Canada's Venture Capital Market in 2010

Prepared by Thomson Reuters for the Canadian Venture Capital & Private Equity Association

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Canadian VC market trends

Despite a slow final quarter, Canadian venture capital (VC) market activity in Canada grew moderately in 2010, with $1.1 billion invested in total, or 10% more than the $1.0 billion invested the year before. Consequently, the domestic market experienced its first per-annum increase in disbursement levels since 2007.

This being said, VC invested in Canada in 2010 remained shy of the $1.4 billion invested in 2008.

The number of Canadian innovative firms securing VC financing last year increased by a similarly moderate 5%. Companies financed totaled 354, compared to 337 companies financed in 2009.

Most of the heft behind Canadian market activity in 2010 came in the first six months, which accounted for 57% of all disbursements. In contrast, VC activity in Q4 2010 was the slowest of the year in terms of dollar flows, with $241 million invested, down 27% from $329 million invested in Q4 2009.

Despite a number of major Canadian VC deals done last year, including financings of Encelium Technologies, Greengate Power and Peraso Technologies in Q4 2010, amounts invested per firm did not move up appreciably. Company financing sizes averaged $3.2 million in 2010, or not far above the $3.1 million average of the year before.

As a result, the competitive gap in VC financing sizes between Canada and the United States was no less wide last year, with Canadian innovative firms garnering only 39% of the dollars going to their American counterparts.

The international deal-making of Canadian VC funds rose considerably in 2010, with $313 million invested, up 64% from $191 million the year before. Like domestic activity, this is the first year-over-year growth shown by this market indicator in three years.

Trends in the US VC market

Higher levels of VC market activity were also evidenced in the United States in 2010, and also for the first time since 2007. A total of US$21.8 billion was invested south-of-the-border, or 19% more than the US$18.3 billion invested in 2009.

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Canadian VC trends by region

Growth in Canadian market activity last year was, in dollar terms, located chiefly in Ontario, British Columbia and Alberta. In particular, Ontario bounced back from a disappointing 2009, with $424 million invested in 2010, or 37% of the national total, and 43% more than the $296 million invested previously.

VC invested in British Columbia totaled $216 million in 2010, up a sharp 35% compared to the $160 million of the year before. Disbursement levels in Alberta climbed 8% year-over-year, with $67 million put to work this time around.

Relative to its $429 million invested in 2009, Québec-based VC activity decreased 9% last year, with $391 million invested. However, with 34% of all disbursements, the Québec share of the domestic market remained above historical levels.

Canadian VC trends by investor type

Both domestic and foreign investors were more active in the Canadian market in 2010. In total, Canadian VC funds deployed $811 million to deals, which represents an 11% improvement over the $728 million they accounted for in 2009.

Locally-based private-independent funds led this trend, increasing their dollars invested to $262 million in 2010, up 25% year-over-year. Not far behind were LSVCC and other retail funds, which invested $236 million last year, though this lagged their activity in 2009 by 6%.

American VC funds and other foreign investors brought $331 million to Canadian deals in 2010, or 6% more than the $311 million they contributed the year before. As a result, cross-border activity accounted for 29% of total dollars invested, which approximates the traditional market share.

Canadian VC trends by sector

While communications and other IT sectors once again attracted the largest percentage of Canadian VC activity last year, it was deal-making in clean technology and life sciences sectors that spurred overall market growth.

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A total of $484 million was invested in 126 IT companies last year, or 42% of all disbursements, though actual levels were down 3% from the $497 million invested in 2009. Software, telecom and internet-focused firms accounted for most of the dollar flows, obtaining $141 million, $135 million and $130 million, respectively.

In contrast, 56 biopharmaceuticals and other life sciences companies captured more VC in 2010, with $299 million invested, or 38% more than the $216 million invested the year before. Consequently, life sciences activity lifted its share of total VC activity in Canada to 26% last year.

Clean-tech activity rose even more sharply year-over-year, with $192 million going to 28 companies in 2010, up 58% from the previous $122 million. Taking 17% of all disbursements as a consequence, clean technology racked up its largest per-annum share on record in the Canadian VC market.

Trends in Canadian VC-Backed Exits

Like deal-making, exits from VC fund portfolio investments underwent a moderate rebound in 2010, due largely to greater stability in the overall economic environment. Exit activity involving Canadian-based companies totaled 31 last year, up 24% from the 25 exit events of 2009.

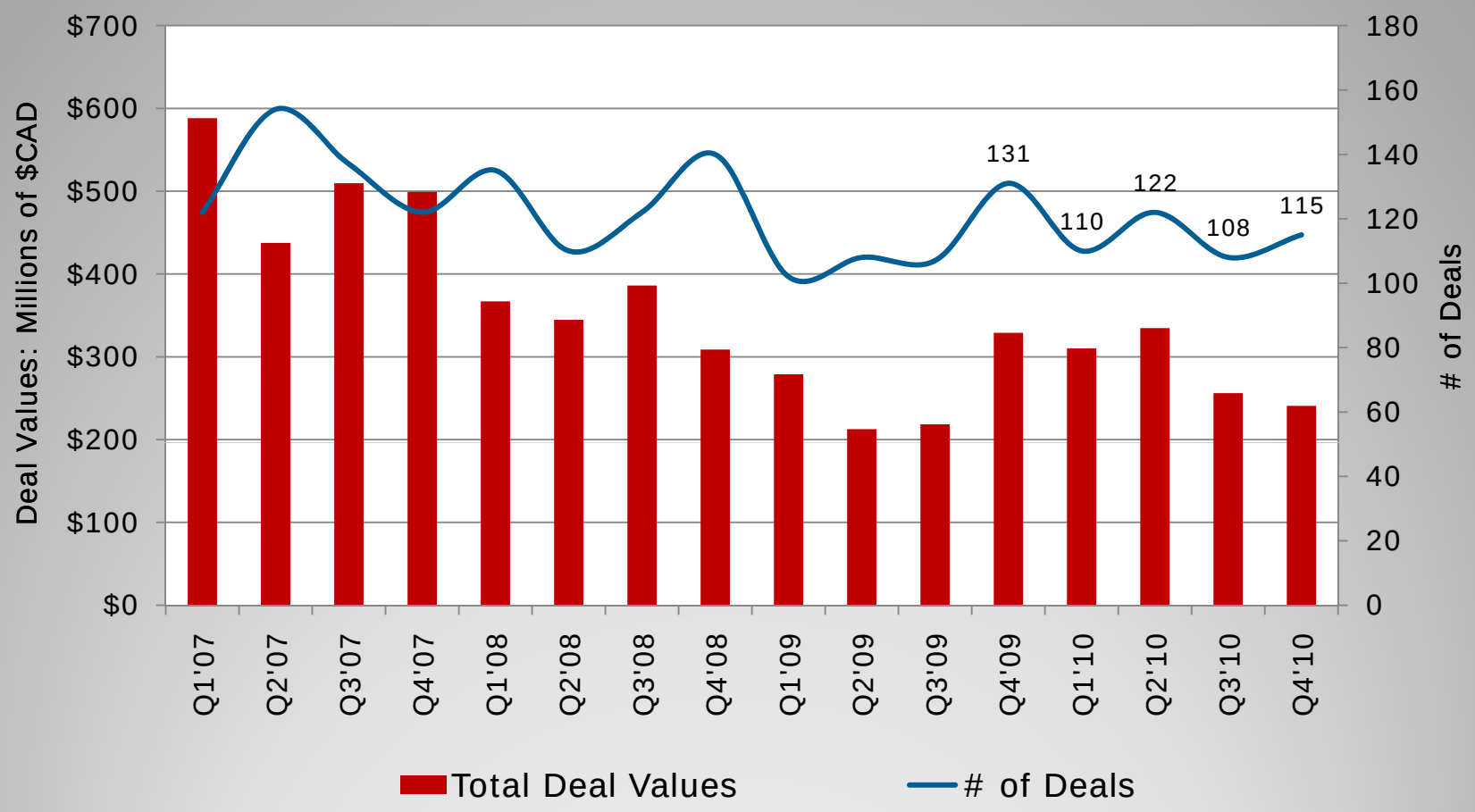
Acquisitions of VC-backed firms, undertaken primarily by strategic technology investors, drove trends, with these totaling 30. As in 2009, there was only one exit via initial public offering reported this time around.

Trends in Canadian VC Fund-Raising

In contrast with deal and exit trends, Canadian VC fund-raising activity was especially weak in 2010. New capital commitments to VC funds totaled $819 million last year, down 24% from $1.1 billion committed the year before, and the lowest per-annum level reached in the Canadian market in 16 years.

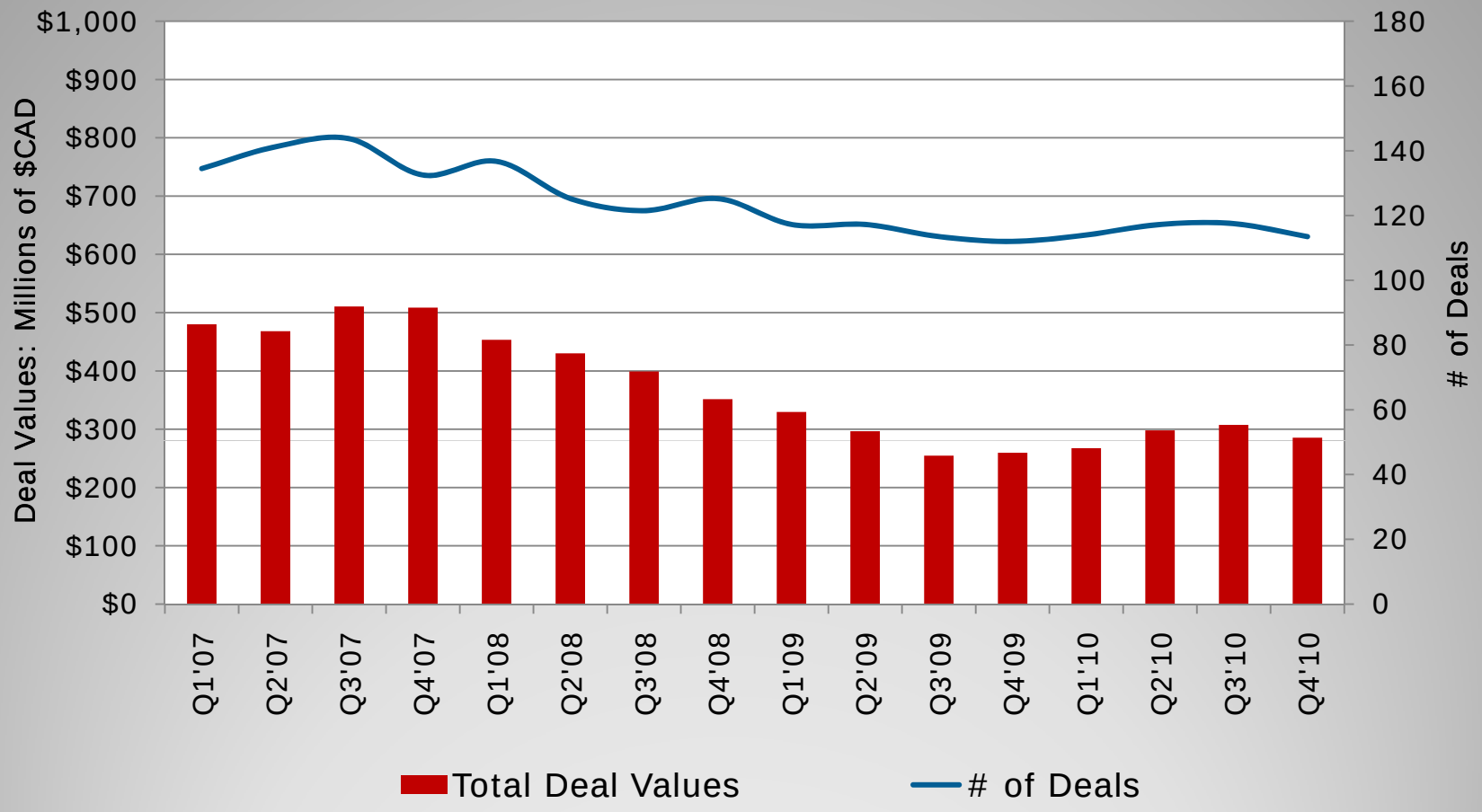
A key factor in the year-over-year drop in funds raised was a comparative shortage of major VC partnership closings. Private funds brought $350 million of new supply into the market last year, or 41% below their activity in 2009. Retail funds were not able to compensate for this trend, despite having secured 10% more new commitments in 2010, or $369 million.

