



Enterprise

Overview:

Industry Disbursements Plummet in Q1

After a significant spike in Canadian venture capital industry activity during the final months of 2002 – when dollars invested jumped by 51% as compared to the previous quarter – activity resumed a slower pace in Q1 2003. Between January-March, the industry disbursed \$305 million, down by 60% from the \$754 million registered in Q4 2002. Current rates of capital invested were also down by a comparable level from \$758 million of the same first quarter period of one year ago.

Q1 disbursements went to 212 Canadian companies, which is also sub par, but by a more moderate 18%, from the 259 firms that received venture investment three months before. The current number is closer to Q1 2002, when 213 firms were recorded.

In dollar terms, the level of industry activity at the outset of 2003 is one of the lowest since 1998. This fact indicates that the market contraction that has been in effect for over two years has been compounded more recently by world events and an economic climate that remains uncertain.

More specifically, the phenomenon of a steep

decline in disbursements, matched by a steady volume of venture-backed firms, points to the absence of many large, dollars-intensive transactions – or “mega-deals” – between January-March, of the kind that have accounted for the bulk of capital flows over 2000-2002, and that typify much telecommunications activity, particularly in the Ottawa Valley. To illustrate, in Q1 2003, the 10 largest company financings captured 32% of capital invested in total, while in Q1 2002, the top 10 consumed 57%.

This phenomenon was also highlighted in amounts invested per company, which in the first quarter averaged \$1.4 million, as compared to \$2.9 million in Q4 of last year, \$3.6 million in 2002 as a whole.

Consequently, the experience of the Canadian industry moved closer to that of the American industry, where regular declines in activity have occurred since 2000. This being said, reductions in venture capital invested in the United States have been much deeper, with the \$US3.8 billion disbursed in the first three months approaching levels last seen in 1997, and the current

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From the President

2003 continues to be a very busy year for the CVCA. Our 2003 Conference sold out of sponsor packages and registrations which confirms both the robustness of our association, as well as the strong and enthusiastic support by our members. We have an impressive speaker line up and exciting show planned for the Gala evening. Claude Haw and his Conference Committee have done an excellent job in creating a world class event. Our Professional Development Committee, led by Sunil Selby, continues to produce record events – the last one in April on Valuations which was held in Toronto and video-conferenced into five other cities across Canada. We hope to expand the video-conferencing to include Winnipeg in the fall. Our Inaugural CVCA Golf Classic – to be held in Toronto on August 27 – had tremendous reception from our members and is virtually sold out. I know that this event will be a lot of fun.



Our public policy advocacy efforts are led by Rick Nathan who has provided an update on page 4. While the most recent federal budget promised amendments to the QLP structure, as of today (May 21), we are still waiting for these amendments to be implemented. We have been told that this should be in place by this fall – and we will stay on top of this issue until its successful conclusion.

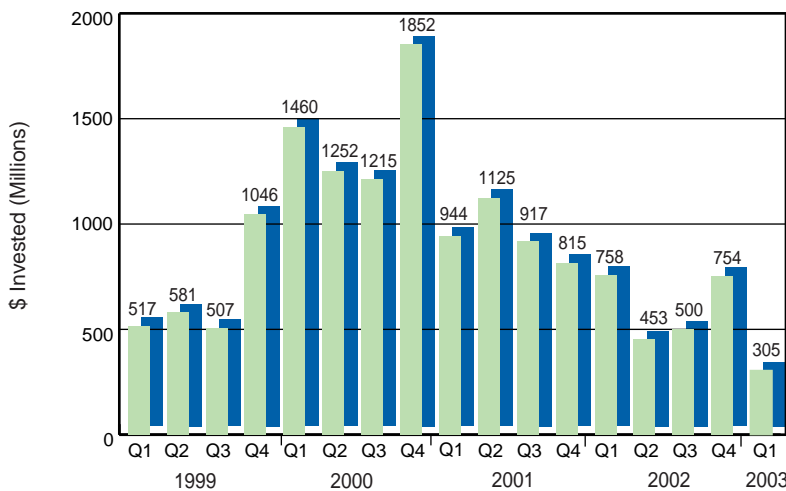
John Bradlow and Allen Lupyrypa lead a committee that has produced return statistics and is in the process of establishing uniform valuation criteria for reporting in order to help institutions to better understand our industry. We anticipate that this will lead to greater investment interest by both domestic and international institutions in Canadian venture capital and private equity funds.

