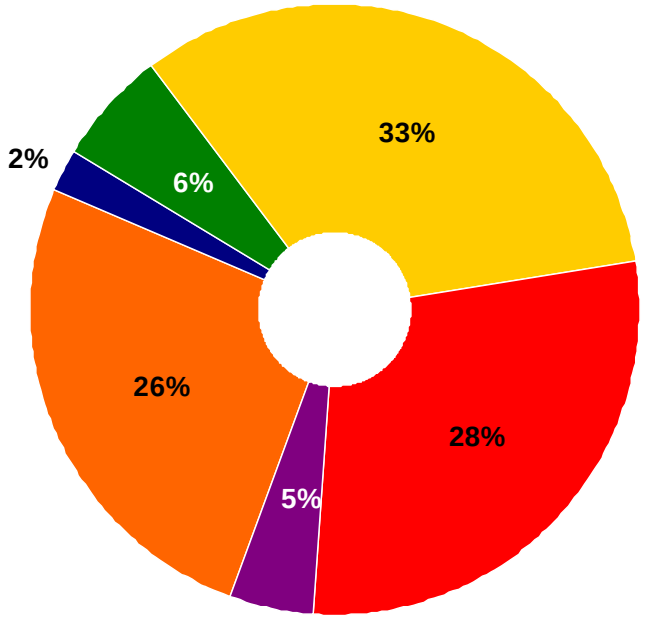
In The Top Deals of Q4, Domestic Investment Dominates

Top (Disclosed) Deals of Q4 2008

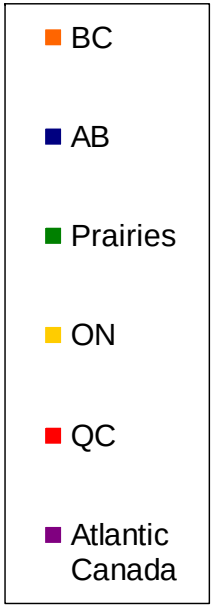
Company	City	Prov.	$CAD MM Announced	Sources of Capital
NxtGen Emission Controls Inc.	Burnaby	BC	$18.7	
BTI Photonic Systems Inc.	Ottawa	ON	$17.4	
LxDATA	Saint-Laurent	QC	$14.0	
Cellfor Inc.	Vancouver	BC	$11.9	
Connect Energy Partnership	Saskatoon	SK	$11.5	
NetShelter Technology Media	Thornhill	ON	$11.1	

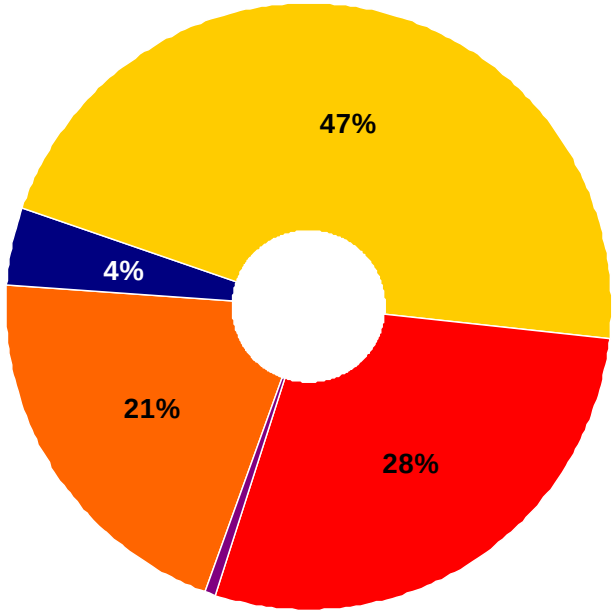
B.C., Prairie, Atlantic Region Shares Improve in Q4