Canada's Venture Capital Market in 2010



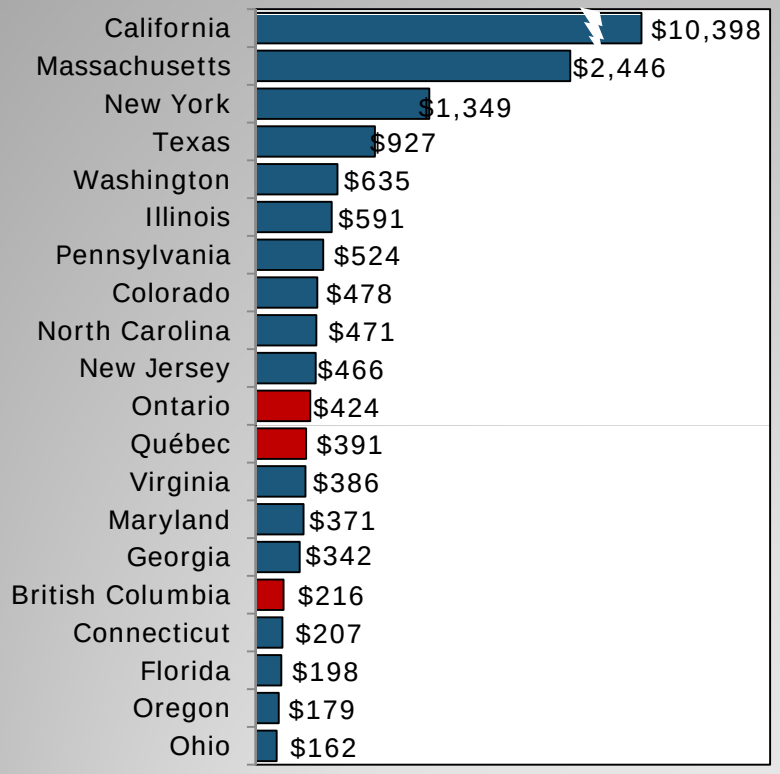
$241 Million of Venture Capital Invested in Q4 2010

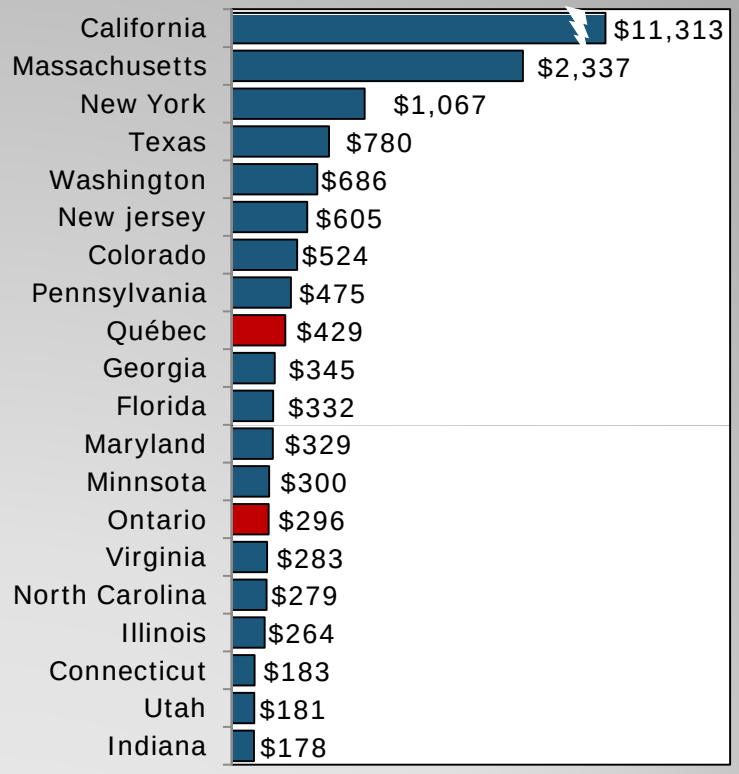
DOLLARS INVESTED AND COMPANIES FINANCED



$241 Million of Venture Capital Invested in Q4 2010

DOLLARS INVESTED AND COMPANIES FINANCED
FOUR QUARTER ROLLING AVERAGES

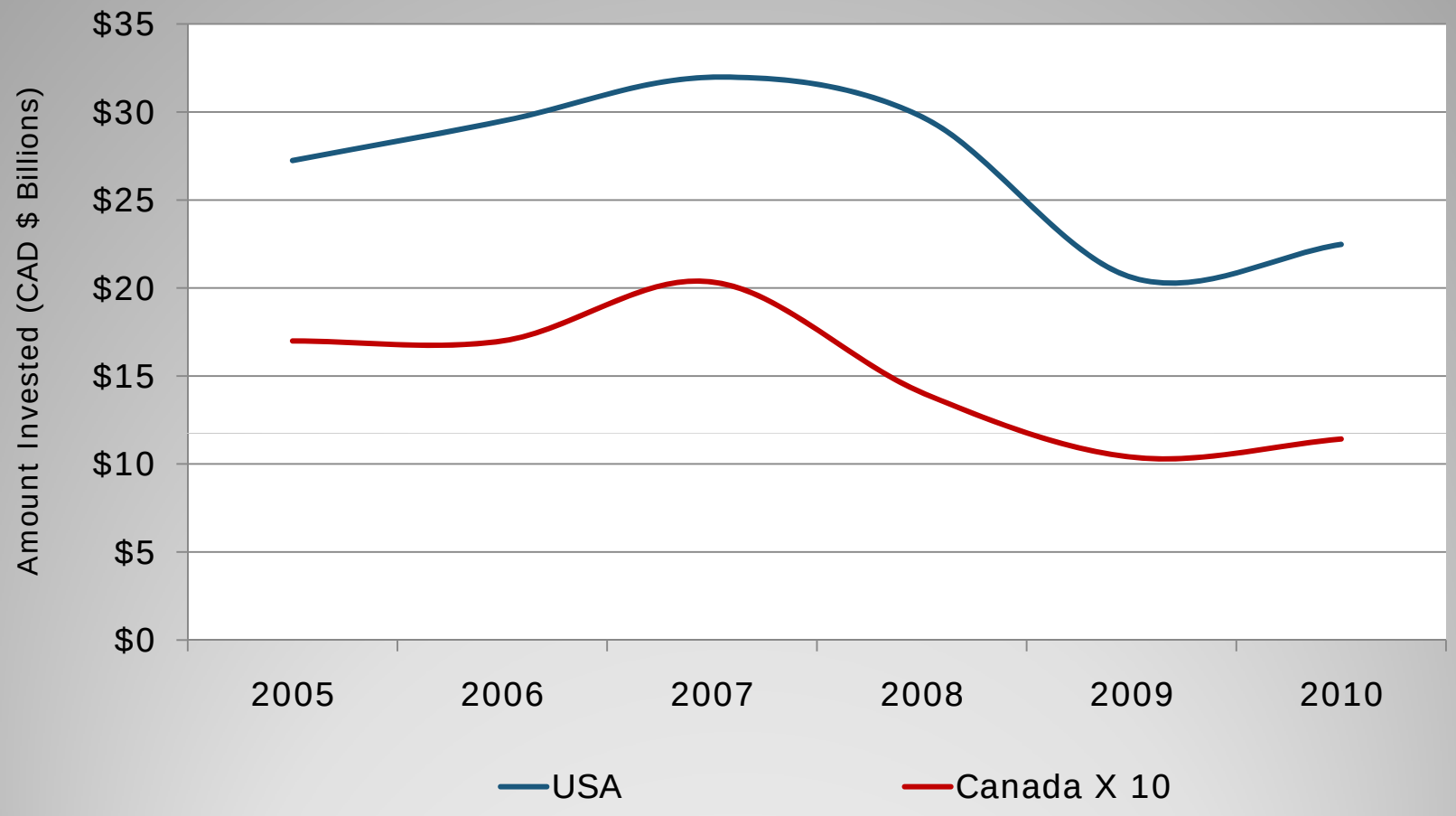




North American Rankings

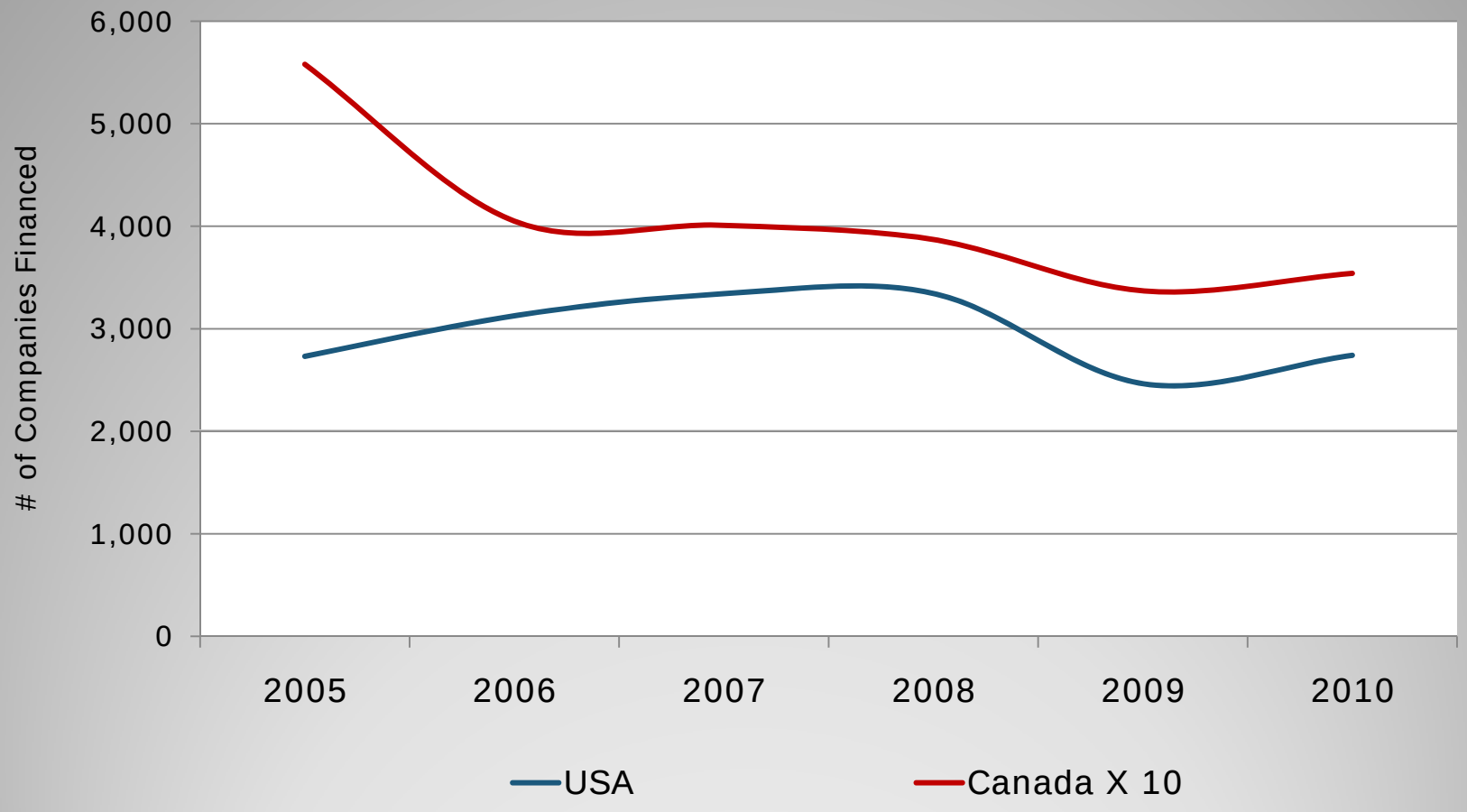
VENTURE CAPITAL DISBURSEMENTS BY PROVINCE AND STATE

ONTARIO, QUÉBEC, BRITISH COLUMBIA FINISH 2010 IN 11th, 12th, and 16th Place



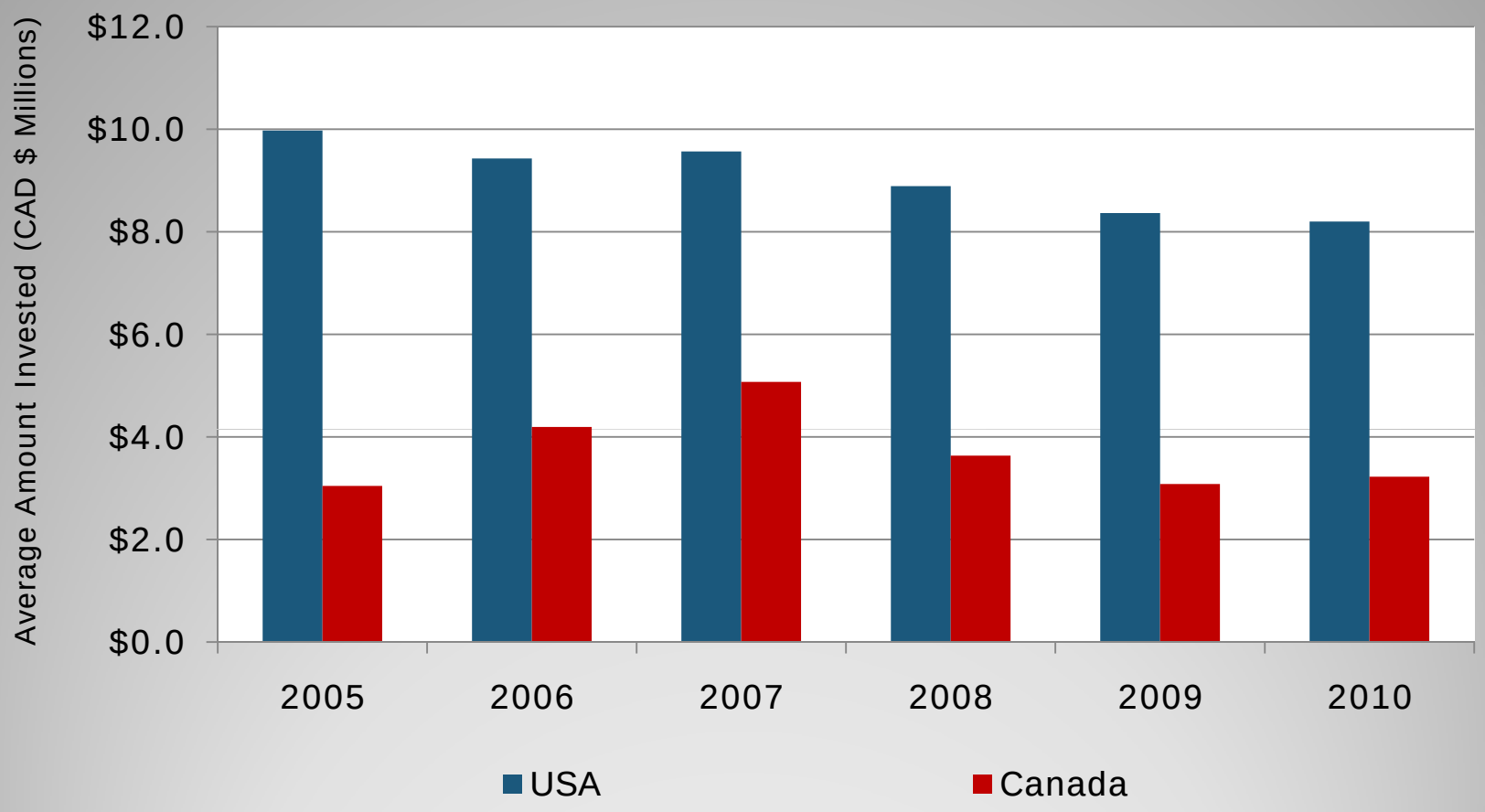
Canada and U.S. Investment Levels Increasing Over 2009 Lows

