Canada's Venture Capital Industry in 2009

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Canada's Venture Capital Industry in 2009

Canadian VC market trends

2009 marked a second consecutive year of venture capital (VC) market slowdown in Canada, as deal activity fell to its lowest since the mid-1990s. Down by 27%, a total of $1.0 billion was invested across the country, a decrease from the $1.4 billion invested in 2008. Indeed, disbursement levels last year more closely approximated levels last seen 13 years ago (1996).

The number of VC-backed entrepreneurial firms in Canada also dropped in 2009, though not to the same extent as dollars invested. Companies financed totaled 331, or 15% below the 388 companies financed the year before.

2009 saw a significant shift of the regional ordering in favour of Québec relative to Ontario. The Québec VC market has benefited from concerted efforts by the provincial government, institutional investors, and an ongoing robust retail environment. This support began to manifest itself in 2009, boosting Québec's North American ranking to 9th place overall.

In the final three months of the year, $312 million was invested across Canada, which just surpasses the $310 million invested in Q4 2008. It was also the largest per-quarter flow of disbursements during the entire of 2009. At the same time, fewer companies received financing, with only 126 companies financed in Q4 2009, as compared to 137 in the same quarter last year.

Q4 2009 trends benefited from a handful of large-sized VC financings, such as those backing Toronto's Varicent Software and Montreal's TOPIGEN Pharmaceuticals. Despite such transactions, amounts invested per company averaged $3.1 million last year, as compared to $3.5 million in 2008 and $5.1 million in 2007.

Consequently, Canadian-based firms secured less than 40% of the dollars secured by counterpart firms based in the United States (US), on average, in 2009. This is the widest the competitive gap in Canada-US company financing sizes has been since 2005.

The international deal-making of Canadian VC funds also contracted in 2009, with $197 million invested in non-resident companies. This is a small fraction of the $564 million deployed by these funds to opportunities located outside of the country in 2008.

Trends in the US VC market

Reduced levels of Canadian deal activity last year generally mirrored trends elsewhere in North America and around the globe. In the United States, VC market activity also experienced a second year of down-cycle in 2009, with a total of US$17.7 billion invested in 2368 firms, which is 37% below the US$28.0 billion invested the year before.

Canada's Venture Capital Industry in 2009

Canadian VC trends by region

Overall decline in domestic VC activity in 2009 was partly offset by a countervailing market trend in Québec, where disbursement levels actually grew on a year-over-year basis. A total of $431 million was invested in Québec, up 10% from the $392 million invested in 2008, giving it a leading 43% share of the Canadian total last year.

In sharp contrast, deal activity in Ontario fell in both absolute and relative terms, with $288 million invested in 2009, or 50% below the $575 million of one year ago. As a result, Ontario accounted for only 28% of all disbursements nationwide, which is its lowest market share since the early 1990s.

The pace of British Columbia-based VC activity was also sub-par, with $141 million invested last year, down 46% from the $260 million of 2008. The province nonetheless held onto an historically above-average share of Canadian disbursements, or 14% of the total amount.

Canadian VC trends by investor type

American VC funds and other foreign investors once again brought the largest proportion of cash to Canadian deals last year, or $306 million, and 30% of the total. However, this was 18% short of the $375 million they accounted for in 2008. In addition, 2009 cross-border disbursements were in absolute terms the lowest in a decade.

Canadian VC funds also put fewer dollars to work in local deal opportunities, investing a total of $703 million in 2009, down 30% from their $999 million of the year before. As a consequence, combined domestic activity reflected its lowest level since the mid-1990s.

Among Canadian investor groups, LSVCC and other retail funds led this time around, accounting for $246 million invested, though this was one-quarter below the $327 million they accounted for in 2008. Private-independent funds followed with $197 million invested last year, though this was down 42% from their prior $337 million.

Canadian VC trends by sector

Most technology and non-technology sectors that regularly feature VC deal-making were impacted by the year-over-year drop in Canadian activity. IT sectors continued to attract the most market attention, with $489 million invested in 129 companies in 2009, or just under half of the total. However, absolute IT-related activity fell 25% from $655 million one year ago.

Canada's Venture Capital Industry in 2009

Communications was among the few sectors to post gains last year, as 18 firms garnered $180 million, up 29% from $139 million in 2008. Forty-seven software firms held second spot with $142 million invested in 2009, though this was down 20% from the year before, while 11 semiconductor firms took $69 million, down 16% over the same period.

Levels of VC activity in biopharmaceuticals and other life sciences sectors decreased 41% between 2009 and 2008, or $215 invested in 57 companies versus the former $365 million. This gave life sciences activity a sub-standard 21% of all disbursements this time around.

In energy and environmental-technology sectors, 21 companies obtained $102 million last year, or almost 10% of total activity. However, as compared to the $189 million that flowed to these sectors in 2008, dollars invested in clean-tech was eroded 46%.

In contrast, VC activity in non-technology sectors expanded 40% year-over-year, from $135 million invested in 2008 to $190 million in 2009. Traditional companies totaling 116 consequently accounted for an above-par 19% of all disbursements in Canada last year.

Trends in Canadian VC Fund-Raising

The VC fund-raising environment in Canada remained tepid in 2009, as a total of $995 million in new commitments went to fund managers, which is just shy of the $1.0 billion committed the year before. As a result, fund-raising levels continued to approximate levels recorded in the mid-1990s.

Like deal activity, fund-raising showed some improvement in the final quarter of 2009, with $388 million committed. This trend was led by VC partnership closings, including the first for Tandem Expansion Fund I LP. Indeed, private funds accounted for 53% of new supply last year, or $527 million, though this was 27% below the $719 million raised by them in 2008.

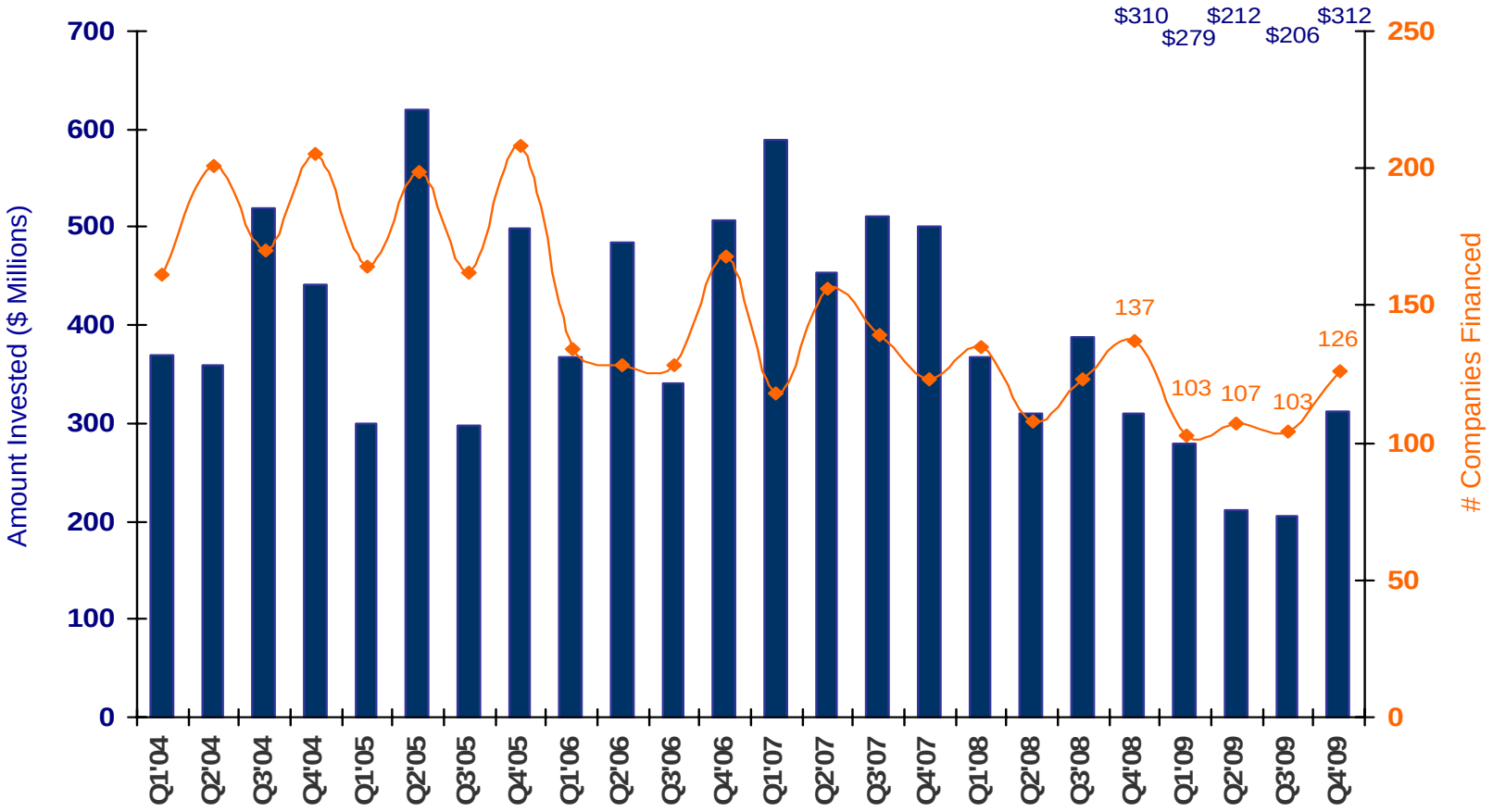
In contrast, LSVCC and other retail funds brought a total of $331 million of new commitments into the domestic market in 2009, which is 12% greater than their activity of one year ago. The balance was assumed by government VC fund formations.

Trends in US VC Fund-Raising

The market climate for raising new VC funds in the United States was equally challenging last year. A total of US$15.2 billion in new resources was committed, or very close to half of the US$28.6 billion introduced to American fund manager coffers in 2008.

$312 Million of VC Invested in Q4 2009

Dollars Invested and Companies Financed



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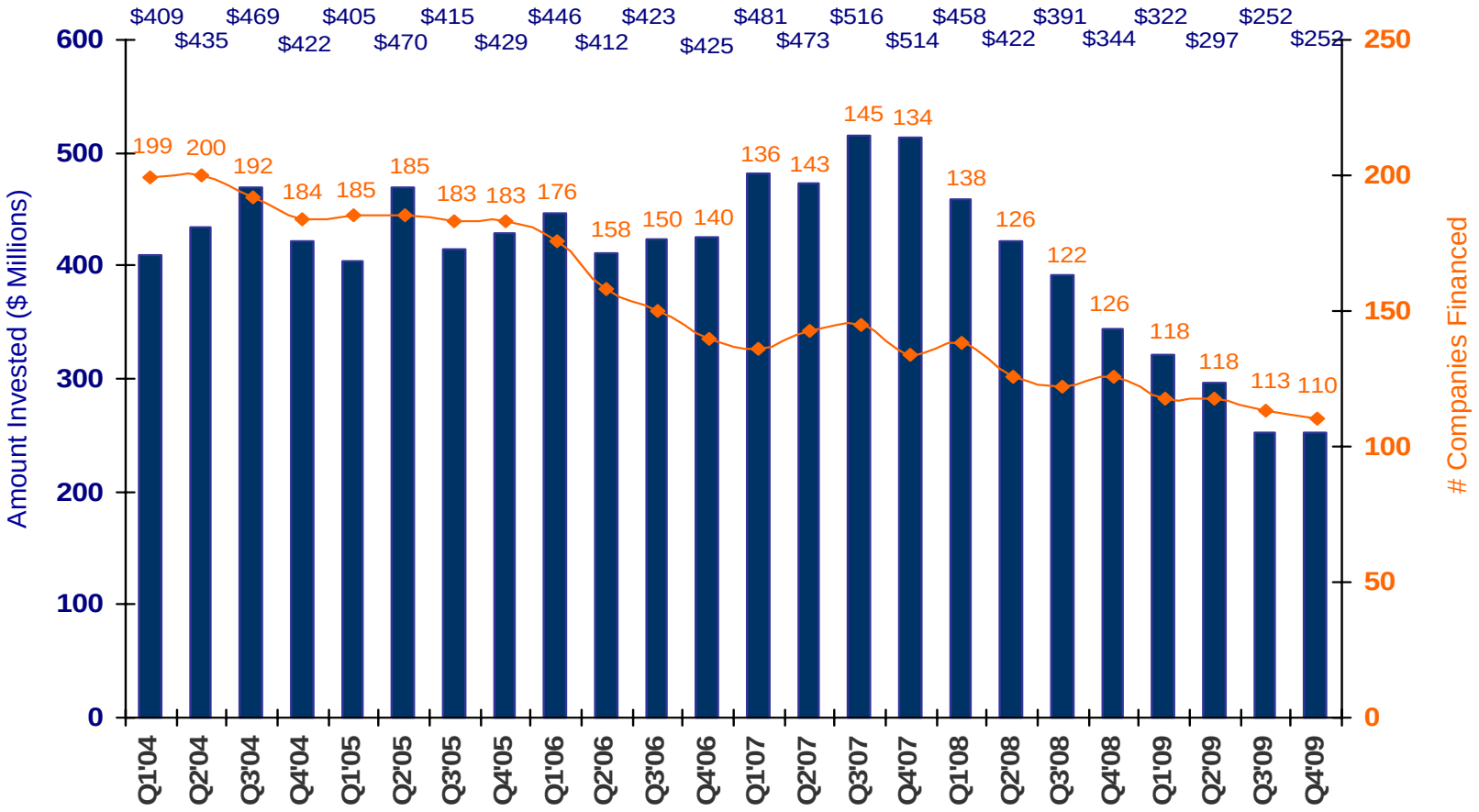
Q4 Disbursements Steady; # of Companies Down