Dollars Invested by Region



Q4 2008
$302 Million





Q3 2008
$384 Million

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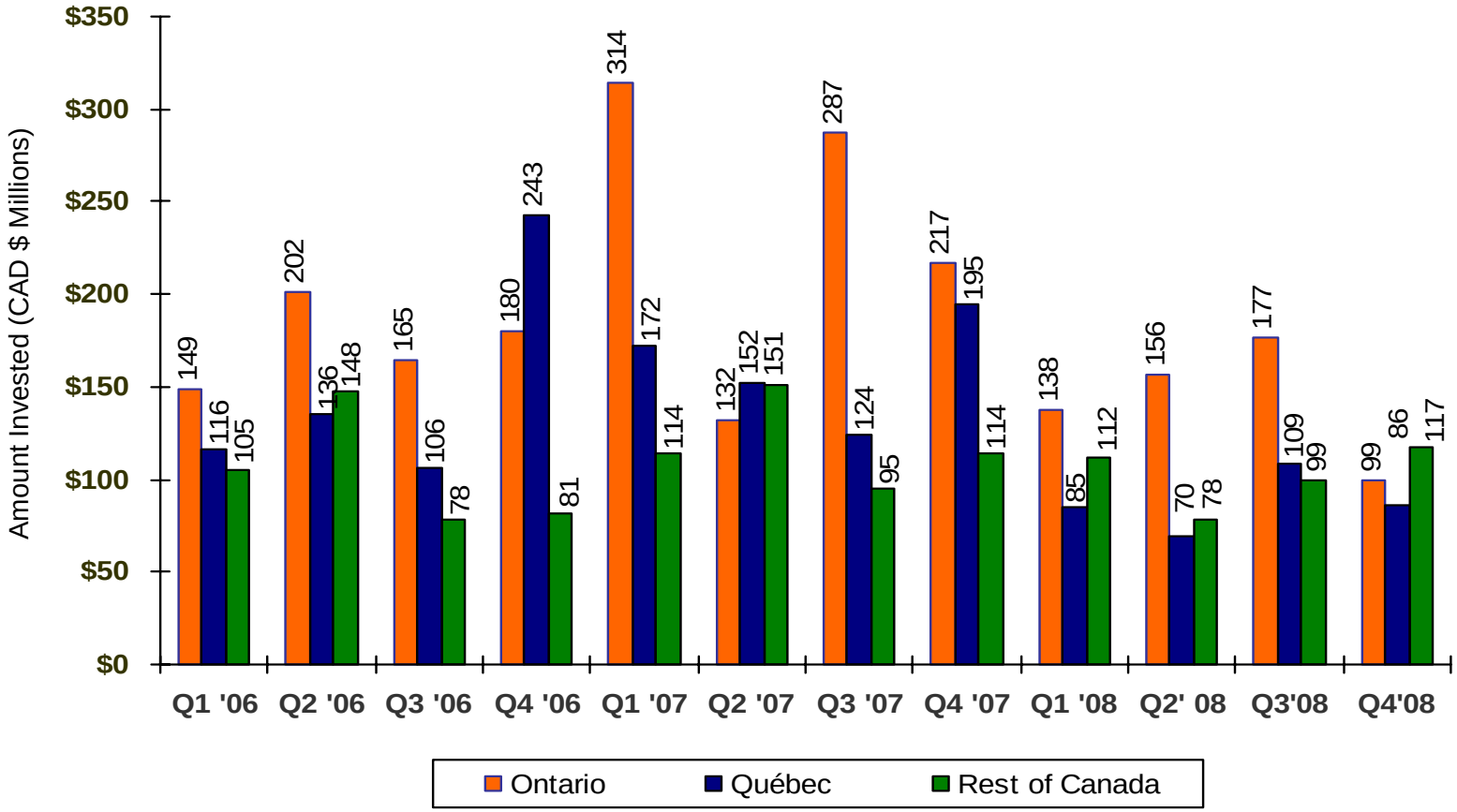
VC Investment by Province

