



# Enterprise

## Overview:

### Industry Activity Continues to Slow in Q2

For the second consecutive quarter, dollars invested by Canada's venture capital industry fell markedly, reaching \$212 million between April and June, down by 33% from the \$314 million recorded in the first three months of 2003. Q2's level of disbursements was also less than half of the \$458 million invested at the same time in 2002, when the telecommunications meltdown in public markets and other factors sparked the first major contraction in Canadian activity in several years.

In addition, reduced flows of capital went to fewer deals in the second quarter, though the decline was not as steep in this instance. A total of 179 Canadian companies were financed, which is 18% shy of the 218 firms backed three months earlier.

As was the case in the first quarter, a key variable in softer disbursements this time was the lack of "mega-deals" of between \$20-100 million-plus that have driven much of industry activity since 2000. In fact, there were only 7 financings completed in April-June that were sized \$10 million-plus, while there were nearly twice as many the year before. Consequently, while the largest 10 deals of

Q2 2002 absorbed one-third of all dollars invested at that time, the top 10 in Q2 2003 took only 23% of the aggregate.

Influenced by continuing economic uncertainty, Q2 outcomes reflect the slowest pace of venture activity in Canada since 1996. This being said, many industry professionals are taking heart in the recent spate of acquisitions of Canadian venture-backed firms in IT sectors – including the May purchase of THINK Dynamics by IBM, and in July, the sale of Wavemakers to Harman International Industries – which may portend further exit events critical to any improvement in market fortunes.

There was also a glimmer of hope apparent in the United States. For the first time since the opening months of 2000, an increase in activity in the American venture capital industry was noted, with \$US4.3 billion going to 669 companies in the second quarter, up from \$US4.0 billion disbursed in Q1 (Thomson Venture Economics).

The Q2 absence of Canadian "mega-deals" helps to clarify the tumble in amounts invested per company, which averaged a tepid \$1.2 million, compared to \$1.4 million between

*(continued on page 2)*

## From the President

In writing my last column as President of the CVCA, I am able to reflect back on a great year. Backed by an enthusiastic Board of Directors and several very active Committee Chairs, along with the great efforts of Kathryn Ryan and Lauren Linton, I am pleased to report on the progress of the CVCA.



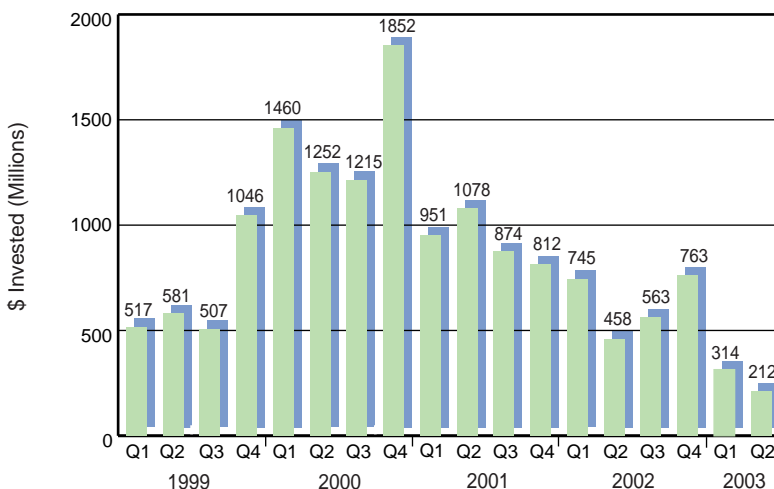
When I took over as President, there were several key initiatives which I wanted to pursue including 1) increasing our industry's profile with the government and institutions; 2) grow our membership base to represent venture capital and private equity investors across Canada; 3) expand our professional development program; and 4) create enhanced networking opportunities. The profile of the CVCA with the government and institutions has never been greater. We have established multiple relationships with key federal and provincial bureaucrats and politicians across many departments. This increased profile has resulted in government officials and other policy-makers actively seeking out the CVCA for advice and input. Furthermore, senior government officials have promised that our proposed amendments to the Q.L.P. structure will finally be adopted through the passing of federal regulations this fall. We have also worked very closely with the institutional investor community to provide greater transparency to them – via releasing return data and trying to standardize our valuation guidelines. Finally, we were instrumental in coordinating the federal and several provincial governments to perform a study on how to encourage greater institutional investment into venture and private equity funds in Canada.