Dollars Invested and Companies Financed – Four Quarter Rolling Averages



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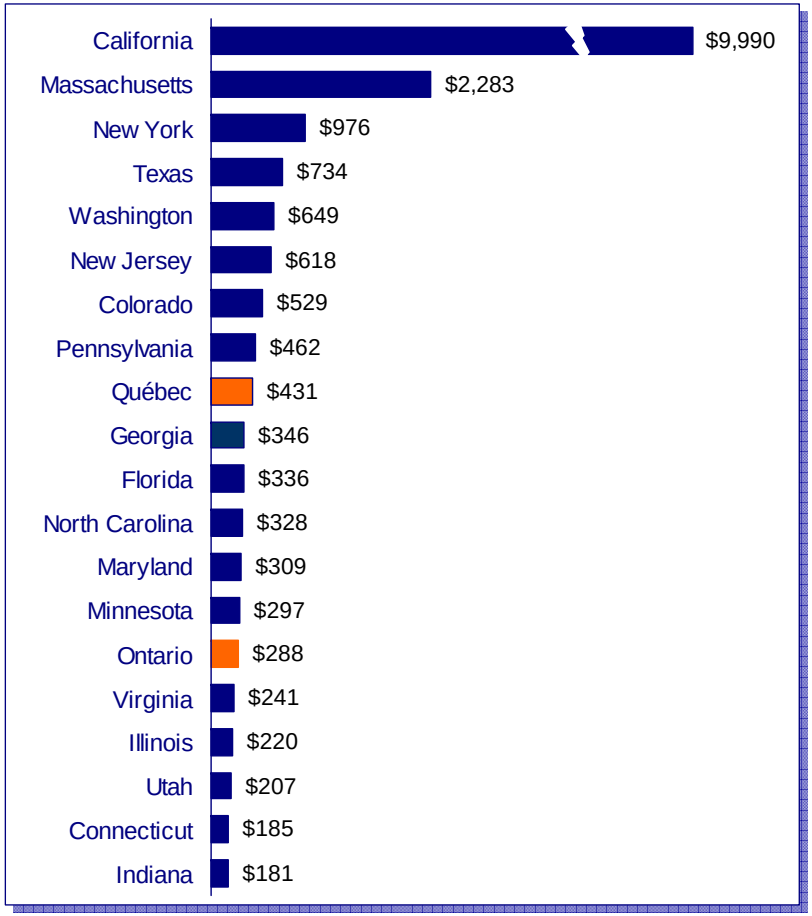
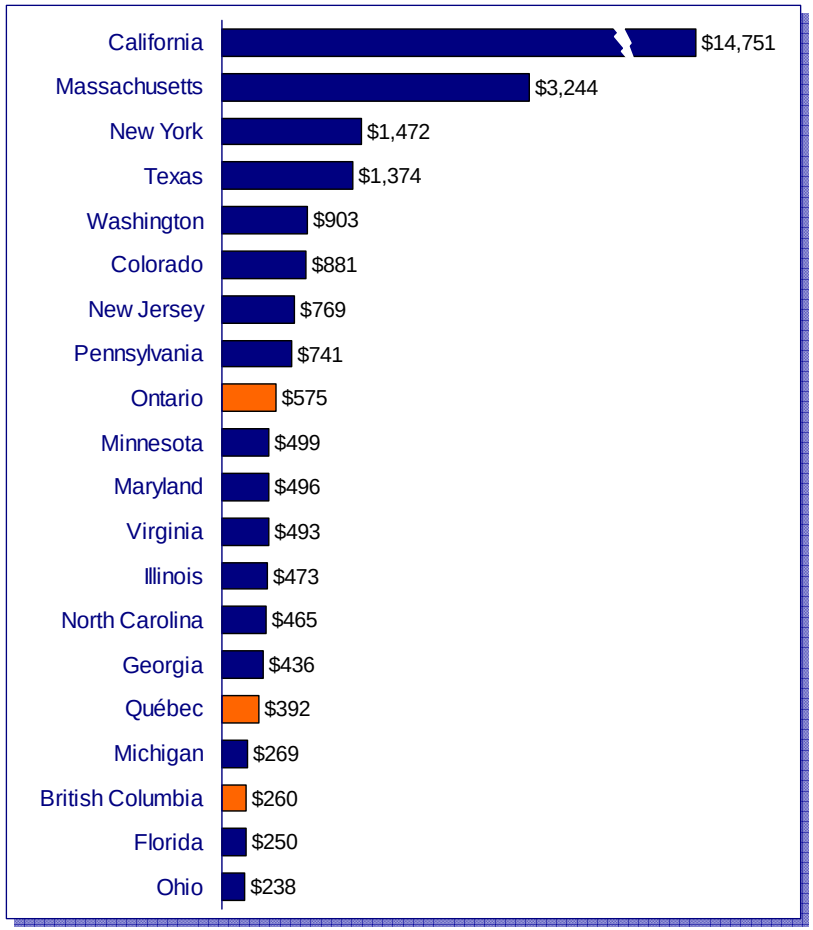
North American Context: Québec, B.C., and Ontario Finish the Year in 9th, 15th, and 22nd Place

VC Disbursements by Province and State (CAD $ MM)

2009

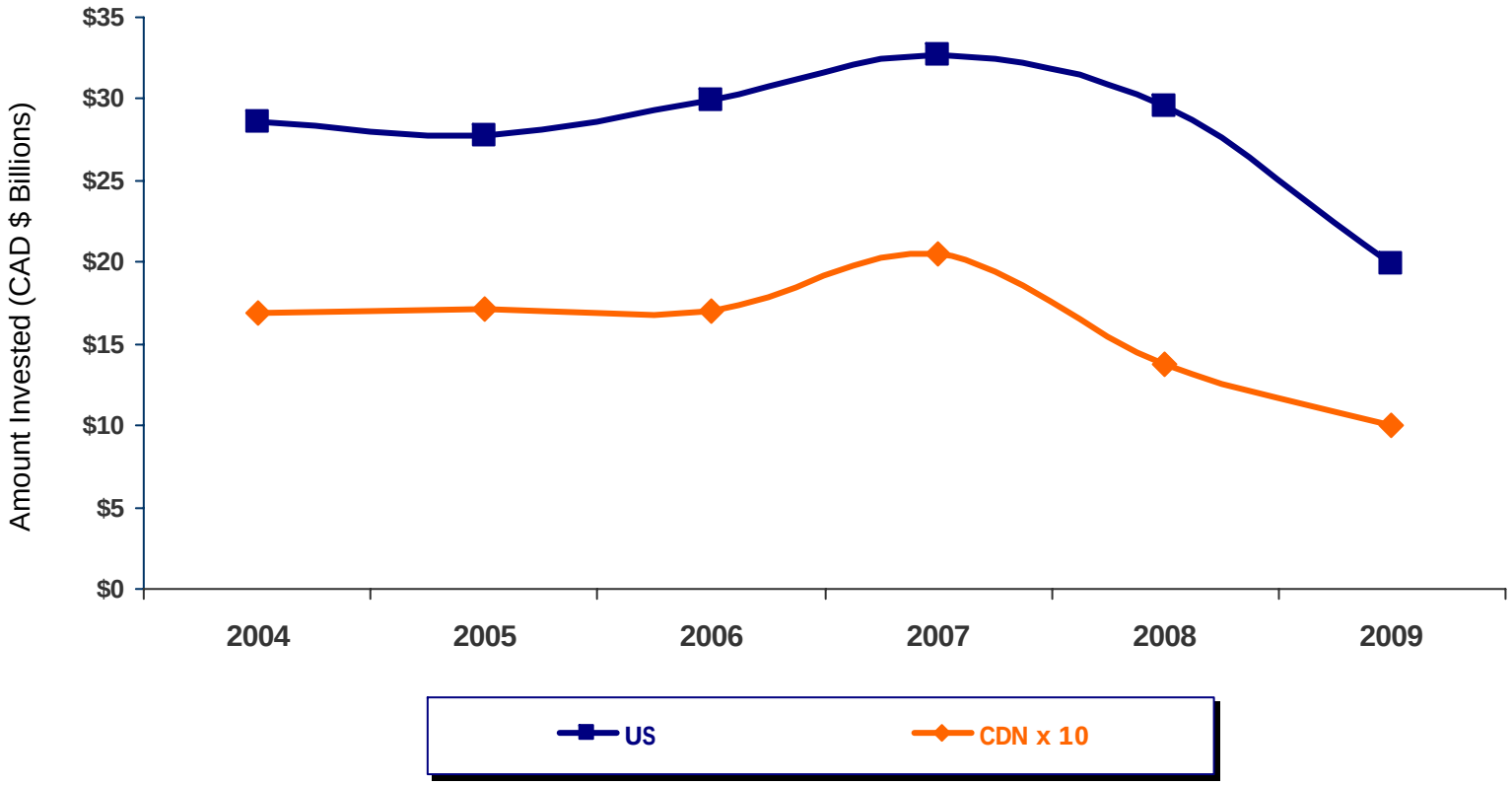


2008



Venture Investment Decreases Across North America

VC Disbursements: Canada & U.S.



* 2009 Annualized

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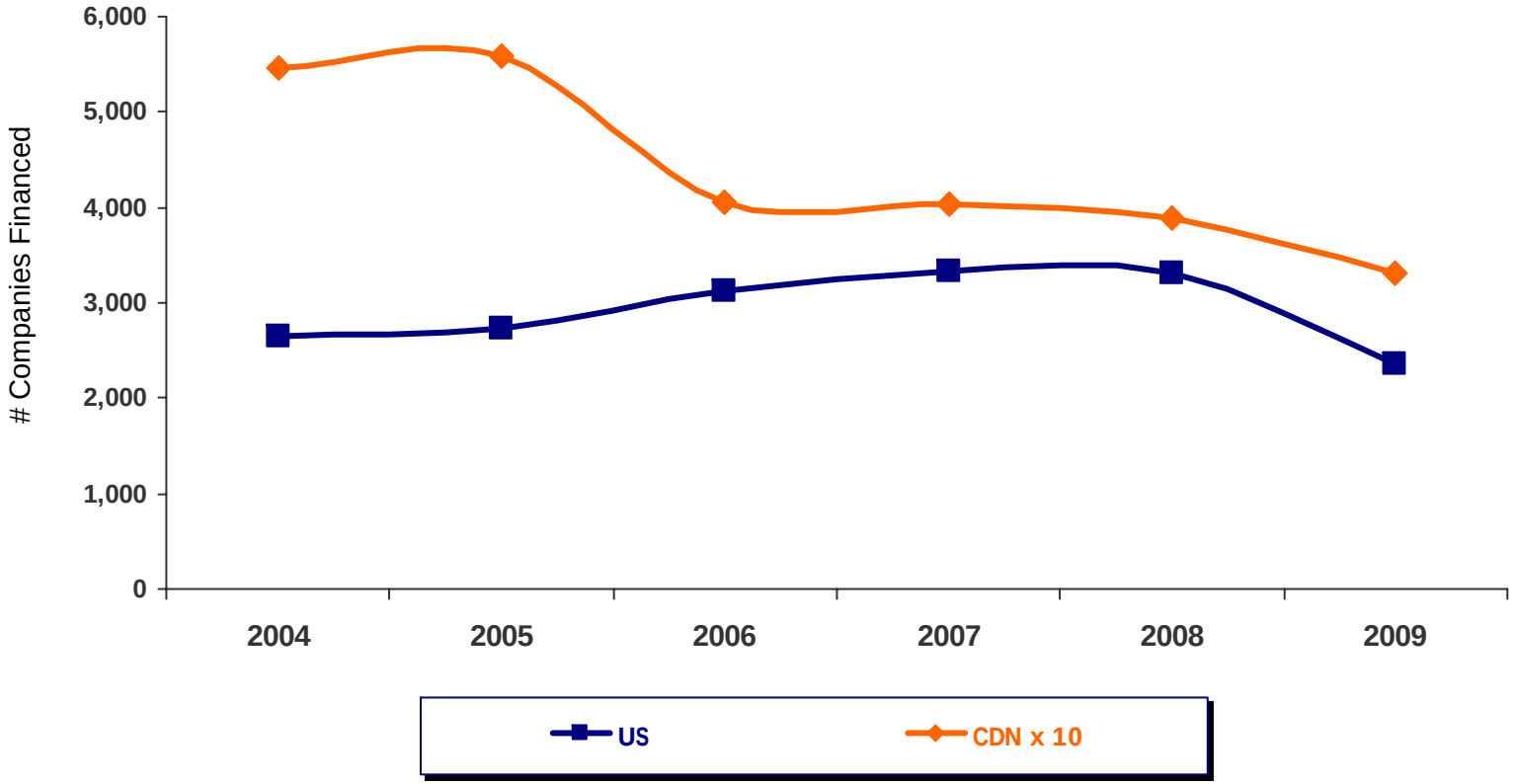
Canada Funds Proportionately More Companies

Number of Companies Funded: Canada & U.S.



