



CANADIAN VENTURE CAPITAL ASSOCIATION (CVCA)  
ASSOCIATION CANADIENNE DU CAPITAL DE RISQUE (ACCR)



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**FOR IMMEDIATE RELEASE**

## **US venture capital investment in Canada hits new high**

TORONTO – During the first quarter of 2002, US venture capital investment in Canada rose to record levels, pushing the US driven portion of Canada's total venture capital investment to 47%. The latest industry statistics, released today by Macdonald & Associates and the Canadian Venture Capital Association (CVCA) showed a surprising trend of US money flooding out of the domestic market and heading North. In the first three months of 2002, US venture investors increased the amount they invested in Canadian companies by 9% while their level of investment at home dropped by 51%.

“This is an unprecedented level of participation in terms of overall market share,” says Mary Macdonald, President of Macdonald & Associates, the venture industry experts. “Four years ago, US VC investment accounted for less than 3% of the total market share.”

In the first three months of the year, the Canadian industry disbursed \$785 million to 187 Canadian companies, down from \$907 million disbursed in Q1 2001. While the total investment in the first quarter dropped by 14%, the Canadian industry made a strong showing compared to the US where investment levels dropped by 51% to \$6.2 billion during the same time period. The significant growth in participation by foreign venture capitalists (mostly US) helped bolster the stability of the Canadian market.

All this foreign investment is proving to be good for the Canadian venture industry. “This activity is not displacing Canadian players in the market,” says John Eckert, President of the CVCA and Managing Partner of McLean Watson Capital, a technology venture firm. “In fact, only 3 of the deals involving US investors were not done in partnership with Canadian VC's so it is giving us more leverage than we would have had otherwise.”

While the number of deals has dropped, the average amount going into each company is growing. In Q1 2002, each company raised an average of \$4.2 million, up from \$3.5 million in the same period last year.

Given the economic climate, it is not surprising to note that a growing share of the venture capital is being invested in follow-on rounds for existing companies. Almost 86% of the capital invested in Canadian companies in Q1 went to existing portfolio companies, up from 70% in the same period last year. Only when investors are reasonably confident that the economy has turned are they likely to start actively seeking out new early stage deals again.

The increased focus on follow-on deals contributed to a shift in favour of expanding companies. In Q1 2002, 59% share of disbursements (\$467 million) went to support the expansion of 63 firms, up from a 27% share in 2001. During the same time period, early stage companies attracted 30% of disbursements (\$234 million) down from a 63% share of disbursements in 2001.

Canada's vital communications and networking sector continued to lead the industry activity in the first quarter, attracting \$278 million from Canadian and foreign investors, focused on fibre optics/photonics and telecommunications equipment.

From a regional perspective, Ontario continued to attract the largest share (49%) of industry disbursements nationally (although this is down from a 63% share in Q1 of last year) followed by Quebec (30%) and BC (13%). Ottawa was the hottest region in the province, attracting 92% of the province's investment total from January to March 2002. Of the \$384 million flowing to Ontario-based firms, \$352 million was invested in the Ottawa region.

Investments in Quebec firms rose in the first three months of 2002 to \$237 million, showing an 11% increase over the same period last year. This growth gave Quebec-based firms a 30% share of all capital flows in the first quarter, compared to 25% in all of 2001. Of all the companies financed across the country, half of them were based in Quebec. Investment levels in BC jumped more than 40% in the first quarter with BC companies attracting \$101 million in Q1 2002 compared with \$59 million in the same period in 2001.

On the fundraising side, the venture industry secured \$1.5 billion of new capital commitments in the first quarter of this year. A solid fundraising season by the labour-sponsored funds brought a total of \$1.2 billion into these funds across the country. A handful of new funds were also established in the first quarter, including RBC Capital partners Life Sciences LP II, Western Life Sciences Technology Fund, the Prairie Venture Fund and the new Farm Credit Corp. captive fund.

Canadian Venture Capital Association (CVCA)

The CVCA represents the venture capital industry in Canada and promotes the development and advancement of Canadian businesses through the use of venture capital. The CVCA fosters professional development, networking, communication, research and education within and outside the venture capital industry and represents the industry in tax and regulatory matters.

Macdonald & Associates Limited

Macdonald & Associates Limited is an information company tracking the fundraising and investment activities of more than 200 venture capital and private equity investors across the country. Its proprietary database is now available online through VCReporter™. Twice a year Macdonald & Associates co-hosts the Canadian IT Financing Forum, which brings together many of Canada's leading fast growing IT companies with most of the country's IT focused venture investors.

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