



Enterprise

CANADIAN VENTURE CAPITAL ASSOCIATION (CVCA)

Overview:

VC Industry Activity slows sharply in Q2

The Canadian venture capital industry experienced its first major contraction in Q2 since the market slowdown began almost eighteen months ago. The industry invested \$416 million in Canadian companies between April and June of this year, down a very substantial 69% from the \$1.3 billion disbursed during Q2 2001. The number of companies financed fell by a more modest 20% from 236 to 188.

Until this most recent quarter, the Canadian industry had avoided the precipitous decline being experienced in the US, where disbursements have been falling sharply since late 2000. In the second quarter, the US venture industry invested a total of US\$5.7 billion in 819 companies. A key factor in reduced Canadian activity was a steep decline in the participation of foreign investors – primarily US venture funds – which have played a key role in bolstering the industry here over the past 18 months. Foreign funds invested \$79 million in the second quarter, down from \$337 million in Q1 and from \$316 million in Q2 last year. This decline in turn is a reflection of the sharp fall-off in activity in communications and related IT sectors, particularly in the Ottawa area, where most of the American venture funds have been focused.

Industry disbursements were also well shy of the \$756 million recorded in the first quarter of this year. It should be remembered, however, that just 5 of the financings done in Q1 accounted for nearly half of capital invested in that period. Consequently, the average amount invested in venture-backed firms fell to \$2.2 million in Q2, as compared to \$3.5 million in Q1, and \$5.7 million during the second quarter of 2001.

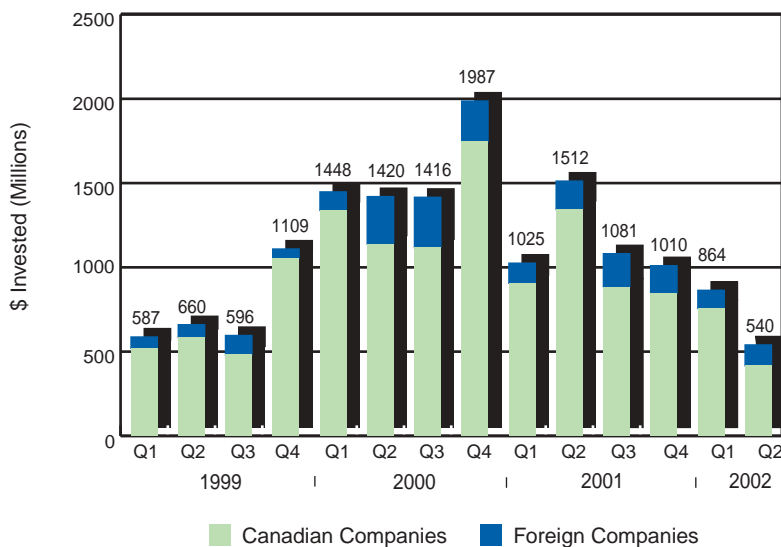
As has been the case since the market slowdown began, industry deal preferences remained weighted towards existing portfolio companies, which comprised 72% of the total number. A handful of large new financings contributed to follow-ons obtaining a somewhat smaller proportion of disbursement dollars.

While all technology sectors experienced reduced disbursements, biotechnology and other life science firms fared best on the whole. A total of 40 life science companies secured \$125 million in the second quarter, accounting for 30% of capital invested and replacing communications as the leading sector.

Perhaps the notable shift in Q2 was in the regional distribution of the capital invested. Quebec led the Canadian industry in all key

(continued on page 3)

Quarterly Investment Activity
By Canadian Venture Capital Industry



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From the President



Despite the continuing drop in investing this past quarter, of more significant importance is the amount of new funding raised by venture capitalists, an important statistic often overlooked by the press.

Over \$600 million was raised in Q2 bringing the total for the first 6 months to \$2.1 billion. These numbers speak very highly of the support of venture capital in Canada. Much more fundraising is in the pipeline and the source is a mix of traditional investors as well as new institutional investors. Smart money clearly understands the opportunity. When activity levels return, our industry will, without doubt, be stronger, more experienced and more committed than at any time in Canadian history.