VENTURE CAPITAL DISBURSEMENTS: CANADA & THE UNITED STATES



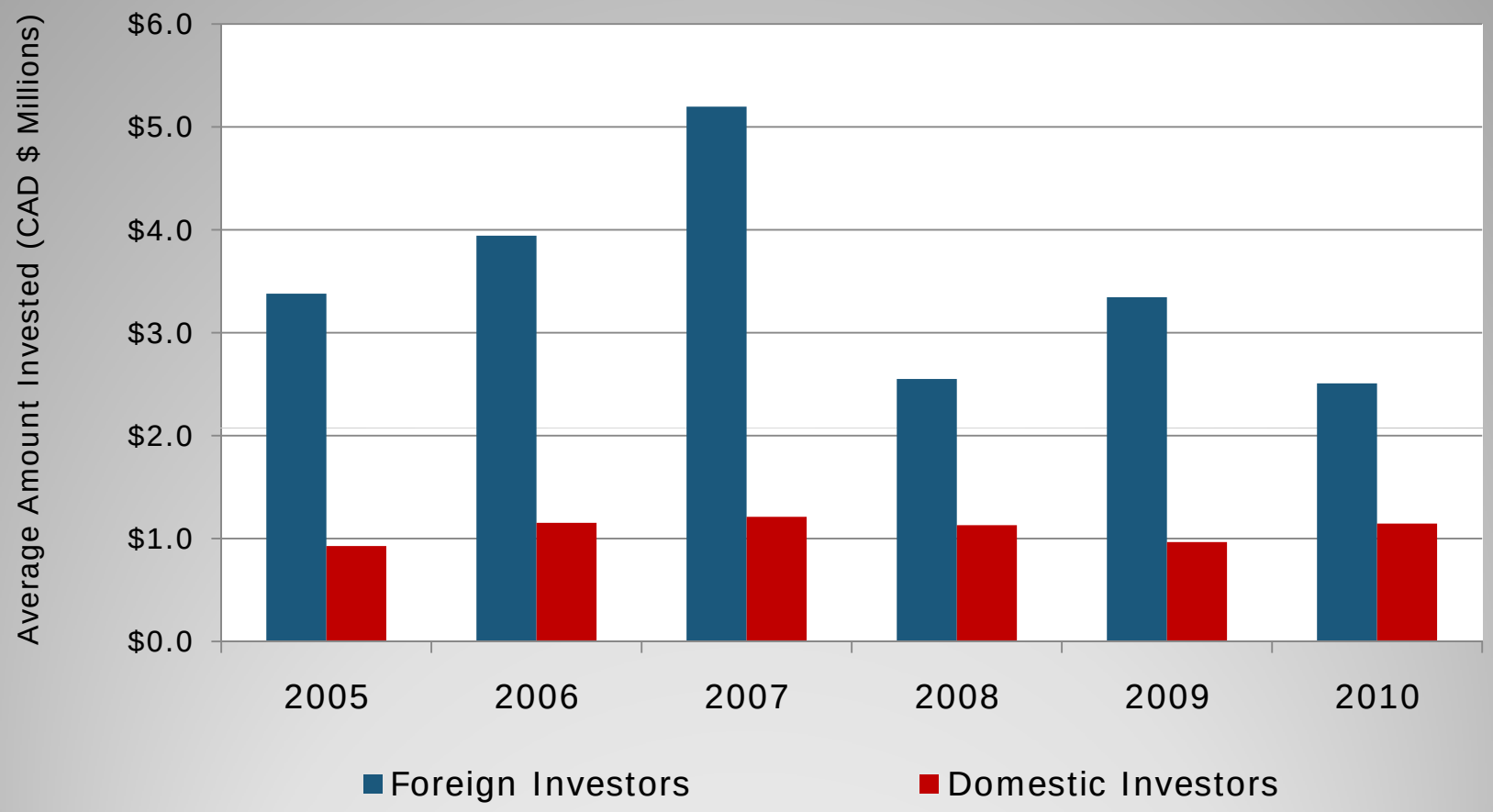
Canada Continues To Fund Comparatively More Companies

NUMBER OF COMPANIES FUNDED: CANADA & UNITED STATES



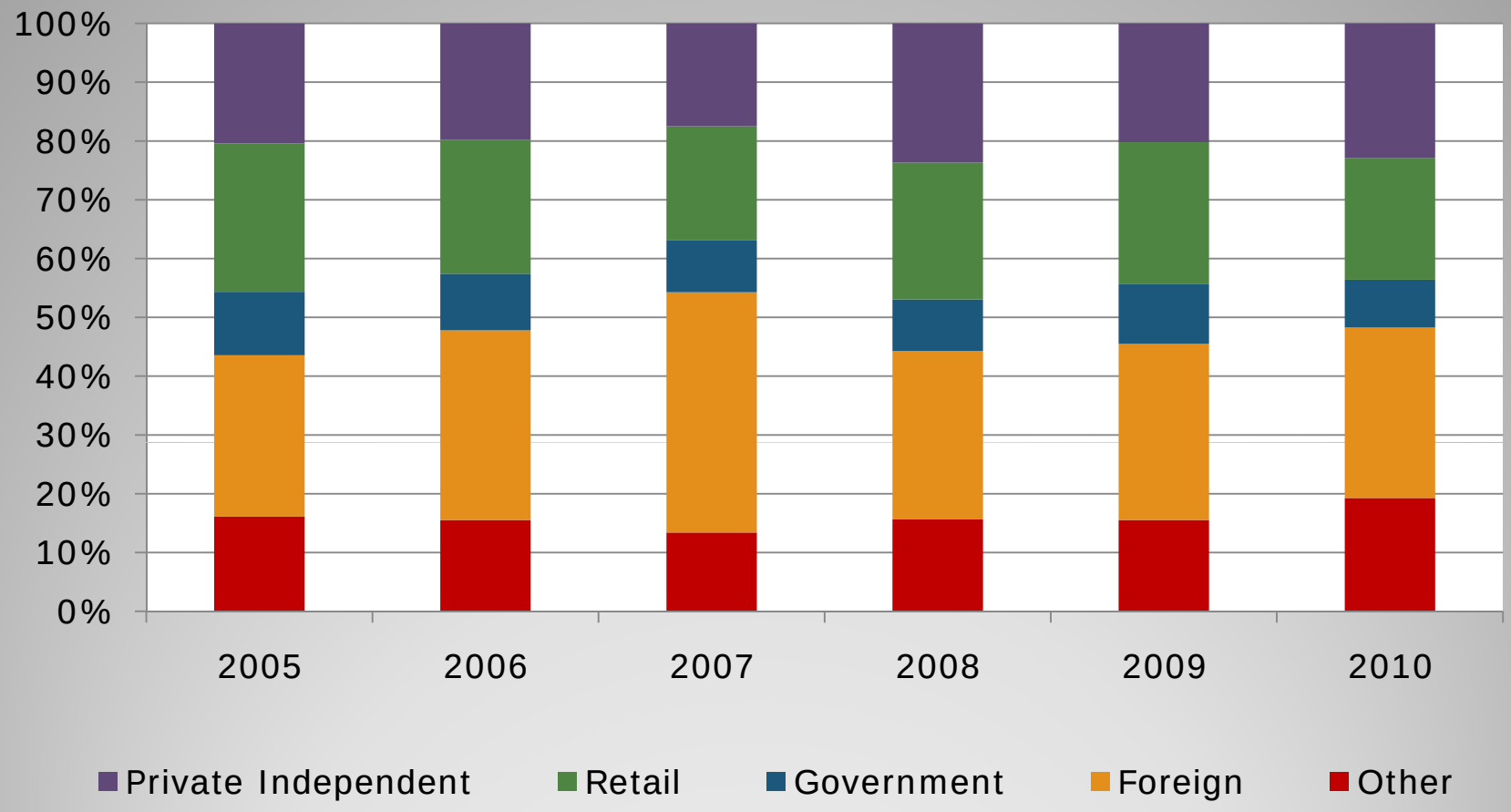
Average Canadian Company Secures Less Than Its U.S. Counterpart

AMOUNTS INVESTED PER COMPANY, CANADA & UNITED STATES



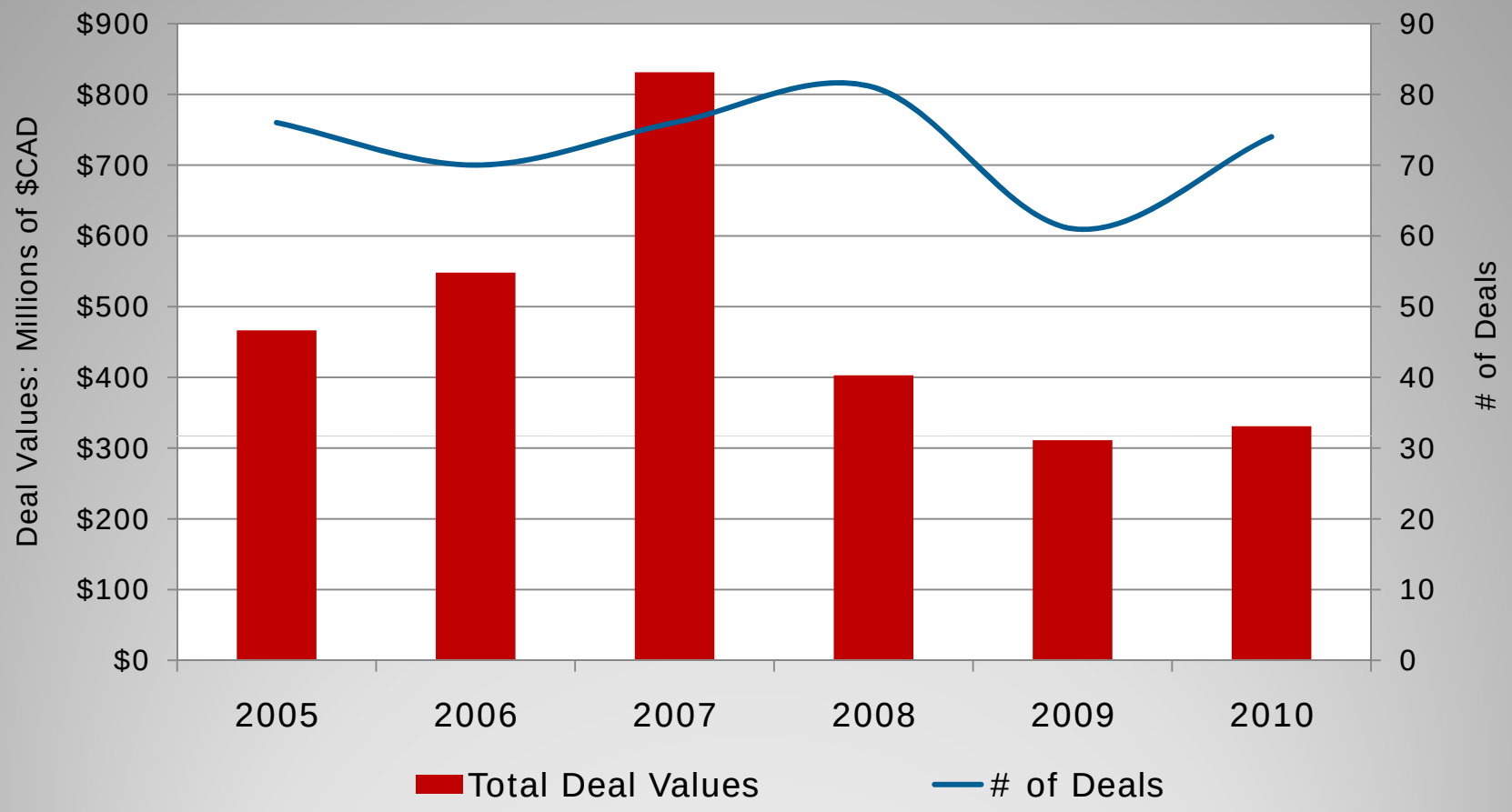
U.S. Funds Still Making Larger Investments Than Domestic Funds