Our membership base has continued to grow and currently stands at a record 850 members. This record growth has been partially gained by broadening our base to embrace private equity investors. While there is a lot of commonality of issues amongst venture capital and private equity investors, we have also broadened our programs to reflect topics specific to each of these groups. Furthermore, we have worked to enhance the membership benefits to members across the country with regional receptions and video-conferencing of our professional development programs.

Our professional development programs hit a new level of excellence and were attended (in person or by video-conference) by record numbers this year. These programs will ensure our industry's long-term viability through the first-class training of Canadian venture and private equity investors. In addition, our Ottawa conference had record attendance and the feedback from it was very enthusiastic.

*(continued on page 3)*

Quarterly Investment Activity  
By Canadian Venture Capital Industry



© 2003 Macdonald & Associates Limited

## New AdVENTURES

■ Mary Macdonald, CEO of the Canadian IT Financing Forum is pleased to announce that **Kathy Standeven** has accepted the position of President, **Canadian IT Financing Forum**. An accomplished businessperson and entrepreneur, Ms. Standeven has been strong contributing factor to the success of the Forum over the past two years through her involvement with the design and execution of the bi-annual event. Her previous experience in senior level roles within a range of industry sectors including consumer goods, telecommunications and most recently ten years within the pharmaceutical sector, positions her well to understand market and financing issues impacting IT and Biotech companies in Canada. For more information, contact Kathy at 604-538-6015 or [kstandeven@telus.net](mailto:kstandeven@telus.net).

■ **Richard Bradlow** has moved from Scotia Capital's investment banking group to Penfund. His responsibilities include origination and execution of mezzanine investments. Richard can be reached at 416-645-3794 or [richard@penfund.com](mailto:richard@penfund.com).

■ As of September 1st, **Luc Chabot** will join **Desjardins Venture Capital** as President and CEO. Since June 2001, Luc has been President and General Manager of Capital regional et coopératif Desjardins, as well as First Executive Vice President for Desjardins Venture Capital.

Prior to joining Desjardins, Luc was Vice President Finance and Corporate Affairs at Culinar Inc., General Manager for Groupe Lactel, as well as partner at [PricewaterhouseCoopers](http://PricewaterhouseCoopers). Luc can be contacted at 514-281-2298 or [luc.chabot@invdesjardins.com](mailto:luc.chabot@invdesjardins.com).

■ **TD Capital Canadian Private Equity Partners** has added **Brian Huen** as Associate. Prior to joining TD Capital, Brian was an Associate in the investment banking group of Credit Suisse First Boston where he completed a number of corporate finance and mergers & acquisitions assignments for large Canadian corporations. Previously, Brian was a senior associate in the equity research department of Scotia Capital where he assisted in the coverage of small capitalization, special situations and technology companies. Brian can be contacted at 416-308-6367 or [brian.huen@tdcapital.com](mailto:brian.huen@tdcapital.com).

■ **TD Capital Private Equity Investors** has added **Jean Potter** as Analyst. Prior to joining TD Capital, Jean worked as an Analyst in the investment banking division of Merrill Lynch in Toronto, where he executed Canadian and cross-border corporate finance and mergers & acquisitions assignments for companies in various industries. Jean can be contacted at 416-307-0102 or [jean.potter@tdcapital.com](mailto:jean.potter@tdcapital.com).