Quarterly Investment in Ontario, Québec



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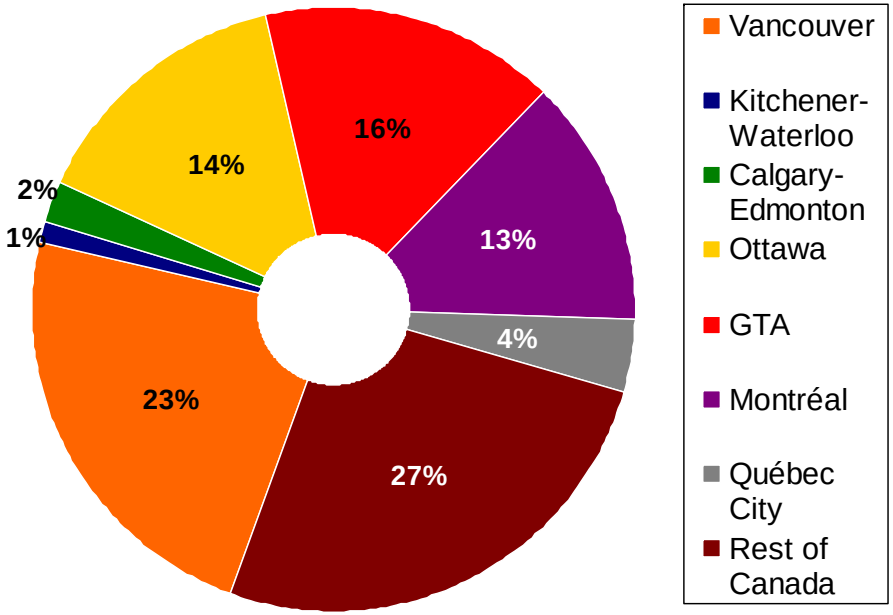
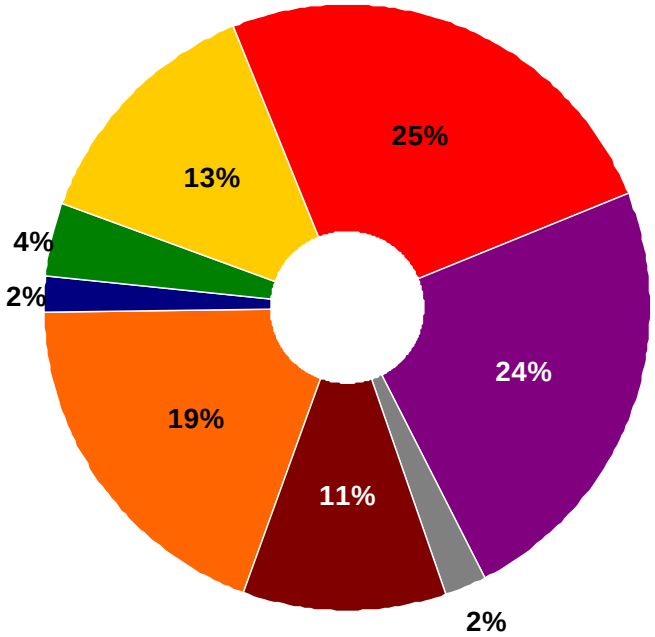
Montréal, Rural Canada See Greatest Share Increases