Congratulations to Jim Hall, his committee and CVCA staff who delivered an outstanding annual conference this past June. Record results were achieved and I have had numerous reports that this was our most successful conference ever.

On September 25, the annual meeting and dinner will be held at the Fairmont Royal York. Make sure you join us at this exciting event, which will include our Deal of the Year Award and an exciting yet to be announced guest speaker.

At the meeting, I will be handing over the reins to the new President of the CVCA. I would like to thank the membership of the CVCA, the board of directors and staff for their enthusiasm and support, without which we could not have achieved the growth and success of the CVCA over the past two years.

John Eckert, President, CVCA

New AdVENTURES

■ **BDC Venture Capital** announced that **Brian Elder** is now Vice President, Fund Investments. Brian, who formerly held the position of Managing Director, Information Technology, is now responsible for managing the BDC's specialty venture capital fund investments and implementing a private equity "fund of funds" strategy. Brian can be reached at (403) 292-6935 or brian.elder@bdc.ca.

■ **BDC** also announced that **Rebecca Giffen**, formerly with the Information Technology group, is now an Investment Analyst with the Fund Investments group. Rebecca can be reached at (403) 292-6932 or Rebecca.giffen@bdc.ca.

■ **Sylvie Ratté** has been appointed Director of Markets, **Business Development Bank of Canada**, as the new leader for future initiatives. Sylvie is looking forward to her new opportunities to strengthen BDC's relationship with her partners. Sylvie can be reached at (514) 496-1182 or sylvie.ratte@bdc.ca.

■ **BMO Nesbitt Burns** has recently hired **Ken Hanau** as Managing Director and Principal, **BMO Halyard Capital Fund**, the firm's New York-based US \$450 million private equity fund dedicated to global investments in the media, communications and related technology sectors. Ken joins a group of eight private equity professionals, who carry out the Halyard fund's strategy by investing in emerging, high growth and established media and communications companies. If you would like to speak to Ken please contact Kim Hanson, Media Relations, at (416) 867-4924.

■ **Borealis Capital** has recently moved to their new location at One Financial Place, 1 Adelaide St. E., Ste. 2800, Box 198, Toronto, ON M5C 2V9. They can be reached at (416) 361-1011 or visit their website at www.borealis-capital.com.

■ **Charles Cazabon** has recently joined **Business Development Bank of Canada** as Vice President of Venture Capital. Charles is currently responsible for direct investments made by the BDC specialty groups. Charles has over 15 years of venture capital experience. Charles can be reached at (514) 496-0708 or email to charles.cazabon@bdc.ca.

■ **Samuel Duboc**, President and Managing Partner of **EdgeStone Capital Partners**, is pleased to welcome four new partners to EdgeStone. **Sandra Cowan**, General Counsel and Partner, will lead EdgeStone's strategic planning and legal affairs; **Stephen Marshall**, Partner, is in EdgeStone's Equity Fund business; **Claude Miron**, Partner, will run

EdgeStone's Fund of Funds business; and **Robert Sellars**, Chief Financial and Administrative Officer and Partner, will lead all of EdgeStone's back office functions and will work closely with the funds on deals. To get in touch with any of the above please contact 416-860-3740 or visit EdgeStone's website at www.EdgeStone.com.

■ **Jim Taylor** has recently moved from Intergold Corporation to join **FCC Ventures** as Vice President. **Greg Florence** joins FCC Ventures as Director of Investments and **Aki Georgacacos** as Investment Manager. For more information please contact them at (306) 780-8100.

■ **Rick Nathan** has recently left Brightspark to join **Goodmans Venture Group**. Rick can be reached at (416) 597-5143 or rnathan@goodmans.ca.

■ **Brian Moskowitz** has recently established **Moskowitz Capital Management**, an investment management firm. Brian was formerly with RoyNat Capital and Quorum Funding Corporation as VP, Investments. He can be reached at (416) 871-6500 or brian@moskowitzcapital.com.

