

Letter from the President



This letter marks my first official communiqué to the membership of the CVCA since assuming the role of President late last year. Let me begin by stating how honoured and thrilled I am to be leading the venture industry at such an exciting point in its development. My predecessor, Ron Begg, did an outstanding job of increasing the level of professionalism within the CVCA. I intend to keep this trend alive and to develop the reputation of the Canadian venture industry as one of the pre-eminent venture markets in the world.

Let me also say that this will be the first of a regular, quarterly letter from the President to the membership. I view this letter as an opportunity to help you better understand how we at the CVCA are seeking to serve you as members – and to invite you to let us know how well we are doing. As this is my first letter, I thought it appropriate to focus on the mandate of the CVCA going forward.

Those of us who have been involved in the venture business for even a few short years marvel at how much the industry has grown and how great an impact we have had on entrepreneurs, investors and Canadians everywhere. Total invested capital in 2000 will come close to \$5 billion. The best part is that our success and impact thus far, will pale in comparison with what we can expect in the years ahead. Our industry is providing the foundation for a whole new generation of Canadian companies, many of which will grow into the world leaders of tomorrow. Given the startling growth and increased sophistication of the venture industry, we are now more strongly positioned to play a much more impactful role in the Canadian economy. The time is right for the venture industry to step out and aggressively take a leadership position in the new economy.

Up until now, the stated mandate of the CVCA has been to foster the use and understanding of venture capital in Canada; provide a forum for networking by industry members and to represent the interests of its members in issues of tax and regulatory matters including more favourable tax treatment. The revised mandate of the CVCA will continue to support these principles but will be further expanded to address new initiatives including greater participation by domestic institutional investors and the promotion of Canada as an attractive country for foreign investment. As well, we must encourage emerging Canadian companies to aggressively expand abroad.

The CVCA represents the vast majority of venture capital in Canada and understands better than any other professional group the trials and tribulations faced by both investors and entrepreneurs in building world-class companies and generating wealth. How successful we become will be dependent on increased capital and the participation by new sources of funding – both domestic and foreign.

We are all aware of the relatively low level of venture investment from institutions in Canada. Although it has improved somewhat recently, we dramatically lag our colleagues in the U.S. where most institutions view venture investing as a core asset class. The CVCA needs to actively encourage more Canadian institutional investors, including pension funds, to invest in venture capital.

Success in foreign markets is becoming critical. Many Canadian companies, particularly knowledge-based companies, specifically seek investors who understand the international marketplace and are able to assist in building multi-national organizations. As well, foreign investors have woken up to the fact that Canada offers outstanding investment opportunities.

These value added investors may be foreign investors interested in investing in Canadian companies directly, or through domestic venture managers. Canadian investors must also become more comfortable in managing growth outside of Canada. The CVCA must encourage foreign venture investment in Canada and encourage Canadian investors to assist Canadian companies wishing to expand outside our borders.

We also need to work yet more closely with government to ensure the necessary tax and regulatory infrastructure to enable Canadian entrepreneurs and investors to make their dreams a reality. Government and regulatory agencies are increasingly recognizing the importance of venture capital for a dynamic economy. This has provided a unique opportunity for the CVCA to aggressively influence these policies in ways that benefit the entrepreneurial and investment sectors in Canada. We have recently witnessed reductions in tax and significant changes are in the works to address areas such as the escrow rules governing publicly traded shares and private placement regulations, all of which will make Canada more competitive internationally. The CVCA has already had a significant positive impact on public policy and we will continue to work diligently on behalf of our members to further improve the business climate in Canada.

January marked the arrival of Lauren Linton as Director of Marketing for the CVCA. Lauren has a strong background in marketing, communications and public relations having worked for 16 years in the advertising and travel industry. Lauren will also head up a newly formed committee to focus on networking and social events. Her presence will complement the outstanding work of Kathryn Ryan, who up until now has run the entire administrative side of the CVCA single-handedly. Over the next few months, you hopefully will all have a chance to meet Lauren.

I wish everyone a happy, healthy and of course, very prosperous 2001.