* 2009 Annualized

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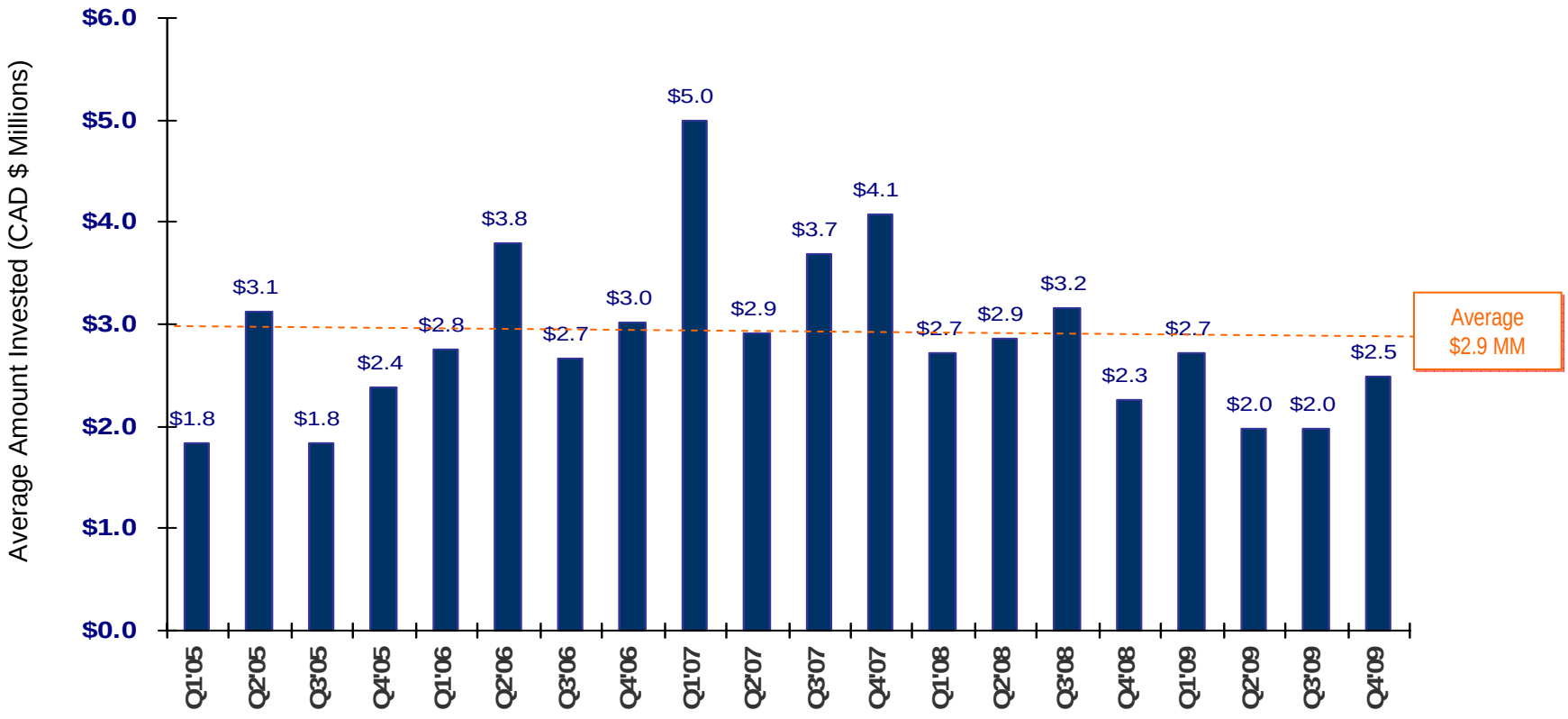
Average Deal Size Sees Sharp Rise in Q4

Average Amount Invested per Company



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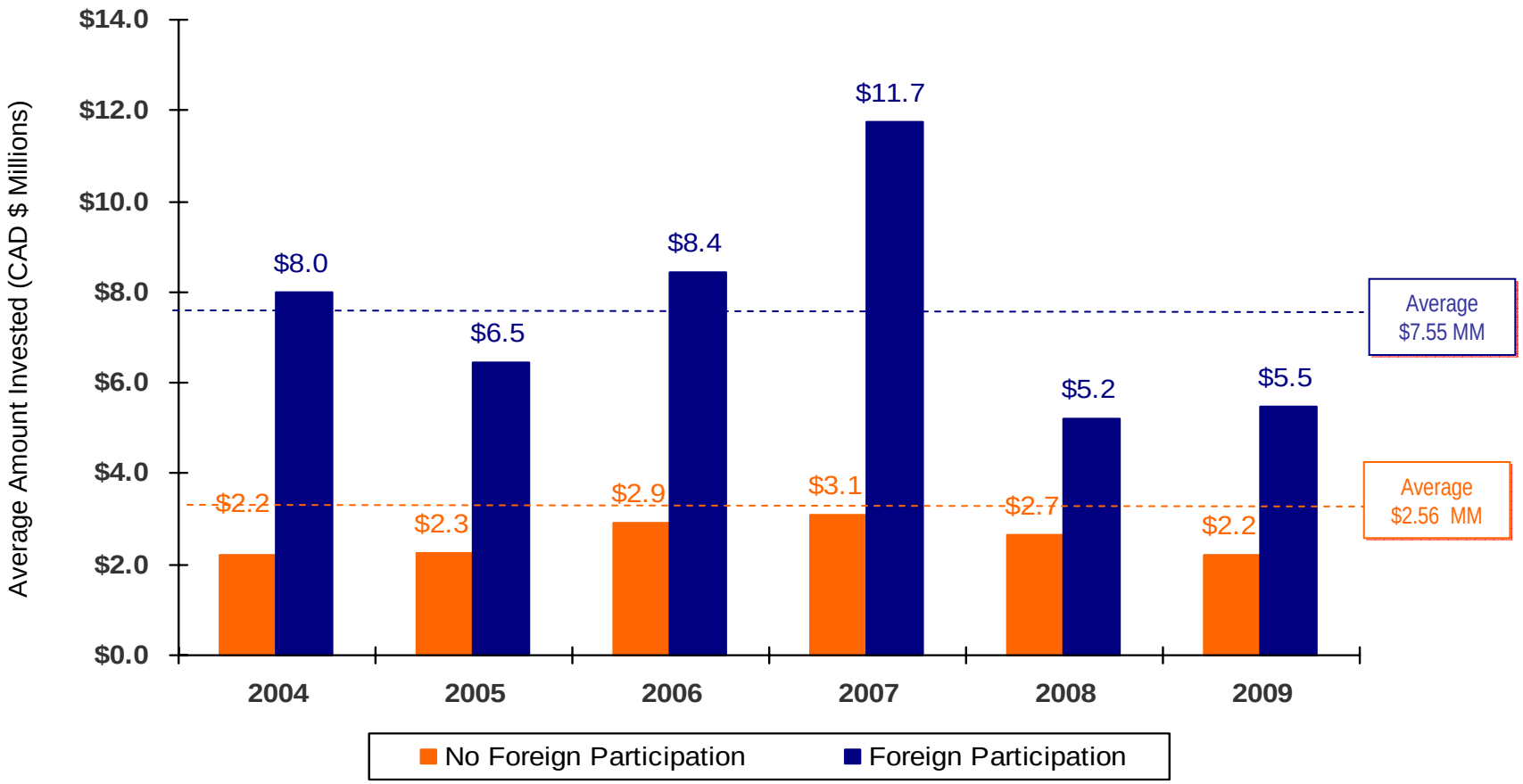
Foreign Investors Bring Larger Deal Sizes

Average Deal Sizes: Deals With Foreign Participation vs. All-Domestic Deals



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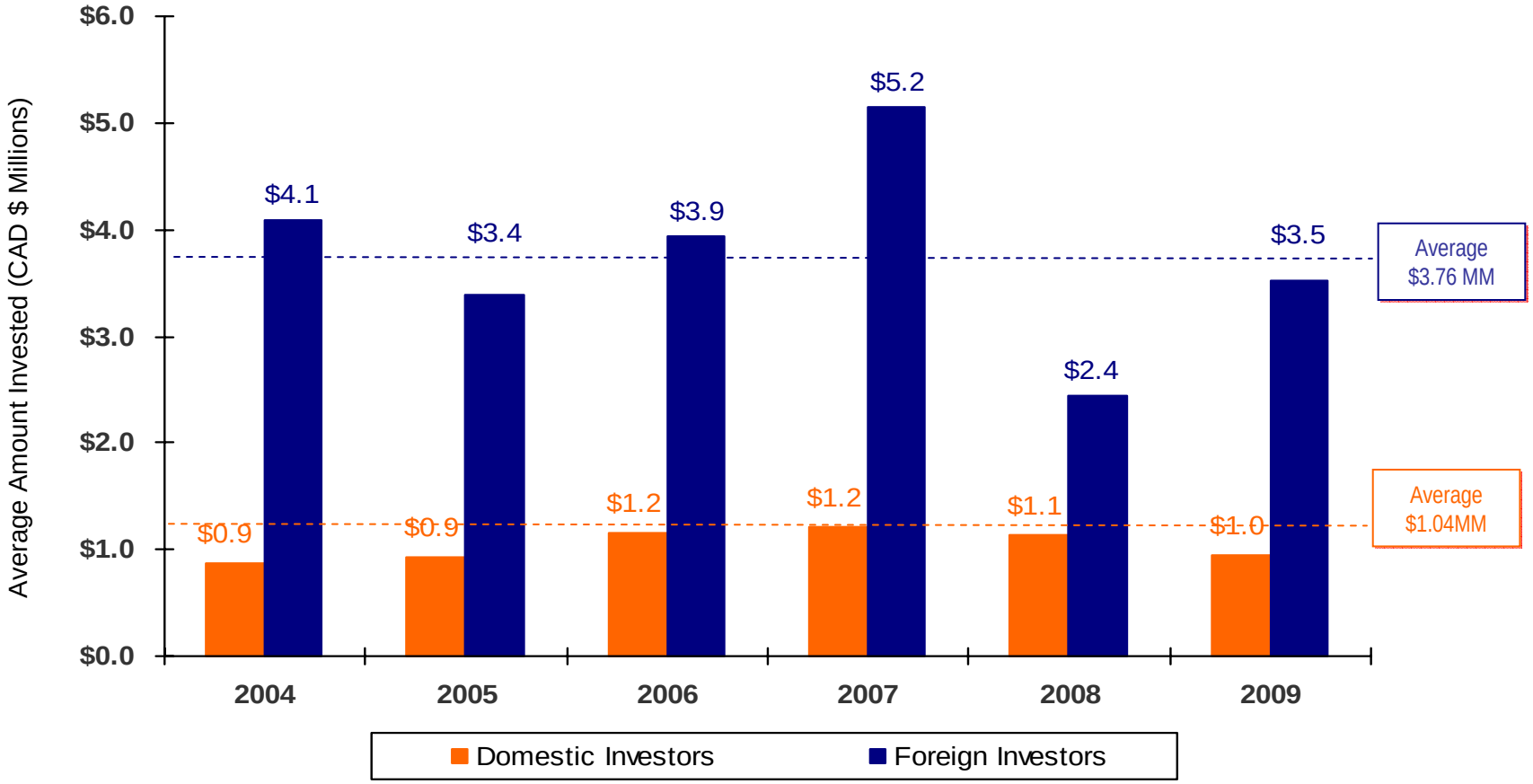
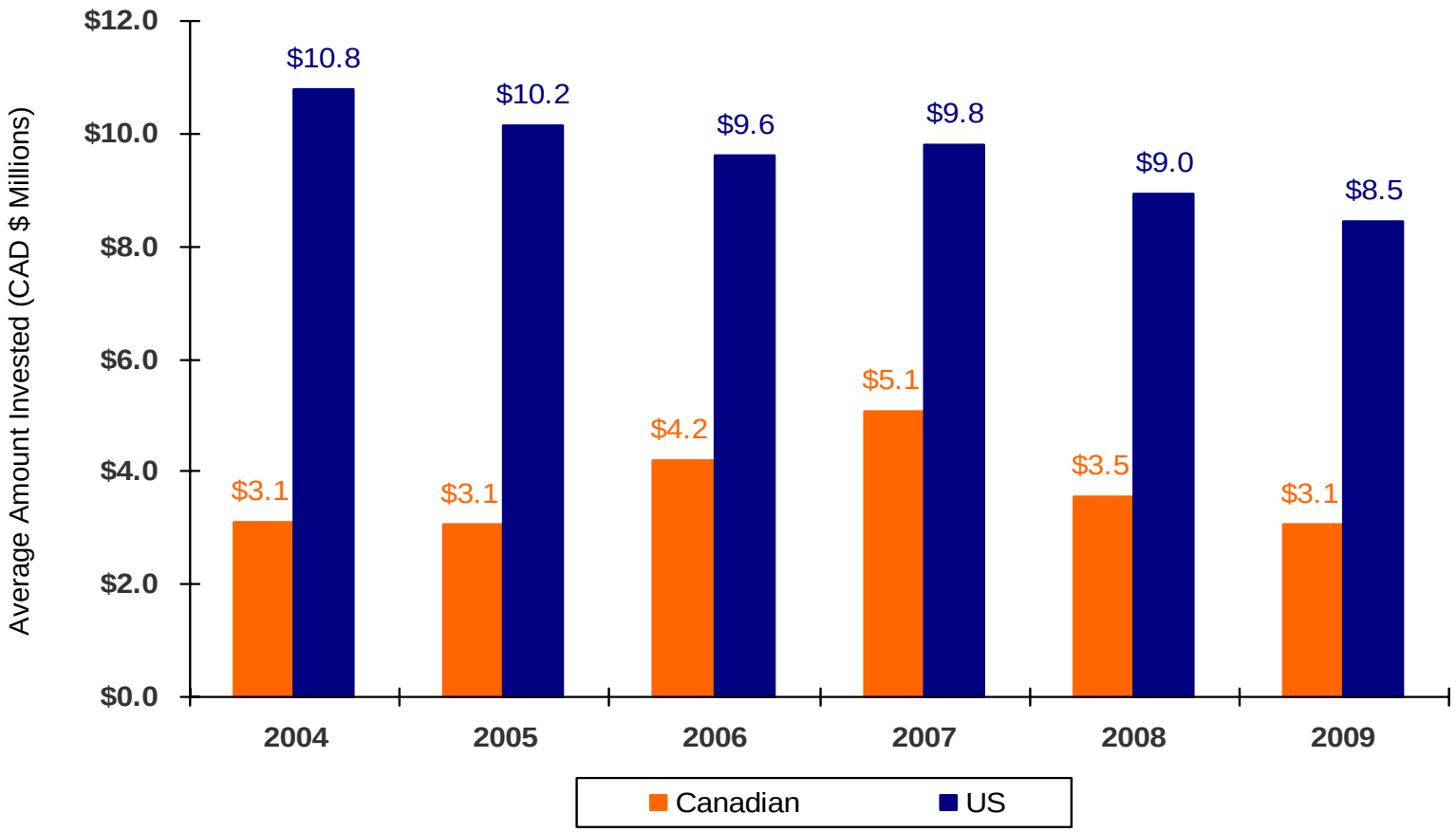
Foreign Funds Invest More Per Deal

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



U.S. Financings 2.5X Larger on Average

Amounts Invested per Company, Canada & U.S.