■ **PricewaterhouseCoopers Securities Inc.** recently announced **David Jacobson** as Director, Technology, Corporate Finance and Investment Banking, Toronto. David will assist PwCS and its clients with technology-business strategy, development and evaluation of current and emerging technologies and their commercial applications, and competitive analysis. David can be reached at (416) 814-5800 or david.h.jacobson@ca.pwcglobal.com.

■ **TD Capital Mezzanine Partners Ltd.** has added **Paul Liebovitz** as Vice President and Director. Previously, Paul was Senior Vice President, Underwriting for GE Capital – Capital Funding. In this position, he oversaw the execution of highly structured, leveraged financing transactions in both Canada and the United States. Prior to joining GE Capital, Paul spent 8 years at The Bank of Nova Scotia specializing in complex corporate restructurings. He received his M.B.A. in Finance from McMaster University and his B.A. (Honours) from University of Toronto. Paul can be reached at (416) 307-6316 or paul.liebovitz@tdcapital.com.

■ **Vanessa Grant** will now hold the position of Manager, Life Sciences Financing for **Torys LLP**. Vanessa is responsible for life science financing practice in Canada and is advising clients in the life sciences industry on matters such as equity and debt financings, joint ventures and licensing and distribution agreements. She can be reached at (416) 865-7966 or vgrant@torys.com.

■ Effective June 1st, 2002, prominent senior intellectual property lawyers **Conor McCourt** and **Eileen McMahon** joined **Torys Intellectual Property Group**. Also joining the group was a team of seven associates (**Charles Boulakia**, **Nadine D'Aguiar**, **Joshua Death**, **Adrian Kaplan**, **Alex Porat**, **Lesley Rapaport**, and **Melanie Sharman Rowand**) and two technical consultants (**MaryAnne Arnoldo** and **Theresa Fauconnier**). For more info, visit www.torys.com.

■ As of the first of May, **Aaron Davidson** joined **Ventures West Management Inc.** as Vice President, focusing on deal generation and portfolio management in the biotech sector. Aaron has over a decade in various management roles in the healthcare industry with companies such as SYN-X Pharma and Eli Lilly. Aaron can be reached at (416) 861-2283 or adavidson@ventureswest.com.

■ **David McIntyre** has assumed the role of Associate, **Ventures West Management Inc.**, previously holding the position of Research Associate. David is involved in due diligence and market analysis of Internet, IT and wireless opportunities and can be reached at (604) 891-3287 or dmcintyre@ventureswest.com.

■ **Chris Laird** has become an Associate for **Ventures West Management Inc.**, having previously held the position of Research Associate. Chris is involved in due diligence and market analysis for life science opportunities and can be reached at (604) 891-3267 or claird@ventureswest.com.

■ **Kirk Washington** has joined the **Yaletown Venture Partners** team as a Partner. Kirk brings strong technical, operational, business development, and transaction expertise to the team to help build market-leading Information Technology and Alternative Energy Technology companies. Kirk can be reached at (604) 688-7807 X105 or kirkw@yaletownvp.com.

■ **Yorkton** has recently reintroduced investment-banking coverage of mining, a move that matches its research, trading and sales commitment to the sector. **Doug Bell** will be Managing Director, responsible for building the Mining Team, after a stint as Co-Head of Research Capital's 13-person investment banking team. You can reach Doug at (416) 864-3500 or at dbell@yorkton.com.

■ **Yorkton** also announced that long-time tech specialist **Tony Pullen** will now hold the position of vice-chairman along with Toronto-based Bob Fung and Montreal-based Jacques Nadeau.

NEW Funds

■ **THE BUSINESS DEVELOPMENT BANK OF CANADA** will target \$200 million of venture capital investments in the biotechnology sector over the next five years. BDC Venture Capital has invested in 42 life sciences companies at all stages of development, and with different areas of specialty including drug discovery, drug delivery, medical devices and bioinformatics. It is one of the widest scope venture capital funds operating in Canada, with six offices from Vancouver to Halifax. For more information please contact Nathalie Charland, Business Development Bank of Canada, at (514) 283-7929.

