

Enterprise

Overview:

Q4 Growth Boosts Industry Activity For 2002

In a year of market correction and investor caution, Canada's venture capital industry nonetheless showed signs of vigour, especially in the final months of 2002. By December 31st, capital flows totaled \$2.5 billion, achieved in part because of a last burst of activity in Q4, when \$754 million was disbursed, up by an impressive 51% from the \$500 million of the third quarter. A total of 259 Canadian firms obtained financing in this period, up by 22% from three months prior. Consequently, company financings rose to a year-end aggregate of 677.

In other words, the Canadian industry enjoyed a better-than-anticipated outcome to 2002, considering the substantial drop in activity that occurred between April-September, on the heels of the telecommunications meltdown in public markets.

However, the industry continues to feel the effects of a contraction created by depressed public stocks, an uncertain economy, and, by extension, reduced exit options. Consequently, trends of this past year more closely resemble those of 1999, when \$2.6 billion was invested.

These points notwithstanding, the situation in Canada was fairly stable when viewed against the United States, where the venture capital industry has witnessed steady, and generally severe, declines in activity. The year-end tally of dollars invested south-of-the-border was \$US21.2 billion, or half of the \$US41.3 billion recorded in 2001. By contrast, Canadian disbursements of \$2.5 billion were down by 35% from last year's \$3.8 billion.

Characteristic of the choppy waters of 2002, Canadian venture professionals fixed their sights on portfolios, with the aim of keeping companies afloat in time for the market's renewal. For the most part, fund resources were strategically reserved for follow-on transactions, which captured 74% of capital flows.

The trend towards industry resource conservation was also apparent in company financing sizes, which at \$3.6 million on average, were well short of those of the recent past. For instance, in 2001, the average amount injected per company was \$5.1 million.

Canadian investor participation in deals located outside of the country – and primarily the

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From the President

2003 will be a very busy year for the CVCA. We are preparing for an outstanding conference in Ottawa June 11 – 13, which will be immediately preceded by a golf day at one of Ottawa's premier golf courses. Our Professional Development Seminars continue to expand after record attendance at our February 13th "Deal Structuring" event in Toronto, which was video-conferenced into four other cities (three of which were sold out). Video-conferencing of the April 10th "Valuations" event will be extended to Halifax. We will also be holding networking receptions in Calgary, Vancouver and Montreal to bring together our members on a regional basis. Finally, we are excited to announce the launch of the Inaugural CVCA Golf Classic in Toronto on August 27 – which will be a 'can't miss' event.

We are continuing our active public policy advocacy efforts and are working on a multitude of initiatives to encourage additional institutional investment into our industry. Progress on amending the QLP vehicle, as noted in the recent budget, makes us optimistic that it will soon be easier for institutions to invest in venture and private equity funds. In order to better reflect the mix of our members, you will notice that we have changed the by-line of the CVCA logo such that we are now referred to as 'Canada's Venture Capital and Private Equity Association'.

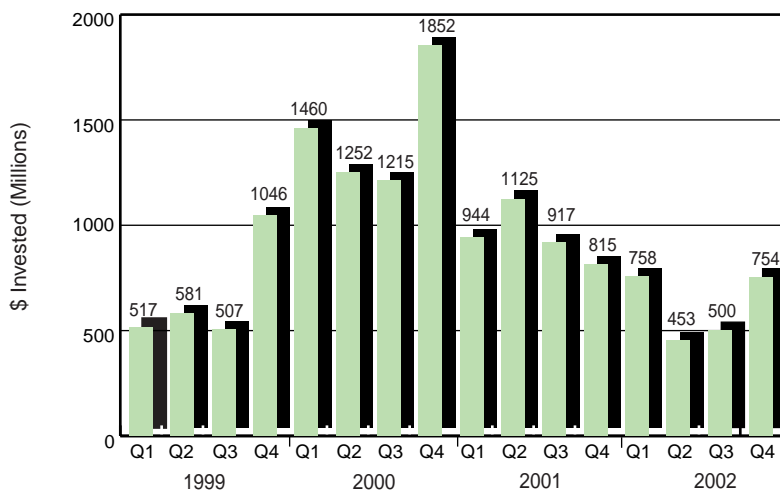
We are very pleased with the confirmation of positive investment trends in the second half of 2002. The 51% increase in investment over Q3 continued the positive trend I referred to in the last *Enterprise*. Furthermore, the more than doubling of capital raised by private independent funds in 2002 helped to increase the capital available to be invested to \$7.4 billion. Our membership seems to be more optimistic today than 12 months ago. There is a definitive shift from solely focusing on portfolio problems to identifying new investment opportunities – within the portfolio and outside of it.