■ **Mark MacTavish** has recently returned to **ONCAP Management Partners** after completing his MBA at Harvard Business School. Mark takes on the position of Associate, identifying, analyzing,

negotiating, executing and monitoring privately negotiated equity investments on behalf of a C\$400 million private equity fund. For more information, contact Mark at 416-214-4302 or [mmactavish@oncap.com](mailto:mmactavish@oncap.com).

■ **Michael Berkson** has recently joined **HSBC Capital (Canada) Inc.** as an Associate. His responsibilities include assisting in the analysis and management of new and existing investment opportunities for both HSBC Capital's Private Equity Fund and its Leveraged Capital Fund. Michael has an MBA from the Ivey School of Business and can be reached at 604-631-8082 or at [michael\\_berkson@hsbc.ca](mailto:michael_berkson@hsbc.ca).

■ **Mark Shulgan** has recently joined **McKenna Gale Capital Inc.** as Associate. In his new position Mark will be researching, analyzing and structuring investment opportunities.. Mark can be reached at 416-364-8884 Ext. 320 or [mshulgan@mckennagale.com](mailto:mshulgan@mckennagale.com).

■ **e-Scotia** is pleased to announce it has changed its name to **Scotiabank Private Equity Investments** and expanded its mandate. In addition to financial services and technology venture investments, the company will also focus on equity and principal investments arising from restructurings, reorganizations and special situations. For more information, please contact Greg Milavsky, Managing Director and Group Head, 416-945-4888, [greg\\_milavsky@scotiacapital.com](mailto:greg_milavsky@scotiacapital.com); or Tony Cestra, Managing Director, 416-945-4088, [tony\\_cestra@scotiacapital.com](mailto:tony_cestra@scotiacapital.com).

## Overview *(continued from page 1)*

January and March, and \$3.7 million in 2002. This downward movement has been shaped by the industry's focus on existing portfolio firms, many of which are consuming only the minimum level of resources needed to sustain growth in the current environment.

Life sciences remained at the hub of activity in Q2, with \$51 million streaming to 42 companies, including Bioniche Life Sciences and Monteris Medical, giving this sector a 24% share of total capital invested. This occurred despite the fact that sector activity was down by 35% from \$79 million in the first quarter.

With no "mega-deals, the decline in communications and networking investment was sharper still, with 11 companies netting only \$15 million, down by 63% from three months prior. Perhaps not surprisingly then, this sector took a mere 7% of disbursements, a far cry from its one-quarter share in 2002.

Instead, it was software that led the IT field, with \$48 million, or 23% of capital invested, in 29 firms, such as AirIQ, Avotus and Intellitactics. A handful of large financings backing companies like D-Wave Systems, Original Solutions and Symagery Microsystems ensured second spot for computer hardware, electronics and semiconductors, with \$21 million in 17 companies.

Energy and environmental technology was one of the few sectors that actually gained some ground between the first and second quarters, registering \$13 million in 10 companies, chiefly because of the latest round injected into NxtPhase Corporation.

The dearth of large syndicated deals in telecommunications and affiliated IT between April and June helps to explain the drop in American and other foreign capital flows to a very modest \$19 million, down by 46% from the \$35 million disbursed by them in Q1, and less than one-fifth of the \$103 million recorded in Q2 2002. As a result, the foreign take of aggregate disbursements was 9%, or at some distance from their 27% share last year.

Most Canadian industry players exhibited restraint in Q2, though LSVCCs sustained their out-in-front position, deploying \$66 million, or 31% of the total. Corporate and private-independent funds generally kept pace with their investment activity in the first quarter, with \$33 million and \$32 million, while government funds registered \$29 million, followed by institutional investors at \$8 million.

In a trend that is now over two and a half years old, early stage companies remained in the majority in the second quarter. Seed, start-up and other early stage deals engaged 93 firms and these captured \$91 million, or 43% of disbursements. A total of 64 expanding companies secured a 44% share.

