Industry Canada Industrie Canada

Q2 2010 VENTURE CAPITAL MONITOR

www.sme-fdi.gc.ca/vcmonitor

A QUARTERLY UPDATE ON THE CANADIAN VENTURE CAPITAL INDUSTRY

Canadian high growth innovative small and medium-sized enterprises (SMEs) that commercialize research depend to a large extent on the venture capital (VC) industry for funding. Therefore, a strong VC industry is important for the growth of this segment of SMEs. The goal of this series is to provide current information about the VC industry in Canada. To this end, the series will track trends in investment activity, report on topical VC-related research and look at key technology clusters where VC investment is taking place.

INTRODUCTION

This issue covers venture capital (VC) investment and fundraising activity in Canada during the second quarter of 2010 — during the period from April to June.

VC ACTIVITY OVERVIEW

Summary of investment and fundraising

A total of $334M (107 deals) was invested in VC in Q2 2010, an increase of 57 percent over the $213 M (108 deals) during Q2 2009. VC fundraising in Q2 2010 reached $255M, down 7 percent from the $274 million raised in Q2 2009 (Table 1).

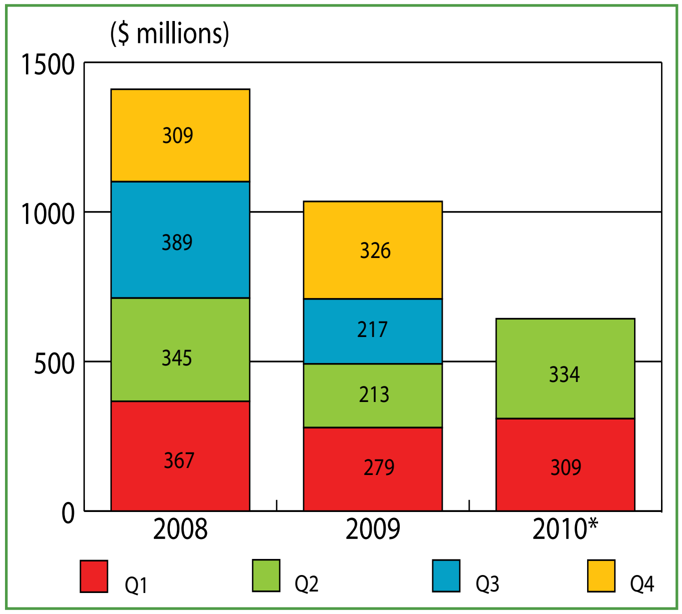
Table 1: VC investment and fundraising, Q2 2009 and Q2 2010

	Q2 2009 ($ millions)	Q2 2010 ($ millions)	% Change
Investment	213	334	57
Fundraising	274	255	-7

Source: Thomson Reuters Canada 2010.

VC investment during the quarter was at the highest level of VC activity since Q3 2008 — just before the most recent economic downturn (Figure 1). However, it was significantly lower than the quarterly average of $440M recorded over the previous five years before the downturn.

Figure 1: VC investment by quarter, Q1 2008 to Q2 2010



* First half of 2010

Source: Thomson Reuters Canada 2010.

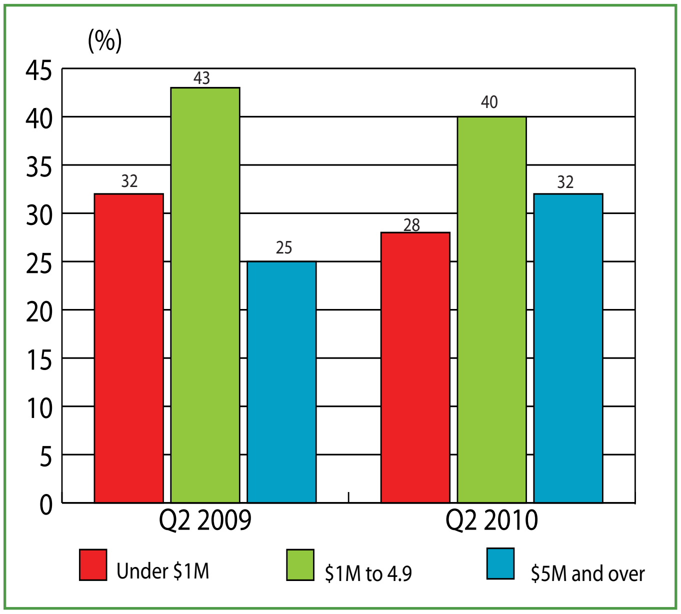
Deal size

Increase in deal size

The size of the average VC deal in Canada was $3.1M in Q2 2010, up from $2.0M in Q2 2009. There were roughly the same number of VC deals during each of those two quarters, so the increase overall VC activity shown in Table 1 was caused by the increased average size of those deals. This is reflected in the greater share of deals worth over $5M (Figure 2).