John Eckert,
President, CVCA

Third Quarter, 2000: Industry Poised to Set Year-end Records

Canada's venture capital industry continued to race at a gallop in the third quarter, completing 330 financings and deploying nearly \$1.1 billion. This represents a major advance over results of the same period last year, when 231 transactions absorbed \$471 million. Current activity builds on the industry's unparalleled strength over the course of 2000. Within the first nine months, over \$3.4 billion has been invested – an amount that already exceeds by 25% the \$2.7 billion total reached at the end of 1999. In other words, the industry has been investing at the rate of \$1 billion-plus per quarter.

Mammoth capital flows between January and September backed 1,013 rounds of financing, a level that also surpasses 1999's year-end aggregate of 989 deals done. If this intense

pace is sustained through the final quarter, the Canadian industry is poised to break records on all fronts by the close of 2000, with total capital invested approaching the \$5 billion mark.

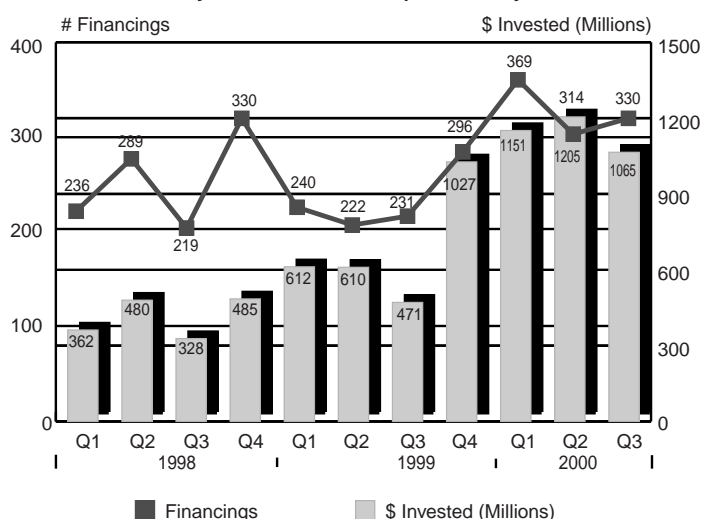
Existing portfolio firms once again accounted for around two-thirds of industry activity, with respect to both transactions and dollars. This trend speaks to the continued prominence of follow-on financings of Canadian technology companies, which are consuming ever larger sums to achieve rapid expansion, particularly in Internet, computer software, communications and electronics sectors. Counted among the largest of these follow-ons in the third quarter was the semiconductor firm Hyperchip, which netted a remarkable \$100 million, as well as Skulogix (\$31 million) and iMagic TV (\$25 million). Internet-related companies continued to attract the greatest share of industry resources (20%), while the share held by life science companies (17%) rose sharply from where it stood in early 2000.

The average financing across the market spectrum was \$3.4 million, which is down marginally from the \$3.5 million average at the end of the first six months.

Foreign, institutional and other investors outside of the industry continued to be a major source of supplemental capital in the first nine months, investing close to \$1.6 billion – or 46% of total disbursements – the lion's share of which went to technology investments. This level already stands well above the \$1 billion brought by these investors to Canadian transactions in 1999 overall. The activity of corporate venture groups, LSVCCs and private independent funds remained strong, as it has been throughout 2000.

Record-breaking disbursements on the part of the Canadian industry and its partners are still shy of activity in the United States, where US\$25.9 billion was invested in the third quarter – an amount that is down only slightly from the prior quarter's US\$27.8 billion. When comparisons of the two countries factor in exchange rates, disbursements by the Canadian industry are running at about 3% of those by the US industry through the first nine months.

Quarterly Investment Activity
By Canadian Venture Capital Industry



Prepared for CVCA © Macdonald & Associates Limited

New AdVENTURES

❖ **Jeff Norman** has recently joined **Altamira Investments Services Inc.** Jeff has taken on the position of Assistant Portfolio Manager, responsible for private equity transactions. You can contact Jeff at jnorman@altamira.com or (416) 507-7090.

❖ **Brightspark Group** has recently welcomed **Ann Watson** as Fund Manager to their team. Ann will be focusing on building relationships with investors to further the growth of companies incubated within the Brightspark Labs technology incubator as well as supporting them through other value creating transactions. Ann may be reached at awatson@bspark.com or (416) 488-1999 ext. 343.