AVERAGE INVESTMENT SIZES IN CANADIAN COMPANIES
DOMESTIC INVESTORS VS. FOREIGN INVESTORS



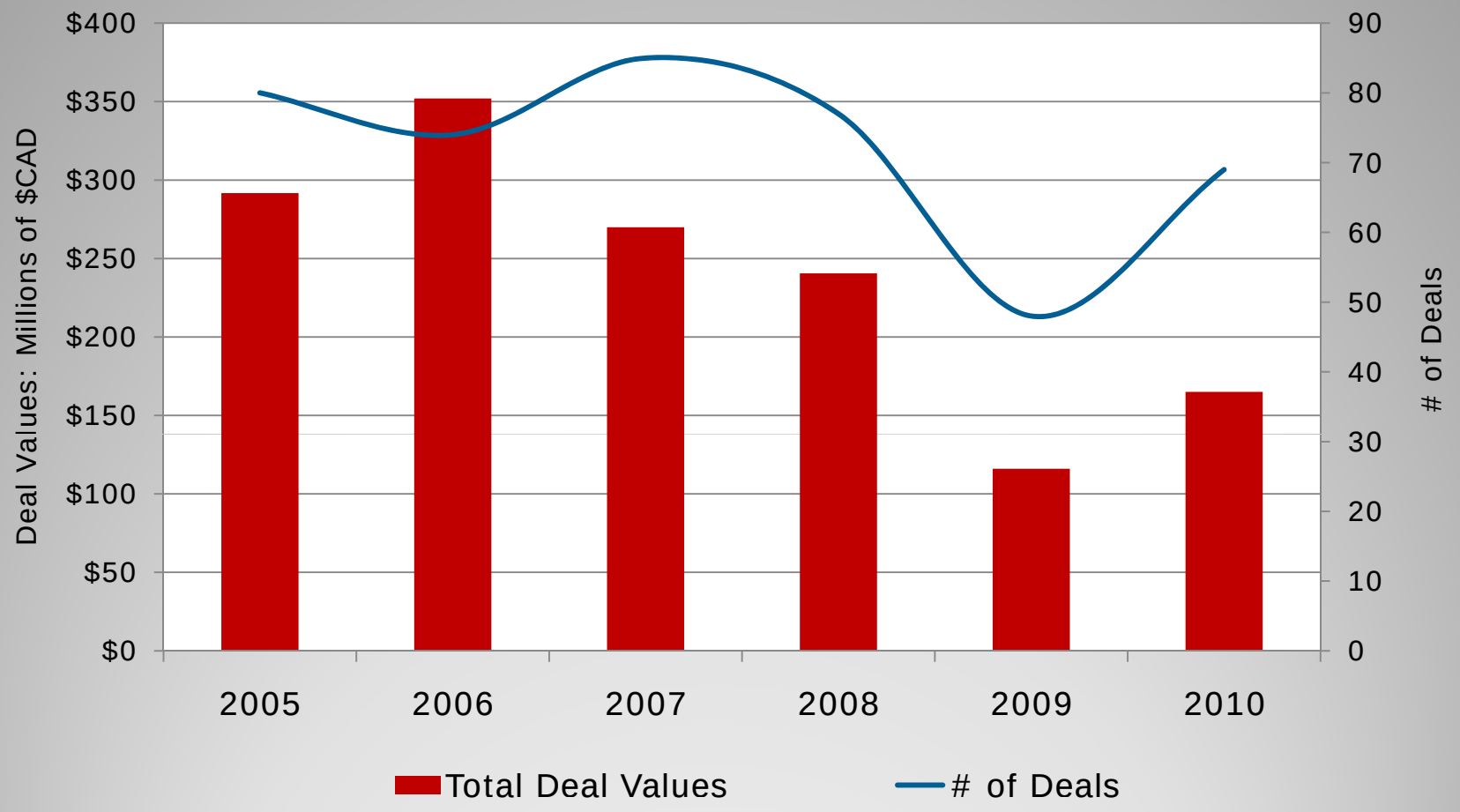
Angel Investors, Management Teams, Contributing More To Deals

SHARE OF DOLLARS INVESTED BY INVESTOR TYPE



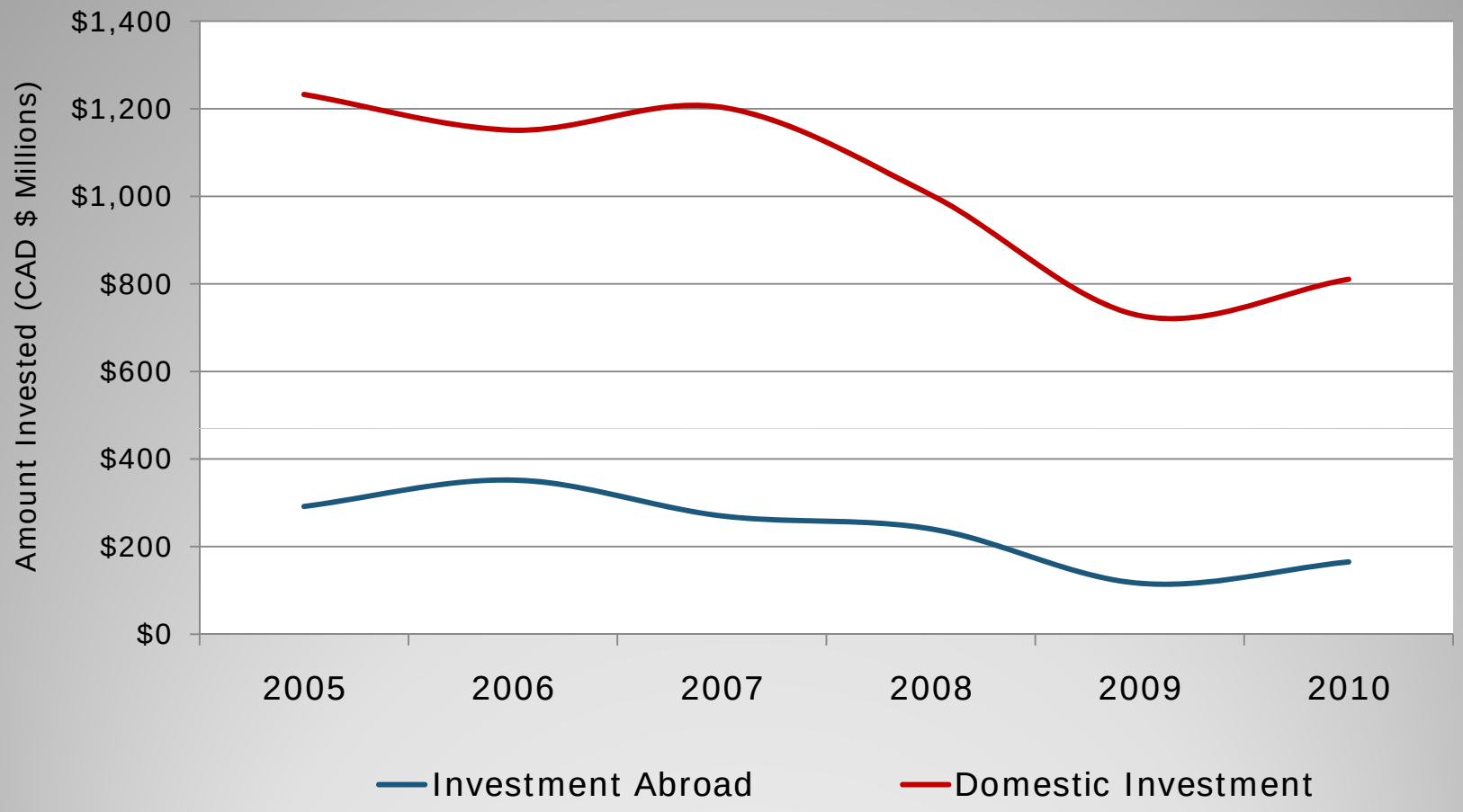
Foreign Investors Increase Canadian Investment By 6% Over 2009

FOREIGN INVESTORS, CANADIAN PORTFOLIO COMPANIES
DOLLARS INVESTED AND NUMBER OF FINANCINGS



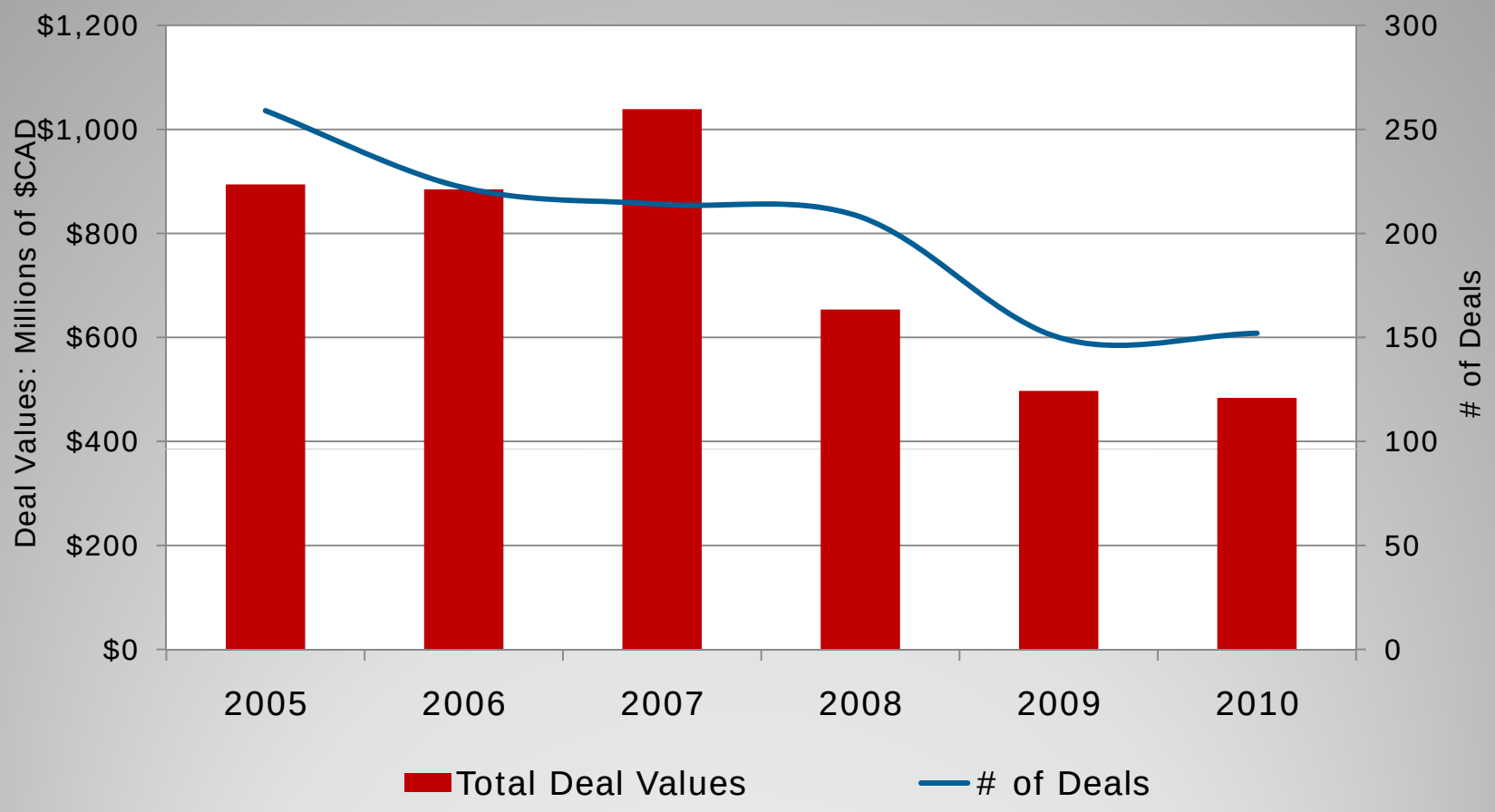
Canadians Participate in 43% More Foreign Deals in 2010 Over 2009

CANADIAN INVESTORS, FOREIGN PORTFOLIO COMPANIES
DOLLARS INVESTED AND NUMBER OF FINANCINGS



Canadian Funds Investing More in 2010, Domestically and Abroad

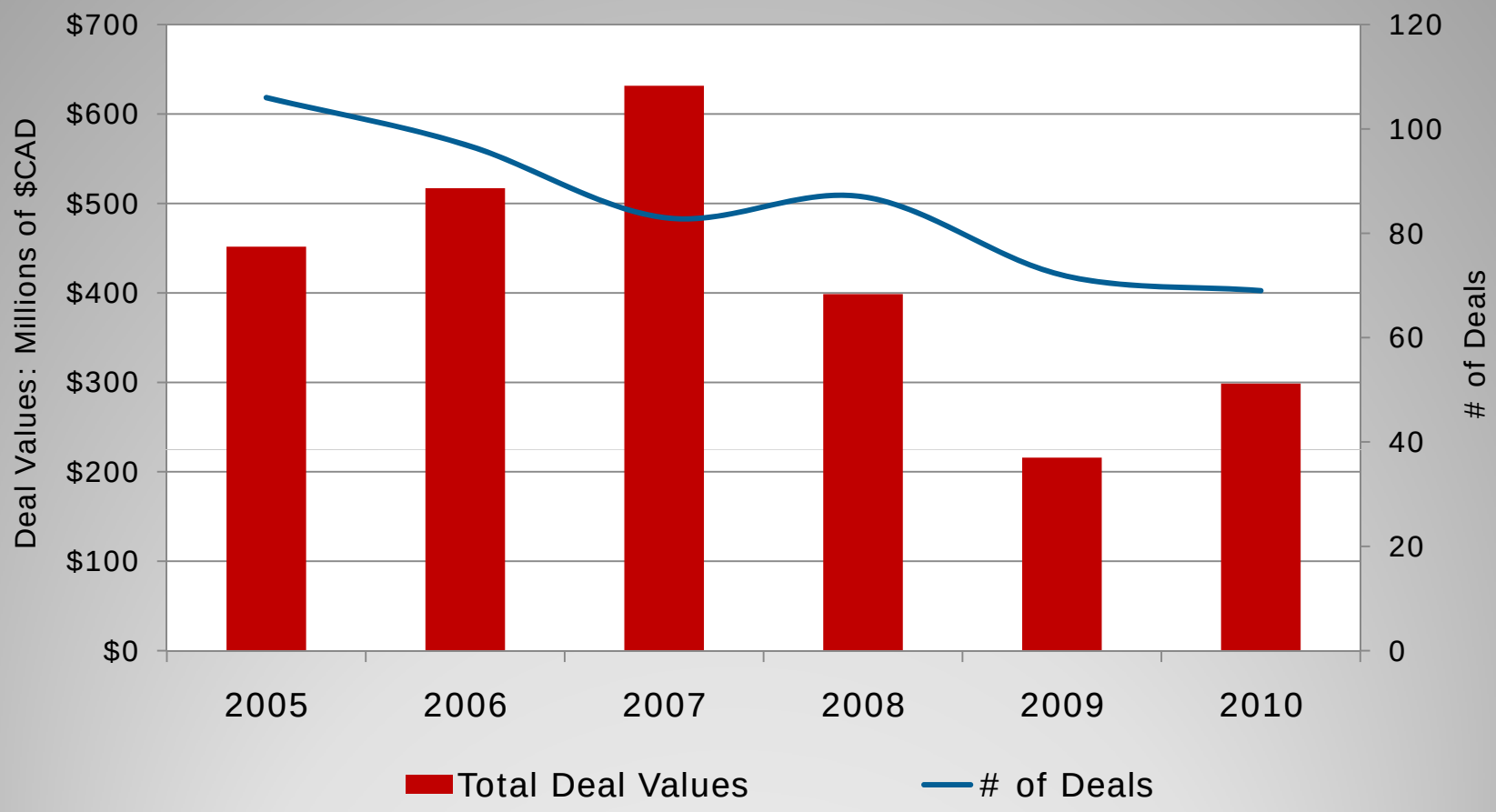
CANADIAN INVESTMENT WITHIN CANADA VS. CANADIAN INVESTMENT OUTSIDE CANADA
DOLLARS INVESTED