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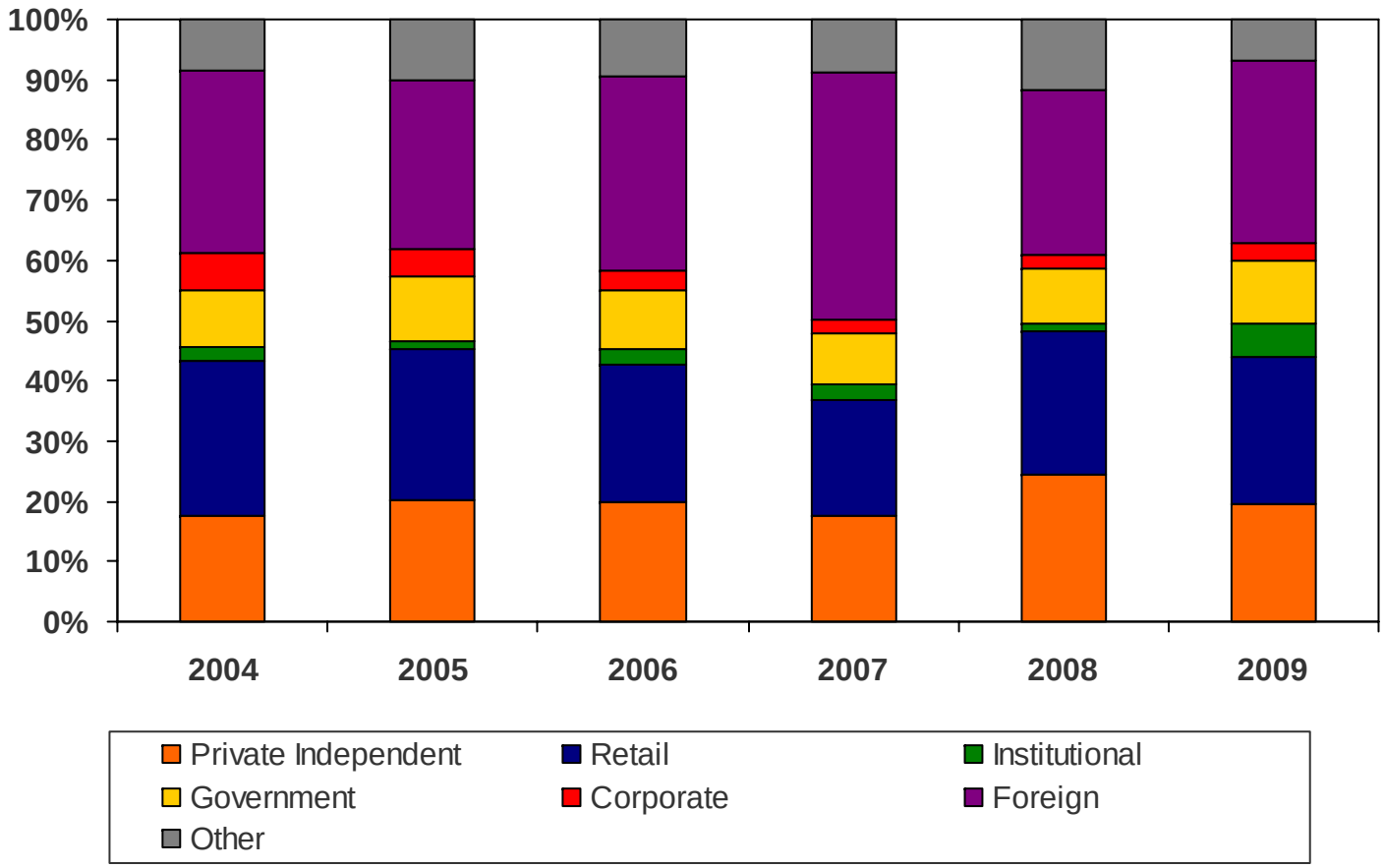
Share From Foreign Investors Grows From 2008

Share of Dollars Invested by Investor Type



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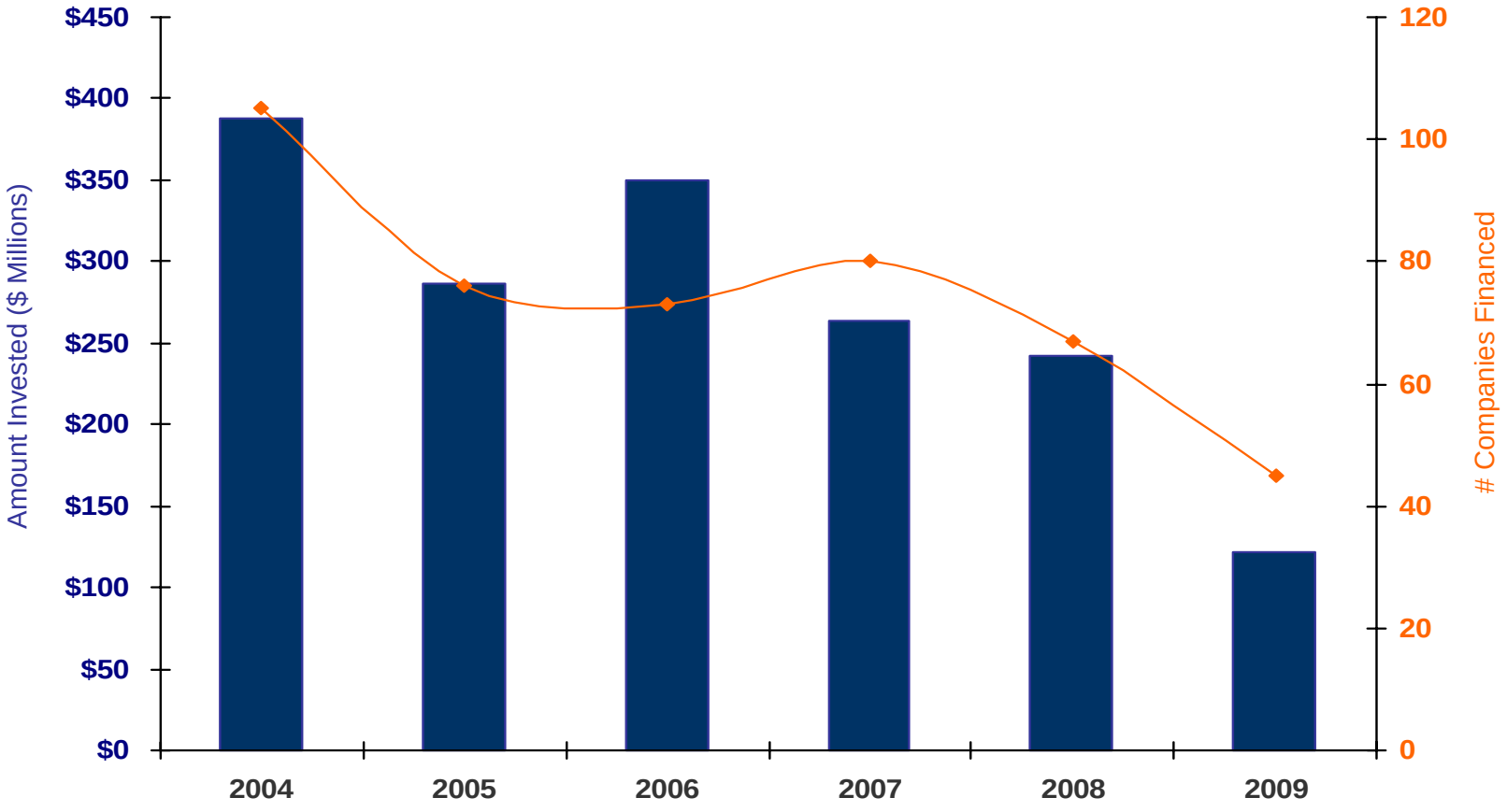
Canadian Funds Cut Investment Abroad in 2009

Dollars Invested Outside the Country by Canadian Investors



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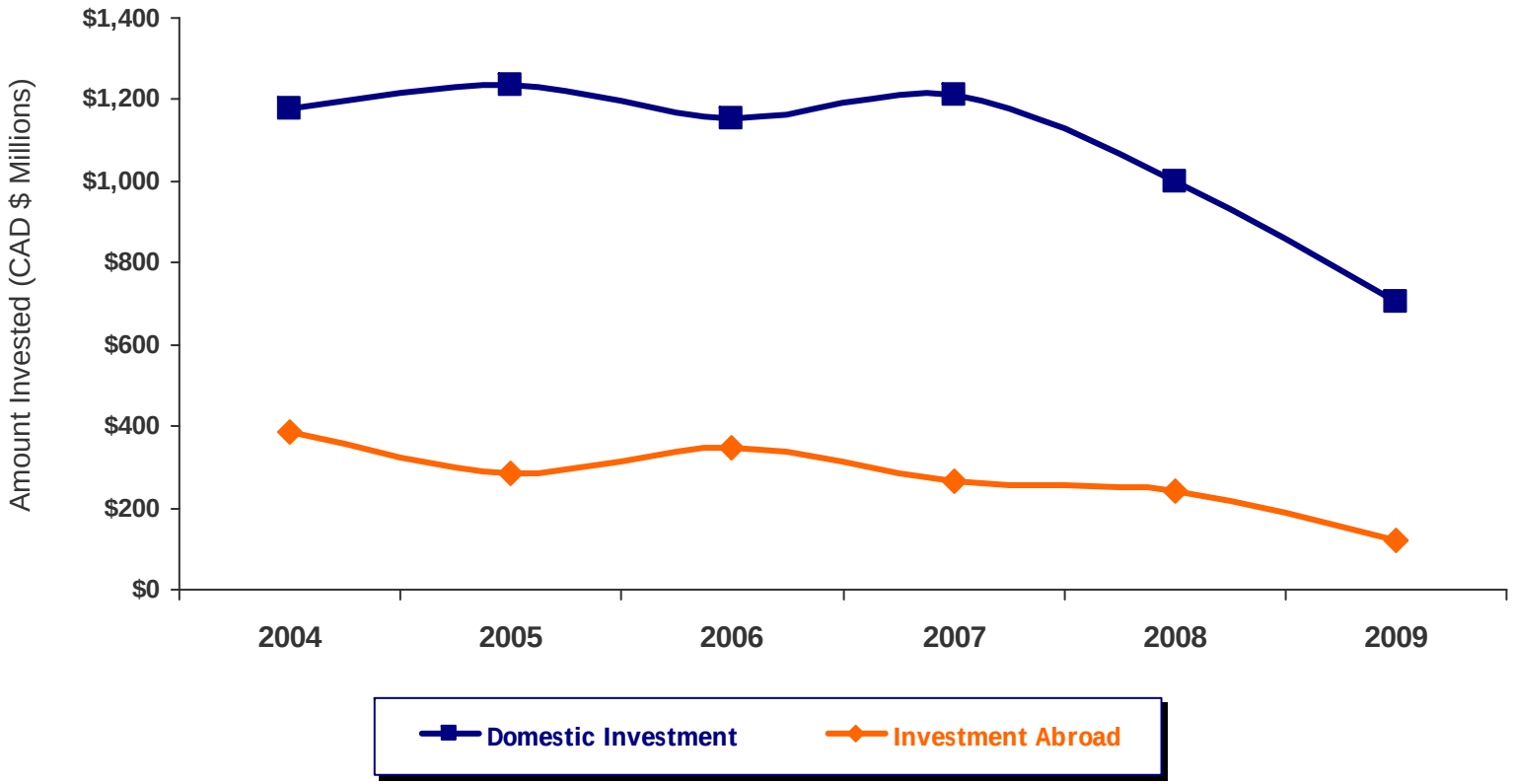
Canadian Funds Investing Less in Canada, Elsewhere

