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FOR IMMEDIATE RELEASE

VENTURE CAPITAL INVESTMENT CONTINUED TO FALL IN Q1 2009

TORONTO: Activity in Canada's venture capital market continued to fall in the first quarter of 2009, consistent with the slowdown that was apparent throughout 2008, according to the industry's statistical report released today by the CVCA-Canada's Venture Capital & Private Equity Association and research partner Thomson Reuters.

Investments Down

Across the country, a total of \$275 million was invested, down 25% from the \$367 million invested during the same period one year ago. In fact, Q1 2009 activity was in dollar terms the lowest reported on a quarterly basis in close to six years when it was \$255 million in Q2 2003.

In addition, the number of domestic firms securing venture funding was also reduced. Between January and March, companies financed totaled 102, which is also one-quarter fewer than the 136 companies financed the year before.

Q1 2009 trends also showed a sustained emphasis of smaller venture capital deal sizes. The average amount invested per firm was \$2.7 million, or the same average recorded for Q1 2008. The spread in Canada-U.S. financings thereby continued to track results in 2008 with domestic firms capturing only 40% of venture capital dollars going to firms south of the border.

"We are at a crisis point in Canada's venture industry. At several levels, the data conclusively demonstrates that there is a venture capital financing 'gap' in Canada," said Gregory Smith, President of the CVCA. "and this means Canada's ability to drive innovation will weaken and we will see the overall economy suffer. Time is critical and we must act now."

"After all, the impact of venture-backed companies on the Canadian economy is significant," said Mr. Smith, "they generate jobs, contribute to the GDP and, according to a recent research report that was commissioned by the CVCA with the financial participation of the federal government and several provincial governments, they grow 5 times faster than the overall economy".

Industry Fundraising lags U.S.

The crisis point in venture capital investment in Canada can ultimately be traced to the fundraising challenges facing the venture capital industry. Fundraising activity reported in the Canadian market was especially weak in the first three months of 2009. New commitments of capital going to domestic venture capital funds totaled a mere \$149 million, which is 74.4% lower than the \$418 million committed during the same period in 2008. These numbers are in stark contrast to the situation in the U.S. where a total of \$U.S. 4.3 billion was raised in Q1 2009, 39% below the \$U.S. 7.1 billion raised in Q1 2008.

“This fundraising gap with the U.S. must be addressed if Canada is to compete in the knowledge-based economy of the future.” said Mr. Smith, “venture capital is the lifeblood of Canada’s industries of tomorrow and the shortage of venture capital will have a profound impact on our ability to take a leadership role in those industries ranging from information technologies to cleantech upon which a prosperous future depends.”

Future Steps

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, and actively promote investment in Canadian venture capital funds as part of the offset agreements that are negotiated with major government contractors.

“Growing the supply of venture capital to support the growth of new and emerging companies will require all stakeholders to work together to build a solid foundation,” said Mr. Smith “we need to work with governments to ensure all potential sources of venture capital dollars are available for Canadian companies, from institutional investors to retail and angle investors, from domestic investors to foreign investors.”

CVCA

The CVCA - Canada’s Venture Capital & Private Equity Association, 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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To arrange an interview with Gregory Smith, President of the CVCA, contact Lauren Linton, Director of Marketing, 416 487-4299 llinton@cvca.ca .

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