Information Technology Investment Holds Steady in 2010

INFORMATION TECHNOLOGY SECTOR

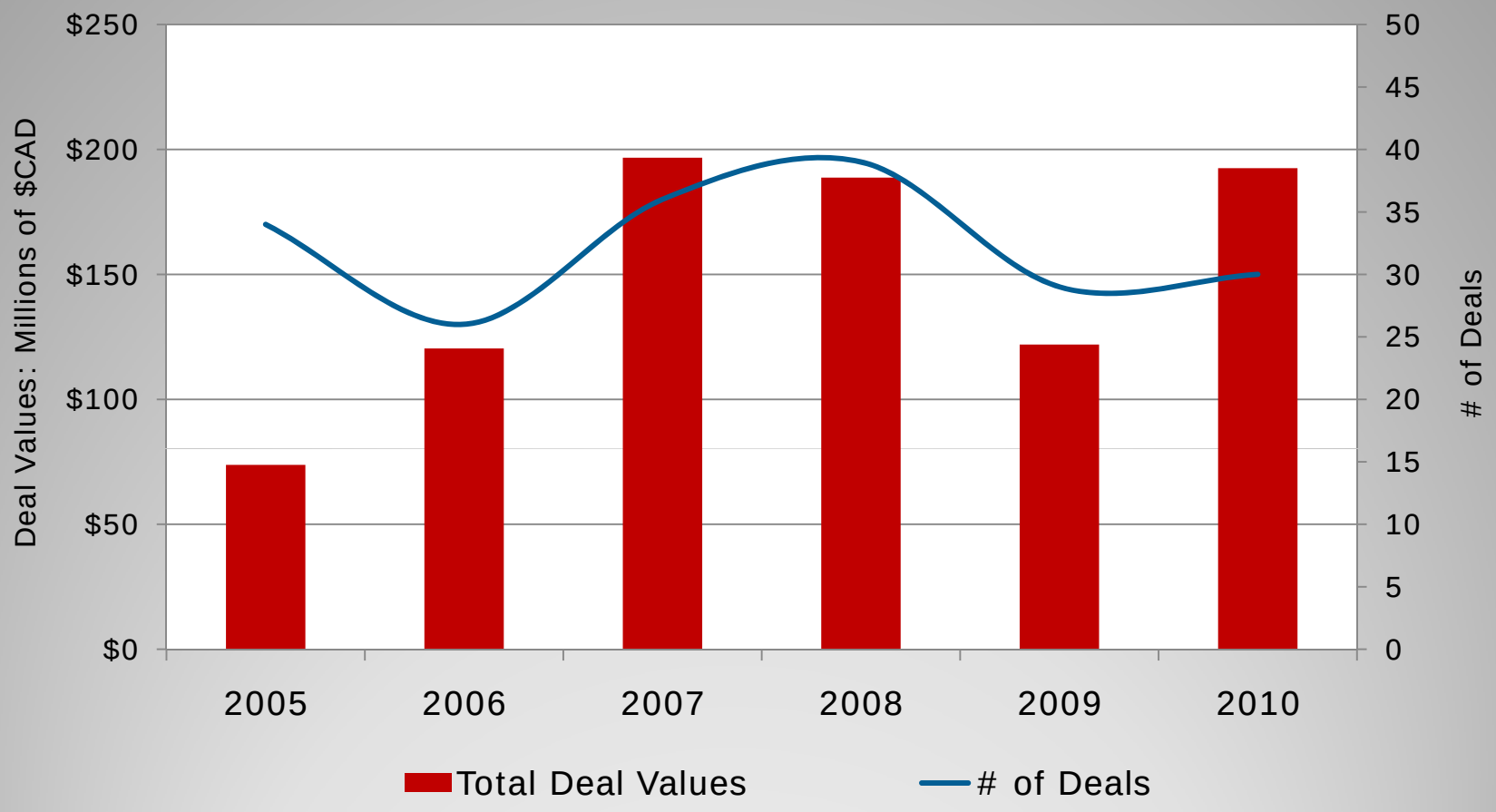
DOLLARS INVESTED AND NUMBER OF FINANCINGS



Life Sciences Attract 38% More Dollars in 2010, Year-Over-Year

LIFE SCIENCES SECTOR

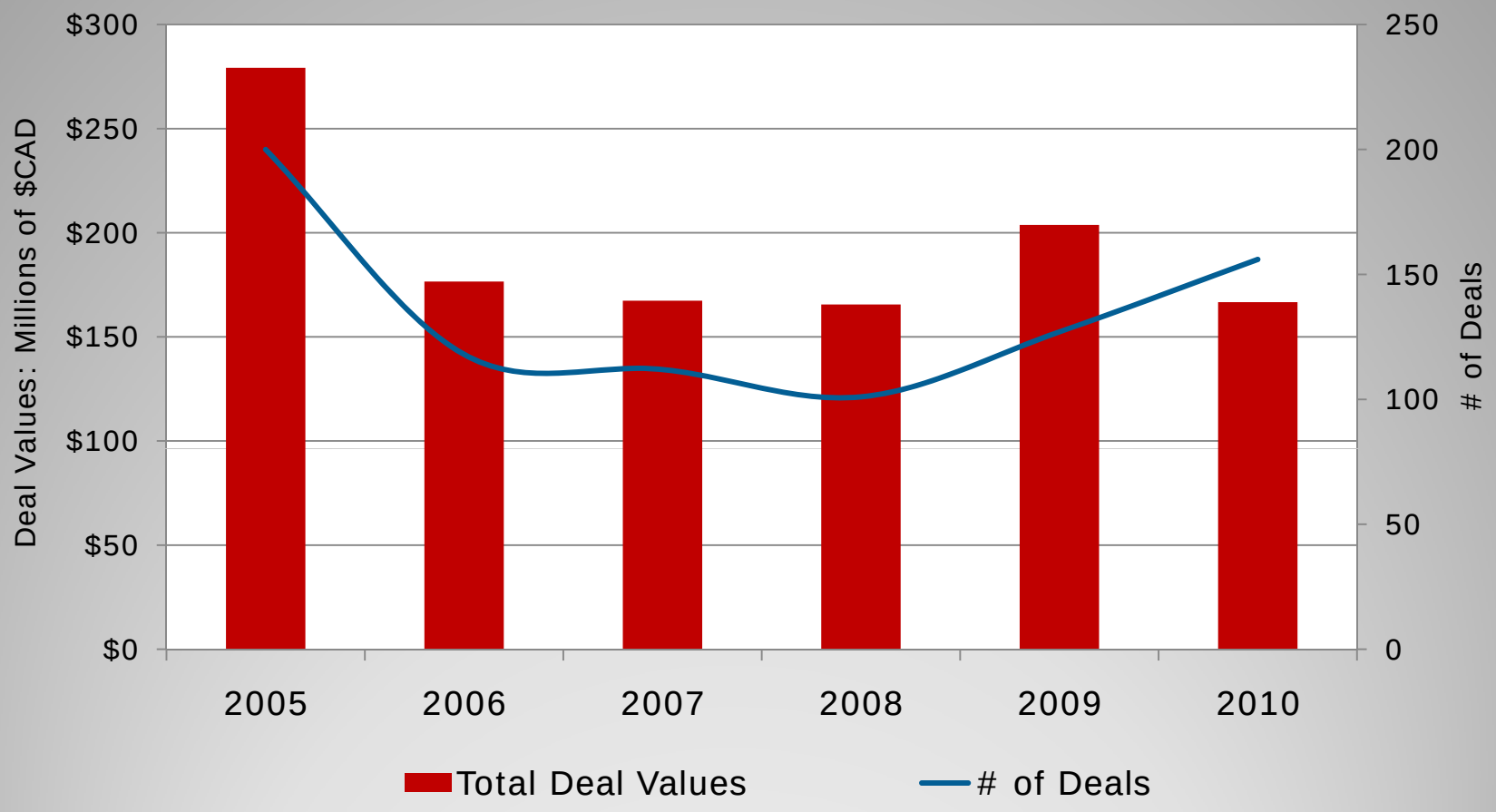
DOLLARS INVESTED AND NUMBER OF FINANCINGS



2010 Investment In Cleantech Sector Increases 58% Over 2009

CLEAN TECHNOLOGIES SECTOR

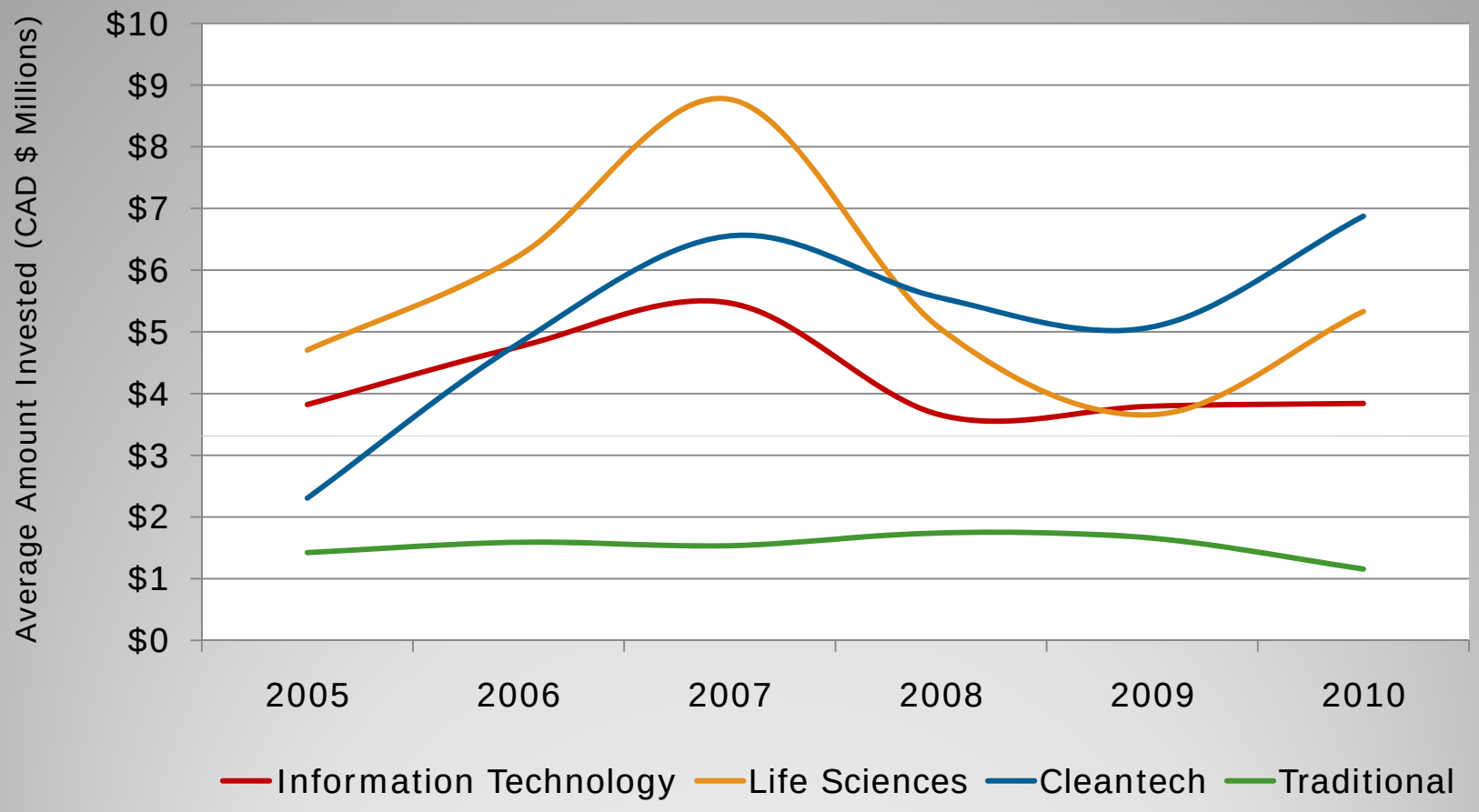
DOLLARS INVESTED AND NUMBER OF FINANCINGS



More Traditional Sector Companies Financed Than Any Other Sector

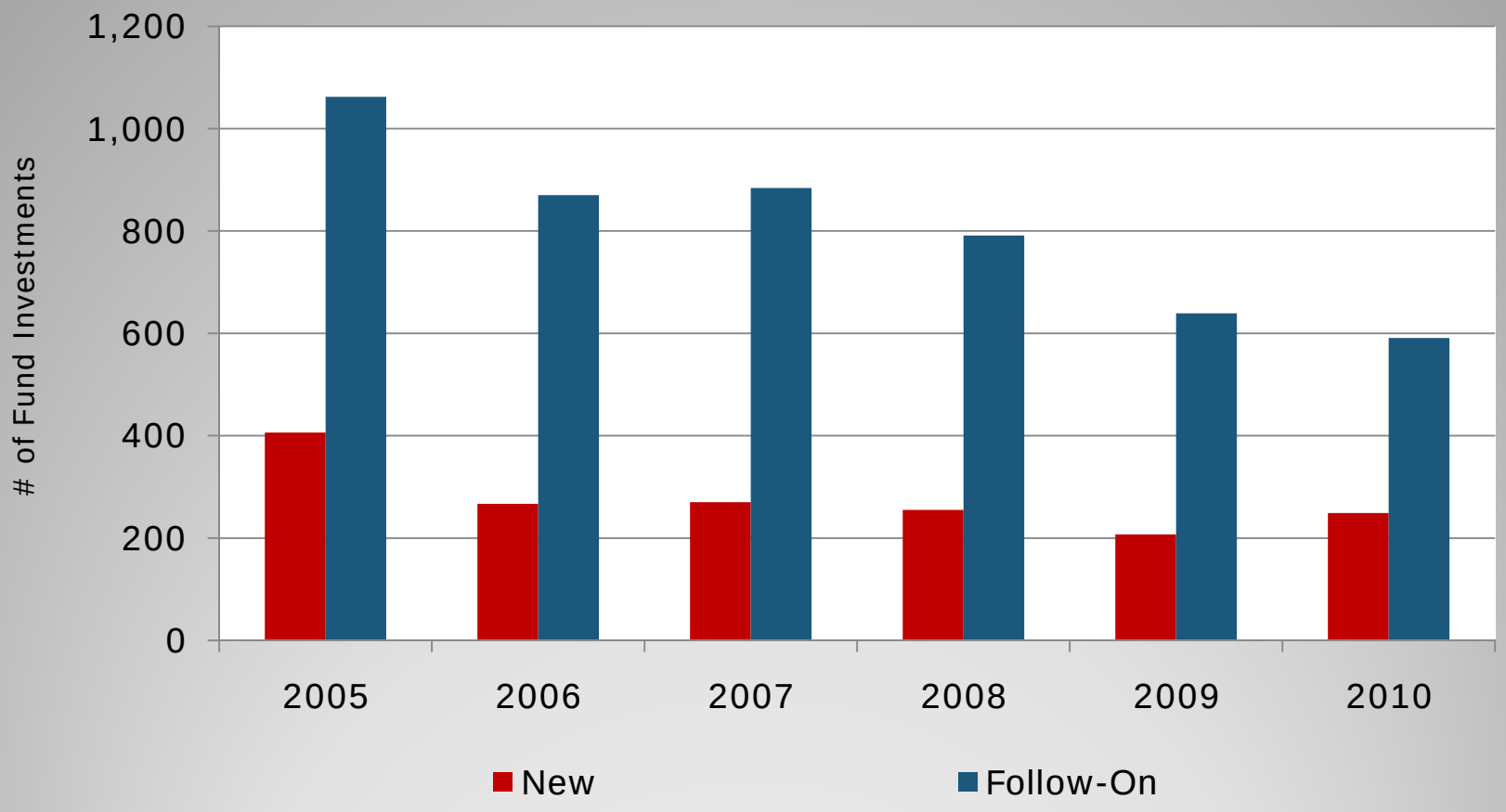
TRADITIONAL SECTOR

DOLLARS INVESTED AND NUMBER OF FINANCINGS



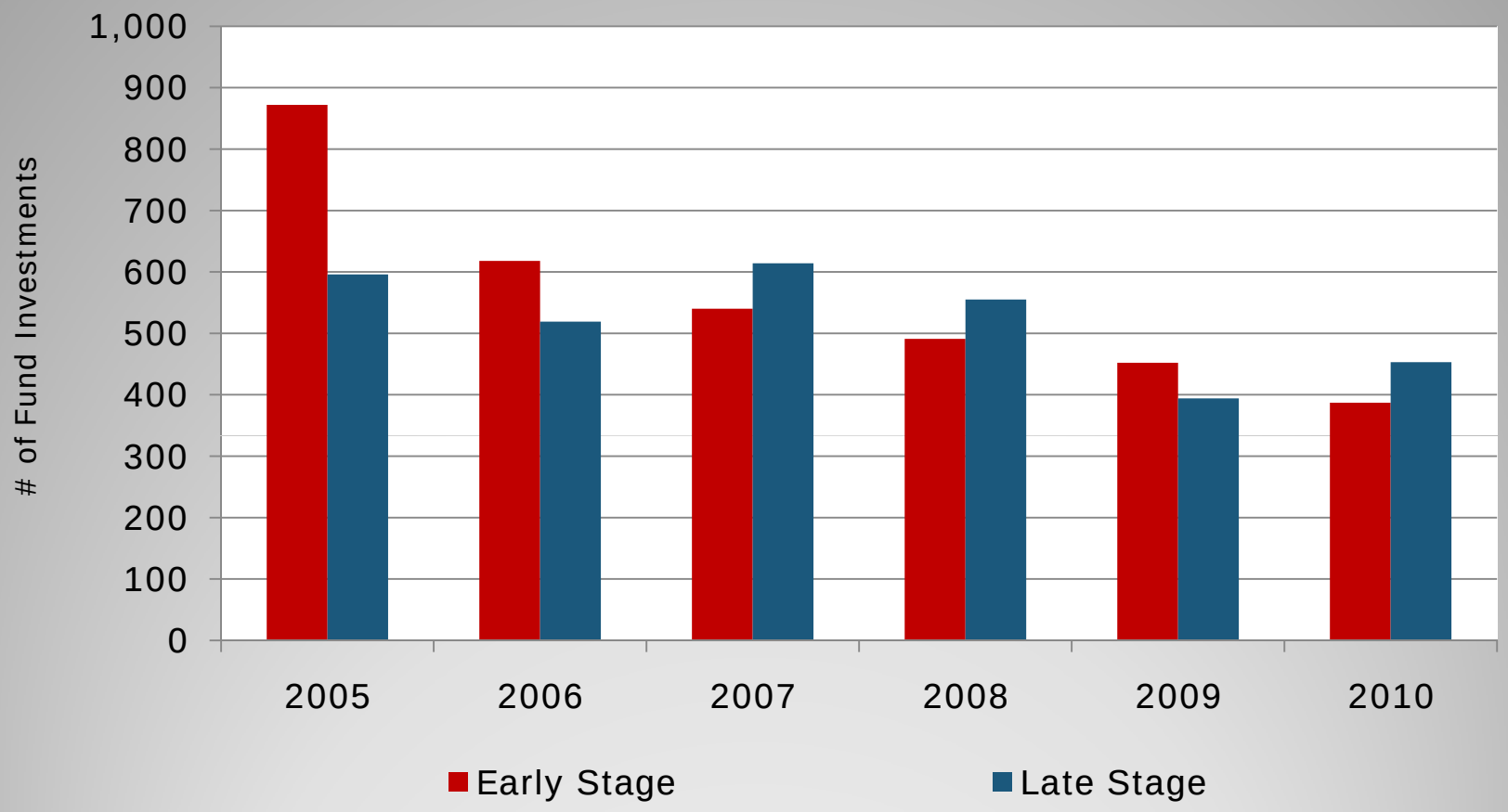
Life Sciences, Cleantech Deal Sizes Growing

AVERAGE AMOUNT INVESTED PER COMPANY, BY SECTOR



Number of Follow-On Investments Reaches 5-Year Low