■ **CDP CAPITAL – TECHNOLOGY VENTURES** has announced the initial closing, at US\$65 million, of “**CDP CAPITAL – TECHNOLOGY VENTURES U.S. FUND 2002 L.P.**” This venture capital fund will invest exclusively in U.S. companies involved in biotechnology and life sciences, information technologies and industrial technologies. For more information please contact Lucie Frenière, CDP Capital – Technologies, at (514) 847-5949 or www.cdpcapital.com.

■ The **CPP INVESTMENT BOARD** has acquired at 10% stake in the venture capital arm of MDS Inc., marking one of the biggest forays yet by a Canadian institutional investor into the field of biotechnology. Also getting commitments from CPP are EdgeStone Capital Partners, which will get \$200 million, and Skypoint Capital, an Ottawa-area venture capital firm that focuses on technology, which will receive \$40 million.

■ **EDGESTONE CAPITAL PARTNERS** announced an initial closing of the **EDGESTONE CAPITAL VENTURE FUND OF FUNDS**. The fund has raised \$200 million, half of which will be invested primarily in Canadian venture capital funds and half co-invested with those funds directly in private companies. The CPP Investment Board has committed the capital to this new fund, renewing both its commitment to support venture capital in Canada and its support of EdgeStone Capital Partners.

■ **EDGESTONE CAPITAL PARTNERS** announced its second closing of **EDGESTONE CAPITAL EQUITY FUND II, L.P.** at \$280 million. Equity Fund II is the successor to the \$179 million Equity Fund I, a very successful fund that has already generated an IRR of 113% on realized investments in only two years. The Equity Fund II targets raising \$400-\$500 million and remains open for further investment. For more information contact

Samuel Duboc, President and Managing Director at (416) 860-3760.

■ In the first quarter of 2002 **FARM CREDIT CORPORATION** created the **FCC VENTURE CAPITAL FUND** with \$50 million to invest in early stage and expanding companies in life science and agriculture related sectors. For more information contact Jim Taylor at (306) 780-8100.

■ **FRONT STREET CAPITAL** and its first retail investment product, **TUSCARORA ENERGY GROWTH FUND**, raised over \$10 million in its first three weeks of operation. Tuscarora Energy Growth Fund is an open-end mutual fund that will invest in companies – both private and public – that operate in Canada's energy industry. The fund is registered under the federal LSVCC program in order to give it the flexibility to invest in a diversified combination of private and public companies. For more information please contact Gary Selke, President and CEO, Front Street Capital at (416) 957-9595 Ext. 408.

■ **MOSKOWITZ CAPITAL MANAGEMENT FUND I** is being established to focus on traditional sectors using technology for growth (\$1 to 3 million). For more information contact Brian Moskowitz at (416) 781-6500 or brian@moskowitzcapital.com.

■ Ottawa venture capital firm **SKYPOINT CAPITAL CORP.** has closed a new US\$100 million fund. **SKYPOINT'S TELECOM FUND II** is targeted at telecom and datacom networking firms in the Ottawa-Montreal and Quebec City Corridor. For more information contact Andy Katz at (613) 271-1502.

■ **TD CAPITAL PRIVATE EQUITY INVESTORS** is pleased to announce that the second closing for the **TD CAPITAL PRIVATE EQUITY INVESTORS** fund of funds occurred on June 26, 2002. Commitments now total approximately US\$270 million, exceeding our initial target of US\$250 million. The next closing is scheduled for October 23, 2002. TD Capital Private Equity Investors will invest in a portfolio of leading North American and European venture capital and buyout funds. To find out more about this offering, please call 1 (866) 831-2343.

■ **TRILON FINANCIAL CORPORATION**, one of Canada's leading financial services companies, announced it has raised an additional \$15 million in capital for the **TRICAP RESTRUCTURING FUND** through GE Capital Funding Canada, the most recent participant to join the Fund. This latest infusion of capital increases the Fund base to CDN\$415 Million. For further information please contact Jeffrey Blidner, Vice Chairman, Trilon Financial Corporation at (416) 956-5173.