❖ **James Hamilton**, formerly with Ernst & Young, has joined **CCFL Advisory Services Inc.** as Vice President. You can contact James at jhamilton@ccfl.com or (416) 640-7675.

❖ **Patrick Trainor** has joined **CCFL Mezzanine Partners** as an Associate. You can reach Patrick at ptrainor@ccfl.com or (416) 977-1450.

❖ **Discovery Capital** appoints **Janet Wood** as Vice President of Alliances. Janet will be responsible for leveraging the relationships between Partner Companies in which Discovery has invested and Discovery's Strategic Partners, Advisory Board members and major technology vendors. You may reach Janet at jwood@discoverycapital.com or (604) 683-3000.

❖ **Macdonald & Associates Ltd.** has recently added three new individuals to their team. **Dmitri Safine** joined the team as Database Manager in September. Dmitri developed his skills and experience as a database administrator and developer working for a mid-sized life sciences firm in Russia. He has a B.A. in mathematics with a major in computer sciences from Ural State University in Ekaterinburg, Russia. Dmitri can be reached at dsafine@canadavc.com. **Christian Nguyen** joins the team as a Research Associate. Graduating from Ryerson Polytechnic University, Christian is now responsible for capturing all the venture capital financing data and maintaining the database so that it is comprehensive and up to date. You may contact Christian at cnguyen@canadavc.com. **Wendy Lawrence** has joined as a Research Associate. Formerly with the Hospitals of Ontario Pension Plan, Wendy is responsible for

gathering company and investor information for an accurate and current database. She has a B.A. in Business Commerce from Ryerson Polytechnic University. Wendy can be contacted at wlawrence@canadavc.com. All three individuals may also be reached at (416) 964-1265.

❖ **NB Capital Partners** is building up the teams to manage its new funds. **Bryan Kerdman**, a successful entrepreneur and investor, formally joined the group in October to head up the new NB Capital Venture Partners fund (see New Funds for details). At that time, he brought the management of the \$10 million Bryker Technology Partners fund, which he established with NB Capital and Goodman and Carr in April of last year, under the umbrella of NB Capital. Bryan can be reached at bkerdman@nbcapital.com or (416) 869-6518. **Michael Russetta**, who was working with the NB Capital Equity Partners fund in Montreal, has also joined the venture fund as partner and has relocated to Toronto. Michael can be reached at mrussetta@nbcapital.com or (416) 869-6510. On the mezzanine side, partner **Viviane Nowotny**, formerly with the Royal Bank, joined George Fowlie in Toronto October. This rounds out the team led by Lucie Rousseau out of Montreal. Viviane can be reached at vnowotny@nbcapital.com or (416) 869-6521.

❖ **David Lawee** has left Mosaic Venture Partners to join **OpenCola**, a Mosaic investee, as Chief Financial Officer. David may be reached at david@opencola.com or (416) 934-5185.

❖ **Dr. David H. Jacobson** has recently taken the position of Senior Technology Advisor at Primaxis. David can be reached at jacobsondavidh@yahoo.com or (416) 932-0995.

❖ **Schroders & Associates Canada** welcomes **Michel Auclair** as Vice President. Michel has held senior executive positions with Labatt's Brewery, Culinar Inc. and DMR. He was most recently active as an executive and consultant with companies in the Telesystem group. Michel can be reached at michel.auclair@ca.schroders.com or (514) 397-0700.

New Funds

❖ 360 Capital Corp. announced the launch of both **360 Capital**, an online venture capital marketplace for early stage businesses and the **360 Venture Fund**, a new labour sponsored investment fund. For more information contact Gordon McMillan at gmcmillan@360capital.com or (416) 601-2440 or Colin Mercier at cmercier@360capital.com or (416) 601-2440 or Michael Simonetta at msimonet@firstasset.com or (416) 920-1944 ext. 246.

