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FOR IMMEDIATE RELEASE

VENTURE CAPITAL INVESTMENT LEVEL IS THE LOWEST IN 14 YEARS; FUNDING FOR HIGH TECH FIRMS THREATENED

TORONTO: Activity in Canada's venture capital (VC) market continued to fall in the third 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.

Canadian Market Trends

Deal activity in Canada's venture capital market continued to lag in the third quarter of 2009, as a total of \$191 million was invested nationwide, down 51% from \$388 million invested during the same period in 2008. The trend was felt in most regions, though Ontario-based disbursements experienced an especially steep year-over-year drop of 87%.

Domestic VC activity in Q3 2009 was the weakest recorded in 14 years. Furthermore, dollars invested at the end of the first nine months of the year, totaling \$682 million, was 36% shy of the \$1.1 billion invested at the same time in 2008. This suggests that final 2009 outcomes might well slip below the \$1.0 billion-dollar mark for the first time since 1995.

"Canada's venture capital industry is facing severe challenges," said Gregory Smith, President of the CVCA. "we must work to improve the ecosystem and funding levels for entrepreneurs and small businesses."

Investments

Despite a handful of major deals done between July and September, such as the US\$50 million financing of Montreal's Enobia Pharma, the average infusion per firm was a moderate \$2.0 million. This compares against a \$3.2 million average the year before. To date in 2009, firms in the U.S. continue to receive 3 times the level of venture capital support than their Canadian counterparts.

"Several Canadian venture funds have been successful in raising capital based on their experience and sector focus," said Gregory Smith, "however there is increasing frustration in finding co-investment partners to fully capitalize companies to be successful and compete globally".

The activity of Canadian VC funds around the globe was also reduced on a year-over-year basis, with \$38 million invested in non-resident companies in Q3 2009. One year ago, these funds accounted for \$151 million invested outside of the country.

The weakest showing was VC activity in Ontario which totaled a mere \$24 million invested, or 87% below the \$179 million of Q3 2008. As a result, Ontario took only 13% in domestic market

share, which is at some distance from the more typical 42% accounted for in the whole of last year.

Fundraising

Q3 2009 was also the worst fund-raising quarter on record. A total of \$65 million of new supply going to fund managers, or exactly half of the \$131 million committed the year before.

“Fundraising levels are a leading indicator of investment activity for the next one to three years”, continues Gregory Smith, “the current level of fundraising in 2009 predicts investment in technology, including cleantech through life sciences, will continue to erode in the years ahead unless corrective action is taken immediately.”

“Venture capital is a critical part of the ecosystem that takes research from laboratory to commercial products creating new jobs today and a growth engine for the economy of tomorrow”, continues Gregory Smith, “and we want to work quickly and aggressively with all stakeholders including 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 called for the development of a comprehensive innovation strategy for Canada to address the growing technology deficit. In this regard, the government should consider establishing a blue chip, limited-life panel comprised of company executives, university presidents, entrepreneurs and venture capitalists with the express mandate to devise a road map for Canada’s technology industries.

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
- 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 angel investors, from domestic investors to foreign investors.”

[CVCA](#)

The CVCA - Canada’s Venture Capital & Private Equity Association (www.cvca.ca), 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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