Dollars Invested by Major Urban Centres



Q4 2008
$302 Million

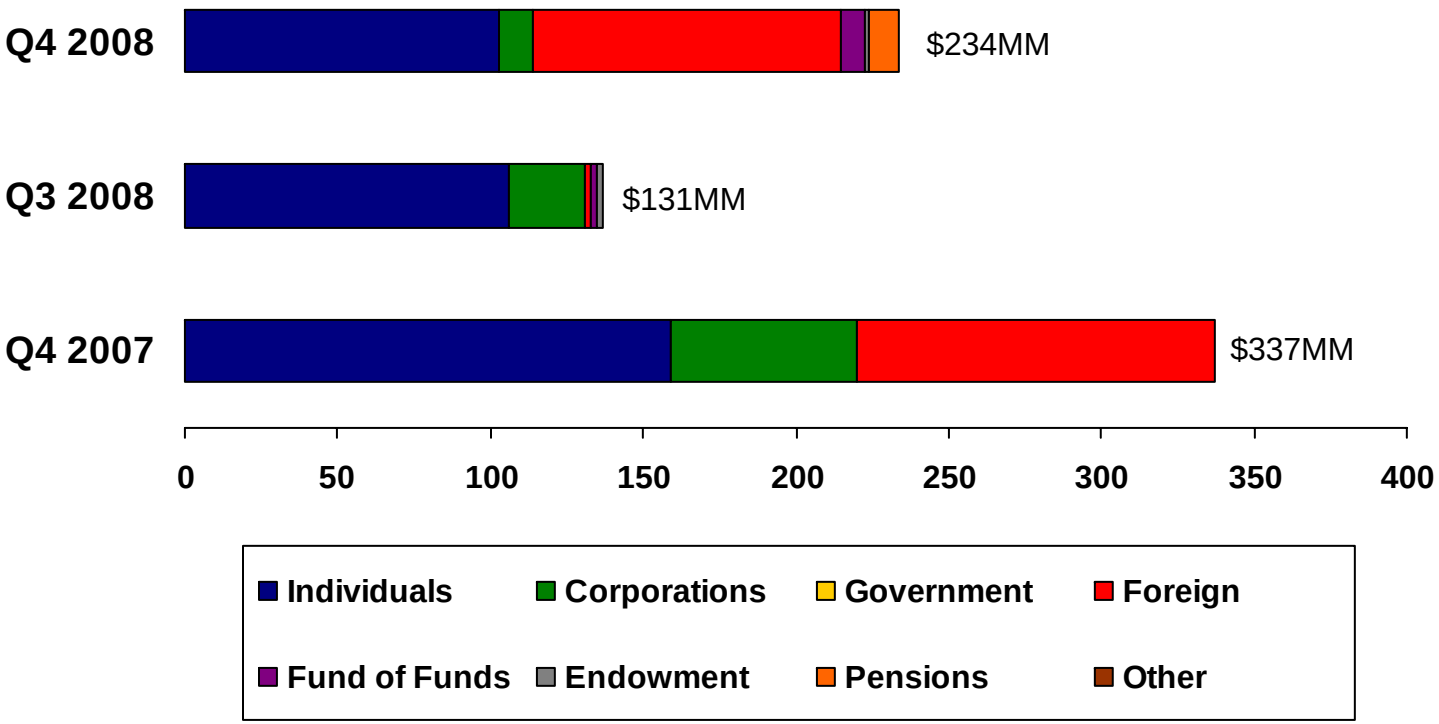


Q3 2008
$384 Million

Top Funds Raised in 2008

Fund Name	Fund Size (CAD $ MM)
Summerhill Ventures I LP	$175
BlackBerry Partners Fund	$151
iNovia Investment Fund II LP	$112
Avrio Ventures LP I	$75
Chrysalix Energy LP III	$73
Yaletown Venture Partners LP II	$65

New Capital Commitments by Supply Source



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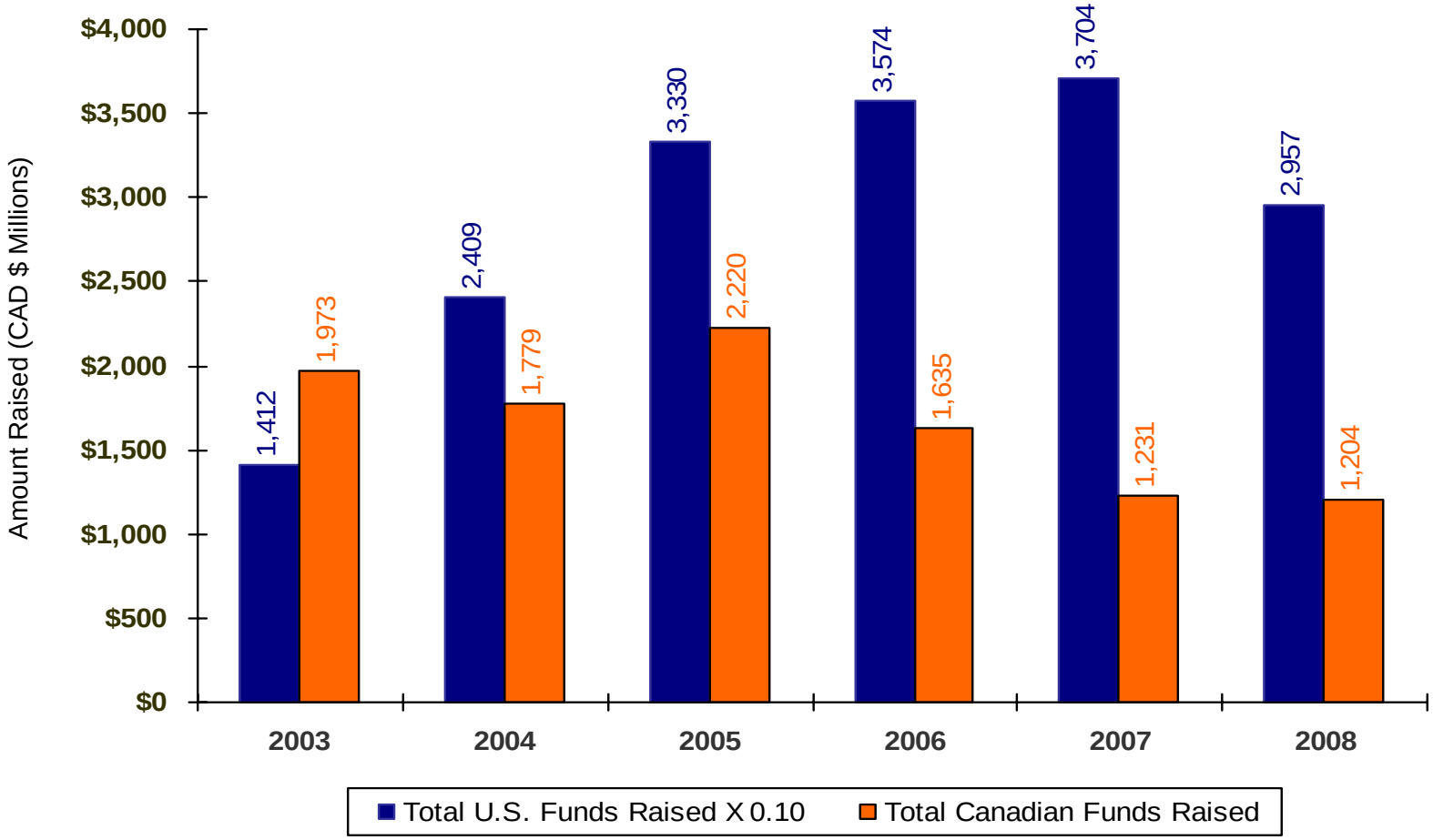
U.S. Fundraising Continues to Outpace Canada