OF FUND INVESTMENTS, NEW VS. FOLLOW-ON



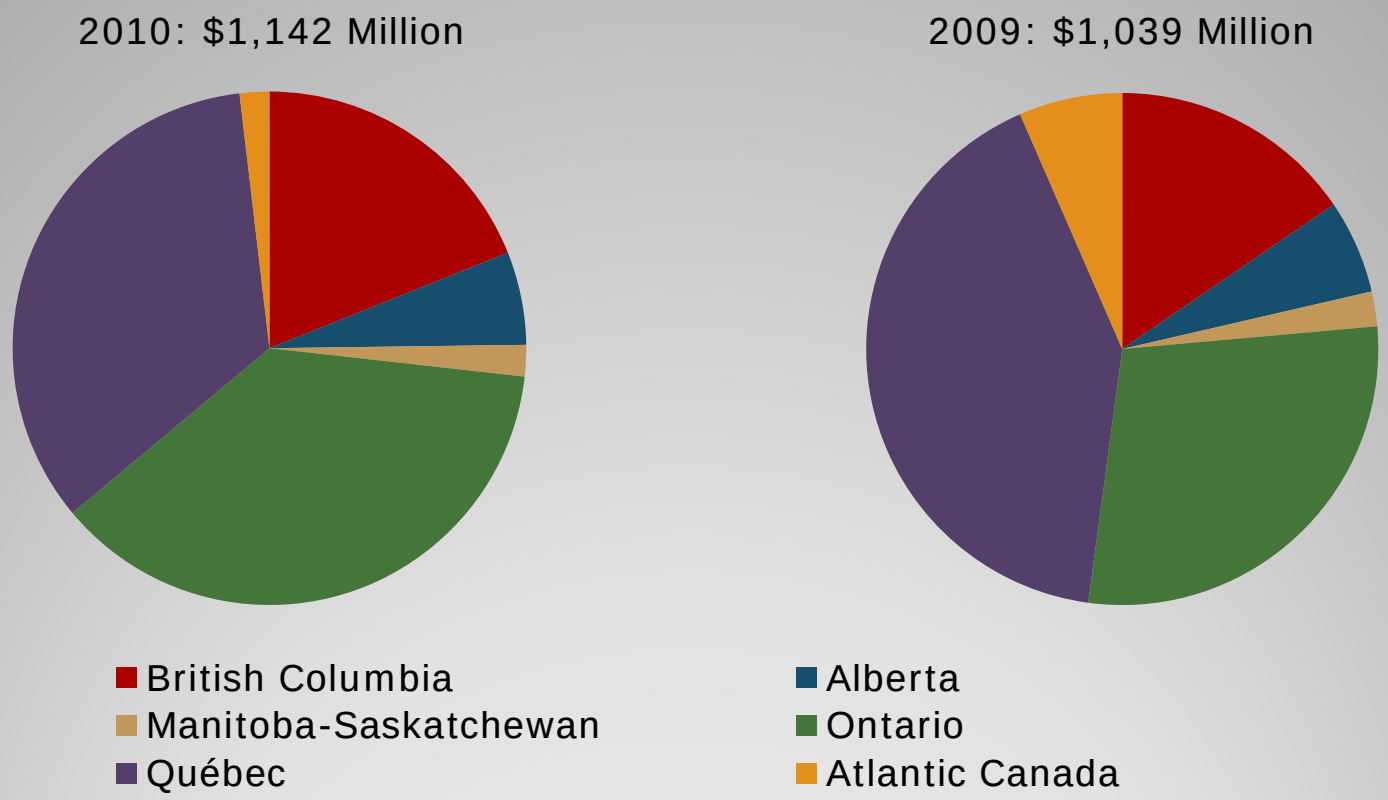
Late Stage Investments Outpace Early-Stage in 2010

OF FUND INVESTMENTS, EARLY VS. LATE STAGES

Company	Prov.	Value	Disclosed Investors
Enerkem Technologies, Inc.	QC	$53.8	Rho Ventures, Braemar Energy Ventures, BDR Capital, Cycle Capital Management
CellFor, Inc.	BC	$36.4	Capricorn Investment Group, CSFB Equity Partners, GrowthWorks Capital
Protox Therapeutics, Inc.	BC	$35.0	Warburg Pincus
Adenyo	ON	$27.7	Genuity Capital Markets
Aquinox Pharmaceuticals, Inc.	BC	$25.7	Ventures West, Pfizer Venture Investments, Johnson & Johnson Development Corporation, Baker Brothers Investments, BC Advantage Funds
INVIDI Technology Corporation	AB	$23.6	EnerTech Capital, InterWest Partners, Google, Motorola Ventures, Menlo Ventures, Westbury Partners
Sprott Power Corporation	ON	$23.0	VentureLink
NexJ Systems, Inc.	ON	$22.5	None Disclosed

