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**FOR IMMEDIATE RELEASE**

### **U.S. venture capital investment in Canada jumps 45% in first half**

TORONTO - Despite volatile market values among technology companies, the Canadian venture capital market place continues to show remarkable health in its second quarter performance. The latest industry statistics, released today by the Canadian Venture Capital Association (CVCA) and Macdonald & Associates showed Canadian venture capital disbursements in the first six months surpassed last year's level, reaching \$2.5 billion.

The most surprising statistic of the first half of the year is the 45% increase in the investment levels of U.S. venture firms in Canadian companies. US investors brought \$705 million to Canadian deals in the first half versus \$486 million in the same period last year. "At home, the US VC's cut their disbursements by more than half in the first six months, so I was amazed to see the support for Canadian deals. It really speaks to the quality of the Canadian companies that they are able to attract \$705 million from the US at a time like this," says Mary Macdonald, president of Macdonald & Associates, Canada's venture industry expert.

Another unexpected trend was the strong activity in early stage deals. During the first half of 2001, the Canadian venture industry financed 282 seed, start-up and early stage deals, investing a total of \$1.6 billion (62% of all disbursements). This represents a 22% increase in the share of capital going to early stage deals over last year.

The overview of Canadian venture capital activity for the first six months of the year sends some mixed messages. While the total value of investments exceeded last year's level, the number of deals done dropped. In the first half, 521 deals were done, compared to 680 deals in the same period last year while disbursements rose from \$2.4 billion in the first half of 2000 to \$2.5 billion in the first half of 2001. The average deal size rose from \$3.5 million to \$4.8 million.

"The Canadian venture industry is demonstrating real stability in this time of economic upheaval" says John Eckert, President of the CVCA and Managing Partner of McLean Watson Capital, a technology venture firm. "It is particularly encouraging to see that, of the 32 deals completed with foreign investors, all but four of them had Canadian venture firms involved as the local eyes and ears of the investment syndicate. This clearly suggests that Canadian venture firms are increasingly well regarded by foreign investors who, in these difficult times, will generally only invest in foreign based deals if strong and experienced local venture investors are involved".

The share of capital going to new deal activity was down, dropping from 41% to 33% of total disbursements in the first half. These figures suggest that venture firms are focusing more resources on their existing portfolios, which may make it more difficult for new companies to raise first round financing.

Communications and networking companies once again led the pack with 60 rounds of financing totaling \$653 million (26%); Internet companies \$226 million (20%); computer products \$317 million (13%) and biotechnology and other life sciences attracted \$157 million (17%) of disbursement dollars.

Ontario continued to attract nearly half the country's venture investment in the first six months, absorbing close to \$1.2 billion or 49% of the capital disbursed by the industry. Ottawa Valley was the heart of this activity; accounting for 26% of the capital invested across the country in the first half. This suggests Ottawa is making advances in a slow market because of the sustained interest of foreign investors in the telecom business.

Quebec experienced the greatest volume of deals in the Canadian industry, with 188 financings completed (36% of the aggregate). Capital flows to these deals totaled \$504 million, or 20% of all disbursements in the first half. British Columbia made significant strides as well, capturing 10% of the national total (up from 7% in 2000) or \$255 million.

Firms situated outside of the country also continued to attract capital from Canadian venture investors (\$376 million) accounting for 15% of total disbursements (5% lower than last year).

The CVCA and Macdonald & Associates have been tracking the activity of the Canadian venture capital industry together since 1991 and release comprehensive data on that activity four times per year.

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#### 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 is Canada's leading source of information on venture capital activity in Canada. Its proprietary database, which is now available online through VCReporter™, contains information on the investment activities of more than 200 venture capital and private equity investors across the country and on 5000 companies which have secured venture capital or private equity financing. 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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