Partly on the strength of its fairly durable life sciences sector, Quebec led in Canadian industry, reflecting almost two-thirds of total company financings and 49% of all resources. The comparatively flat nature of activity in communications and affiliated IT had a deleterious effect in Ontario, which obtained 39% of capital invested, compared to the province's 52% share in 2002 overall.

Canadian industry fund-raising maintained the much slower clip observed in Q1, with \$162 million in new capital commitments accumulated nationwide, compared to the \$907 million brought into industry coffers at the same time last year. The bulk of the former amount owed to those LSVCCs that are active outside of the traditional RRSP season, and above all the Fonds de solidarité (FTQ) of Quebec.

New resources for institutionally supplied, private limited partnerships (LPs), were well short of the mark in April-June, with two exceptions: MDS Capital Corporation and British Columbia-based Neuro Discovery. It is anticipated that private LP activity will resume in earnest over the balance of 2003, however, given the significant number of major Canadian private-independent managers that are currently in fund-raising mode.

Individual investors accounted for over 80% of new commitments in Q2, with pension funds making up the balance.

## NEW Funds

■ **JEFFERSON PARTNERS** has raised \$150 million of new venture capital from Canadian and U.S. investors. Investors include pension funds of Pennsylvania and Colorado, Bank of Montreal, Sun Life Financial, Edgestone Capital Partners, BimCor Inc. and SEDCO. For more information, contact David Folk at 416-367-1533 or [dfolk@jefferson.com](mailto:dfolk@jefferson.com).

■ **NEURO DISCOVERY INC.** announced the initial closing of the **NEURO DISCOVERY LIMITED PARTNERSHIP**, a \$30 million fund that will invest in promising North American biotechnology companies.

Neuro Discovery and its wholly owned subsidiaries will manage and make investments for the fund. For further information, please contact Gordon McCauley at 416-815-1511 or [gmccauley@neurodiscovery.com](mailto:gmccauley@neurodiscovery.com).

■ **YALETOWN VENTURE PARTNERS** has attracted significant support in the first closing of its debut venture fund. The fund, **YALETOWN VENTURES I LIMITED PARTNERSHIP**, reached its initial close target of C\$30 million and will invest in early-stage energy technology and information technology companies in Western Canada. Subsequent closings will be completed by the end of this year. For more information, contact Steve Hnatiuk at 604-688-7807 or [press@yaletown.com](mailto:press@yaletown.com).

## Professional Development Committee Update

On behalf of the Professional Development (PD) Committee of the CVCA, I am pleased to report the completion of another very successful PD season. The four events of the 2002-2003 PD Series were held in the afternoon at the TSX Conference Centre followed by cocktail networking sessions. These events were simultaneously video-conferenced to Vancouver, Calgary, Montreal, Ottawa and more recently Halifax, and were very well attended. In fact, attendance in Toronto reached record levels. Participation of the audience continued to increase and panel discussions at the sessions created lively debates on topical issues such as down-round valuations and deal structuring in turbulent environments. Audience feedback through surveys was positive and at the same time provided constructive suggestions for future events. The PD Committee was able to bring well-known experts in their industries including William Tatham of Janna Systems, Osama Arafat of Q9 Networks and Dr. Joseph Jasinski of IBM Life Sciences to enrich these events with their perspectives.

We would like to take this opportunity to thank all our speakers for their time and effort in making these events a success, our annual series sponsors **PricewaterhouseCoopers** and **Gowling Lafleur Henderson LLP** for their ongoing generous support, and of course, you for your continuing interest in, and attendance at our events.

We look forward to another exciting PD year. Our first event on October 1st, 2003 will shed light on how to build successful cross border (US/Canada) companies, an issue many of our portfolio companies are faced with. Our second event scheduled for November 26th will deal with creating truly effective Boards of Directors and how venture capitalists can add more value as Directors. As in the past, we will bring different viewpoints of industry experts, entrepreneurs, venture capitalists and service providers for these and our other two events planned for the upcoming season so that these sessions can be as informative and thought provoking as possible.