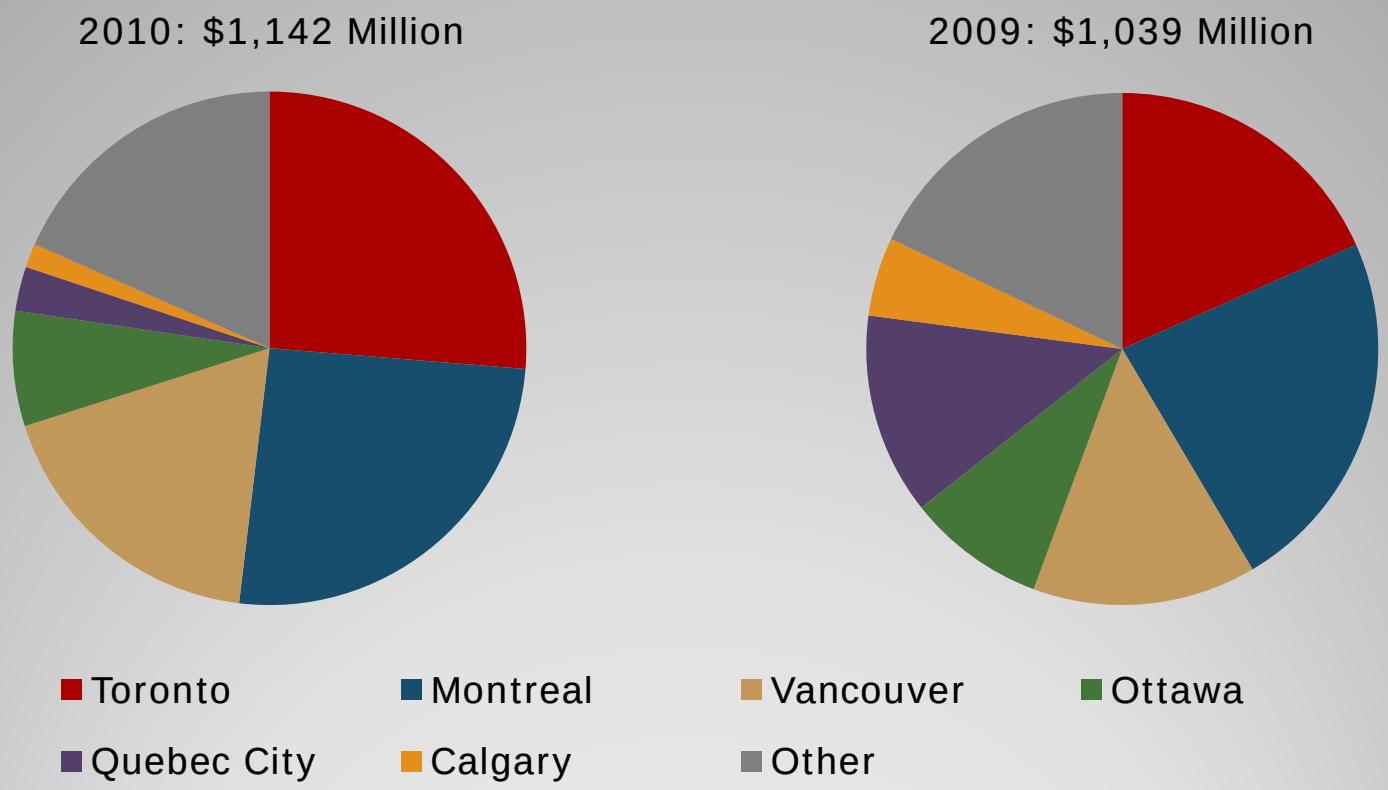
Top Canadian VC Deals (Disclosed) in 2010

DEAL VALUES IN MILLIONS OF CANADIAN DOLLARS



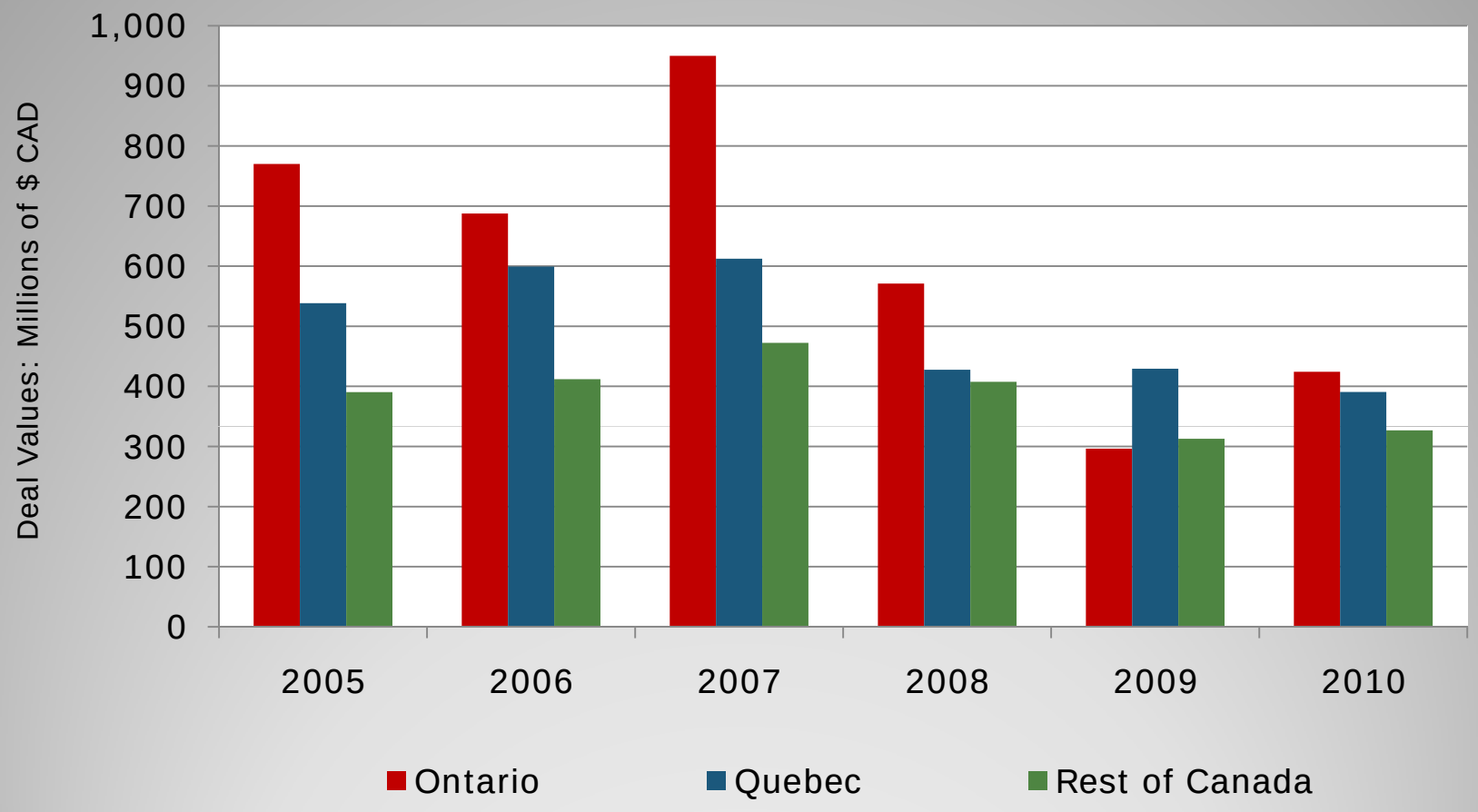
Québec, Ontario Continue to Attract Bulk Of VC Dollars

VC DOLLARS INVESTED BY REGION, 2009 & 2010



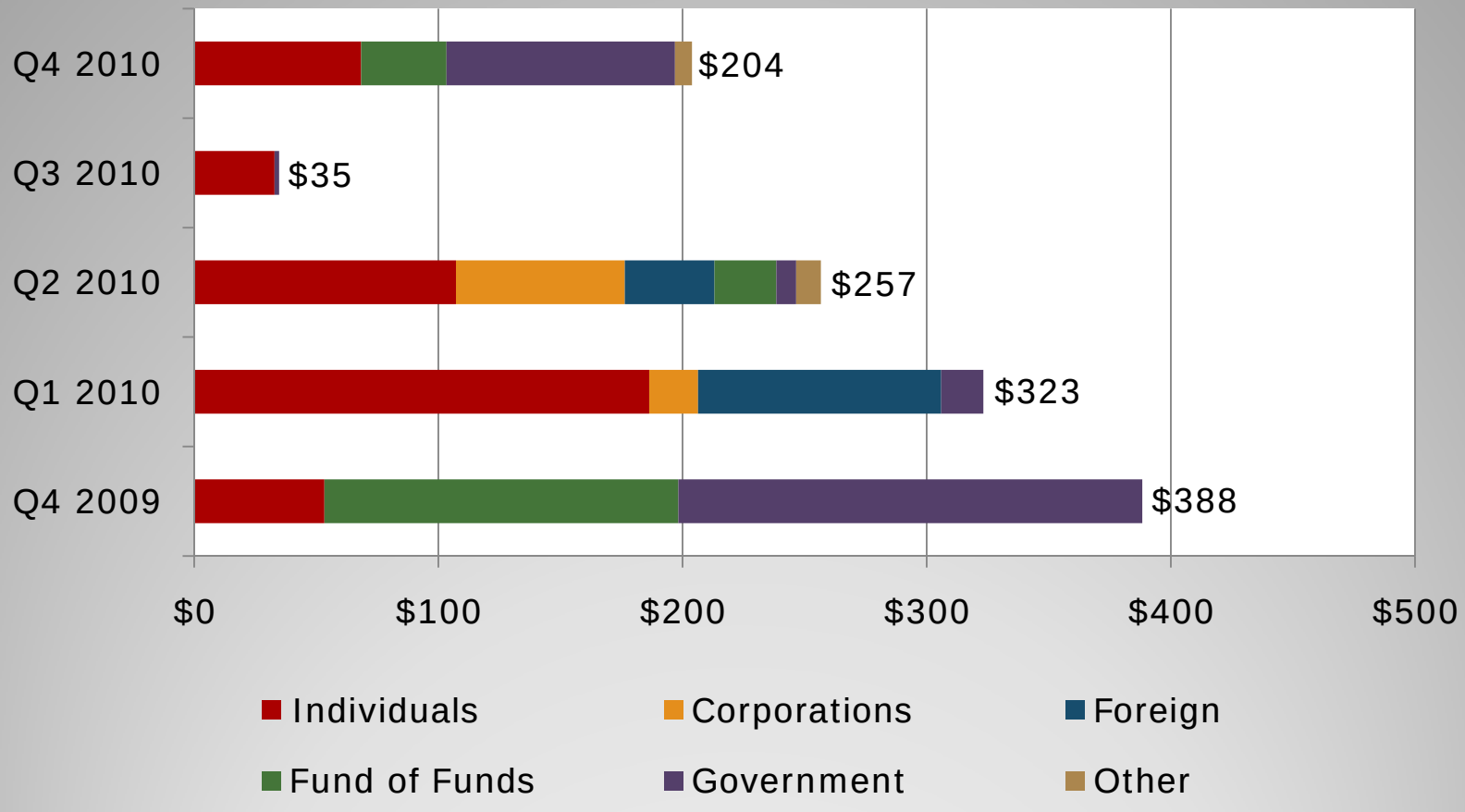
Toronto & Vancouver See Biggest Gains Year-Over-Year

VC DOLLARS INVESTED BY MAJOR URBAN CENTRE, 2009 & 2010



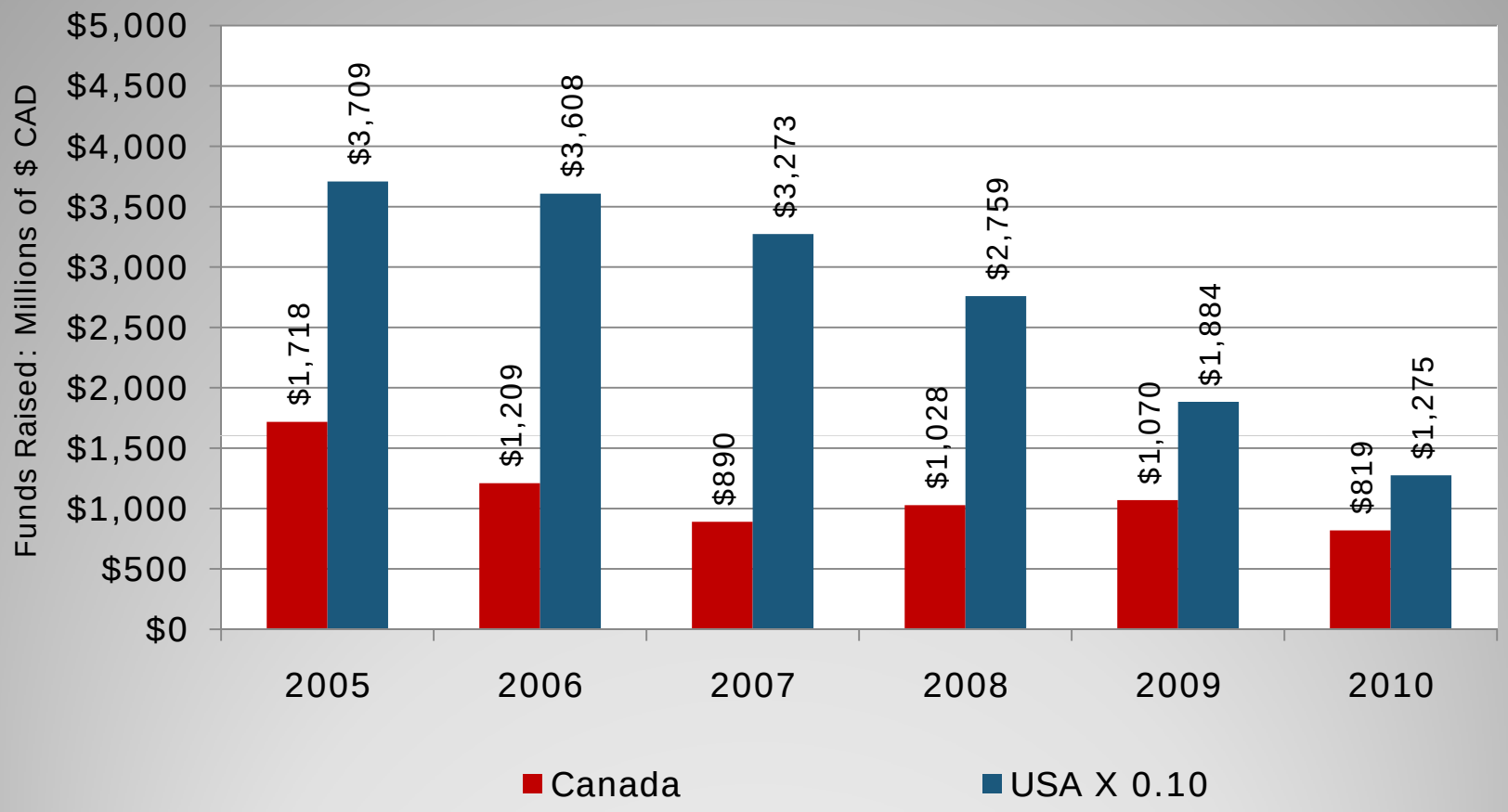
Investment In Ontario Edges Out Québec in 2010

