



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



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**FOR IMMEDIATE RELEASE**

### **Canadian Venture Capital Activity Slows Down**

The Canadian venture capital industry experienced its first major contraction in the second quarter since the market slowdown began almost eighteen months ago according to the latest industry statistics released today by Macdonald & Associates and the Canadian Venture Capital Association (CVCA). The industry invested \$416 million in Canadian companies between April and June of this year, down a very substantial 45% from the \$756 million invested in the first quarter and by 69% from the \$1.3 billion disbursed during Q2 2001.

Public market turmoil, particularly the significant erosion in telecommunications stock values in recent months, no doubt contributed to this sharp decline. But it is also explained in part by a reduction in the number of large deals being done. In Q1, 4 deals were done involving more than \$50 million, which together absorbed \$329 million or 44% of the total amount invested. There were no financings of this size done in Q2. As a result, the decline in the number of companies financed (from 236 to 188) was a more modest 20%.

Until this most recent quarter, the Canadian industry had avoided the precipitous decline being experienced in the US, where disbursements have been falling sharply since late 2000. The US venture industry invested a total of US\$5.7 billion in Q2 in 819 companies. A key factor in reduced Canadian activity was a steep decline in the participation of foreign investors – primarily US venture funds – which have played a key role in bolstering the industry here over the past 18 months. Foreign funds invested \$79 million in the second quarter, down from \$337 million in Q1 and from \$316 million in Q2 last year. This decline in turn is a reflection of the sharp fall-off in activity in communications and related IT sectors, particularly in the Ottawa area, where most of the American venture funds have been focused.

“The Canadian market could not remain unscathed indefinitely” says Mary Macdonald, President of Macdonald & Associates, the venture industry experts, “particularly given our strong focus on communications and networking and the drumming this sector has been taking in the public markets”.

While all other technology sectors experienced reduced disbursements, biotechnology and other life science firms fared best on the whole. A total of 40 life science companies secured \$125 million in the second quarter, accounting for 30% of capital invested and replacing communications as the leading sector.

The net result is investors are for the most part sitting, and preserving their cash. It is interesting to note however, that close to 30% of the companies raising venture capital in Q2 were doing so for the first time and these companies accounted for 35% of all capital invested. Only 13% of the capital invested in Q1 went to first time financings. This suggests recognition within the industry of the long term nature of the investment cycle and that the current market conditions in fact are attractive for making new investments.

This perspective is reinforced by the fact that industry fund-raising remained brisk through the second quarter. A total of \$613 million in new capital commitments was added to the national pool during the quarter, bringing the total inflows for the first half to an impressive \$2.1 billion. Private-independent funds raised \$352 million in Q2, with the result that private-independents have now raised \$567 million so far this year, 17% more than the \$483 million they raised in total in 2001.

Two fund-of-funds, or professionally managed vehicles that pool institutional and other assets for subsequent commitment have also been announced so far this year – the TD Capital Private Equity Investors (\$US270 million) and Edgestone Capital Venture Fund of Funds (\$200 million). These significant new commitments of capital suggest an on-going confidence and commitment to the venture industry in Canada.

John Eckert, President of the CVCA and Managing Partner of McLean Watson Capital, remarks, “It was great to see commitments to the sector by institutional investors were very strong. Smart money clearly recognizes this period as incredibly attractive for making new investments. Although this money has not yet been received by companies, it will have a very positive impact over the next several quarters”.

#### 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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