New Capital Commitments by Nation



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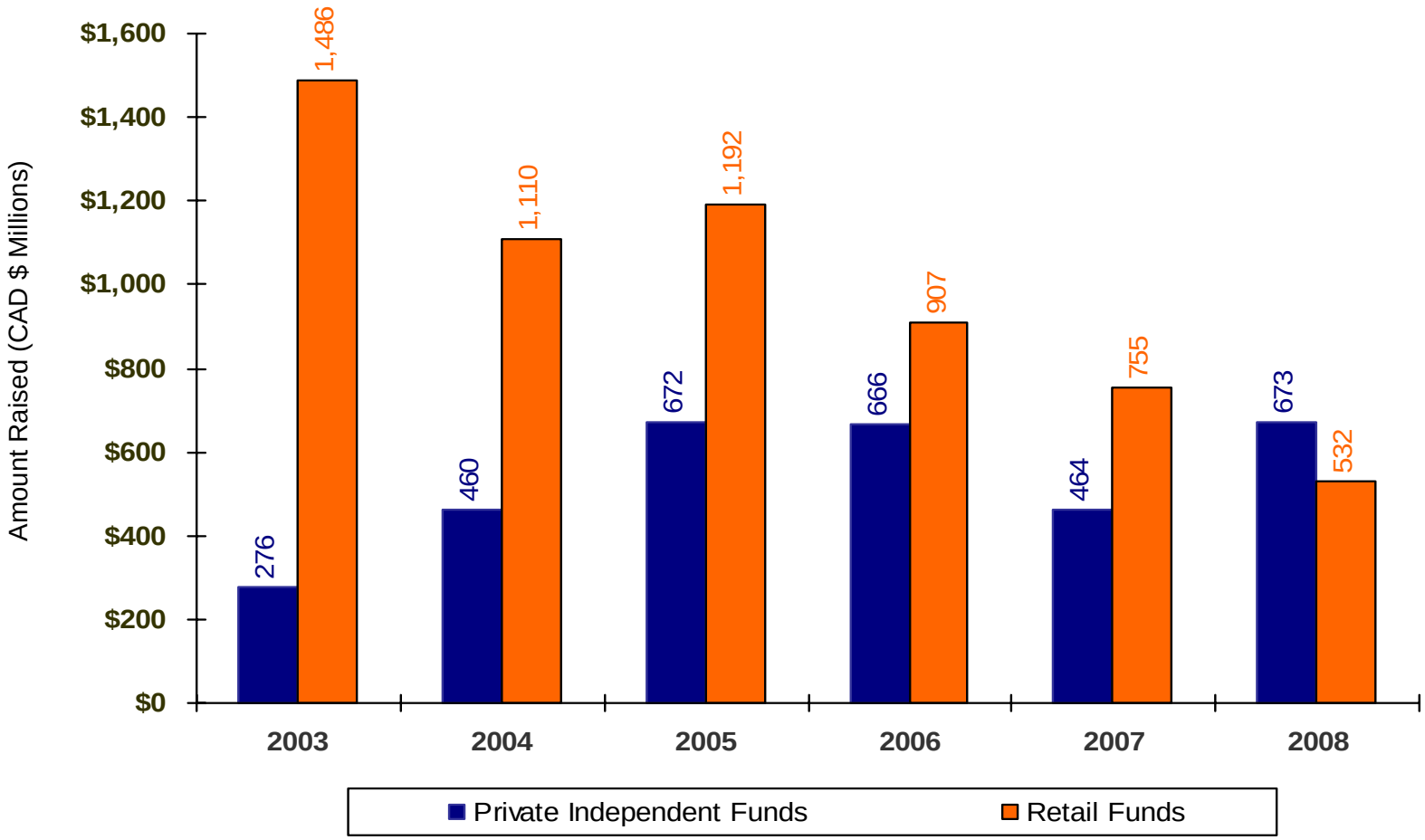
Private Funds Raised 56% of Total in 2008