Overview *(continued from page 1)*

indicators in the second quarter, with \$192 million invested (46% of disbursements) in 98 firms, (52% of companies financed). The Ottawa area, which dominated the Canadian industry landscape throughout 2001 and early into 2002 experienced a major contraction in activity, from \$321 million one year ago to a mere \$28 million in Q2 of this year, or a 91% drop. Ten companies received financing this time around, compared to 16 in the same period last year, attesting to the importance of very large deals to the region in the past.

As disbursements fell-off in the second quarter, fund-raising remained surprisingly brisk. A total of \$613 million in new capital commitments was added to the national pool between April and June, bringing combined inflows in the first six months to an impressive \$2.1 billion. Of particular note is new commitments to limited partnerships (LPs) managed by Canadian private-independents, which hit \$352 million in Q2, bringing their year-to-date total to \$567 million, or 17% more than the \$483 million raised by them in all of 2001.

The industry also passed a milestone with the creation of 2 fund-of-funds – TD Capital Private Equity Investors and Edgestone Capital Venture Fund of Funds, which together could bring upwards of \$300 million in supplementary resources to private LPs in the near future.

The fact that new commitments are being made when the investment climate is somewhat depressed is a reminder of private equity's long-term nature. Indeed, a strong case can be made for venture activity at present, as good deals done today may ultimately realize better returns than many of those done in the frothy environment of 2000. It is important to remember that we are experiencing a cyclical downturn and not a fundamental change in the industry's future prospects.

Message from the 2002 Conference Chair

I am very pleased to report that the CVCA's 2002 'Ride the Wave' Conference just held at the Four Seasons Hotel in Toronto was a tremendous success! Feedback has been overwhelmingly positive with terrific suggestions for next year's Conference in Ottawa.



We enjoyed record attendance due to an excellent speaker program. Our Gala Evening was great fun – Norm Francis was awarded the Entrepreneur of the Year title (see Winners Circle, Pg. 4), Carla Collins shocked us with her outrageous humour, and the music of John McDermott was wonderful.

Allow me to thank everyone who attended, our generous sponsors, and well-prepared speakers. And special thanks to the 2002 Conference Committee who did such an outstanding job.

Jim Hall
Chair, 2002 CVCA Conference

Events Calendar

CVCA Events

- August 28, 2002 – Brampton
The Sharwood CVCA Golf Classic
In support of the Parkinson Society Canada
Lionhead Golf & Country Club
Visit www.gtigolf.com/sharwood
- September 25, 2002 – Toronto
Annual General Meeting, (5:00 p.m.), Reception & Dinner
Presentation of 'Deal of the Year' Award
Keynote speaker: TBA
Fairmont Royal York Hotel
100 Front Street W., Toronto
(Note: Annual General Meeting for CVCA members only, Reception and dinner open to all.)
- September 26, 2002 – Ontario
YVC Greystone Golf Invitational
This is Young Venture Capitalists (YVC)'s 2nd annual golf tournament.

- October 16, 2002 – Toronto
8:00 a.m. – 2:00 p.m.
Professional Development Seminar 'Management Due Diligence'
TSE Conference Centre,
130 King Street West, Toronto, Main Floor
- June 11-13, 2003- Ottawa
Annual Conference 2003
Canada's premiere Venture Capital and Private Equity Conference
Fairmont Chateau Laurier

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

Industry Events

- September 9-10, 2002 – New York
New York Venture Summit
Hosted by The New York New Media

Professional Development Committee Update

CVCA's Professional Development (PD) Committee is very pleased to report the completion of another successful PD season. The 2001-2002 PD Series consisted of the usual, 4 half-day morning events all taking place at the state-of-the-art TSE Conference Centre downtown Toronto, now home to all PD events. CVCA attracted high profile experts in their respective fields, both in our Technology Trends and Investment Opportunities sessions (e.g. Jim Balsillie of Research in Motion at the Mobile Computing/Communications event, or Dr. Nicholas Darby of Dow Chemicals VC group at the Nano-technology event), as well as in our practical more VC-related PD events (e.g. turnaround expert Bud Kirchner of VisionQuest at the Managing the Downturn and Survival Strategies session or Barry Reiter of Torsys at the Venture Capital Liabilities/Risk Mitigation Strategies session).