Canadian Domestic Investment vs. Canadian Investment Abroad



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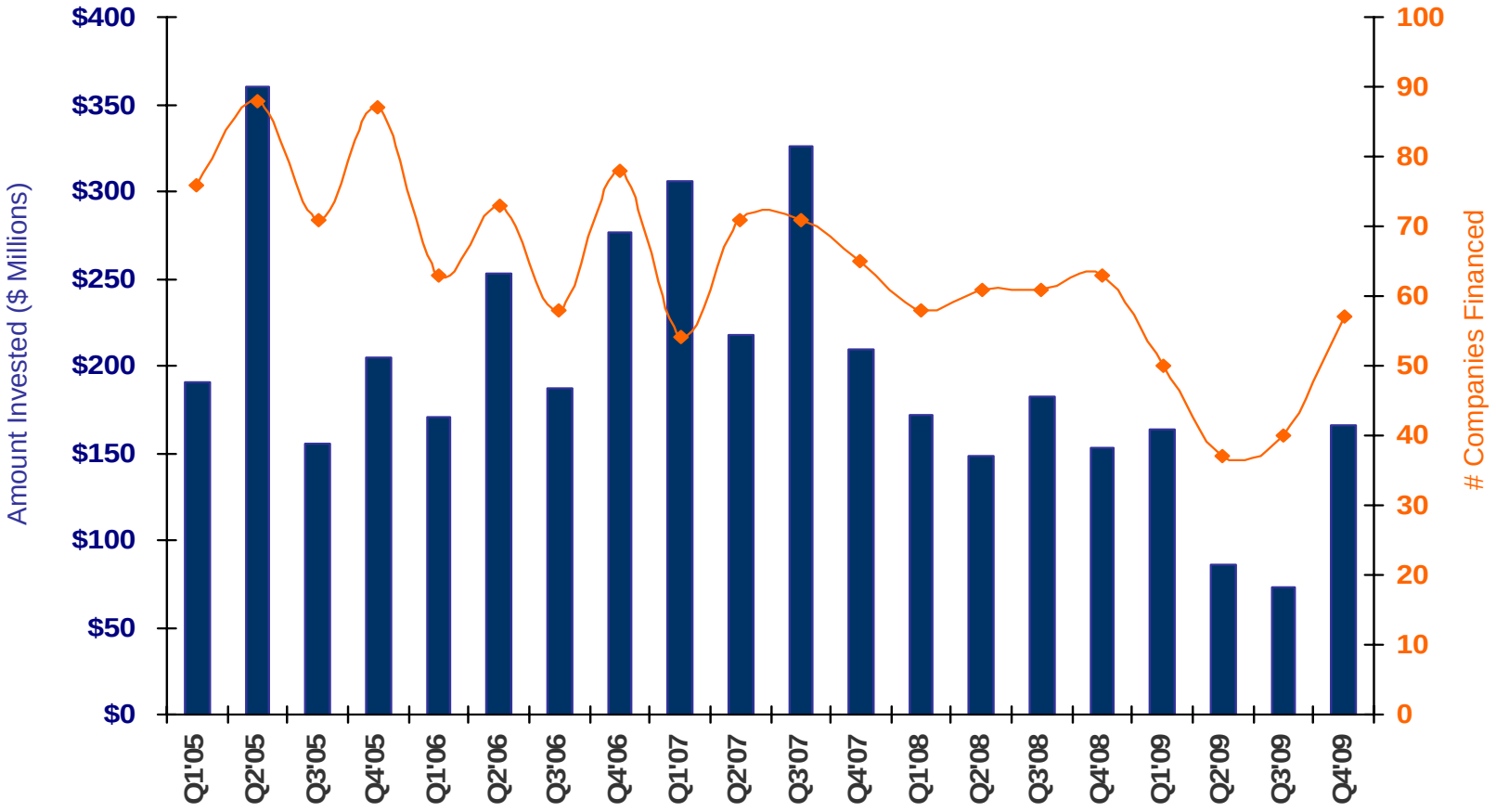
IT Secures 53% of Disbursements in 2009

Dollars Invested and Completed Transactions in IT



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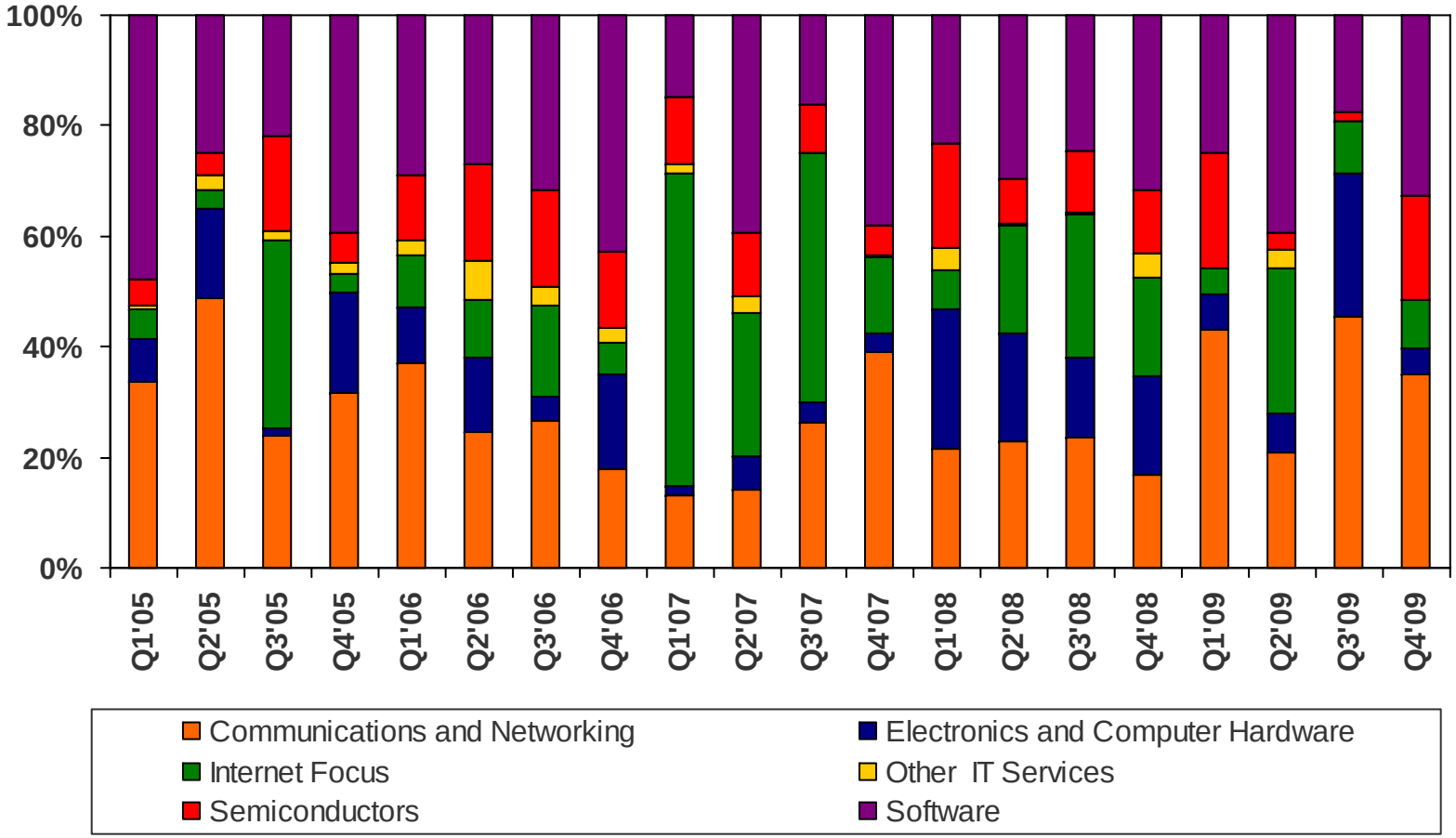
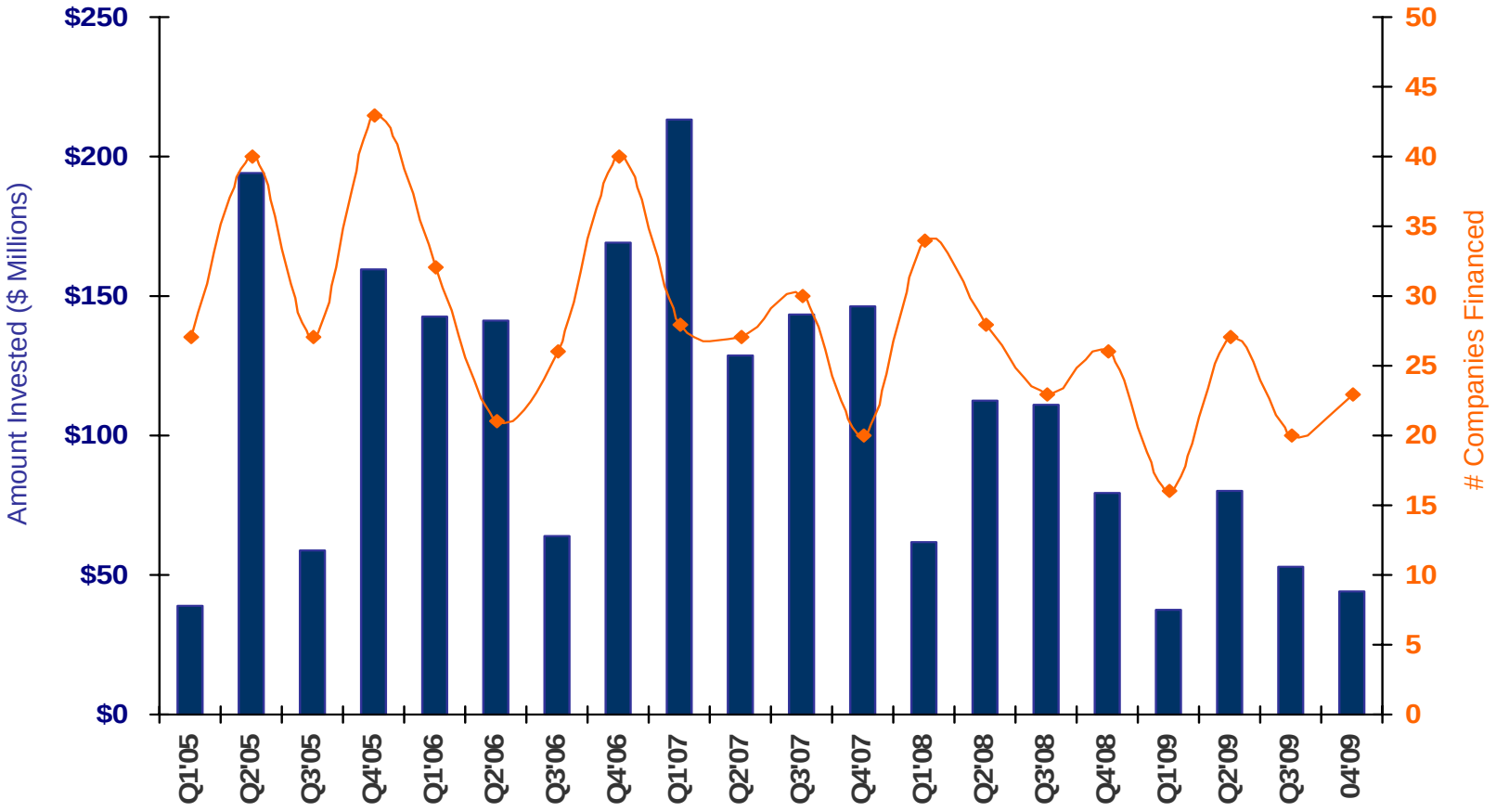
IT Investment Dominated by Wireless Service Providers