❖ Argo Global Capital and Northstream launched a new wireless investment company with \$50 M at its disposal. The new company, **Argnor Wireless Ventures**, will assist Scandinavian entrepreneurs to build world-beating wireless companies. Bridging a gap in the seemingly crowded Scandinavian market, Argo Global Capital and Northstream formed Argnor to combine the best resources, know-how and privileged access to wireless network operators. For more information please contact Anders Bjorkman, President, Argnor Wireless Ventures at bjorkman_anders@hotmail.com or call +35 209 175 02 01 or visit the Argnor Wireless Ventures website at www.argnor.com.

❖ **TD Capital** has added **Peter Winters**, Associate, to the portfolio management team. Mr. Winters was formerly with the Strategic Services Practice of Andersen Consulting (now known as Accenture). Mr. Winters can be reached at peter.winters@tdcapital.com or (416) 307-1981.

❖ **TD Capital Canadian Private Equity Partners**, the largest bank-sponsored private equity fund in Canada, which focuses on \$10 to \$75 million investments in Canadian businesses, has added **Michael J. Salamon**, Vice President, formerly with Harrowston Inc., to the investment team. Mr. Salamon can be reached at michael.salamon@tdcapital.com or (416) 982-2695.

❖ **TD iCapital**, which focuses on making investments of \$2 to \$15 million in technology and financial service companies globally, has added **Paul L. Ciriello**, Managing Director, formerly with Fidelity Investments, to the investment team. Mr. Ciriello can be reached at paul.ciriello@us.tdcapital.com or (212) 827-6941.

❖ **Gavin Muranaka** joins **VenGrowth** as an Associate. Gavin is responsible for assessing business opportunities, negotiating and structuring transactions, due diligence, and advising investee companies. You can contact Gavin at gavin@vengrowth.com or (416) 971-6656.

❖ **Ryan Kovac** and **David McIntyre** have recently joined the team at Ventures West. Ryan will focus on the IT opportunities in the Toronto area as an Investment Manager. He can be reached at rkovac@ventureswest.com or (416) 861-2284. David will focus on the IT sector in western Canada as a Research Associate in the Vancouver office. You can reach David at or dmcintyre@ventureswest.com or (604) 891-3287.

❖ **XDL Intervest Capital Corp.** has recently moved their offices to 30 St. Clair Avenue West, Suite 901, Toronto, ON M4V 3A1. Phone and fax remain unchanged at (416) 250-6500 and (416) 250-6330.

❖ **Discovery Capital Corporation** has announced the approval of Ex Fund Technologies Corp. shareholders concerning the acquisition of ETC by Discovery Capital by a 97% vote in favour. Discovery Capital Corporation originally announced this transaction on October 18, 2000. For more information please visit their website at www.discoverycapital.com or phone (604) 693-3000.

❖ Herman Smith Search Incorporated (HSSI) and Dr. Jonathon Kovacheff LL.B., Ph.D. (JK) have formed **HSSI/JK Alliance**, a business alliance to partner with Venture Funds; Merchant Bankers; Private Equity Investors; Management Companies; and Industry Consolidations; to provide due diligence and assessment of organizational structure, leadership and governance risk. For more information please contact HSSI/JK Alliance at info@hermansmith.com or (416) 862-8830.

❖ **NB Capital Venture Partners, LP** is going into fundraising mode to augment its \$50 million capital base with another \$50 million. The venture fund focuses on enterprise software, network and telecommunications deals in the \$1 – 7 million range and has completed several transactions in the past two months. For more information, contact Bryan Kerdman at bkerdman@nbcapital.com or (416) 869-6518 or Michael

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Ruscetta at mruscetta@nbcapital.com or (416) 869-6510. **NB Capital Mezzanine Partners II, LP** completed a first closing in December on \$250 million and expects to raise an additional \$150 million in the first half of the year to reach its \$400 million target. The fund will target established mid-sized companies in need of mezzanine financing. For further information, contact Lucie Rousseau at lrousseau@nbcapital.com or (514) 390-7370, George Fowlie at gfolwie@nbcapital.com or (416) 869-7546, or Viviane Nowotny at vnowotny@nbcapital.com or (416) 869-6521. Both NB Capital Venture Partners and NB Capital Mezzanine Partners II are members of the NB Capital Family of Funds, which manages five funds with a combined capital base of just under \$700 million.