**Sunil Selby**  
Chair, PD Committee

## Message from the 2003 Conference Chair

I'm very pleased to report that the CVCA's 2003 Annual Conference 'The Future is Wide Open', held at the Chateau Laurier in Ottawa, was a tremendous success with more than 400 attendees. Feedback has been overwhelmingly positive with terrific suggestions for next year's Conference in Calgary. A highlight was the pre-conference event at the prestigious Marshes Golf Club which was very well attended, despite the rainy weather conditions. The keynote address by Terry Matthews, Chairman and CEO of March Networks and one of the pioneers of the technology and venture capital community in Canada literally raised the energy level of the whole conference. We enjoyed record attendance due to an excellent speaker program and first-class networking opportunities. The gala evening was great fun – Michael Egan, Founder and Chairman of InSystems Corporation was the recipient of the CVCA 10th Annual Entrepreneur of the Year award and Cathy Jones entertained



**Terry Matthews, Chairman and CEO, March Networks**

us with her wry style of East Coast comedy and satire.

Let me take this opportunity to thank everyone who attended, our generous sponsors and distinguished speakers. A special thanks for the 2003 Conference Committee members who contributed their time and energy to make the event an outstanding success.

**Claude Haw**  
Chair, 2003 CVCA Conference

## From the President

(continued from page 1)

Networking opportunities grew with the regional receptions, the creation of our own CVCA golf tournament, and a golf event prior to the conference amongst others.

Notwithstanding our progress on these fronts, there are still many additional initiatives which we would like to pursue including increasing membership benefits as well as expanding the mandate of several of our committees. As a result, we decided that the best way to accomplish this was through increasing our staff team by hiring an Executive Director. This hiring

process is underway and it should take the CVCA to a new level.

In parting, it was a pleasure to serve as your President. We are fortunate to have a very enthusiastic membership which includes many extremely generous volunteers. This is a great combination which should bode well for the future of our industry.

**Brad Ashley,**  
President, CVCA

©2003 Darren Brown/Ottawa Business Journal

## Events Calendar

### CVCA Events

- Tuesday, September 16, 2003 – Toronto  
**Annual General Meeting, Reception, Dinner and 'Deal of the Year Award'**  
Fairmont Royal York Hotel
- Thursday, September 25, 2003 – Milton  
**Young Venture Capitalists (YVC) Annual Golf Tournament**  
Greystone Golf Course, 7:30 a.m.
- Wednesday, October 1, 2003 – Toronto \*  
**Professional Development Seminar**  
Topic will cover building effective Canadian/U.S. cross-border companies  
TSE Conference Centre, 1:00 to 6:00 p.m.  
130 King Street West, Toronto, Main Floor
- Wednesday, November 26, 2003 – Toronto \*  
**Professional Development Seminar**  
Topic will cover how to establish a true value-added Board  
TSE Conference Centre, 1:00 to 6:00 p.m.  
130 King Street West, Toronto, Main Floor  
\*OUR PD EVENTS WILL BE VIDEO CONFERENCED INTO HALIFAX, MONTREAL, OTTAWA, CALGARY, VANCOUVER AND WINNIPEG.

- May 26-28, 2004 – Calgary  
**CVCA Annual Conference**  
Hyatt Regency

To register for CVCA events, please visit the events page of our web site at [www.cvca.ca](http://www.cvca.ca), or e-mail your contact info and questions to [cvca@cvca.ca](mailto:cvca@cvca.ca)