New Capital Commitments by Fund Type



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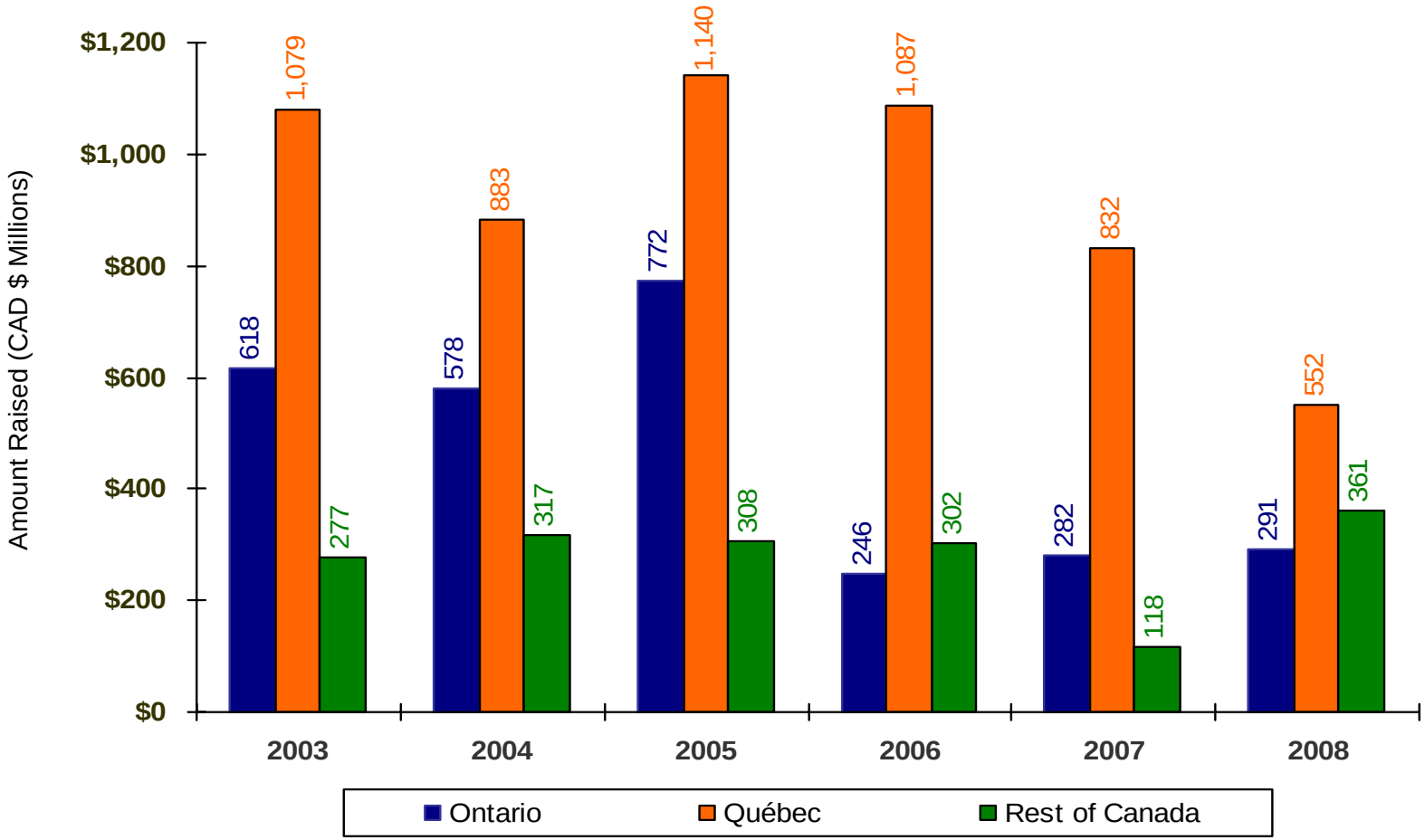
Québec Funds Raised 46% of Total in 2008

