



Enterprise

Overview:

VC Dollars Invested Rise in Q2

Overall Capital Flows

Activity in Canada's venture capital (VC) industry in the second quarter of 2004 reflected growth on a year-over-year basis, with \$375 million invested in total, up by 48% from the \$254 million registered during the same period in 2003. This being said, VC activity between April and June was down by 8% from the first three months of this year, when \$407 million was invested.

Industry dollars flowed to 202 Canadian companies in Q2 2004, a level that comes close to matching the 204 VC-backed firms of the year before, and surpasses by 14% the 177 firms of Q1 2004.

As in the prior quarter, large-sized deals were a key influence in overall activity. Due to the US\$17.0 million financing of SiRiFIC Wireless Corporation and the US\$15.5 million financing of Simpler Networks, among others, the 10 largest deals took 40% of total capital invested in the second quarter. In the whole of last year, the 10 largest deals accounted for a more moderate 18%.

Consequently, the average company financ-

ing size in the second quarter was \$1.9 million. This level is up from Q2 2003, when the average amount invested per firm stood at \$1.2 million, but down from the \$2.3 million average recorded in the first quarter of this year.

Year-over-year growth in Canadian VC activity appears to be part of North America-wide trend, as investment also increased in the United States. According to Thomson Venture Economics, the American industry disbursed US\$5.6 billion to 761 companies in the second quarter, up from US\$4.8 billion one year ago (as well as US\$5.0 billion in the first quarter of 2004).

Follow-on transactions resumed their pace-setting activity in the Canadian industry in April-June, with 71% of all disbursements going to existing portfolio companies, exceeding the 68% of the same period in 2003, as well as the 63% share of the January-March.

Sector Flows

IT sectors played a more crucial role in industry activity in Q2 2004 than was the case three months earlier. In total, 81 IT companies captured \$203 million, or 54% of all disburse-

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From the President

I hope everyone had a relaxing and enjoyable summer.

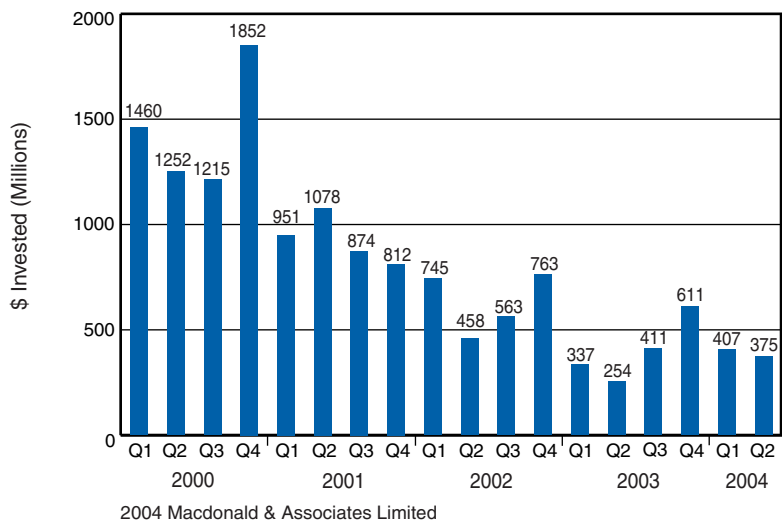


The fall will get off to a busy start with many CVCA events planned for the next few months. The Annual CVCA Golf Tournament took place on August 25th at Angus Glen Golf Course. Response for the golf tournament was overwhelming with over 250 golfers registered. Thank you to everyone, both participants and sponsors, for your support of this fun event. Plan to join us at the CVCA Annual General Meeting in Toronto on September 22nd. The AGM will be followed by a reception and a dinner at which the prestigious CVCA Deal of the Year Award will be awarded. Professional Development events are scheduled for October 5th (topic is 'The First 90 Days - Laying the Foundation for a Successful Investment') and November 24th and the New Members' Reception in Toronto will take place on November 16th. We encourage all members to take advantage of these educational and networking opportunities.

Venture capital investment statistics for the second quarter of 2004 were recently released. Although total investment activity in Q2 was down slightly from Q1, it was up substantially from Q1 of 2003. This is the second consecutive quarter of year over year increases in investment activity and, after 12 successive quarters of decline through 2001, 2002 and 2003, hopefully indicates that sustained growth in investment activity is underway. The activity in Canada mirrors the U.S. where similar declines occurred during the 2000 - 2003 period and increases have been seen during the past four quarters. In the second quarter, investment activity shifted back to its traditional focus with information technology companies receiving over half of the investment. Life Sciences, which had received the largest share in Q1, received 14.5% of investment. Fund raising by the venture industry continued to be low during Q2, with only \$ 317 million raised.