I look forward to seeing you at many of our events throughout the year and continue to welcome new ideas or comments you have with respect to the CVCA.



Brad Ashley,
President, CVCA

Quarterly Investment Activity
By Canadian Venture Capital Industry



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New AdVENTURES

■ **Andrew Scott** has recently joined **ALTURA Management Inc.**, manager of Growth Fund (EVCC) Inc., as Executive Vice President. Andrew can be reached at 604-646-8364 or ascot@ensis.mb.ca.

■ **ALTURA's Board of Directors** is independent of the Fund Manager and the Fund's labour sponsor association. The Board of Directors includes **Michael Phelps**, Chairman (the former Chairman and CEO of Westcoast Energy), **Bill Watchorn**, CEO (Bill was with Kaiser Resources in Vancouver, he is presently CEO of Ensis Growth Fund and a well known entrepreneur in Western Canada), **Wayne Henderson**, Chairman of the Investment Advisory Committee (Senior Consultant to PwC Securities and former Managing Director of Investment Banking, CIBC World Markets) and **Brad Bennett** (President of McIntosh Properties in Kelowna).

■ As of October 2002 **John Piercy** took on the position of Managing Director of **BCE Capital**. In his new role, John will make private equity investments in emerging technology companies that develop networking and enabling technologies related to telecommunications. John can be contacted at 416-408-0600 or jpiercy@bcecapital.com.

■ **Marc Faucher** joined **BCE Capital** as an Analyst in the Toronto Office. Marc can be reached at 416-408-0020 or mfaucher@bcecapital.com.

■ **Denis Ho** is now the Managing Director, Venture Capital Life Sciences of **Business Development Bank of Canada**. Denis can be reached at 416-952-1302 or denis.ho@bdc.ca.

■ **Ghislain Parent** was appointed to the position of Executive Vice-President,

Finance and Administration of **Caisse de depot et placement du Québec (CDP)**. Ghislain will oversee the financial management of CDP and its subsidiaries, in co-operation with the finance and control personnel at each subsidiary. CDP is a major financial institution that manages funds for public and private pension and insurance plans. Ghislain can be contacted at gparent@cdpcapital.com.

■ **Jim Burt** has taken on the position of Senior Technology Advisor (Venture Capital) for the **Department of Foreign Affairs and International Trade (DFAIT): Science and Technology Division**. His new responsibilities will promote the growth and development of scientifically or technologically advanced small and medium size Canadian firms by working with Canadian Trade Commissioners at selected Embassies and Consulates abroad to attract venture capital financing from foreign sources. For more information you can contact Jim at jim.burt@dfait-maeci.gc.ca or call him at 613-996-4292.

■ At the end of last year **Don Berey** joined **Gainshare Media LLC** as Show Director. Don will be directing all aspects of trade shows. Don can be reached at 617-695-0370 or dberey@gainsharemedia.com.

■ **Genesys** recruited **Dr. Len Pinchuk**, one of the key innovators of Boston Scientific's drug-eluting stent technology, to the Interface Biologics Board and recruited Kirk Mandy, ex-CEO of Mitel Semiconductor to the Epcoc Board. For more information please contact them at 416-598-4900.

■ **Dan Jacques** and **Paul Eldrige** joined **HSBC Capital (Canada) Inc.** Dan has taken on the position of Senior Associate helping support and grow both HSBC Capital's Private Equity Fund and it's Bridge/Mezzanine Debt Fund. **Paul Eldridge** took on the position as Associate, helping support and grow both

HSBC Capital's Private Equity Fund and its Bridge/Mezzanine Debt Fund. These funds target medium size companies seeking \$5 - \$20 MM for leveraged buyouts, capital restructuring and acquisitions. Dan can be reached at 604-631-8092 or dan_jacques@hsbc.ca. Paul can be reached at 416-864-2709 or paul_eldridge@hsbc.ca.

■ **Angela Brown** recently joined **RBC Capital Partners** as an Associate. Angela will focus on RBC Capital's new Merchant Banking Fund investments. Angela can be contacted at 416-842-4056 or angela.brown@rbcap.com.

■ **John Sterling** has joined the new fund **ROI** as President and CEO. John will be responsible for fund administration and portfolio management. John previously worked with Bank of Montreal Capital, BEST Discoveries and BDC. John can be reached at 416-361-9711 or jsterling@roifund.com.

