



**May 20, 2003**  
TORONTO –

**FOR IMMEDIATE RELEASE**

### **Canadian Venture Capital Activity Slower in Q1 2003**

After a significant spike in activity in the Canadian venture capital industry in Q4 2002 – when dollars invested jumped by 51% – activity resumed a slower pace at the beginning of 2003, according to the latest industry statistics released today by Macdonald & Associates and the Canadian Venture Capital Association (CVCA).

Between January-March, the industry disbursed \$305 million, down by 60% from the \$754 million of three months prior, and down by a comparable level from the \$758 million of the same first quarter period one year ago, reflecting one of the lowest rates of activity since 1998. However, disbursements in the first three months went to 212 Canadian companies, or only 18% shy of the number of firms financed three months before, and approximately the same the number as in Q1 2002.

A sharp decline in capital flows, matched by a still steady volume of venture-backed companies, points to the influence in Q1 of fewer large transactions – or “mega-deals” – in telecommunications and other IT sectors than have been typical of past quarters, particularly in the Ottawa Valley. For instance, in Q1 2003, the 10 largest “mega-deals” captured 32% of capital invested in total, while in Q1 2002; the top 10 consumed 57%. A related factor was the much smaller presence of foreign investors in the deals done in the first quarter.

“Emerging firms in the communications space in particular have continued to raise very large amounts of capital over the past 18 months, even as the US venture capital market was grinding to a halt. These mega-deals simply didn’t happen in Q1, with the net result that the total amount invested was way down” says Mary Macdonald, President of Macdonald & Associates, the venture industry experts.

The Canadian industry has managed to outperform its counterpart in the US for much of the downturn but for now at least, the playing field seems to be pretty level. The venture industry invested \$US 3.8 billion in the first quarter the United States, levels last seen in 1997, and the number of American companies financed has hit a six-year low.

Canadian industry fund-raising also proved more sluggish in the first three months, with \$1.0 billion in new capital commitments, as compared to \$1.5 billion in the same period a year ago. LSVCCs had a disappointing RRSP season, bringing in only \$888 million, or 24% less than the \$1.2 billion secured in Q1 2002. Much of the fundraising for the private limited partnerships (LPs) was done late last year but several final closings, brought in an additional \$74 million, though this level is also down from last year.

“In addition to the lack of mega-deals in Q1 2003, investors cautiously reacted like ‘deer in the headlights’ to external factors such as SARS, and the then impending war in Iraq,” said Brad Ashley, President of the CVCA and Managing Partner of PRIVEQ Capital Funds. Ashley further noted that “with these events seemingly behind us from a Canadian perspective, investors are becoming more active again”.

Canadian Venture Capital Association (CVCA)

The CVCA represents the venture capital and private equity 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. The CVCA currently has over 800 members across Canada.

Macdonald & Associates Limited

Macdonald & Associates Limited is an information company tracking the fundraising and investment activities of more than 200 venture capital and private equity investors across the country. Its proprietary database is now available online through VCReporter™. 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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