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Quarterly Investment Activity
By the Canadian Venture Capital Industry



New AdVENTURES

■ **Joe Catalfamo** recently joined **BCE Capital** as Managing Director. Joe brings to BCE Capital over 12 years of venture investing and a proven track record of success. In his position as Managing Director he will make venture investments in emerging companies that develop market leading and enabling technologies in the communications and IT sectors. For further information, please contact Joe at 416-408-0300 or jcatalfamo@bcecapital.com.

■ **Export Development Canada** is pleased to announce that **Caroline Sohn**, formerly with the Project Finance Team, recently joined the Equity Group as a Financial Services Manager. Caroline will be responsible for deal sourcing, structuring and investing in quality high technology venture capital investments. She has an MBA from the Rotman School of Business, University of Toronto. Caroline can be reached at 613-597-7877 or csohn@edc.ca.

■ **David Sutton** has joined **HSBC Capital (Canada) Inc.** as Managing Director, Merchant Banking. David is responsible for mezzanine finance and private equity investments in the \$4 to \$15 MM range. Larger investments on syndicated basis, with few restrictions except for start-ups and early stage companies. David can be reached at 416-864-2707 or david_m_sutton@hsbc.ca.

■ **Oncap Management Partners LP** made some changes to their staff. **Evan Hershberg** has taken on the position as Associate; Evan can be contacted at 416-214-4312 or ehershberg@oncap.com.

Mark MacTavish has taken on the position as Vice President; Mark can be reached at 416-214-4302 or mmactavish@oncap.com. **Beth Shiferaw** has taken on the position as Vice President; Beth can be reached at 416-214-4308 or bshiferaw@oncap.com.

■ In June, **Patrick Ghoche** joined **Schroders & Associates** in his new position as Associate. Patrick will be responsible for evaluating and analyzing potential buyout opportunities. His background includes corporate finance, investment banking and, most recently, with RBC Capital Markets as an analyst. You can reach Patrick at patrick.ghoche@schroders.ca or 514-397-0701.

■ **Teachers' Private Capital** (formerly Teachers' Merchant Bank) announces some staff changes. **Brad Mashinter** has joined as an Analyst in the Direct group, where he will be responsible for analyzing private equity investment opportunities and transaction due diligence. Brad recently graduated as a member of the Dean's Honour List from the Schulich School of Business' BBA program at York University. He is currently pursuing the CFA designation. Brad can be reached at 416-730-5045 or Brad_Mashinter@otpp.com. **James Kim** has joined as an Analyst in the Direct Group, where he will be responsible for analyzing private equity investment opportunities and transaction due diligence. Previously, James was a summer analyst with Coventree Capital Group, which is a private securitization firm located in Toronto, Ontario. He joins Teachers' Private Capital after completing his undergraduate degree with Distinction in Honours in Business Administration (HBA) at the

Richard Ivey School of Business. James was also Class President in his graduating year. James may be reached at 416-730-7655 or james_kim@otpp.com.

Nicole Musicco has been promoted to Senior Associate, Direct Investments. In her new position, Nicole's responsibilities will include execution and monitoring of Canadian and U.S. investments. Nicole can be reached at (416) 730-5154 or nicole_musicco@otpp.com. **Tamara Finch** has been promoted to Assistant Portfolio Manager, Direct Investments. In her new position, Tamara will be responsible for assessing and executing investment opportunities and will continue to be involved in the strategic development and value creation of portfolio companies. Tamara can be reached at (416) 730-5071 or tamara_finch@otpp.com.

■ **Ventures West Management Inc.** is pleased to announce two additions. **Dr. Maha Katabi** has joined as Vice President, Life Sciences. She will focus on investments in the Biotech sector. Maha was most recently Executive Director of Business Development of Chronogen Inc., a drug discovery company. Previous to that Maha was responsible for managing investments in the life sciences field with T2C2/Bio, L.P. Maha can be contacted at mkatabi@ventureswest.com or 416-861-2283. **Barry Allen** has joined as Entrepreneur in Residence. Barry is the former President & CEO of VSM MedTech Ltd. He will now be involved in identifying and evaluating investment opportunities, with a focus on biotech and medical device companies. Barry can be reached at 604-891-3252 or ballen@ventureswest.com.