■ **TD Capital Private Equity Investors** has added **Stuart Waugh** as Managing Director. Stuart will be responsible for originating and evaluating investment opportunities in leading North American and European private equity funds and for structuring and distributing new private equity fund of fund products. Stuart can be reached at stuart.waugh@tdcapital.com or 416-308-6970.

■ **Graham McBride** has joined **Vengrowth Capital Partners Inc.** as a General Partner. Graham has over 17 years of experience in managing subordinated debt, corporate financing and equity funds. Graham was most recently President of LarchHill Capital Inc. Previously, Graham managed debt- and equity-based funds at Royal Bank Capital, McKenna Gale Capital Inc. and the Penfund Group. Graham is reachable at 416-971-6656 ext. 244, or grahammc@vengrowth.com.

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United States – was represented by \$536 million going to non-resident transactions valued at \$1.4 billion. Last year, Canadians invested \$671 million in transactions abroad worth \$1.5 billion.

For a third year in a row, communications and networking was the darling of emerging technology sectors in Canada, finishing 2002 with \$673 million in 59 firms. This took place despite a turbulent ride for the sector, followed by a mild revival in Q3 and Q4, when several major financings were completed, including those for S2IO Technologies and Meriton Networks, giving communications 27% of total capital invested on balance.

Assuming second spot was life sciences, with 149 companies garnering \$463 million. While the latter is 29% below the \$651 million obtained last year, life sciences sustained a particular momentum in the past year that was observable across North America. In Canada, the sector captured 19% of all disbursements, assisted by fourth-quarter financings of ParaTech Therapeutics and Celator Technologies, among others.

Semiconductors, electronics and computer hardware reflected \$382 million in 61 companies in 2002, with thanks partly to Q4 deals, such as those engaging SiGe Semiconductor and SiberCore Technologies. With \$358 million going to 105 firms since January, the computer software sector also put on a good show, though capital flowing in this

direction was particularly low relative to 2001, as it was for internet-related companies.

Given the integral role played by foreign investors in Canadian disbursement levels since 2000, short-term movements in foreign capital flows have been of concern. This was especially true in 2002, when the activity of American venture funds, strategic corporate groups and others, totaling \$650 million, was down by 40% from the \$1.1 billion of last year. However, the foreign share of total dollars invested in this country was largely unchanged – 26% in 2002 versus 28% in 2001 – suggesting that they have tended to keep pace with broader trend lines.

LSVCCs emerged as the most active Canadian investor group in 2002, deploying \$627 million,

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NEW Funds

■ **ALTURA** is a BC-based, return focused venture capital fund that will invest exclusively in eligible BC-based businesses with high growth potential in the Technology, Life Sciences, and Basic Industry sectors. ALTURA is a Labour Sponsored Venture Capital Corporation. For more information please visit the website at www.altura.bc.ca.

■ The BC provincial government has chosen **ALTURA GROWTH FUND** to introduce competition into the labour-sponsored fund market. The fund will be registered as an employee venture capital corporation in BC. It is sponsored by the BC Principals' and Vice-Principals' Association and will be based in Vancouver and governed by an 8-member board chaired by Vancouver business executive Michael Phelps.

■ **ARGOSY BRIDGE FUND L.P. I** fund closed as of November 1, 2002 raising \$26 million.

■ **DISCOVERY CAPITAL CORPORATION** announced in December the launch of British Columbia Discovery Fund (VCC) Inc., BC's first venture capital corporation with the approval to offer redeemable shares to investors. The fund will make venture capital investments in a portfolio of emerging B.C. technology companies, focusing on all of BC's top internationally recognized technology clusters; information technology, communications, health and life sciences, and energy and environment technologies. The Fund is initially raising up to \$20 million (the first two years of its available tax credit allocation). For further information please contact Charles Cook, CFO of Discovery Capital Corporation at 604-683-3000 X102 or visit www.discoverycapital.com.

■ In 2002, **NORVEST CAPITAL PARTNERS INC.** acquired the management contract for the McCarvill Mezzanine Fund LP, which has changed its name to Norvest Mezzanine Fund LP. In conjunction with this management change, the limited partners committed an additional \$10 million, for a total fund size of \$38 million. The fund continues to invest mezzanine capital from \$2 to \$8 million in traditional, old economy businesses. For more information, please visit www.norvestcapital.com or contact Ross Campbell at 416-361-5757 or Michel Lazure at 514-989-3170.