DOLLARS INVESTED IN ONTARIO, QUÉBEC



2010 Fundraising Led by Individuals, Governments, Foreign Groups

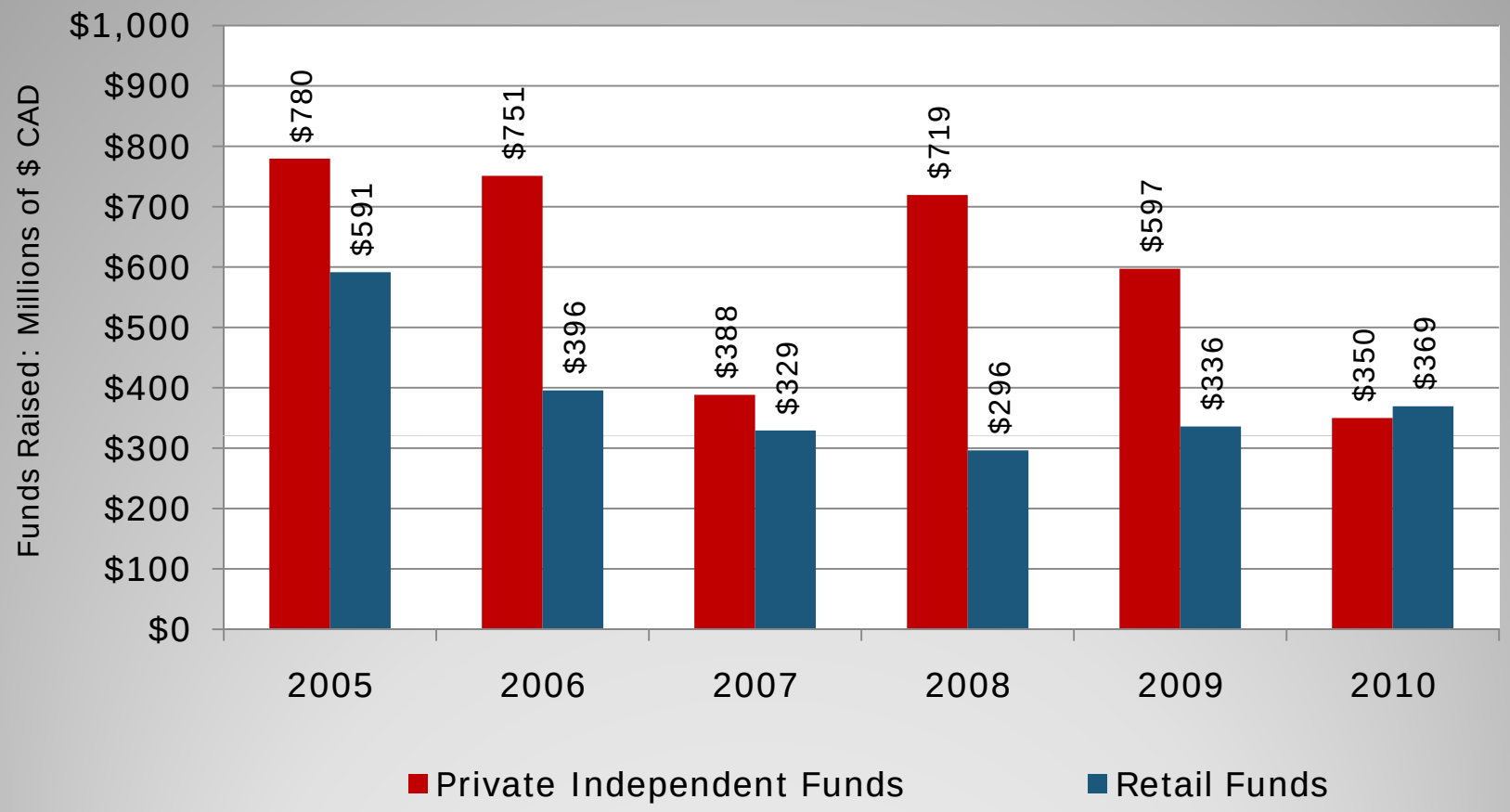
FUNDRAISING BY QUARTER, BY SOURCE



U.S. Fundraising Still Outpaces Canadian Fundraising, Despite Decline

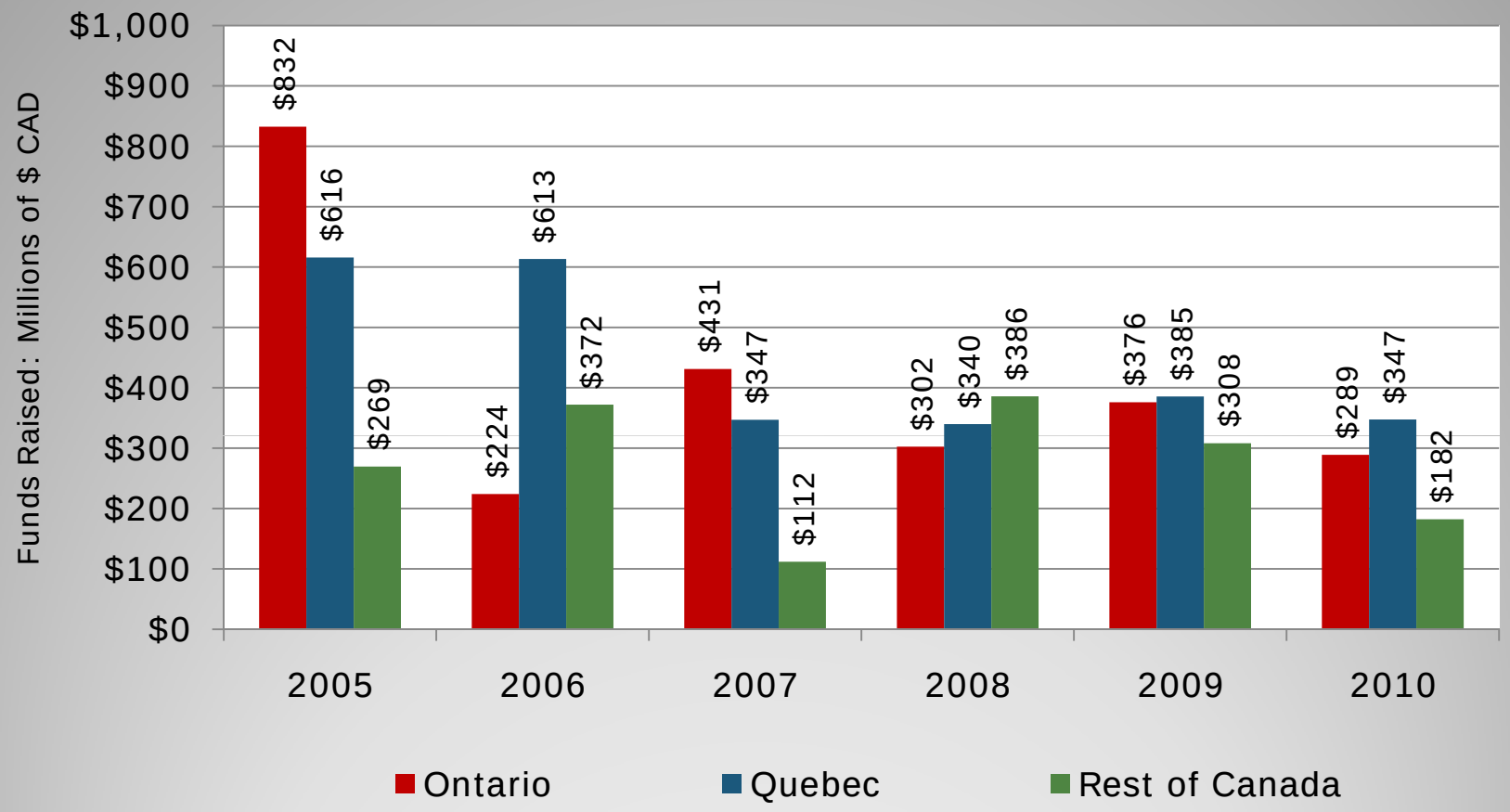
NEW CAPITAL COMMITMENTS BY NATION

CANADIAN FUNDRAISING HITS NEW 16-YEAR LOW



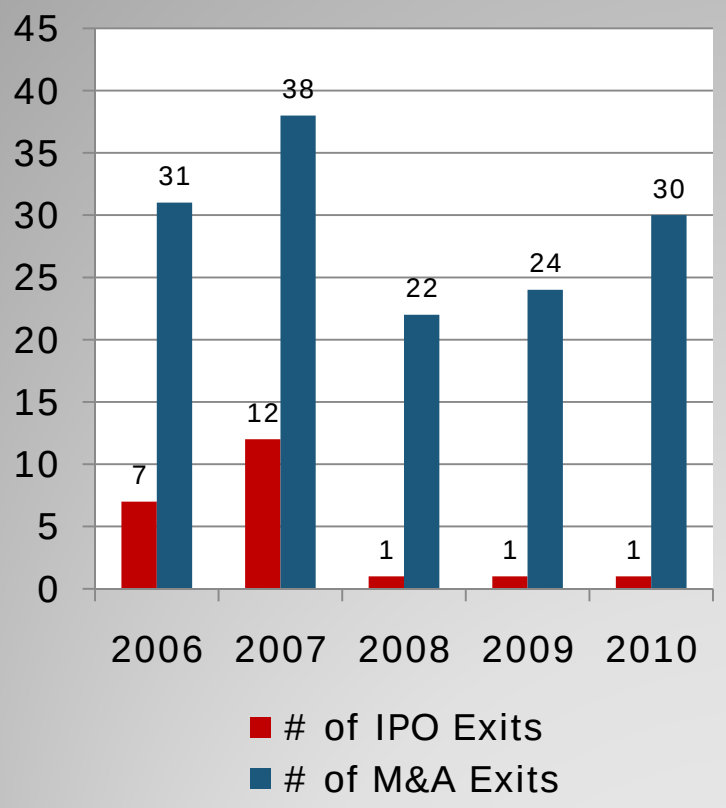
Retail Funds Outpace Private Funds For First Time in 5 Years

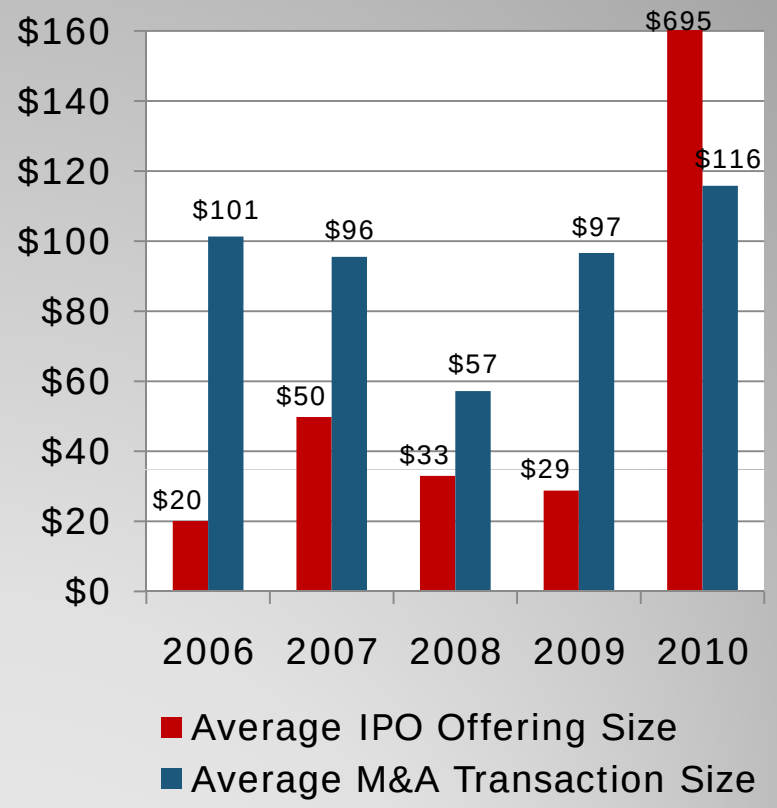
NEW CAPITAL COMMITMENTS BY FUND TYPE



Québec Leads Canadian Fundraising In 2010

NEW CAPITAL COMMITMENTS BY PROVINCE





Strategic Sales Increasing in Quantity and Value

EXITS OF CANADIAN VC-BACKED PORTFOLIO COMPANIES

THOMSON REUTERS