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ments, as compared to their \$163 million and 40% share in Q1 2004. Electronics, hardware and semiconductors was the leading IT sector, with \$73 million invested in 20 firms, including IceFyre Semiconductor, S2io Technologies Corporation and SiRiFIC.

The second most active IT sector was computer software, with major financings completed for Q1 Labs, INEA Corporation, Cube Route and 25 other companies, for a total of \$52 million. Not far behind was communications and networking, with \$47 million invested in 17 firms, such as Simpler Networks. Fusepoint Managed Services and 13 other internet-related companies also pulled in \$27 million.

By contrast, investment in life sciences fell substantially as compared to the first three months. In sum, 40 companies, including Adherex Technologies and PerOs Systems Technologies, collected \$55 million, or 15% of dollars invested. However, this result is at some distance from the \$178 million and 44% share obtained in Q1 2004.

Firms situated in non-technology sectors also assumed more profile in VC activity this time around, with \$108 million in 67 firms, or 29% of

dollars invested. This activity was driven in part by several major deals engaging such companies as Black Bull Resources and Greenarm Development Partners. By comparison, only 18% of industry resources flowed to traditional sectors in the full of 2003.

Types of Funds Investing

LSVCCs and other retail funds led industry activity in Q2 2004, representing 36% of capital invested and 63% of VC-backed firms in aggregate. They were followed by private-independent funds with \$71 million disbursed to 42 companies. Bringing \$64 million to Canadian deals, or 17% of the total, American VC funds and other foreign investors were less of a presence than in Q1 2004, when they were responsible for \$163 million and a 40% share.

Stage of Investment

Over half of all companies financed in the second quarter were at an early stage of development and these consumed \$154 million, or 41% of industry disbursements. Over three-quarters of this dollar amount went to the other early stage category, with start-ups assuming a much smaller proportion than was the case in the first quarter.

Q2 2004 also featured a batch of prominent VC-

backed acquisitions, which included AmikaNow! Corporation, BitFlash Graphics, BlueTree Wireless Data, Changepoint Corporation, Clic.net, KMTechnologies, Lacent Technologies, Objectworld Communications and Telica, not to mention VC-backed IPOs, which included MethylGene and Xceed Mortgage Corporation.

Regional Breakdown

Due to the relative strength of IT activity, Ontario led the country in terms of capital invested, with 44% of the \$375 million in total, followed closely by Quebec with 42%. Atlantic Canada also saw a fairly high degree of VC investment in Q2 2004, with \$20 million deployed to 7 companies in the region.

Fund-Raising

Between April and June, new capital commitments to the Canadian VC industry totaled \$317 million, or nearly double the \$162 million raised during the same period in 2003. Not surprisingly, industry fund-raising in Q2 2004 was still off from the first three months of the year, when \$589 million was added to industry coffers, due to traditional LSVCC activity in the RRSP season.

Of the \$317 million in new capital inflows, LSVCCs and other retail funds represented a 71% share, followed by private-independent funds with 28%.

NEW Funds

■ ARC FINANCIAL

CORPORATION is pleased to announce that it has closed its fourth private equity investment fund. ARC Energy Venture Fund 4 is a C\$403 million fund focused on start-up to early stage energy companies both in Canada and internationally. With an objective to invest across the broad energy sector, Venture Fund 4 will also actively source investment opportunities in non-conventional hydrocarbon resources, infrastructure, electrical power generation and alternative energy technologies. ARC is a Calgary-based, private investment management firm focused exclusively on the energy sector. They have been active investors in early stage energy companies since 1990 and launched their first private equity fund in 1997. Investors are primarily Canadian and U.S. endowments and pension funds. Further information can be provided by Philip Swift, Co-Chairman of ARC at 403-292-0680 or their website www.arcfinancial.com.

■ HAYWOOD CAPITAL

PARTNERS, a subsidiary of Haywood Capital Corp., announced an agreement with Galiano Ventures Inc. to launch Haywood Life Sciences Limited Partnership I fund. The fund will offer investors the opportunity to diversify risk and capitalize on growth in late-stage private and undervalued

public life-sciences companies in North America, a rapidly expanding sector. Haywood Life Sciences Limited Partnership I is a private limited partnership that will be sold to accredited retail and institutional investors through an offering memorandum. For more information, please call Alan Manzie at 604-697-7100.

