



Enterprise

CANADIAN VENTURE CAPITAL ASSOCIATION (CVCA)

From the President

I am both honoured and delighted to be the new President of the CVCA. My role has been made much easier based on the tremendous job performed by my predecessor, John Eckert. I welcome and look forward to working with the new members of the Board of Directors and new Officers of the CVCA. I also want to thank all those who have recently retired from such positions for your significant contribution to the CVCA.

As President, I will attempt to continue to raise the profile of the venture capital and private equity industry in Canada – at three levels – with the government, institutions, and the general business community. We will continue to work with and be consulted by government officials and regulatory authorities to ensure that we have significant input with respect to issues critical to our industry – including creating more tax efficient fund structures in order to encourage a more buoyant fund raising environment in Canada. We will work to ensure that venture capital and private equity funds become an asset class of choice for Canadian institutional investors. To successfully do this, we will need to prove to institutions why this is a good place to invest. We also need to bet-

ter inform Canadian SME's about the benefits of venture-backing to help facilitate the rapid and successful growth of their businesses.

Furthermore, we will continue to grow our membership base to ensure that the CVCA continues to represent the interests of Canadian venture capital and private equity investors – on a national basis, with an increased focus on strong regional representation. We will further expand our professional development activities to foster the development of our members across the country. We will also work to create enhanced networking opportunities to encourage the social exchange of deals and ideas.

I am cautiously encouraged by the growth in investment from Q2 to Q3 this year – especially in comparison to the significant decline in the US during the same period. As venture capitalists are beginning to see more attractive new investment opportunities this fall, I am hopeful that this positive investment trend will continue into Q4 2002. I also believe that the increased support of venture and private equity funds by institutional investors through increased LP investing bodes well for the future of our industry.

Finally, I welcome all of our new 34 member firms who have joined the CVCA in the past 12 months. You have helped to strengthen our organization so that we now represent over 800 members from over 160 firms managing capital in excess of \$30 billion. I look forward to meeting with you at upcoming events and please pass on any ideas/comments you have with respect to the CVCA.

I wish everyone a happy holiday season and hope that you have a healthy and prosperous 2002.



Brad Ashley,
President, CVCA

Overview:

Industry disbursements up slightly in Q3

Dollars invested by Canada's venture capital industry were up slightly in the third quarter of 2002, as compared to the previous quarter, despite increasingly tight liquidity options, particularly in IPO and acquisition markets.

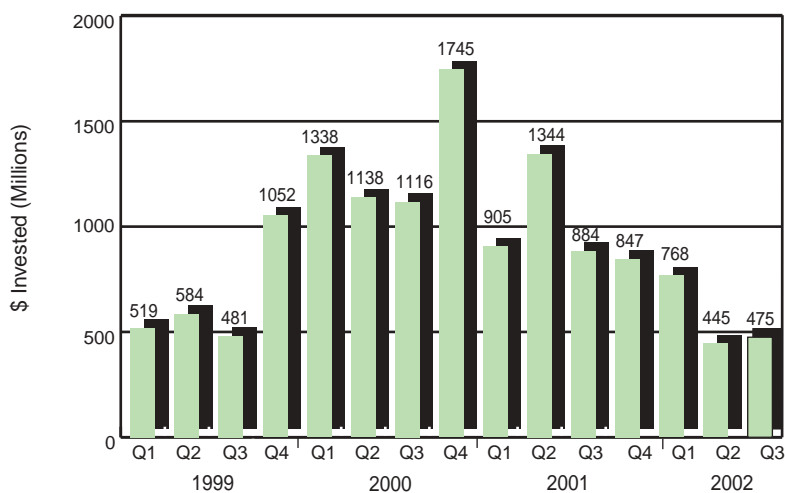
Disbursements reached \$475 million in aggregate between July and September, up by 7% from the \$445 million invested in Q2, when the industry experienced its first major slowdown. A total of 183 Canadian companies also received financing in this period, down by 12% from 208 firms recorded three months prior.

This being said, current levels of venture investment remain well short of those witnessed during the same period in 2001, when 264 companies secured \$884 million. Hence, on a year-over-year basis, industry disbursements in Q3, 2002 were down by 46%.