Dollars Invested in IT by Sub-Sector



Life Sciences Investment Captures 20% of 2009 Total

Dollars Invested and Completed Transactions in Life Sciences



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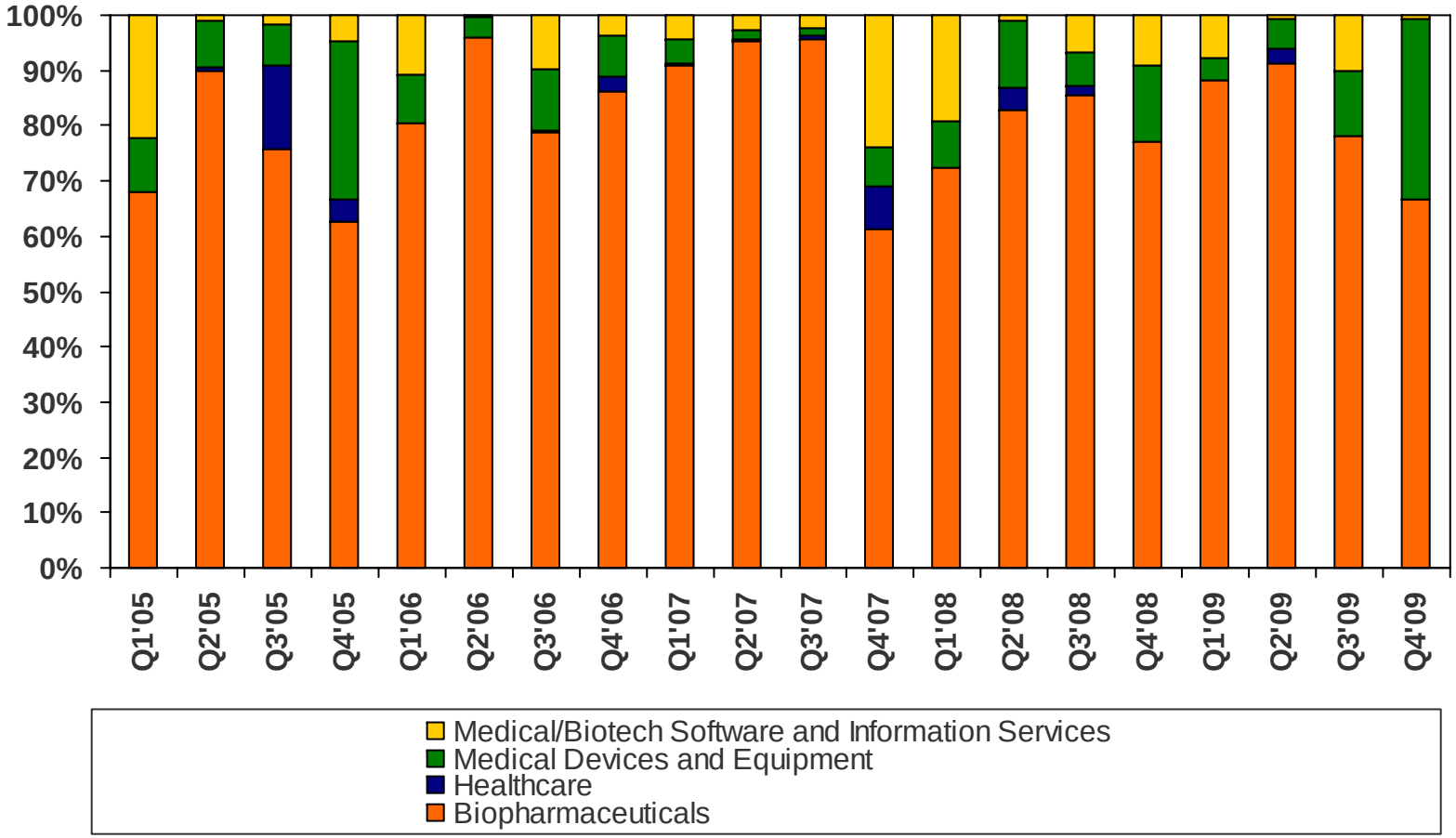
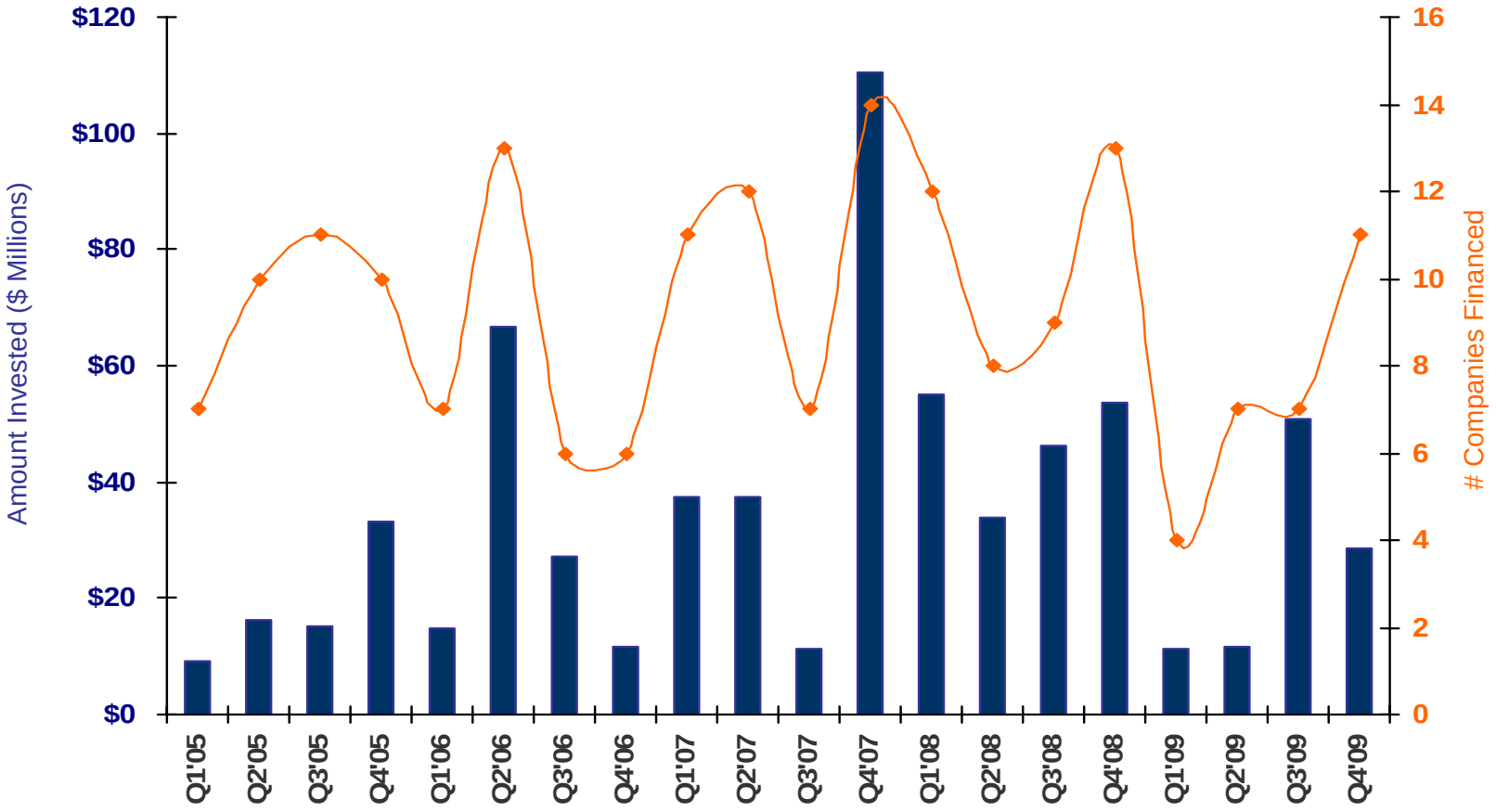
Biopharmaceuticals Fuel Life Sciences Investment

Dollars Invested in Life Sciences by Sub-Sector



Cleantech Secures 9% of 2009 Total

Dollars Invested and Completed Transactions in Clean Technologies



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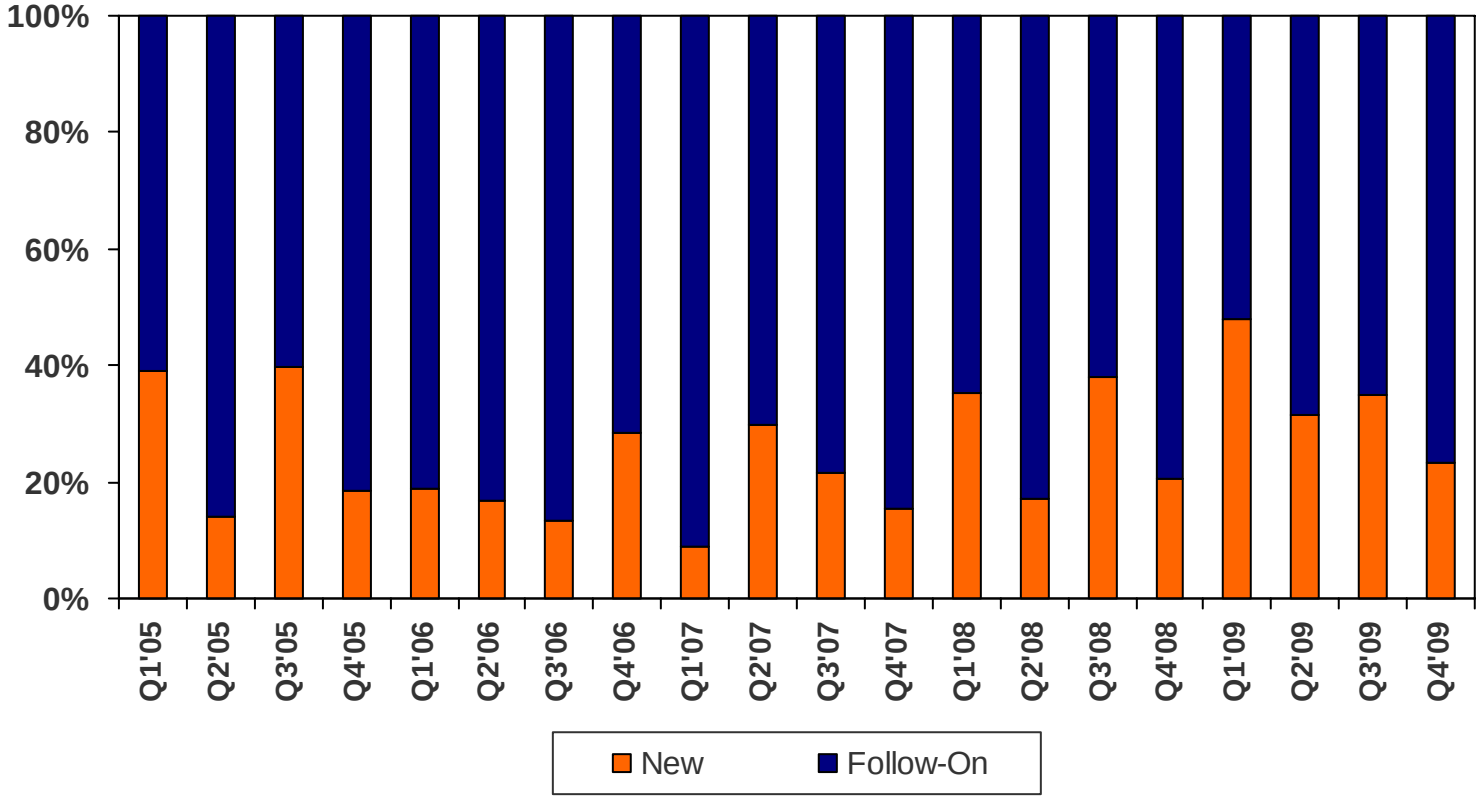
31% of Dollars Go To New Financings in '09

Dollars Invested, New vs. Follow-On



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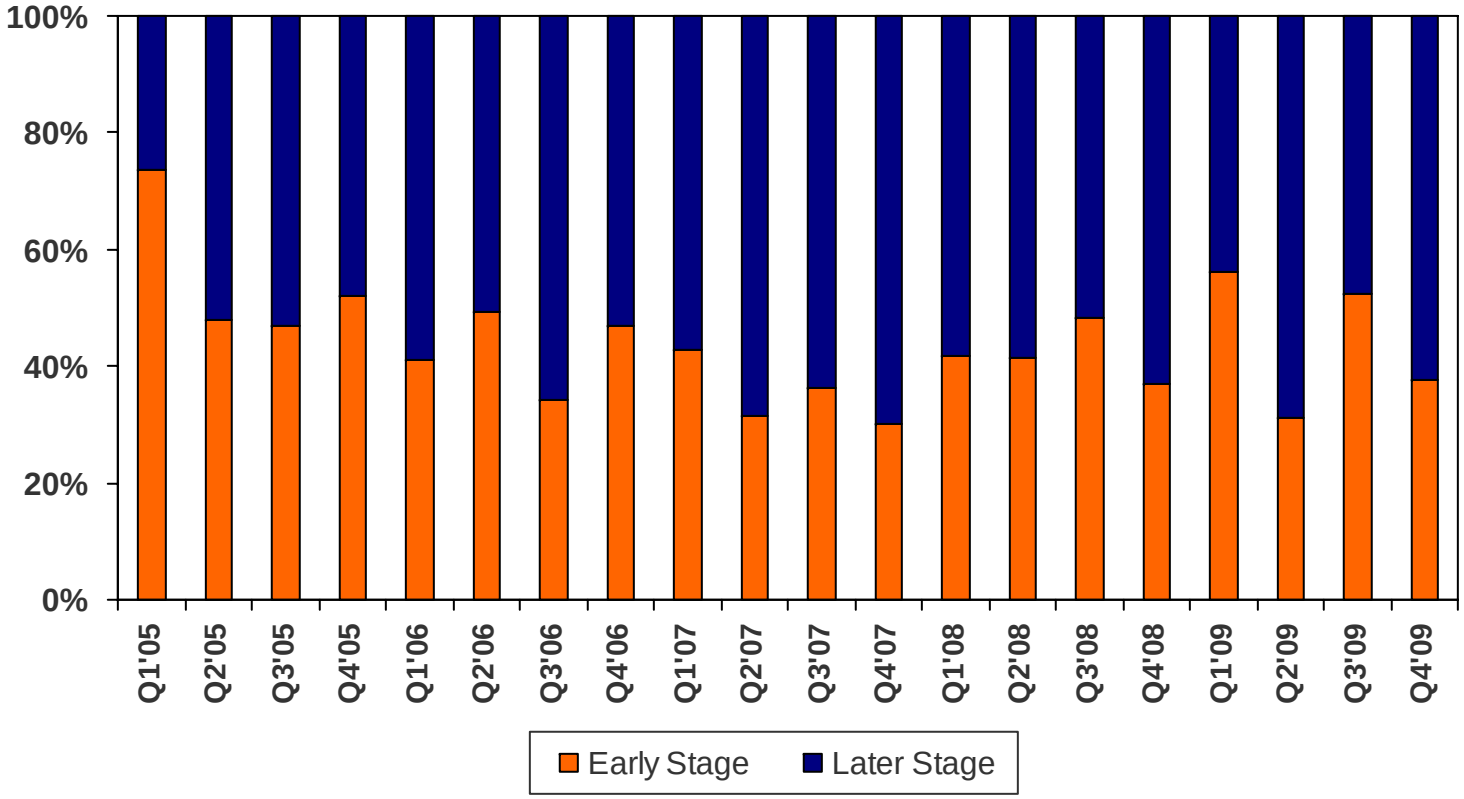
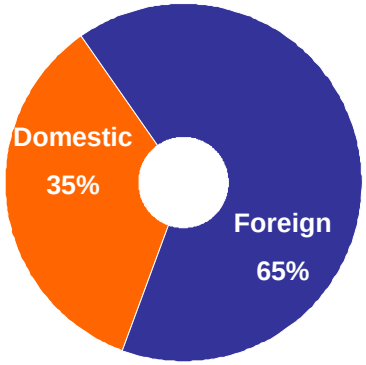
Early Stages Take 49% Share in '09, a 3-Year High