■ McKenna Gale Capital Inc. is pleased to announce the formation of **MG STRATUM FUND III**, Limited Partnership in June 2004, with committed capital of \$305,000,000 for investment in common equity, convertible debentures and mezzanine debt of North American companies. Capital will be utilized primarily for acquisitions, expansion or growth purposes, MBOs, LBOs, "Go Privates" and recapitalizations. Visit www.mckennagale.com.

■ The Solidarity Fund QFL announces a \$10 million investment in **MSBI INVESTMENT FUND LP**. Founded in 2001, MSBi specializes in high tech business financing. This partnership will allow MSBi to more adequately respond to the financial needs of seed-stage and early-stage companies resulting from next generation technologies that emanate from McGill, Sherbrooke and Bishop's universities, as well as their affiliated hospitals and research centres. Since September 2002, MSBi has made seven investments in highly promising start-up companies resulting in more than \$25 million in venture capital financing from both MSBi funds and partner investors. For more information about MSBi visit www.msbi.ca or contact Chris Arsenault at 514-982-2261.

From the President

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Discussions continue within the CVCA board and members to ensure that the CVCA's government relations programs actively represent the needs and interests of the venture capital and private equity industries. In the past, the government has shown considerable interest in the industry and in technology commercialization. The government will shortly be undertaking consultations leading up to the budget in the spring and we are committed to keeping venture capital and private equity issues very much on the government agenda. The CVCA will be working hard on its own, and with other interested parties, to ensure that the federal government's commitment to fostering the growth and development of a vibrant innovation economy remains rock solid – particularly now with a minority government in place and several competing priorities that are clamoring for the attention of policy makers.

I look forward to a full schedule of CVCA activities over the next few months and continued active involvement of CVCA members.



Robin Louis

Professional Development Committee Update

The Professional Development (PD) Committee of the CVCA is pleased to report another successful year. Seminar topics held between September 2003 and April 2004 included 'Best Practices for Building Cross-Border Companies', 'Value-Added Boards', 'Topgrading Management Teams' and 'Exits Are Back – Be Prepared'. The Topgrading Management seminar was a follow-up session to a very successful Topgrading event the previous year. All seminar attendees were provided with practical tools and techniques they could use in their professional capacity. CVCA's speakers included seasoned and well-known entrepreneurs such as Eric Goodwin (ex-CEO FloNetwork), Tim Jackson (ex-CFO of PixStream), Jim Roche (President and CEO of Tundra Semiconductor), Ian McKinnon (CEO of Certicom) and Alan McMillan (ex-CEO of Think Dynamics).

Attendance has been increasing and audience participation and panel discussions at the sessions created lively debates on issues such as whether venture capitalists add value to Boards. Audience feedback through surveys has been extremely positive and

also has provided constructive suggestions for future events. Our seminars continue to be held at the TSX Conference Centre and video-conferenced to Vancouver, Calgary, Montreal, Ottawa and Halifax.

We would like to take this opportunity to thank all our speakers for their time and effort in making these seminars a success, our annual series sponsors

PricewaterhouseCoopers, Gowling, Lafleur & Henderson LLP and Hunter Keilty Muntz and Beatty/Chubb Insurance for their ongoing generous support, and of course, you for your continuing interest in, and attendance at our events.

We look forward to another informative year of Professional Development seminars. The season begins on October 5th when our first topic will focus on how venture capitalists, along with management, can lay the foundation in the first "90 days" for a successful investment. Topics in November, February and April will examine other aspects of the venture capital process and how attendees can improve their effectiveness. The Professional Development Committee will continue to draw on industry experts, entre-

preneurs, venture capitalists and service providers to speak at these events so that the season can be as constructive and useful as possible.

Sunil Selby
Chair, PD Committee

Of Interest...

Publication; *Venture Capital and Tax Incentives: A Comparative Study of Canada and the United States* by Daniel Sandler, law professor at the University of Western Ontario, London. A review and evaluation of various government incentive programs targeting venture capital formation in the United States and Canada at the federal and state/provincial level. Published by the Canadian Tax Foundation. Regular cost \$60, special price for CVCA members \$45. To order, please visit www.ctf.ca/order/details.asp?itemid=TP108