These results point to the second consecutive quarter of greatly reduced Canadian activity since the market first evidenced signs of weakness almost two years ago. Rocky public markets, and their severe impact on technology stock values, are primarily responsible for

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Quarterly Investment Activity
By Canadian Venture Capital Industry



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New AdVENTURES

■ Last issue of *Enterprise* announced that **Brian Elder** had taken on the position of Vice President, Fund Investments, **BDC**. We'd also like to announce that **Charles Cazabon** has taken on the position of Vice President, Venture Capital, now responsible for direct investments made by BDC specialty groups. **Robert Inglese** has taken on the position of Vice President, Technology Seed Investments. In his new position, he is responsible for seed technology investments across Canada.

■ **The Canadian Venture Capital Association** announced on September 25th that **Bradley Ashley**, Managing Partner, PRIVEQ Capital Funds is the new President of the Association. For more information please contact Lauren Linton at 416-487-4299 or llinton@cvca.ca.

■ **Shaun Kobrin** has recently joined **Dancap Private Equity Inc.** as Investment Director. Shaun will be responsible for managing and building a \$50 million private equity portfolio for the company. Dancap will take a diversified industry approach and focus on established companies with strong growth potential. Shaun was formerly with Covington Capital Corporation as an Investment Manager. Shaun can be reached at 416-590-9444 ext. 303 or shaun@dancap.ca.

■ **Mark de Groot** was previously the COO of University Medical Discoveries Inc., a venture capital fund in the biomedical sector. He serves on the Management Advisory Board of the Canadian Medical Discoveries Fund and has worked with MDS Capital. Mark now holds the position of Managing Director of MSBI Capital. Mark can be reached at 514-982-2251 or mdegroot@msbi.ca.

■ **Chris Arsenaault** was a partner and entrepreneur in residence with the Telesystem group, where, in addition to managing direct investments, he was involved in the creation of two subsidiaries. Chris was also founder and CEO of SIT, an international Internet integrator and the first Netscape Communications software developer, for which SIT Europe was sold to Ubizen of Belgium in 1999. He joined MSBI Capital as a partner focused on InfoTech Investments. Chris can be reached at 514-982-2251 or chris@msbi.ca.

■ **George Long**, formerly Investment Manager, Venture Capital with InNOVAcorp in Halifax, has joined **New Brunswick Investment Management Corporation (NBIMC)** as Private Equity Portfolio

Manager. George can be reached at 506-457-4839 or george.long@nbimc.com.

■ **Smart Seed Equity Inc.** announced **Peter Inman** as Managing Partner. Peter can be reached at 604-408-4100 ext. 101 or peter@smartseed.net.

■ **StartingStartups Capital Corporation** has re-branded the company and changed their name to **Axis Capital Corporation**. Doug Hewson can be reached at dhewson@axisfunds.com; Peter Low can be reached at plow@axisfunds.com and Kevin Goheen can be reached at kgoheen@axisfunds.com. Address and telephone number remain unchanged at 105 Murray Street, Ottawa K1N 5M5 Tel. 613-236-6006.

■ **TD Capital Mezzanine Partners Ltd.** has added **Michael Koen** as Associate. Previously, Michael worked for 4 years at Scotia Capital Inc. as a Proprietary Trader of convertible debentures and as an Analyst in the Corporate Finance Department. Michael received his M.B.A. (Finance and Entrepreneurship) with High Honours from the University of Chicago Graduate School of Business and his B.A. (Honours) from Queen's University. Michael is reachable at 416-308-9175 or Michael.koen@tdcapital.com.

■ **TD Capital Mezzanine Partners Ltd.** has added **Lauren Harris** as Analyst. Prior to joining TD Capital full time, Lauren worked as a summer Analyst for TD Capital Mezzanine Partners. After studying honours psychology at the University of Western Ontario, Lauren earned an H.B.A. (Business) from The Richard Ivey School of Business, University of Western Ontario, where she graduated with distinction. Lauren is reachable at 416-308-9171 or Lauren.harris@tdcapital.com.

■ **Bhupinder Randhawa** has joined the Intellectual Property Group at **Torys LLP** from Bereskin & Parr. Bhupinder is an IP lawyer who assists clients in protecting and commercializing inventions relating to software, electronics, communication systems, control and automation systems, and business methods. He also assists investors in evaluating the IP portfolios of potential investee companies. Bhupinder can be reached at 416-865-8140 or brandhawa@torys.com.

■ **John Coady** has recently joined **RBC Capital Partners Technology Fund** as a Partner. John was formerly CFO at Solect Technology Group, which was sold to Amdocs for US\$1.2 billion. Prior to Solect, John worked in increasingly senior jobs in the technology sector with Architel, Accugraph and Imax. Prior to working in the high-tech field, John worked with PriceWaterhouseCoopers in financial advisory services, both in Toronto and

London, England. John can be reached at 416-842-4082 or john.coady@rbcap.com.