Our industry continues to experience some challenges. The slow down in Q1 2003 was exacerbated by the impact of the SARS scare and the then impending Iraq war. With the lifting of these issues by mid-Q2-2003, we hope that our investment activities will continue the positive trend seen in late 2002.

I continue to welcome new ideas or comments you have with respect to the CVCA and I look forward to seeing you in Ottawa.

Brad Ashley,
President, CVCA

Quarterly Investment Activity
By Canadian Venture Capital Industry



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New AdVENTURES

■ **Bill Watchorn**, President and CEO of **ALTURA Management Inc.**, the Manager of ALTURA Growth Fund (EVCC) Inc., a new BC based LSIF, is pleased to announce the appointment of **Andrew Scott** as Executive Vice President. Andrew, a partner in the firm, will utilize his extensive investment banking and operational experience in identifying, evaluating, and funding new ventures. Andrew can be reached at 604-646-8364 or ascot@altura.bc.ca.

■ **Larry Lam**, who most recently worked as Intelligent Photonics Control Corp.'s Director of Marketing, started his new role as **BDC Venture Capital's** director of technology seed investments last week. The appointment is part of BDC Venture Capital's strategy to provide financial options for companies at each stage of their life cycle. Larry can be reached at 514 283-8030 or larry.lam@bdc.ca.

■ **Karl Reckziegel** has recently rejoined the **BDC Venture Capital Group** as Director, Advanced Technologies in Montreal. For the past 5 years Karl has been spending time a little further up the balance sheet as VP of the bank's lending operation in Vancouver and most recently as VP leading BDC's electronic banking unit. Karl will be looking for investment opportunities in the Montreal and Ottawa markets. Karl can be contacted at 514-496-0725 or kar.reckziegel@bdc.ca. BDC's Advanced Technology Team specializes in investments in electronics, clean technologies, materials and other advanced industrial process technologies across the country.

■ **Mark Ahrens-Townsend** has joined **ENSIS Management Inc.** the manager of ENSIS Growth Fund Inc. as Executive-In-Residence to act as a mentor to investee companies in the technology sector as well as assist in the process of identifying, evaluating, and funding new ventures. Mark is a graduate Engineer and MBA from the University of Manitoba and spent the past 20 years in the Engineering

and Information Technology Industries. Prior to ENSIS, Mark was the President and CEO of Norsat International Inc. (NII) a publicly traded TSX company. Mark can be reached at 204-949-3708 or mahrens-townsend@ensis.mb.ca.

■ **Ken Douglas** has joined **ENSIS Management Inc.** the manager of ENSIS Growth Fund Inc. as an Associate. Ken will assist in identifying, screening, structuring and developing quality venture capital investments. He has previously worked with CastleHill Ventures and in the financial services industry in Toronto. He has an MBA from the Ivey School of Business, University of Western Ontario. Ken can be reached at 204-949-3720 or kdouglas@ensis.mb.ca.

■ **Export Development Canada** is pleased to announce that **François Houde**, MBA, CA, formerly with our Project Finance team, has recently joined the Equity Group as a Financial Services Manager. Prior to joining EDC, François worked for Ernst & Young Corporate Finance Inc. François will be responsible for deal sourcing and structuring and investing in high technology venture capital financings. François can be reached at 613-597-8018 or fhoude@edc.ca.

■ **Lee Grunberg** of **HSBC Capital (Canada) Inc.** has taken on the position of Associate. Lee will primarily be responsible for supporting existing and new investment opportunities for both HSBC Capital's Private Equity Fund and its Leverage Capital Fund. Additionally, Lee will be responsible for identifying and attracting new investment opportunities. Lee can be reached at 416-864-3194 or lee_grunberg@hsbc.ca.

■ **Stuart Angus** has joined **McLean Watson Capital Inc.** as an Executive Partner in the Toronto office. Stuart most recently ran EarthTech Canada (U.S. \$200 million in sales). He will be working directly with McLean Watson's portfolio companies. He can be reached at 416-307-3273 or sangus@mcleanwatson.com.

■ **Shawn Lanthier** has recently joined **Teacher's Merchant Bank** as Associate. He previously worked with CIBC World

Markets. Shawn can be reached at 416-730-5308 or shawn.lanthier@otpp.com.

