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FOR IMMEDIATE RELEASE

VENTURE CAPITAL INVESTMENT LEVELS IN Q2 2009; A SEVERE CONTRACTION

TORONTO: Activity in Canada's venture capital market continued to fall in the second quarter of 2009, according to the industry's statistical report released today by the CVCA-Canada's Venture Capital & Private Equity Association and research partner Thomson Reuters.

The pace of venture capital deal activity in Canada continued to slow in the second quarter of 2009, with \$179 million invested in total nationwide, down 42% from the \$309 million invested at the same time last year. Activity also contracted 34% as compared to Q1 2009, when \$272 million was invested.

In nominal dollars, Q2 2009 saw the lowest per quarter result in 14 years. Domestic venture activity at the end of the first six months was also well below historical par. To date in 2009, \$452 million has been invested, or 33% less than the \$676 million invested between January and June in 2008, and the weakest first half showing in 13 years. In Clean-Tech a mere \$9 million went to 4 companies in the second quarter, or roughly one-quarter of the \$34 million invested last time around. As a result, clean-tech sectors captured only 5% of total activity, in contrast with their 14% share in the whole of last year.

"The data conclusively demonstrates that there is a venture capital crisis in Canada," said Gregory Smith, President of the CVCA. "we have a structural problem and this means Canada's ability to drive innovation will weaken and we will see the overall economy suffer."

These trends point to the greater influence of small venture capital deal sizes in the current market environment. The average amount invested per firm was \$1.9 million between April and June, which represents a substantial drop from the \$2.9 million average of both Q2 2008 and Q1 2009. Consequently, firms in Canada are now capturing only 38% of the dollars going to similar firms in the United States.

Reduced venture capital activity was generally across-the-board in Q2 2009, applying to the majority of key investor groups in the Canadian market. An especially sharp decline was registered by American venture capital funds and other foreign investors, which brought only \$26 million to deals, or 76% less than the \$112 million they contributed in Q2 2008. Foreign investors had not invested so little into Canadian companies since Q2 2003.

In fact, cross-border activity in Canada between April and June was at its lowest quarterly level in six years. Foreign investors accounted for a mere 15% of all disbursements, which is at some distance from the 32% share they have averaged in recent years. This trend placed considerable downward pressure on deal sizes.

"Venture capital is a critical part of the ecosystem that takes research from laboratory to commercial products", continues Gregory Smith, "and we want to work quickly and aggressively

with our provincial and federal governments to build a strong and permanent venture capital industry. Time is critical and we must act now.”

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
- actively promote investment in Canadian venture capital funds as part of the offset agreements that are negotiated with major government contractors
- to improve measures be taken to improve the attractiveness of venture capital to retail investors.

“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.”

It is time for a determined technology strategy for Canada. In this regard, the government should consider establishing a blue chip, limited-life panel comprised of company executives, university presidents and venture capitalists with the express mandate to devise a road map for Canada's technology industries.

“Such a panel could be tasked with taking a holistic approach to growing our high technology resources – everything from identifying and removing obstacles to commercialization, to fostering angel capital and revamping the SR&ED tax credit program,” said Mr. Smith.

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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