### Industry Events

- September 15, 2003 – Montreal  
**RFM Cocktail Reception**  
Visit [www.rfm.qc.ca](http://www.rfm.qc.ca)
- September 16 & 17, 2003 – San Jose & San Francisco  
**Hosted by the Canadian Consulate Trade Office (Silicon Valley)**  
Contact [andrew.scoular@dfait-maeci.gc](mailto:andrew.scoular@dfait-maeci.gc)
- September 21-23, 2003 – Ottawa  
**Wireless Industry Congress 2003**  
Visit [www.wic2003.com](http://www.wic2003.com)
- September 24, 2003 – Montreal  
**RFM – Go Public**  
Visit [www.rfm.qc.ca](http://www.rfm.qc.ca)
- October 8, 2003 – Toronto  
**TVG Breakfast Meeting**, Keynote Speaker  
Melinda Rogers, Rogers Communications  
Visit [www.tvg.org](http://www.tvg.org)

- October 23 & 24, 2003 – Toronto  
**ALL ABOARD Forum** – The Strategic Value of Boards  
Visit [www.allabaordforum.ca](http://www.allabaordforum.ca)
- October 29 & 30, 2003 – Montreal  
**3rd Annual Angel Investor Summit 2003**  
Visit [www.angelinvestor.ca](http://www.angelinvestor.ca)
- October 30-31, 2003 – Ottawa  
**7th Annual Ottawa Venture Capital Fair**  
Visit [www.ottawacapitalnetwork.com/vcfair](http://www.ottawacapitalnetwork.com/vcfair)
- November 12, 2003 – Toronto  
**TVG Breakfast Meeting**, Entrepreneur and VC Panel: "Company Exits"  
Visit [www.tvg.org](http://www.tvg.org)
- November 24 & 25, 2003 – Vancouver  
**Canadian IT & Biotech Financing Forum West**  
Visit [www.financingforum.com](http://www.financingforum.com)
- November 27 & 28, 2003 – Hull, Quebec  
**Réseau Capital Conference 2003**  
Visit [www.reseaucapital.com](http://www.reseaucapital.com)

## Winners' Circle

### CVCA's 2003 Prestigious Entrepreneur of the Year Award for 2003

The CVCA is pleased to announce **Michael Egan** founder and Chairman of InSystems Corporation, as the recipient of CVCA's 10th 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.

InSystems' Mike Egan identified a problem that existed in the insurance industry and conceptualized a solution to address it. Together with a single developer, Mike built the first document creation and assembly tools which allowed large enterprises to pull together complex documents from a wide variety of legacy databases quickly and efficiently.

From initial product introduction in 1989,

InSystems' revenues grew from zero to over \$36 million in 2002. In July 2002 the company sold for US\$89,000,000 providing a substantial return to all shareholders. Today, InSystems dominates the insurance vertical with an impressive roster of more than 350 customers in 24 countries and several prestigious business and industry awards. Ventures West Management Inc., VenGrowth Capital Partners and Century Capital are the venture capital firms that backed InSystems in 1996, 1998, 2000, and 2001.

Michael Egan was honoured at the Gala Evening at the CVCA Annual Conference in Ottawa on Thursday, June 12, 2003.



## EMAGINE

For the past year, the CVCA has been supporting a new, national initiative called EMAGINE. EMAGINE encourages investors and entrepreneurs to pledge a portion of the future gains of their illiquid private equity investments to charity. A revolution in giving, EMAGINE has the potential to generate millions for charity.

It's also about the power of leadership. EMAGINE has been specifically designed to empower our community in a unique and groundbreaking way. The CVCA recognizes the potential of this initiative and I hope CVCA members will follow our lead, join EMAGINE and build the momentum.

To get involved, visit the EMAGINE website at [www.imagine.ca/emagine](http://www.imagine.ca/emagine) and register as a member.

**Brad Ashley**  
President, CVCA



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

**234 Eglinton Avenue East,  
Suite 200  
Toronto, Ontario M4P 1K5  
Tel: (416) 487-0519  
Fax: (416) 487-5899  
e-mail: [llinton@cvca.ca](mailto:llinton@cvca.ca)  
[www.cvca.ca](http://www.cvca.ca)**

Information in this edition of **Enterprise** has been prepared with the assistance of Macdonald & Associates Limited.