■ **RBC CAPITAL PARTNERS** is expanding its private equity reach to capitalize on opportunities in the Canadian merchant-banking sector. RBC

Capital Partners has US\$800 million in committed capital dedicated to private equity and venture capital opportunities in North America, and has now set aside an initial allocation of US\$65 million towards new merchant banking investments. The general focus of these investments will be later-stage, cash-flow positive companies requiring funding to expand or to accomplish a management acquisition. RBC Capital Partners will be seeking both control and minority positions and may partner with other Canadian buyout funds. RBC's investments will likely range in size between US\$7 and US\$12 million. CEO Alan Hibben will spearhead the effort, and has recently hired Angela Brown from Goldman Sachs' Leveraged Finance group to focus on the sector. Angela can be contacted at 416-842-4056 or angela.brown@rbcap.com.

■ As of March 2002, Ontario started up its newest Labour Sponsored Fund, **ROI FUND**, investing in three sectors: manufacturing health services, and financial services. The Fund has capital preservation and yield theme by investing in established business with debt and using interest revenue to generate dividends for investors. For more information please contact John Sterling at 416-361-9711 or jsterling@roifund.com.

■ **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\$332 million (C\$520 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 contact us directly at 1-866-831-2343.

■ As of January 2, **TECHNOLOGY INVESTMENTS MANAGEMENT CORPORATION (TIMCO)** of London, Ontario and **CAPITAL ALLIANCE MANAGEMENT INC. (CAMI)** of Ottawa announced the agreement to merge operations under the TIMCO name. The merger strengthens TIMCO's reputation as one of Canada's top Labour-Sponsored Venture Capital (LSVC) fund managers. For more information please contact Susan Smedley, Communications and Marketing Manager at 519-858-1488 or ssmedley@cstgf.com.

■ **WORKING VENTURES II TECHNOLOGY FUND** was renamed on January 2003 to **WORKING VENTURES OPPORTUNITY FUND**. For more information please contact Les Lyall at 604-895-7254 or les.lyall@growthworks.ca.

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while government funds reflected \$329 million, which even exceeds the \$323 million disbursed by them in 2001. Private-independent funds accounted for \$313 million, followed by institutional investors making direct investments in the market, with \$183 million, and corporate funds with \$144 million.

Early stage companies have had upward momentum since 2000, with some of the biggest names among venture-backed technology firms included in their number. Even in the contracted market of 2002, seed, start-up and other early stage deals continued to get done, with the result that 356 young firms, or 53% of the total, absorbed \$1.0 billion. Expansion transactions made significant advances over their performance in 2001, obtaining \$1.3 billion.

Ontario secured the greatest proportion of disbursements in 2002, with \$1.3 billion, or just over half of the national total. This occurred despite a lull created in the middle of the year, when reduced dollars going to communications firms undermined activity in the province. By attracting close to half of all life science dollars invested in 2002, Québec accounted for \$722 million, or a 29% share overall, which remains above par. With its diverse technology base, British Columbia reflected \$251 million, or 10%.

Fund-raising also slowed in aggregate terms in 2002, but was more broadly based than in 2001. New capital commitments totaled \$3.2 billion, with LSVCCs accounting for \$1.7 billion, the lion's share of which was the responsibility of the country's largest LSVCC, the Fonds de solidarité (FTQ).

In addition, a compelling story from 2002 was found in the greatly increased new commitments to limited partnerships (LPs) managed by private-independents. Between January-December, private LPs accrued over \$1.1 billion, primarily through the successful efforts of such groups as CDP Capital, Celtic House Venture Partners, MDS Capital Corporation, MM Venture Partners, RBC Capital Partners and Skypoint Capital Corporation. Inflows to these and other LPs surpass by 133% the \$483 million raised by private-independents last year.

Once again, Canadian circumstances contrast with those of the American industry, for which a mere \$US6.9 billion was raised in the past year, as compared to \$US40.7 billion in 2001. However, the situation in the United States is much different, given the highly potent fund-raising there in the late 1990s that led to today's huge supply overhang.

New supply contributed to growth in Canadian industry's total pool of capital under management, which now stands at \$22.5 billion. The pool of capital available for investment also rose to \$7.4 billion, suggesting that the industry's liquidity conditions are stronger at the beginning of 2003 than they were when 2002 got underway.