■ **VenGrowth Capital Partners Inc.** is proud to announce that three life sciences professionals will be joining **Dr. Luc Marengère** in the management and operations of the **VenGrowth Advanced Life Sciences Fund**, newly launched in 2002. Team members include **Jeff Courtney**, Partner (416-971-6656 ext. 251, jeff@vengrowth.com); **Ken Yoon**, Investment Analyst (416-971-6656 ext. 253, ken@vengrowth.com) and **Tatiana Badescu**, Investment Analyst (416-971-6656 ext. 243, tatiana@vengrowth.com).

■ **VenGrowth** is also pleased to announce the appointments of: **Jay Heller** to General Partner (416-971-6656 ext.241, jay@vengrowth.com), **Dr. Luc Marengère** to General Partner (416-971-6656 ext. 247, luc@vengrowth.com), **Peter Caresscia** to Partner (416-971-6656 ext. 223, peterc@vengrowth.com), **Jeff Courtney** to Partner (416-971-6656 ext. 251, jeff@vengrowth.com) and **Andreea Stoica** to Associate (416-971-6656 ext. 227, andreea@vengrowth.com).

■ **Carson Chen** has been appointed to the newly formed **VenGrowth Technical Advisory Board**. Carson is Vice President and General Manager of the Cable & Wireless Business Unit of San Jose-based Cisco Systems and is a highly regarded member of the company's senior executive. Carson brings to the Board invaluable expertise across diverse high-tech sub-sectors and will be a tremendous resource to VenGrowth's investee companies and investment team. For more information, please contact Peter Seeligsohn at 416-971-6656 ext. 223 or peter@vengrowth.com.

■ **Michael Albin** has recently joined **Ventures West Management Inc.** as Entrepreneur in Resident, based in the Vancouver office. Dr. Albin will be responsible for deal generation and working with existing portfolio companies in the biotech sector. For more information please contact Dr. Albin at 604-891-3283 or malbin@ventureswest.com.

■ On September 10th, **Rod Anderson** joined **Ventures West Management Inc.** Rod has taken on the position of Entrepreneur in Resident, based in the Ottawa office. Rod will be responsible for sourcing and evaluating investment opportunities in emerging telecommunications companies. He will also provide operational support to existing portfolio companies in the telecom sector. For more information, Rod can be reached at 613-270-9911 or randerson@ventureswest.com.



■ Shareholders of both CMDF Venture Fund Inc. and CMDF Early Stage Fund Inc. approved the proposed amalgamation of the funds. The fund will be named **CANADIAN MEDICAL DISCOVERIES FUND II INC.** For more information call Talvest Fund Management at 1-800-268-8258.

■ In October, Celtic House announced new limited partners and is now referred to as **CELTIC HOUSE VENTURE PARTNERS**. The Toronto office is now located at 165 Avenue Road, Suite 301, Toronto, ON M5R 3S4. The telephone and fax numbers remain the same at Tel.: 416-924-7000, Fax: 416-924-7090.

■ **DANCAP INVESTMENTS INC.** is pleased to announce the launch of **DANCAP PRIVATE EQUITY INC.** Dancap Private Equity Inc. will invest its own funds from a \$50 million investment base in Canadian private equity and venture opportunities. The firm will not be sector focused but rather opportunity oriented. The investment mandate will be to invest in established Canadian businesses with strong growth potential. Investment size will range from \$500K to \$5 million and a staged or tranching approach will be taken. For more information please visit www.dancap.ca or contact Shaun Kobrin at 416-590-9444 ext. 303 or shaun@dancap.ca.

■ **WORKING VENTURES** announced that **GROWTHWORKS**, will assume the management responsibility for Working Ventures Canadian Fund and Working Ventures II Technology Fund. The new manager will have over \$750 million in assets under management.

■ **MM VENTURE PARTNERS** recently added an additional \$100 MM to GATX/MM Venture Partners making it a total of \$250 MM. For more information please contact Amit De at 416-977-9718 or amitde@mmvp.com.

■ **MSBI CAPITAL** is a \$30 million seed and early stage venture capital fund dedicated to commercializing innovations in life sciences, information technology

and the physical sciences. MSBI Capital has a particular focus on establishing and building companies based on technology advancements and inventions originating from the universities of McGill, Sherbrooke and Bishop's, as well as their affiliated hospitals and research institutes. MSBI offices are located in Montreal, Québec. For more information please visit their website at www.msbi.ca.