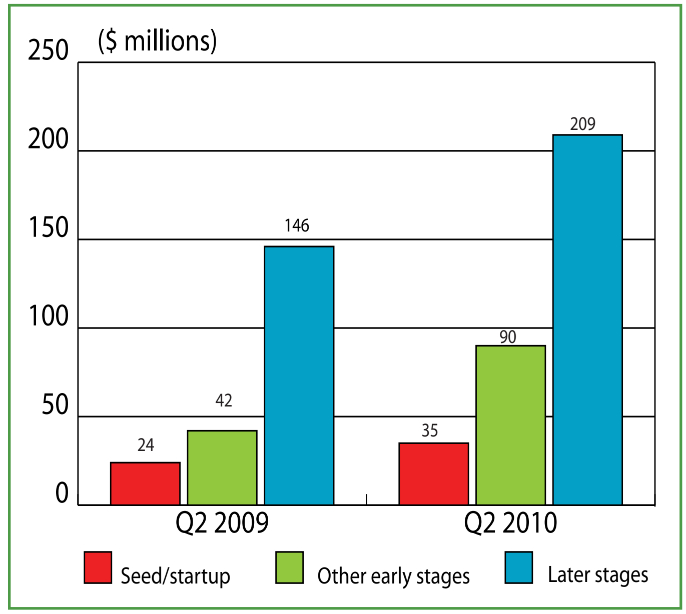
Canada

Figure 2: Distribution of VC investment by deal size, Q2 2009 and Q2 2010



Source: Thomson Reuters Canada 2010.

Figure 3: VC investment by stage of development, Q2 2009 and Q2 2010



Source: Thomson Reuters Canada 2010.

Stage of development

Increase across all stages

The increase in VC investment from Q2 2009 to Q2 2010 was spread across all stages (Figure 3). For instance, investment in companies at the seed and start-up stages of development increased to $35M (13 deals) in Q2 2010 from $24M (22 deals) during the same period last year. Investment in later-stage companies reached $209M (67 deals), up from $146M (54 deals) in Q2 2009.

New versus follow-on investments

New investments drop in the early stages but increase in the later stages

In total, across all stages, there were 40 first-time VC deals in Q2 2010, which has been about the average over the previous four quarters. First-time deals at the seed and start-up stages of development, however, dropped to only 4 in Q2 2010 from an average of 12 over the previous four quarters. The drop during this quarter can be partly explained by a decline in first-time, early-stage investments in Ontario, which recorded only one new deal at the seed or start-up stage. In contrast, at the later stages of development, there were an unusually high number of first-time investments during the quarter (Table 2).

Table 2: The number of companies that received new and follow-on investment, Q2 2009 to Q2 2010

Investment		Q2	Q3	Q4	Q1	Q2
		2009			2010	
New	Seed/ start-up	14	10	15	10	4
	Other early stages	5	6	4	6	6
	Later stage	18	29	23	23	30
	All stages	**37**	**45**	**42**	**39**	**40**
Follow-on	Seed/ start-up	8	9	19	10	9
	Other early stages	27	19	27	21	21
	Later stage	36	34	42	37	37
	All stages	**71**	**62**	**88**	**68**	**67**

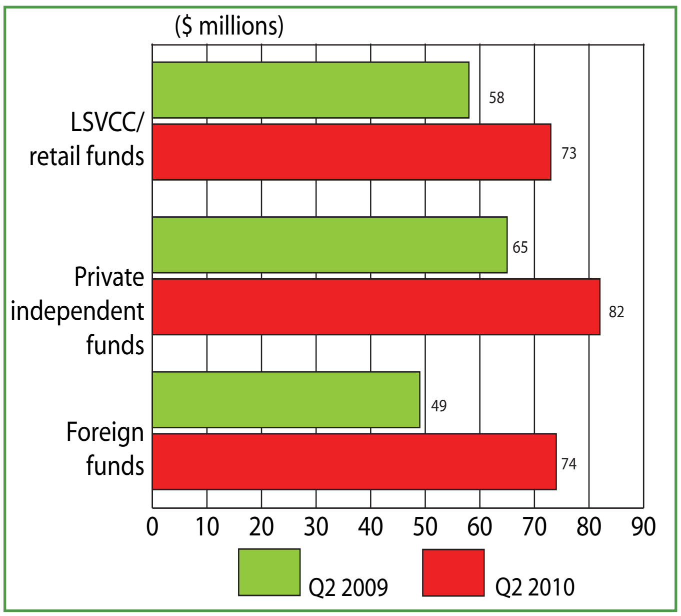
Source: Thomson Reuters Canada 2010.