Dollars Invested by Stage



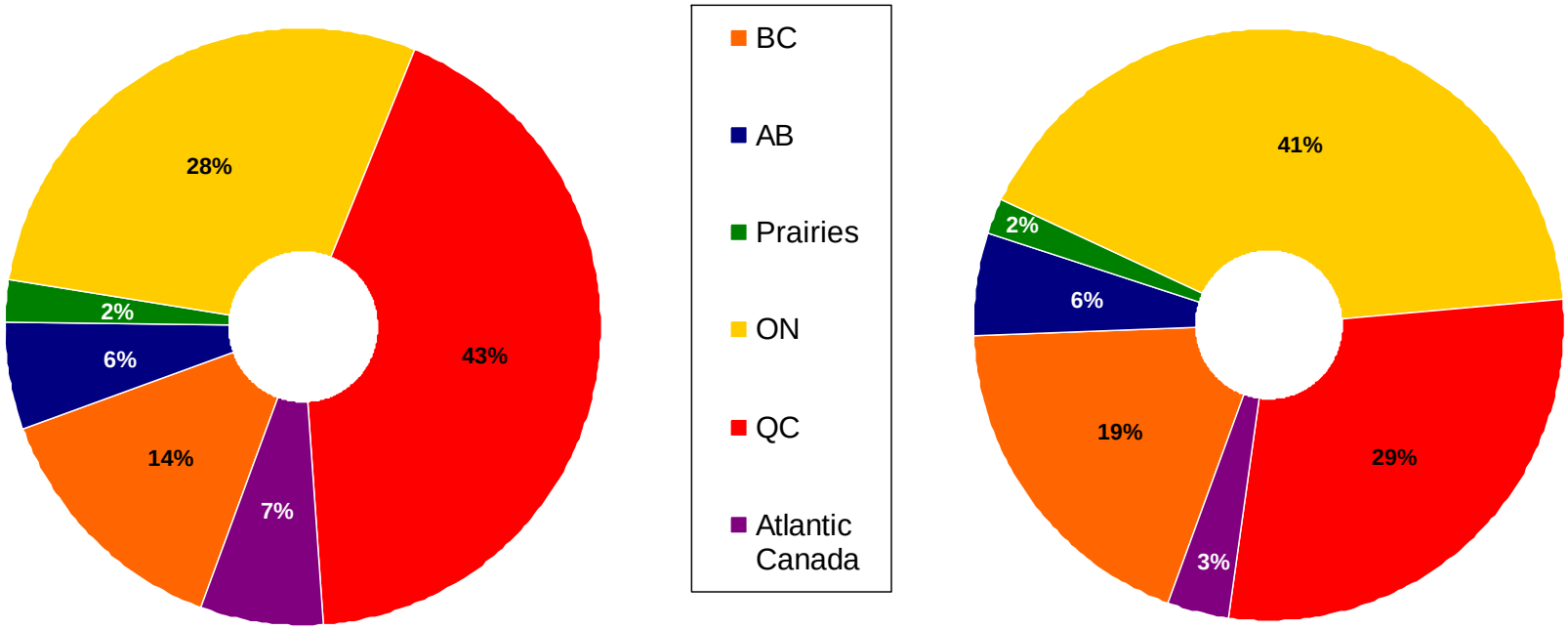
Domestic Investment Dominates The Top Deals of 2009

Top (Disclosed) Deals of 2009

Company	City	Prov.	$CAD MM Announced	Sources of Capital
Enobia Pharma, Inc.	Montreal	QC	$54.2	
Zoom Media, Inc.	Montreal	QC	$39.0	
Varicent Software, Inc.	Toronto	ON	$35.0	
TOPIGEN Pharmaceuticals, Inc.	Montreal	QC	$26.0	
ResVerlogiX	Calgary	AB	$24.3	
General Fusion, Inc.	Burnaby	BC	$23.5	
OneChip Photonics, Inc.	Ottawa	ON	$19.5	
Allostera Pharma, Inc.	Montreal	QC	$17.0	
IND DairyTech, Ltd.	Delta	BC	$15.6	
QuickPlay Media Inc.	Toronto	ON	$13.9	

Québec and Atlantic Canada See Improved Shares

Dollars Invested by Region

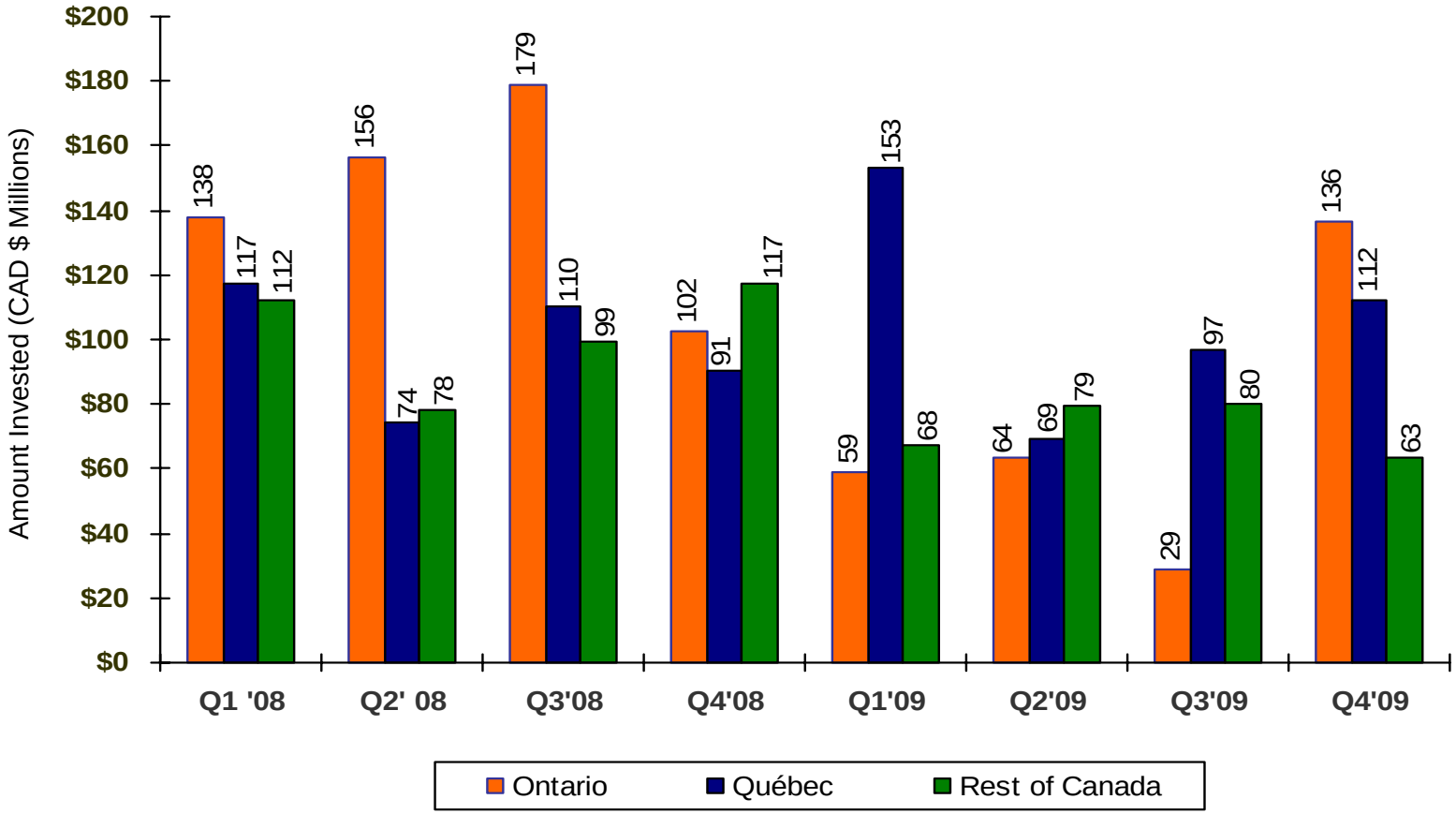


2009
$1,010 Million

2008
$1,374 Million

Ontario Disbursements Leap 4X Quarter Over Quarter

Quarterly Investment in Ontario, Québec



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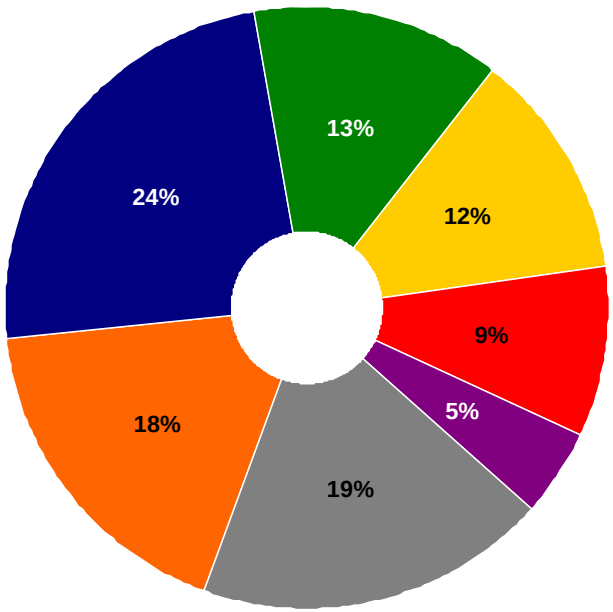
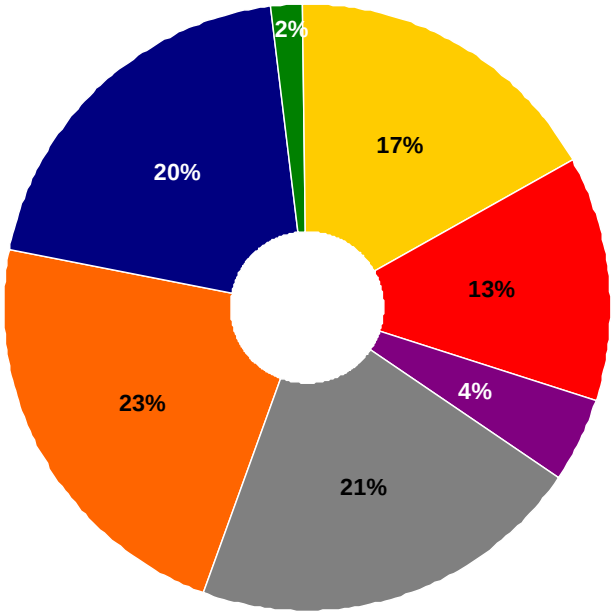
Quebec City Sees Largest Gains

Dollars Invested by Major Urban Centres





2009
$1,010 Million

2008
$1,374 Million

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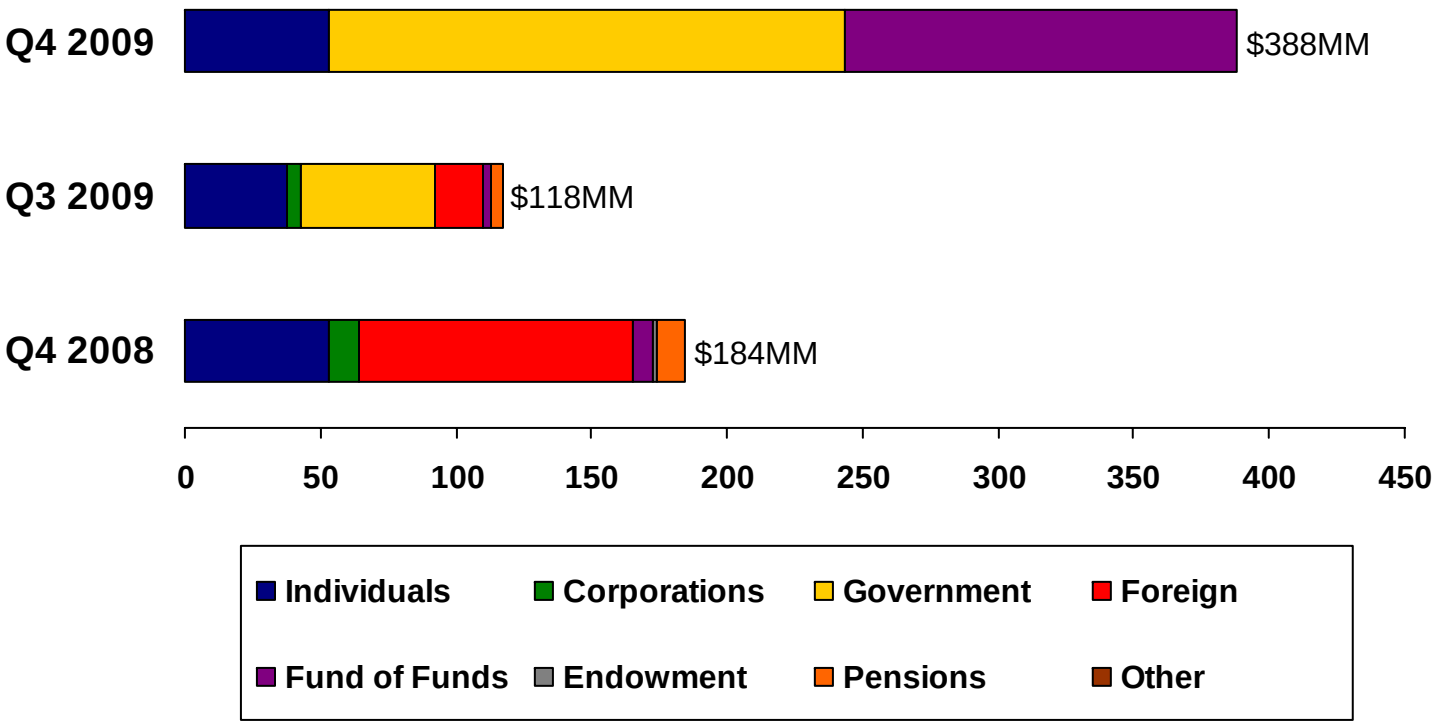
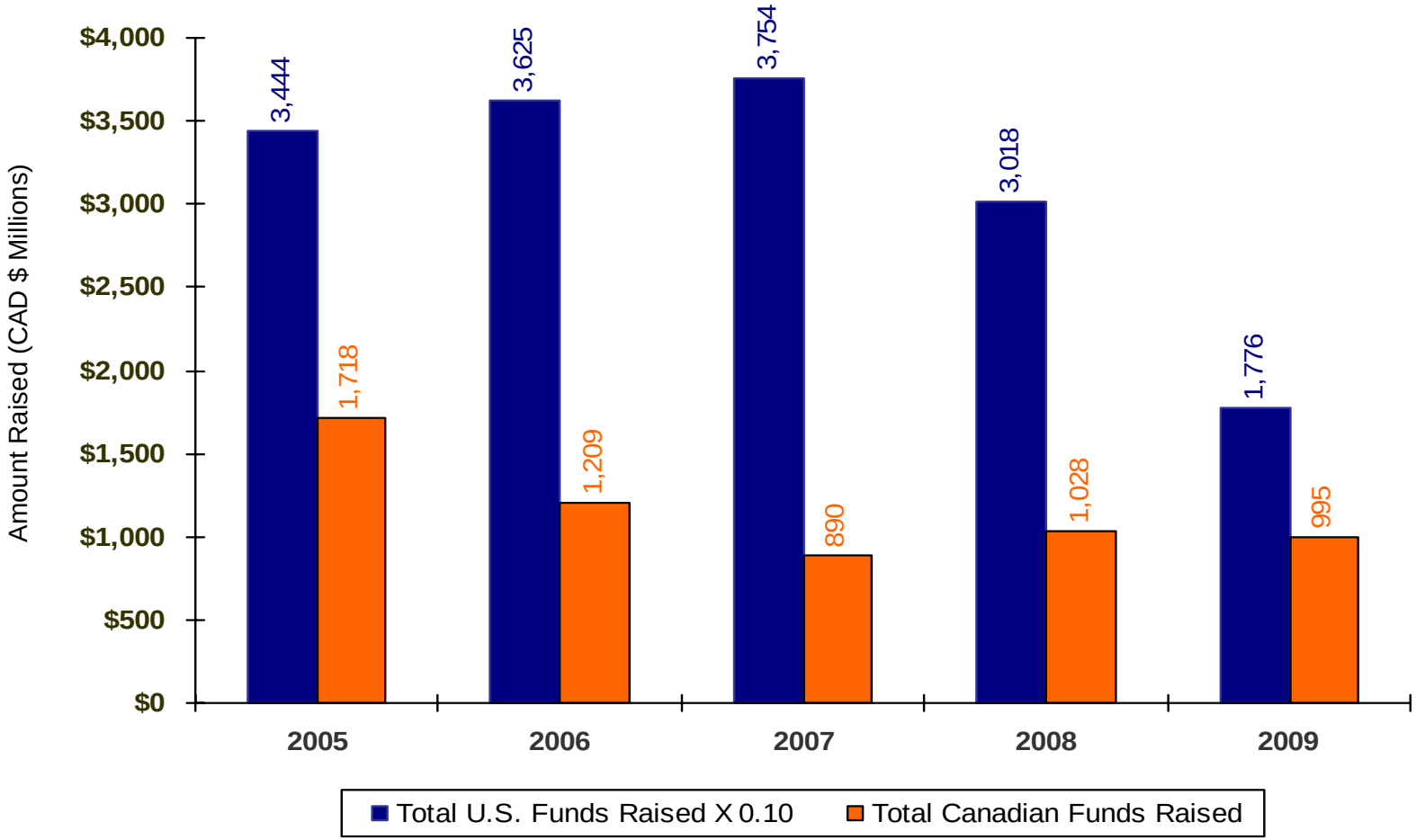
Government Groups Aid VC Fundraising in Q4