■ **SMART SEED** announced the launch of **SMART SEED II FUND**. Smart Seed II is an early-stage venture capital fund investing in biotech, eBusiness, Internet, telecommunications software and wireless companies in British Columbia. For more information please contact Kristen Collinson at 604-408-4100 ext. 110 or Kristen@smartseed.net or visit their website at www.smartseed.net.

■ **SUSTAINABLE DEVELOPMENT TECHNOLOGY CANADA (STDC)** has laid the groundwork to commence distribution of \$100 million in funding. STDC will manage these funds for the development and demonstration of new technologies that are aimed at reducing greenhouse gas emissions and improving air quality. SDTC will leverage the initial \$100 million dollars from the Federal Government, who identified this initiative as part of the national response to the Kyoto protocol, with monies from the private and public sectors. The Foundation will operate as an arms length, not-for-profit corporation. For more information please contact Eleanor McMahon, Director of Communications at 613-234-6313 ext. 224 or visit their website at www.sdct.ca.

■ **VENGROWTH CAPITAL PARTNERS INC.** launched its inaugural health sciences fund, the **VENGROWTH ADVANCED LIFE SCIENCES FUND**, in January 2002. The Fund enjoyed a successful fundraising season, raising close to \$70 million in its first two months of operations. The Fund will target key sub-sectors in life sciences, including specialty pharma, medical devices and diagnostics, drug discovery and special growth situations. For more information please contact lead manager Dr. Luc Marengère, at 416-971-6656 ext. 247.

■ **COLLER CAPITAL** announces final closing at US\$2.5 B for Collier International Partners IV LP, the largest-ever private equity secondaries fund. For more information please contact Jeremy Collier at + 44 20 7631 8500 or visit www.collercapital.com.

■ On November 1, 2002, **ARGOSY BRIDGE FUND LPI** closed \$26 million in LP commitments mostly from Ontario Teacher's Pension Plan and Hospital of Ontario Pension Plan. For more information please contact Michael Boyd at 416-867-8070 or boyd@argosypartners.com.

Overview *(continued from page 1)*

this situation, given their importance to exit avenues.

While trends in Canada now more closely parallel those in the United States, quarter-to-quarter activity in this country fared better than in the American industry, where the \$US4.4 billion invested in Q3 was down by 26% from \$US6.0 billion in Q2. In addition, American industry disbursements in the third quarter were down by 49% from the \$US8.7 billion of one year ago.

So far in 2002, \$1.7 billion has been deployed by the Canadian industry to 488 firms. While this outcome to-date is nowhere near the \$3.1 billion of the same nine-month period in 2001, the industry is still tracking ahead of its \$1.6 billion recorded at the end of September 1999, which anticipated the intense investment climate of 2000.

Increasingly, Canadian venture professionals are compelled to address longer time horizons for exits, partly through a mixture of resource conservation and strategies geared to helping portfolio companies survive the current downturn. To a certain degree, this was once again reflected in comparatively heavy industry preferences for follow-on transactions, which consumed 74% of all disbursement dollars in Q3.

The circumstance in July-September of moderately improved capital flows in fewer firms, relative to Q2, 2002, was due to larger company financings. In Q3, venture-backed firms attracted an average of \$2.6 million, compared to \$2.1 million in the previous quarter and \$3.3 million one year ago.

As compared to Q2, Canadian investor participation in deals located outside of the country was also up marginally in the third quarter, with \$121 million going to non-resident transactions worth \$346 million. Between April and June of this year, Canadians injected \$116 million into deals done abroad worth \$332 million.

Following a precipitous decline in sector activity in the second quarter, communications and networking made something of a comeback in Q3, with 26% of total capital invested. In all, 16 firms – such as ITF Optical Technologies – garnered \$122 million, or almost double the \$63 million that went to 19 companies between April and June. At the same time, third quarter outcomes are well shy of the \$183 million of one year ago.

With \$97 million going to 30 firms, such as Castek Software Factory, the computer products sector also rebounded from its disappointing showing in the previous quarter, when \$47 million was invested. This being said, software-related disbursements were close to half the \$185 million observed during the same Q3 period in 2001.

Gemin X Biotechnologies figured among the 36 life science companies capturing \$85 million in the third quarter, giving the sector an 18% share of industry disbursements, though this is well behind the \$131 million obtained by the sector in Q2 and the \$119 million of the same time last year.

