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FOR IMMEDIATE RELEASE

VENTURE CAPITAL INVESTMENT in 2009 LOWEST RECORDED in 13 YEARS

TORONTO: Deal activity in the Canadian venture capital (VC) market continued to slow in 2009, to reach its lowest level 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, according to the industry's statistical report released today by Canada's Venture Capital & Private Equity Association (CVCA) and research partner Thomson Reuters.

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. 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.

From a regional perspective, 2009 saw a significant shift of the regional ordering in favor 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.

"The nation-wide statistics demonstrate the lack of capital in the venture capital industry," said Gregory Smith, President of the CVCA. "The availability of VC dollars has been eroding for years. We are failing to capitalize on the potential of our entrepreneurs and small growth companies, which have traditionally been vital drivers of jobs and prosperity for Canadians. "

Domestic VC trends

The 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.

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.

Future Steps

The CVCA has called for the development of a comprehensive innovation strategy for Canada to address the growing technology deficit. In this regard, the government should consider establishing a blue chip, limited-life panel comprised of company executives, university presidents, entrepreneurs and venture capitalists with the express mandate to devise a road map for Canada's technology industries.

The CVCA has proposed a commercialization support program to help address these venture industry trends and to increase the availability of venture capital for high-growth small businesses.

The CVCA's comprehensive program calls for the government of Canada and provincial governments to:

- establish and grow fund of funds structures
- make improvements to the SR&ED tax credit program
- improve the incentives for corporations to invest in venture capital funds
- actively promote investment in Canadian venture capital funds as part of the offset agreements that are negotiated with major government contractors
- improve measures be taken to improve the attractiveness of venture capital to retail investors.

"As a country we are dropping the innovation ball. Our considerable investments in R & D are not being matched by effective commercialization. Entrepreneurs spend a disproportionate time and effort on securing financing to finance their companies' growth. Foreign investors run into needless obstacles at the Canadian border." said Mr. Smith. "And, venture capital funds have suffered from a lack of portfolio exit opportunities. With the partial exception of encouraging developments in Quebec, we are falling behind in the race to create the sustainable jobs we need in the high value added, high export and high growth industries which are increasingly the focus of the US, India, China and Israel. The time to act is now."

[CVCA](#)

The CVCA - Canada's Venture Capital & Private Equity Association (www.cvca.ca), was founded in 1974 and is the association that represents Canada's venture capital and private equity industry. Its over 1800 members are firms and organizations which manage the majority of Canada's pools of capital designated to be committed to venture capital and private equity investments. The CVCA fosters professional development, networking,

communication, research and education within the venture capital and private equity sector and represents the industry in public policy matters.

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