Type of investor

Increase across all types of investors

The three main types of Canadian VC investors increased their activity in Q2 2010 relative to the same quarter last year (Figure 4). However, although the amount invested by foreign funds in Q2 2010 was much higher than the amount invested last year, it was down nearly 50 percent from the quarterly average over the previous four years (2005 to 2008).

Figure 4: Distribution of VC investment by type of investor, Q2 2009 and Q2 2010



Source: Thomson Reuters Canada 2010.

Fundraising

Quarterly fundraising down modestly year-over-year

A total of $255M was raised by VC funds in Q2 2010, down only slightly from the $274M raised during the same period the previous year. Private independent funds raised $152M and LSVCC/retail funds raised $97M during the quarter. The value of VC funds raised for the year ended June 30, 2010, totalled about $1.2B, roughly the same as the annual average from 2005 to 2008.

Regional distribution

Increase in VC investment in British Columbia, Ontario and Quebec

In Q2 2010, the value of VC invested in each of Canada's three most populous provinces increased compared to the same period in 2009. The largest increase was in British Columbia, which accounted for $99M in VC during the quarter due in part to three deals each worth between $13M and $17M. Ontario and Quebec each counted $100M worth of VC investment during Q2 2010, which is slightly above the average amounts of the previous four quarters of $90M and $95M, respectively (Table 3 and Figure 5).

Table 3: Number of companies receiving VC by province, Q2 2009 and Q2 2010

	Q2 2009	Q2 2010	% Change
British Columbia	14	17	21
Alberta	6	5	-17
Saskatchewan	1	1	0
Manitoba	4	1	-75
Ontario	30	24	-20
Quebec	47	56	19
New Brunswick	4	1	-75
Nova Scotia	2	2	0
Prince Edward Island	0	0	0
Newfoundland	0	0	0
Territories	0	0	0

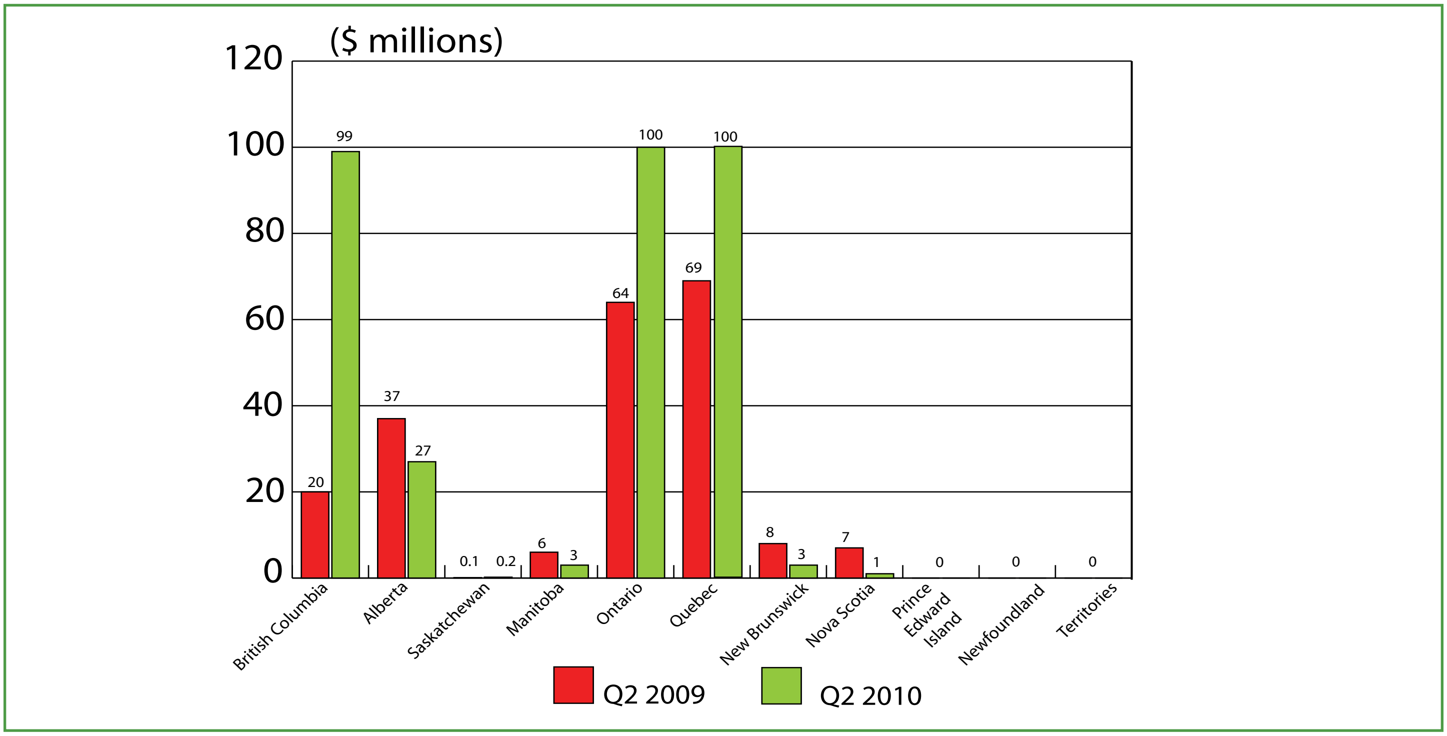
Source: Thomson Reuters Canada 2010.