New Capital Commitments by Province



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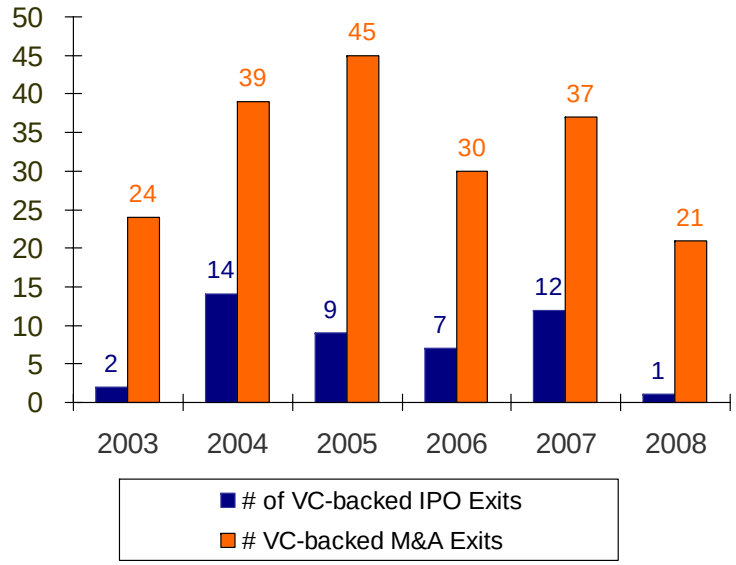
VC-Backed IPO and M&A Exit Trends

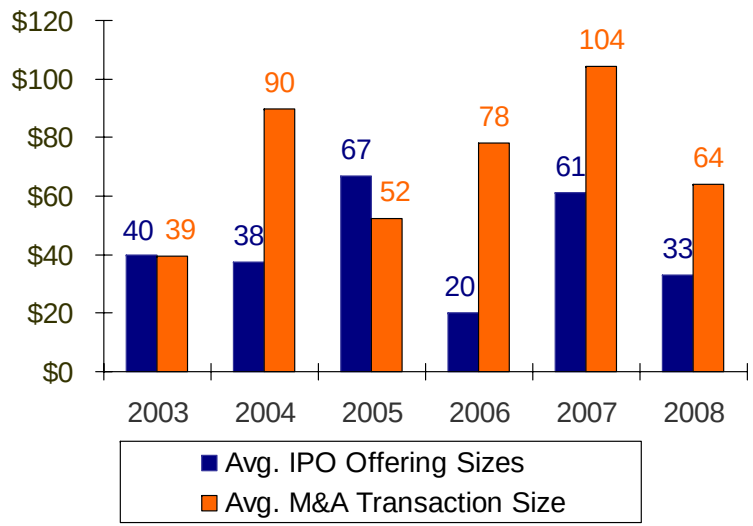
Exits of Canadian Portfolio Companies

2 M&As and no IPOs in Q4

of VC-Backed Exits



Average Disclosed Offering / Transaction Size ($ MM)



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