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Events Calendar

CVCA Events

- Tuesday, January 14, 2003 – Toronto
Luncheon Series – Featuring The Honourable Allan Rock Minister of Industry
Noon - 2:30 p.m.
Venue to be confirmed
- Thursday February 13, 2003 – Toronto
Professional Development Seminar Deal Structuring
TSE Conference Centre,
Time to be confirmed
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

- January 13, 14 & 15, 2003 – Edmonton
Innovations in Asset & Liability Risk Measurement & Management, featuring Dr. Anthony Saunders from NYU. Organized by the Centre for Executive & Management Development, University of Alberta. For more information and registration visit www.cemdc.ca or call 780-492-8502.
- March 24 and March 25, 2003
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 30 and May 1, 2003
Cleantech Venture Forum II
Hosted by Cleantech Venture Network,

Networking Event for Investors and Entrepreneurs
Visit www.cleantechventure.com.

- May 21 and May 22, 2003
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

Of Interest...

Publication: **The Valuation of Business Interests**, is a comprehensive and current resource for valuation practitioners, financial advisors, financial officers and others involved in business valuations, acquisitions and divestitures. Published by The Canadian Institute of Chartered Accountants. Cost is \$65 for softcover. To order please call 416-977-0748, or www.cica.ca/order

Overview *(continued from page 3)*

The cross-border activity of American venture funds, corporate strategic groups and other foreign investors was up in Q3, after plunging markedly in the previous quarter for the first time since 2000. Non-resident sources contributed \$101 million to Canadian deals, up by 13% from the \$89 million recorded in April-June. However, relative to the same third-quarter period in 2001, when foreign disbursements totaled \$244 million, activity was down by 59%.

LSVCCs led the industry in the third quarter, with \$113 million invested, or 24% of the aggregate, with private-independent funds taking second spot at \$82 million, followed by corporate funds at \$68 million, institutional investors at \$58 million, and government funds at \$37 million.

Over half of the 183 venture-backed firms in Q3 were early stage in orientation and these

attracted \$191 million, or 40% of disbursements. Expanding companies also had continued momentum, accounting for a 53% share, or \$253 million in 74 firms.

Somewhat renewed investment in communications and affiliated IT firms added vigour to activity in Ontario, represented in \$224 million and 49 firms, as well as a 47% share of national disbursements. The latter is up from 31% in Q2. Québec continued to lead the Canadian industry in the number of venture-backed companies, which totaled 94 in the third quarter, or 51% of the aggregate, with these securing secured \$167 million, or 35% of capital invested overall.

As compared to the exceptionally brisk fund-raising apparent over the first six months of 2002, related activity in Canada's venture capital industry was fairly quiet in the third quarter, with, \$188 million in new capital commitments. Cumulative inflows to date stand at \$2.3 billion.

Once again, the most compelling story in fund-raising was the success accruing to limited partnerships (LPs) managed by Canadian private-independents, which brought in a further \$139 million in Q3. When this new capital supply, the lion's share of which is attributable to MM Venture Partners, is combined with funds raised previously by other LPs, private-independents are found to have raised \$707 million in aggregate after nine months, or 46% more than the \$483 million raised in the whole of 2001.

This is a remarkable achievement, in part because of the weak investment environment in which fund-raising is taking place. In addition, gains made in the Canadian industry forms a stark contrast with the United States, where private LP fund-raising has ground to a virtual halt, with some major venture funds even returning previously-made institutional commitments.

Winners' Circle

CVCA's 4th Annual 'Deal of the Year Award' Winner for 2002

The CVCA is pleased to announce **Eastern Technology Seed Investment Fund**, as the recipient of the CVCA's 4th Annual 'Deal of the Year Award'.

Established in 1998, the purpose of CVCA's 'Deal of the Year Award' competition is to promote, highlight and celebrate the achievements of venture backed Canadian companies.

The selection process focuses on firms with the most significant return during the last twelve months ending June 30, 2002.

Eastern Technology Seed Investment Fund won this year's award for its investment in Plazmic Inc. The investment of \$2.6 million generated a return of 62% when Eastern Technology Seed Investment Fund exited in November 2001 for over \$6.6 million.

Ted Anderson, Senior Vice President, at Ventures West Management, which manages Eastern Technology Seed Investment Fund, accepted the honour at the CVCA's AGM Dinner in Toronto on Wednesday, September 25, 2002.



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

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