Sector distribution

Increase in all technology sectors

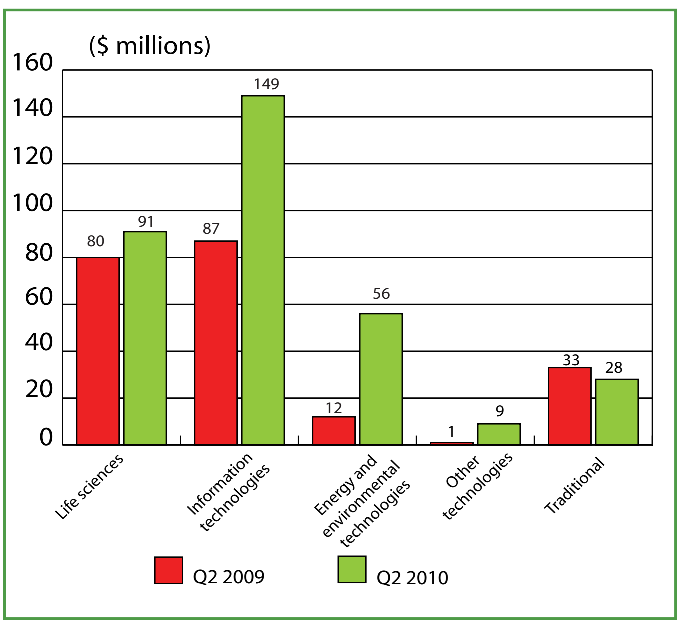
In Q2 2010, compared to the same period last year, there was an increase in VC investment in all of the three major sectors: information technology; life sciences; and energy and environmental technologies. The information technologies sector accounted for 45 percent of VC investment during the quarter (Figure 6).

Figure 5: Regional distribution of VC investment in Canada, Q2 2009 and Q2 2010



Source: Thomson Reuters Canada 2010.

Figure 6: VC Investment by industry sector, Q2 2010 and Q2 2010



Source: Thomson Reuters Canada 2010.

GOVERNMENT ACTIVITIES

During Q2 2010, the Business Development Bank of Canada (BDC) made VC commitments totalling $16M in 15 companies. These financings were worth a total of $93M including contributions by co-investors (Table 4). This activity was in addition to any investment in private independent funds made by the BDC during the quarter.

Table 4: VC activities of the Business Development Bank of Canada, Q2 2010

	BDC	Co-investors	Total	Number of deals
	($ millions)			
Seed/ start-up	2.1	6.6	8.7	2
Development	6.9	58.5	65.4	9
Later stage	7.2	11.3	18.5	4
Total	**16.2**	**76.4**	**92.5**	**15**

Source: Business Development Bank of Canada 2010.

NOTES

This publication is part of a series prepared by the Small Business and Tourism Branch. The branch analyses the financial marketplace and how trends in this market impact small businesses' access to financing. Current research is focused on high-growth firms, the aspects of both Canada's VC and general business environment that affect the success of these firms, and the key players in the risk-capital market (for example, VC firms and angels).

The Small Business and Tourism Branch is also responsible for the Small and Medium-Sized Enterprise Financing Data Initiative (SME FDI). The SME FDI is a comprehensive data-collection program on SME financing in Canada. In partnership with Statistics Canada and Finance Canada, Industry Canada reports on the supply of and demand for financing by small and medium-sized businesses. Further information and statistical findings and reports are available at www.sme-fdi.gc.ca.

To be added to the distribution list for this quarterly publication or for questions related to its content, please contact Shane Dolan at 613-954-5484 or Shane.Dolan@ic.gc.ca.

COPYRIGHT

This publication is available upon request in accessible formats. Contact:

Multimedia Services Section
Communications and Marketing Branch
Industry Canada
Room 441E, East Tower
235 Queen Street
Ottawa ON K1A 0H5

Tel.: 613-995-8552
Fax: 613-9546436
Email: multimedia.production@ic.gc.ca

This publication is also available electronically on the World Wide Web in HTML format at the following address: www.sme-fdi.gc.ca/vcmonitor.

Cat. No. Iu186-2/2010-2E-PDF
ISSN 1911-9267
60811

Aussi offert en français sous le titre *Le Moniteur du capital de risque — Deuxième trimestre de 2010.*