■ **David Lin** has recently joined **Teachers' Merchant Bank** as Senior Associate. He previously worked National Bank Financial. David can be reached at 416-730-5107 or david_lin@otpp.com.

■ **Yvan Chéné** recently joined **Sverica International** as Analyst responsible for industry research and analysis. Yvan can be reached at 514-499-9500 or yvan@sverica.com.

■ **VenGrowth Capital Partners Inc.** is pleased to announce the appointment of **Graham McBride** as General Partner. Graham joins VenGrowth with over 17 years of experience as one of Canada's foremost experts on mezzanine debt financing. During his career, Graham has been responsible for investing over \$170 million in leading Canadian mid-market companies in the manufacturing and service industries. Graham will be responsible for VenGrowth's mezzanine debt financing activity, targeting deals of between \$3 to \$7.5 million in established, cash flow positive, Canadian companies. Graham can be reached at 416 971-6656.

■ **VenGrowth** is also pleased to announce the addition of **Dr. Teo Dagi** to the VenGrowth Advanced Life Sciences Fund's Scientific Advisory Board. In addition to managing life sciences funds for two US venture capital firms and acting as a consultant to the FDA, Dr. Dagi brings extensive experience as a neuroscientist and neurosurgeon. Dr. Dagi joins existing board members Dr. Martin Barkin, Dr. William A. Scott, and Brian King. VenGrowth's Scientific Advisory Board is comprised of leading international figures in the life sciences community.

■ Additionally, **Ed Dermit** has joined **VenGrowth Capital Partners Inc.** as Vice President of Marketing. Before joining VenGrowth, Ed was Vice President of Product and Marketing at ING Investment Management. Prior to ING, he was the Director of Product Marketing at AGF Funds. Ed can be reached at ed@vengrowth.com or 416-967-2392.

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numbers of companies financed (623) reflecting a six-year low (Venture Economics). American industry disbursements totaled \$US4.3 billion in Q4 2002, and \$US6.5 billion a year ago.

Further testimony to Canadian industry conservatism was witnessed in the on-going preference for follow-on transactions, which consumed 72% of dollars invested in aggregate, suggesting that the cash squeeze affecting new deal activity will persist in the foreseeable future.

Large deal syndicates in support of high profile communications firms, which have been a common sight in Canada over the past three

years, were few and far between in the first three months of 2003. Tropic Networks and TeraXion were two of 15 companies that shared a mere \$52 million, or 17% of aggregate disbursements.

By contrast, activity in life sciences held up reasonably well, with \$79 million streaming to 42 companies. Fairly large transactions, engaging such firms as Bioxel Pharma, Infectio Diagnostic and Victhom Human Bionics, helped in boosting capital flowing to this sector, with the result life sciences led this time around, capturing 26% of all disbursements.

Computer software took third spot, with over \$52 million invested in 39 companies. However, despite a handful or major financings in the first three

months, involving such firms as KLOCwork and Bistro Corporation, software-related investment appears to be continuing its move along a downward slope. The same can be said of internet-related activity, of which 19 companies garnered \$40 million.

Apart from the deal involving Infomedia Research Group, activity in semiconductors, electronics and computer hardware firms also made a small impression in January-March, reflecting \$35 million and 22 companies.

With reduced attention paid to communications and affiliated IT sectors in Q1, it is not surprising that the pace of foreign investors – consisting primarily of American venture funds and strategic

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NEW Funds

■ TD Capital Private Equity Investors is pleased to announce the final closing of the **TD CAPITAL PRIVATE EQUITY INVESTORS FUND OF FUNDS**. Commitments total US\$351 million (C\$526 million), a successful closing made possible by strong support from Canadian institutional investors. TD Capital Private Equity Investors will invest in a portfolio of leading North American and Western European venture capital and buyout funds. For more information about the Fund, please call 1-866-831-2343.

■ **ALTURA GROWTH FUND (EVCC)** Inc. is a new British Columbia LSIF. ALTURA is one of only two LSIFs in British Columbia and is the first new LSIF in British Columbia in ten years. ALTURA is a sister fund to Manitoba's **ENSIS GROWTH FUND**. ALTURA seeks to invest in early and growth stage technology, life sciences and basic industry companies throughout BC. The firm will provide both equity and subordinated debt financings, in the near term a preference will be given to subordinated debt opportunities. For more information visit www.altura.bc.ca or call Andrew Scott at 606-646-8364.