The past year was marked with strong attendance, healthy audience participation and positive attendee feedback in surveys. The CVCA would like to thank all the speakers that contributed their time as well as our generous sponsorship partners including

Torsys LLP, PriceWaterhouseCoopers, Gowlings, Aird and Berlis, Chubb Insurance, Hunter Keilty Muntz & Beatty and NRC.

We are also pleased to report that our PD events will be broadcast to other locations via video-conferencing.

The next PD event, the first of the new season, will be held on October 16th. The session is entitled "Management Due Diligence", featuring well known key note speaker Geoff Smart, who will share with us the interview and other techniques that are employed in his business, which is dedicated solely to providing management assessments for US and Canadian VC's. Other assessment techniques and different perspectives on such issues as team dynamics and effective team building will also be provided by other knowledgeable speakers including an HR consultant, a VC and an entrepreneur. This promises to be a great event to kick off the season – you won't want to miss it!

Roger Wilson
Chair, PD Committee

Association (NYNMA) and youngStartup Ventures Inc. Visit www.vcsummit.com

- October 1 & 2, 2002 – San Francisco
BIO VentureForum
Hosted by Biotechnology Industry Organization (BIO). Visit www.bio.org/bioventureforum/2002/index.aso
- October 17 & 18, 2002 – Toronto
ALL ABOARD – An Entrepreneur's Forum
Understand the strategic value of a Board of Directors, how Boards operate to maximize wealth and growth, and the mechanics of creating a Board. Visit www.allaboardforum.ca
- October 21-24, 2002 – Edmonton
ICE 2002 – The Tech Conference
CIPS Edmonton's ICE 2002 is Edmonton's premiere technology conference. Visit www.iceconference.com
- November 4 & 5, 2002 – Vancouver
IT Financing Forum West
Visit www.financingforum.com
- November 7, 2002 – Vancouver
Risk Capital in Canada; Breaking Down Barriers, Increasing Access
This one-day symposium will feature international experts addressing the overall infrastructure of risk capital for emerging Canadian companies. Visit <http://www.tse.com/en/aboutUs/education/index.html> and <http://www.commerce.ubc.ca>
- November 7, 2002 – New York
Technology Showcase
Hosted by The New York New Media Association (NYNMA). Visit www.technologyshowcase.org/
- March 24 & 25, 2003 – Toronto
VentureFair 2003
Hosted by Toronto Venture Group, Canada's venture fair showcasing emerging growth companies. Visit www.venturefair.com
- March 31 & April 1, 2003 – Montreal
Go North 2003
Middle stage Technology Financing Forum. Visit www.gonorth2003.com

Winners' Circle

CVCA's 2002 Prestigious Entrepreneur of the Year Award for 2002

The CVCA is pleased to announce **Norm Francis** co-founder and Chairman of Pivotal Corporation, as the recipient of CVCA's 9th Annual 'Entrepreneur of the Year Award'.



Established in 1992, the purpose of CVCA's 'Entrepreneur of the Year Award' competition is to promote, highlight and celebrate the achievements of entrepreneurs who lead venture backed Canadian companies. The selection process focuses on individuals whose entrepreneurial spirit, drive and success personify the qualities that all venture capitalists seek to find in their investees. Under Norm Francis' leadership as CEO,

Pivotal grew quickly to become a global provider of customer relationship management and eBusiness solutions that enable companies to improve their sales, marketing and customer service operations. From initial product introduction in 1995, Pivotal's revenues grew from zero to over US\$95 million in 2001. Deloitte & Touche named Pivotal the fastest growing technology company in Canada in 2000 and one of the top 10 fastest growing companies in North America.

Mr. Norm Francis was honoured at the Gala Evening at the CVCA Annual Conference in Toronto on Thursday June 20, 2002.



Questions, comments and contributions to the **Enterprise** are welcome! Please contact the CVCA office at:

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