❖ **Primaxis Technology Ventures Inc.**, an early stage seed capital fund targeted at the advanced technology sector, has announced that four new investors have joined the fund, bringing the fund total to \$55 million. DuPont Canada, MDC Corporation, Battelle, and Crown Investments Corporation of Saskatchewan have joined Primaxis's founding investors, Royal Bank Ventures Inc. and BTG to create companies and bring advanced technology ideas from the laboratory to the marketplace. For more information please visit the Primaxis Technology Ventures Inc. website at www.primaxis.com or contact Kerrie McCrea at (416) 313-5210.

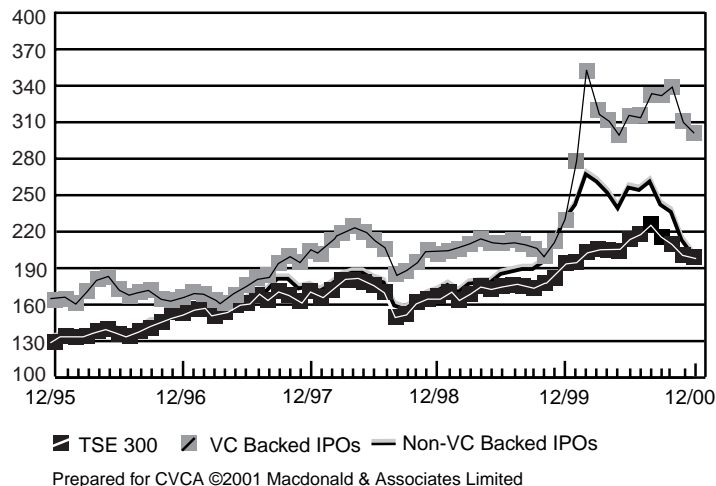
❖ Schrodgers & Associates Canada Inc. has announced the creation of a third buy-out fund – **Schroder Canadian Buy-Out Fund III** – with a first closing of \$110 million in commitments. The fund is expected to reach \$150-200 million. Fund III targets established companies, private or public, with a successful track record and growth potential. Typical investments will be in the range of \$10-30 million per transaction but the fund has the capability to complete larger transactions by tapping into the worldwide Schroder Ventures group or inviting co-investors. For more information about Schroders Canadian Buy-Out Fund III please contact Mathieu Gauvin, Vice President, Schroders & Associates Canada Inc. mathieu.gauvin@ca.schroders.com or (514) 397-0700.

❖ TD Capital has announced the launch of **TD Capital Private Equity Investors**, a limited partnership that will invest in a portfolio of leading North American and European venture capital and leveraged buyout funds. TD Bank, which will invest US \$150 million, is sponsoring the Fund. Warehoused Commitments for the Fund include the Blackstone Group, Genstar Capital, GMT Communications, Lightspeed Venture Partners, Madison Dearborn Capital Partners, Menlo Ventures, Oak Investment Partners, Providence Equity Partners, Spectrum Equity investors and the Sprout Group. For further information please contact John Dryden at john.dryden@tdcapital.com or (416) 982-2525.

❖ Yorkton Proprietary Asset Management has launched its first offering geared to high net worth individuals. The entity, run by Alan Schwartz, is marketing a limited partnership via a private placement. Known as **Yorkton Venture Capital Limited Partnership**, the investment requires a minimum outlay of \$150,000 for residents in some provinces and \$97,000 in others. For more information please visit www.yorkton.com or call (416) 864-3500.

IPO Update

Venture-Backed Firms Outperform After IPO
December 1995 – December 2000 (TSE)



Despite the market volatility and significant declines in value experienced by many technology companies in recent months, the index of venture-backed companies that have gone public continued to outperform the TSE 300 and all other IPOs through the end of 2000. This index shows the price performance only of those companies which are listed on the TSE and does not include those venture-backed technology firms that have listed only on NASDAQ.

PROFIT Magazine is looking for winners!

Here is an opportunity for our CVCA members to get the recognition they deserve !! This June, *PROFIT* Magazine will publish its 13th annual survey of Canada's Fastest-Growing Companies. If you think you have a company that belongs on the PROFIT 100, please enter the company details online at www.profit100.com/ballot or call toll-free at 1-800-713-GROW.



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

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