Events Calendar

CVCA Events

- Tuesday, March 11, 2003 – Calgary
Networking Reception
Calgary Petroleum Club – Trophy Room
5:00 p.m. - 7:00 p.m.
319 – 5th Avenue S.W., Calgary
- Thursday, April 10, 2003 – Toronto
Professional Development Seminar
“Valuations – Spreadsheets or Napkins?”
TSE Conference Centre,
1:00 p.m. to 6:00 p.m.
130 King Street West, Toronto, Main Floor
THIS EVENT WILL BE VIDEO CONFERENCED INTO HALIFAX, MONTREAL, OTTAWA, CALGARY AND VANCOUVER.
- Wednesday, May 28, 2003 – Niagara
Young Venture Capitalists (YVC) Bike Tour
This 2nd annual cycling tour for the next generation of professionals in Canada's venture capital industry includes wine tasting, lunch and transfers to and from Toronto's Union Station.
- June 11-13, 2003 – Ottawa
“The Future is Wide Open” Annual Conference 2003
Canada's premiere Venture Capital and Private Equity Conference
Fairmont Chateau Laurier

- Wednesday, August, 27 2003 – Kleinburg (Ontario)
The Inaugural CVCA Golf Classic
Copper Creek Golf Club
11:00 a.m. - 9:00 p.m.
Focus will be on networking, fun and prizes!
- Thursday, September 25, 2003 – Toronto
Young Venture Capitalists (YVR) Annual Golf Tournament
Greystone Golf Course

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

Industry Events

- March 24 and 25, 2003 – Toronto
VentureFair 2003
Hosted by Toronto Venture Group, VentureFair 2003 showcases emerging growth companies. Visit www.venturefair.com
- March 31 and April 1, 2003 – Montreal
Go North 2003
Middle stage Technology Financing forum. For more information and registration visit www.gonorth2003.com
- April 10 and 11, 2003 – Saskatoon
CIC Investment and Trade Forum
Bringing investee companies and investment capital companies together. Visit www.futureforum.ca
- April 30 and May 1, 2003 – San Francisco
Cleantech Venture Forum II
Networking event for investors and entrepreneurs Visit www.cleantechventure.com.
- May 13-15, 2003 – Toronto
BioFinance 2003
Funding forum for life science companies. Visit www.biofinance2003.com
- May 21 and 22, 2003 – Toronto
IT Financing Forum East
Canada's leading IT investors and the CEOs of Canada's hottest emerging IT companies get together and talk business during this fundraising showcase. Visit www.financingforum.com
- 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

The Young Venture Capitalists (YVC) Committee of the CVCA is looking forward to hosting an array of exciting networking events in 2003 to help foster relationships among up and coming venture capital related professionals. Confirmed events include the 2nd annual cycling tour of the Niagara Wine Region on May 28th and the 3rd annual golf tournament at the prestigious Greystone Golf Course on September 25th. The YVC is looking to add two new committee members for 2003 and invites interested candidates to email scott.macdonald@opg.com for details. YVC Committee members for 2003 are Robin Axon (Ventures West), Wojtek Kawczynski (Ventures West), Lily Lam (Covington), Scott MacDonald (OPG Ventures), Gary Solway (Torys), and Greg Williams (BCE Capital).

It's time to mark your calendars for the

CVCA 2003 Conference: ‘The Future is Wide Open’

‘Canada's Venture Capital & Private Equity Conference’

Fairmont Chateau Laurier Hotel, Ottawa

June 11-12-13, 2003

Building on the tremendous success and record attendance last year in Toronto, the 2003 Conference Committee is in the final stages of creating an even more exciting program for this year. Expert speakers and panelists will provide insights on the current environment, market trends and best-practices. New this year, a golf tournament is

planned for June 11 at The Marshes championship course for the first 144 people to register. Register online at www.cvca.ca beginning March 8, 2003. Details of the agenda will be posted on our web site by April 15th.

Claude Haw
Chair, Conference 2003

PROFIT Magazine is looking for winners!!

Here is an opportunity for CVCA members to get the recognition they deserve!! This June, *PROFIT* Magazine will publish its 15th annual exclusive ranking of Canada's best and brightest growth firms, ranked by five-year sales growth. Enter online at www.profit100.com or request a ballot by calling 800 713-GROW. Deadline is March 31, 2003.



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

**234 Eglinton Avenue East,
Suite 200**

Toronto, Ontario M4P 1K5

Tel: (416) 487-0519

Fax: (416) 487-5899

e-mail: cvca@bellnet.ca

<http://www.cvca.ca>

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