



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



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**FOR IMMEDIATE RELEASE**

## **Canada's venture capital investment shows stability compared to US**

TORONTO – Significant decline was expected in the venture capital activity in Canada in response to several factors – revised economic forecasts, the tragic events of September 11<sup>th</sup> and the summer lull. Surprisingly, however, the industry has sustained a stable pace. The latest industry statistics, released today by the Canadian Venture Capital Association (CVCA) and Macdonald & Associates showed that, although the Canadian venture capital industry slowed slightly in Q3, we are remarkably more stable than our American neighbors.

For the first time this year, disbursements in Canada dropped in Q3, with the result that disbursements over the first nine months fell by a modest 15% to \$3.8 billion versus \$4.4 billion invested during the same period in 2000. This situation contrasts sharply with activity in the United States, where rates of capital invested have now fallen back 63% from 2000 results to pre -1999 levels.

A major influence in the strength of Canadian activity is unabated flows of capital from US investors, with the foreign share now 30% of the total, up from 25% in 2000. Foreign investors (chiefly American venture/corporate investors) brought an additional \$432 million to Canadian technology deals in Q3, raising their activity to \$1.1 billion to date. This reinforces the pivotal role that US sources have assumed in sustaining high flows of capital in Canada since January.

“Fewer deals are a natural outcome of the present economic environment, as well as the tragic events of September 11<sup>th</sup>,” says John Eckert, President of the CVCA and Managing Partner of McLean Watson Capital, a technology venture firm. “ And we are encouraged to see that Canada is demonstrating stability, especially in the eyes of foreign investors. We are also seeing the venture funding gap between the US and Canada narrow from a high of 35 to 1 reached in 1999 to about 13 to 1 currently.”

The capital flow is primarily directed to financings sized \$5 million or more, which captured 80% of capital invested. At \$4.7 million, the average financing size remains comparatively high and is a strong indicator of investor support.

“Canadian venture players so far appear to be weathering the storm amazingly well, “ says Mary Macdonald, President of Macdonald & Associates Limited. “They have been careful with their cash and have successfully drawn other investors into their deals to get more leverage from the cash they have on hand. Activity is stable as a result.”

A continued industry focus on existing portfolio firms is apparent in the 64% of capital invested that went to follow-on deals, up from 60% in 2000.

Communications and networking once again led other technology sectors, absorbing one-quarter of all disbursements. Biotechnology and other life science companies continue to attract an increasing share of investment, with 18% of total monies invested this time around. Companies with an Internet focus obtained 16% of capital invested, while computer software firms captured 13%.

Building on an intensified interest in young technology firms in Q2, the industry channeled an astonishing \$2.2 billion into early stage deals, or 58% of aggregate dollars.

Ontario's share in industry deployments dropped to 41% of the total, as compared to 49% earlier in 2001. Due to significant Canadian investor participation in some particularly large technology financings located outside of the country in Q3, the foreign share rose to 20%.

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.

#### 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 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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