■ **JEFFERSON PARTNERS** is pleased to announce the fourth closing of Jefferson Partners Fund IV, which brings total commitments to \$150 million. Jefferson Partners Fund IV, much like its predecessor, Jefferson Partners Fund III, will be focused on making venture investments in the IT software and services, internet infrastructure and the communications sectors in North America. For more information please contact www.jefferson.com.

■ **VENGROWTH** is pleased to announce raising an additional \$123 million in its **VENGROWTH II** and **VENGROWTH ADVANCED LIFE SCIENCES FUNDS** combined, ranking them as the No. 1 and No. 2 selling funds this past RRSP season. For more information contact Fiona Robertson, Director, Marketing Communications at 416-967-2271 or fiona@vengrowth.com.

■ **SPECTRUM MEDICAL MARKET CONSULTANTS** are pleased to announce their partnership with Atlantic Life Sciences Inc. of Montreal and **CÉMAX** of Rouen, France in offering Phase 1 clinical trial services. For more information please contact Wayne Bryant, President at 514-696-0303 or wbryant@sprintUS.com.

■ **YALETOWN VENTURE PARTNERS**, of Vancouver, BC, has attracted \$30M in its first closing of Yaletown Ventures I Limited Partnership. The fund will focus on early-stage investments in the energy technology and information technology clusters in BC and Alberta. Yaletown's founding investment team of four partners has over 60 years of early-stage investing, technology development, and operating experience. Yaletown's extended team of eight co-founding Special Limited Partners includes some of the region's most accomplished technology entrepreneurs and investors who have founded, built, and financed many of the companies at the heart of Western Canada's technology industry. "In this challenging fundraising environment, we are pleased by the confidence our investors have shown in our market opportunity, investment model and team", said Steven Hnatiuk, one of Yaletown's principals. Limited partners in the fund include pension funds, funds of funds, and major corporations. The fund remains open for subsequent closings for a period of six months. For more information please contact Steve Hnatiuk @ 604-688-7807 (x108) or SteveH@Yaletown.com.

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corporate groups – also slowed. Foreign sources contributed \$22 million to capital invested, down 76% from the \$92 million accounted to them three months prior. As a result, their share of aggregate disbursements was 7%, or well shy of their 26% share in the entire of last year.

LSVCCs once again emerged as the most active industry player in the first quarter, contributing \$99 million, or 32% of the total. Government funds finished in second place with \$52 million, or a 17% share. Private-independent funds deployed \$32 million, followed by corporate funds with \$30 million and institutional investors with \$26 million.

Seed, start-up and other early stage transactions have dominated the Canadian industry landscape for two years now, and remained very much in evidence in the first three months. Of the 212 venture-backed companies in total, 61% were exceptionally young and these captured 55% of capital flows. By contrast, expanding companies fell backwards, consuming only 41% of disbursements.

The tumble in communications activity in Q1 impacted on Ontario, which reflected only \$98 million and 53 companies, down by 80% from the \$498 million of the final quarter of 2002. The relative durability of life science trends ensured that Quebec, by contrast, enjoyed sustained activity, seen in its \$165 million, or 54% of capital invested. With \$19 million and 6% of disbursements, activity in British Columbia also fell.

Canadian industry fund-raising also slowed at the outset of 2003, though it still surpasses current trends in the United States. For instance, the RRSP season, which typically supplies the vast majority of tax-supported LSVCCs with new capital for the months ahead, proved less hospitable this past January and February. In total, LSVCCs raised \$888 million, down by 24% from the \$1.2 billion secured during the RRSP season of 2002.

At \$74 million, private limited partnerships (LPs) brought in fewer new resources in the first quarter than they did one year ago, however, there were some auspicious final LP closings, including Jefferson Partners Fund IV, which has the distinction of being one of the largest funds raised over the past couple of years. Another illustration is seen in the closing of Yaletown Ventures I LP, which is one of a very small number of first-time funds to successfully raise institutional capital in recent years. Other major fund-raisers included Celtic House Venture Partners, Prairie Ventures Fund and TechnoCap.