Fundraising by Quarter



U.S. Funds Mirror Canada's Fundraising Decline

New Capital Commitments by Nation



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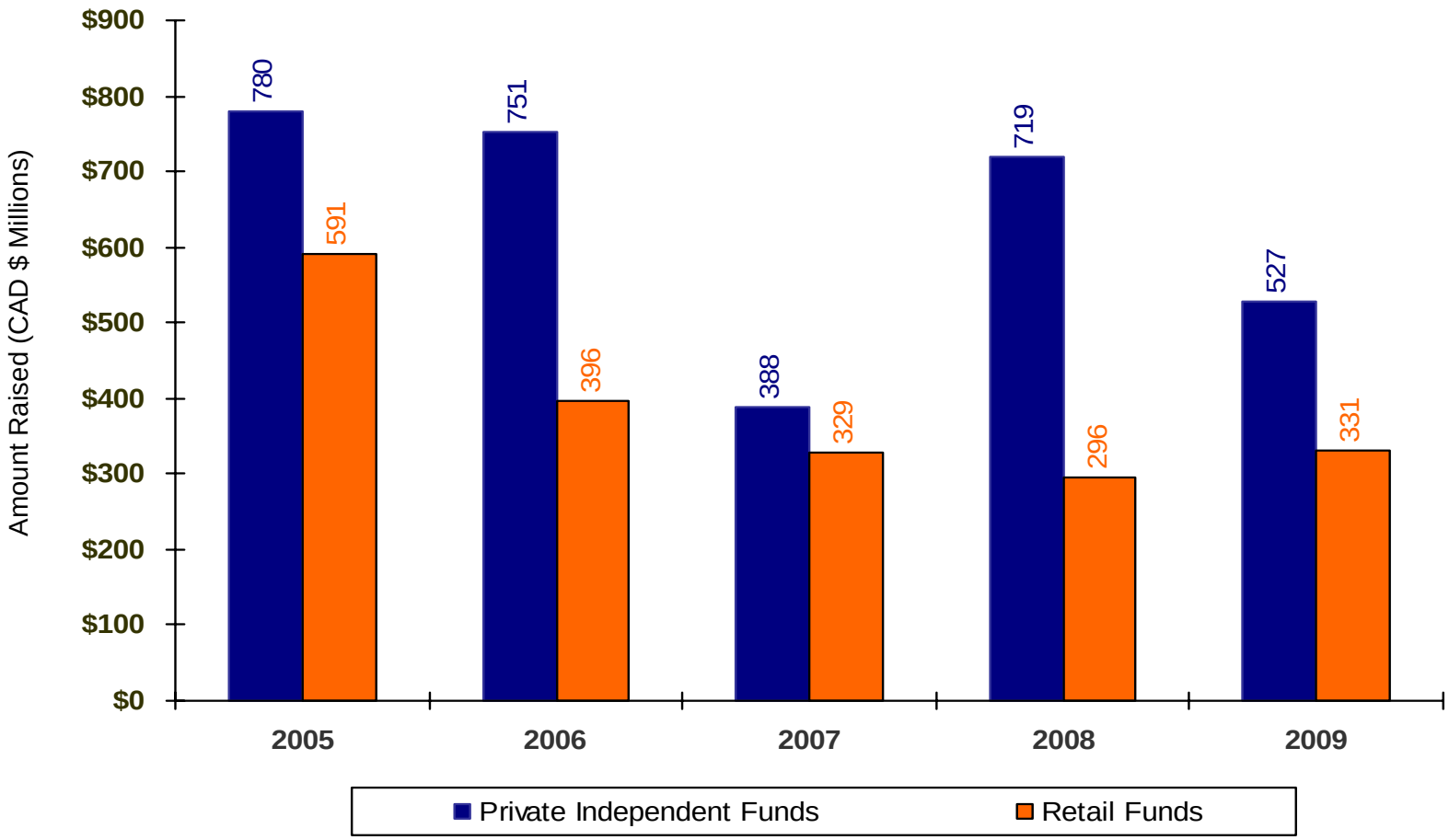
Private Funds Raised 53% of Total in 2009

New Capital Commitments by Fund Type



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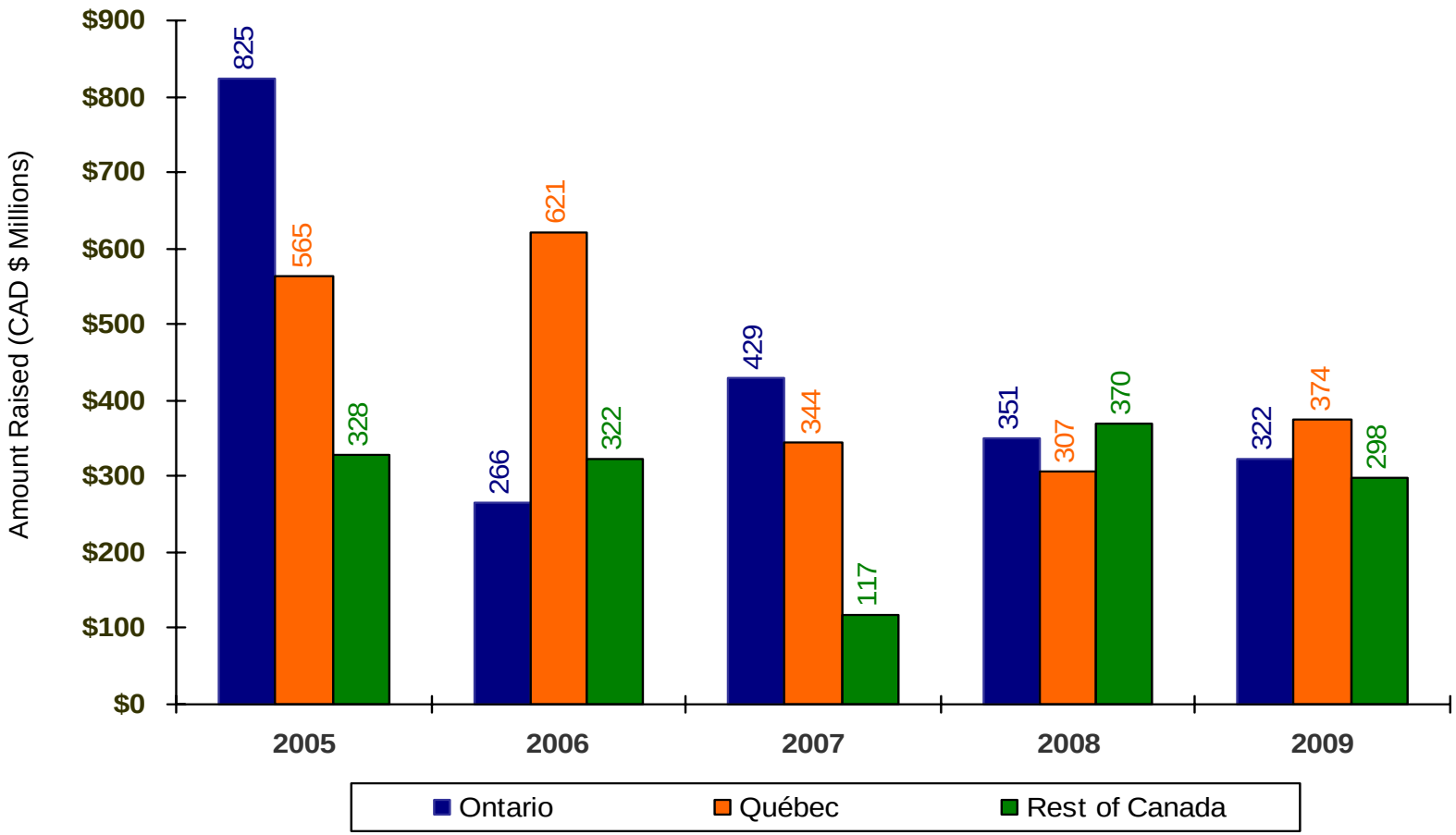
Fundraising Not Confined to Largest Provinces

New Capital Commitments by Province



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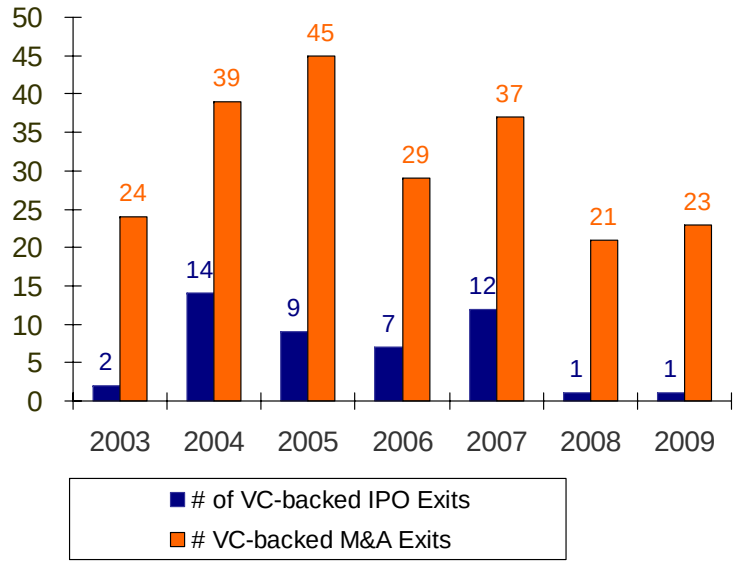
VC-Backed IPO and M&A Exit Trends

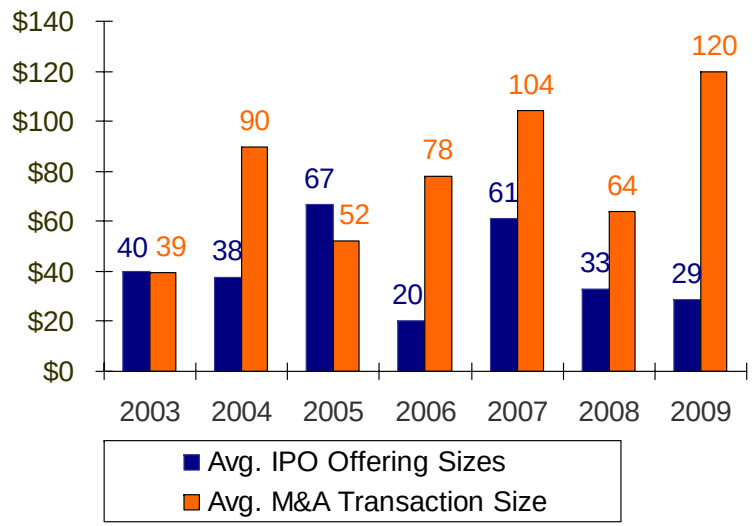
Exits of Canadian Portfolio Companies

US 2009 Exits Included 262 M&A, US$144 MM Average Deal Size

of VC-Backed Exits



Average Disclosed Offering / Transaction Size ($ MM)



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