Events Calendar

CVCA Events

- Wednesday, September 22, 2004 – Toronto
Annual General Meeting, Dinner and presentation of CVCA's 'Deal of the Year' Award.
The Fairmont Royal York
100 Front Street West, Toronto
- Thursday, September 23, 2004 – Milton, Ontario
Young Venture Capitalists (YVC) Annual Golf Tournament
Glencairn Golf Club
- Tuesday, October 5, 2004 – Toronto, and video conferenced to Halifax, Montreal, Ottawa, Calgary, and Vancouver.
Professional Development Seminar
"The First 90 Days – Laying the Foundation for Success"
TSE Conference Centre, 1:00 p.m. to 6:00 p.m.
130 King Street West, Toronto, Main Floor
- Tuesday, November 16, 2004 – Toronto
New Members' Reception
Members only
- Wednesday, November 24, 2004 – Toronto, and video conferenced to Halifax, Montreal, Ottawa, Calgary, and Vancouver.
Professional Development Seminar
TSE Conference Centre, 1:00 p.m. to 6:00 p.m.
130 King Street West, Toronto, Main Floor
- June 1-3, 2005 - Quebec City
CVCA's Annual Conference
Fairmont Le Château Frontenac
Details will be posted in February 2005

To register for CVCA events, please visit the events page of our web site at www.cvca.ca, or e-mail cvca@cvca.ca

Industry Events

- September 14-15, 2004 – Montreal
Emerging Technology Venture Conference
(CVCA members receive a \$100 discount)
www.etvc.ca
- September 14-16, 2004 – Ottawa
Global Mobile Enterprise 2004
www.globalmobileenterprise.com
- September 24-25, 2004 – Banff
Banff Venture Forum
www.banffventureforum.org
- September 26-28, 2004 – Calgary
Angel Investor Summit
www.angelinvestor.ca
- October 1-2, 2004 – San Francisco
Social Venture Partners International 4th Annual Conference
www.svpi.org
- October 3-6, 2004 – Atlanta
Venture Capital Institute
www.vcinstitute.org
- October 6, 2004 – Toronto
1st Annual ACE Ryerson Celebration of Entrepreneurship
Call 416-732-8017 or email aceryerson@hotmail.com
- October 6, 2004 – Ottawa
Growth Capital Workshop
by CATAAlliance and Springboard Enterprises
www.springboardenterprises.org
- October 6-8, 2004 – Quebec City
BioContact Quebec 2004
www.biocontact.qc.ca
- October 7-8, 2004 – Ottawa
Ottawa Venture Fair
www.ottawacapitalnetwork.com
- October 17-19, 2004 – Ottawa
Wireless Industry Conference 2004
(CVCA members receive a \$100 discount)
www.wic2004.org

- October 20-22, 2004 – Barcelona
EVCA Technology Investment Conference
www.evca.com
- October 21-22, 2004 – San Francisco
Early Stage Venture Investing Conference
www.ibfconferences.com
- October 25-27, 2004 - Toronto
Cleantech Venture Forum V
www.cleantechventure.com
- October 28-29, 2004 – Quebec City
Réseau Capital Annual Conference
www.reseaucapital.com
- November 4-5, 2004 – Ottawa
CICBV National Conference
www.cicbv.ca
- November 8-9, 2004 – Vancouver
Canadian IT & BioTech Financing Forum West
www.financingforum.com
- November 11-12, 2004 – London
CEE Private Equity Forum
www.C5-online.com/privateequity04
- November 16-17, 2004 – Montreal
Montreal/Ottawa techCongress
www.montreal-techcongress.com
- November 29-December 1, 2004 – Ottawa
BioNorth 2004 Commercializing the Success Gene: The Business of Science and the Science of Business.
www.bionorth.ca
- March 1-2, 2005 – Toronto
Canadian Venture Forum 2005
Co-hosted by CanadaIT and TVG
www.financingforum.com or www.tvg.org
- May 4-5, 2005 – New York
2005 NVCA Annual Meeting
www.nvca.org
- May 10-11, 2005 – Toronto
ExpoCom Canada Communications
www.reedexpo.ca

CVCA 2004 Golf Classic Angus Glen Golf Club, August 25, 2004



Call for Nominations for 'Canada's Top 10 Life Sciences Companies'!

If you are a Canadian life sciences company seeking financing between \$2 and \$50 million, you can't afford to miss this opportunity! You could be chosen by an expert panel of Canadian and US venture capitalists as one of Canada's Top 10 Life Sciences Investment Prospects and benefit from all the recognition this brings. Visit the BioNorth 2004 website at www.bionorth.ca. Deadline is October 15, 2004.



Questions, comments and contributions to the *Enterprise* are welcome!
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