LSVCCs and private LPs and other funds contributed to an aggregate of \$1.0 billion in fresh industry supply in Q1, or about 32% shy of the \$1.5 billion of the same time last year. Given the prevalence of LSVCCs, individual investors were the primary source, accounting for almost 90% of all inflows, with foreign, corporate and government sources sharing the balance.



Young Venture Capitalists (YVC) Bike Tour of Niagara wine region on May 28th was a sell out event and great success.

Events Calendar

CVCA Events

- Wednesday, June 11, 2003 – Ottawa
CVCA Conference Golf Event
Marshes Golf Club
For Conference delegates only.
- June 11-13, 2003 – Ottawa
**“THE FUTURE IS WIDE OPEN”
Annual Conference 2003**
Canada’s premiere Venture Capital and
Private Equity Conference
Fairmont Château Laurier
- Wednesday, August, 27, 2003 – Kleinburg
(Ontario)
The Inaugural CVCA Golf Classic
Copper Creek Golf Club & Nobleton Lakes
Golf Club
Focus will be on networking, prizes and fun!
- Thursday, September 18, 2003 – Toronto
Annual General Meeting and Dinner
Venue to be confirmed
- Thursday, September 25, 2003 – Toronto
**Young Venture Capitalists (YVC)
Annual Golf Tournament**
Greystone Golf Course

Industry Events

- June 4 and 5, 2003 – Boston
US/Canada Venture Capital Pipeline
Hosted by Burns & Levinson Canada Co.,
this event links Canadian companies seeking
financing with venture capital firms based in
the U.S. Visit www.BLcanada.com
- October 14-15, 2003 – San Francisco
**Early Stage Venture Investing
(4th Annual)**
Visit www.ibfconferences.com
- October 29, 2003 – Montreal
Angel Investor Summit 2003
Visit www.angelinvestor.ca
- November 12-13, 2003 – San Francisco
**Biotech Investing Conference
(11th Annual)**
Visit www.ibfconferences.com

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@bellnet.ca

Of Interest

Just Released – Private Equity Canada 2002

Building on the success of their inaugural report, law firm Goodman and Carr LLP has teamed up with McKinsey & Company to release **Private Equity Canada 2002**, based on research by Macdonald & Associates Limited.

To order a copy visit
www.goodmancarr.com or
www.mckinsey.com/privateequitycanada2002.

PETER STANDEVEN



September 29, 1954 - April 15, 2003

Peter Standeven, President of CanadaIT and co-founder of the Canadian IT Financing Forum, passed away on April 15th after a courageous battle with cancer. Peter will be remembered for his incredible commitment to emerging IT companies across the country and his desire to help them succeed. Friends and associates alike will miss Peter.

Public Policy Update

Your Public Policy Committee has been active on a number of different fronts over the past several months. Our top priority is to make additional sources of capital available to our members who are in the market seeking to raise new venture capital and private equity funds.

There are many legal impediments that discourage Canadian, U.S. and other foreign institutions from investing in Canadian VC funds, and our goal is to remove those impediments as quickly as possible:

- **Canadian Funds:** Currently, investments by Canadian pension funds in Canadian VC funds must be counted as “foreign property” and included in the 30% basket of allowable foreign investments for these institutions. This rule effectively limits the addressable market for Canadian VCs to only the very largest domestic pension funds, since all others are always fully invested in their foreign basket and have no room for alternative assets.

- **US and other Foreign Institutions:** Only a handful of Canadian VC funds have succeeded in navigating through the numerous regulatory and tax impediments that discourage US and other foreign institutions from investing in Canadian VCs.

It is obviously very challenging to raise new capital under current market conditions without the additional burden of navigating through these complex regulatory barriers.

Our efforts to create a level playing field that opens up the market for Canadian VCs have found support in Ottawa. The last Federal Budget in February 2003 announced plans to amend the rules governing “Qualified Limited Partnerships” in response to our submissions. We are eagerly awaiting draft legislation to see these plans turned into action.

We are also working on other policy fronts to respond to issues affecting investors and their portfolio companies, and we are always interested in new suggestions from CVCA members. If you have any issues that you’d like to discuss, whether you think they apply only to your specific circumstances or are more broadly based, please feel free to contact me.

Rick Nathan

Chair, CVCA Public Policy Committee
Managing Director,
Goodmans Venture Group
rnathan@Goodmans.ca



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