



Enterprise

CANADIAN VENTURE CAPITAL ASSOCIATION (CVCA)

Overview:

VC Industry Steps Carefully As 2002 Begins

With forecasts of a more robust economy on the horizon, Canada's venture capital industry nonetheless began 2002 on a cautious footing. Between January and March, the industry disbursed \$785 million to 187 Canadian companies, which is down by 14% from the \$907 million invested in 260 firms during the same period last year. Canadians also participated in deals totaling \$174 million in firms located outside of the country, bringing disbursements in aggregate to \$959 million.

Once again, activity in Canada was considerably stronger than it was south-of-the-border, where disbursements by the American industry fell by 51% from \$US12.8 billion in Q1 2001 to \$US6.2 billion in Q1 2002.

Transactional activity mirrored changes in dollar terms, with 188 rounds of financing involving 388 investments, as compared to 264 deals done and 489 investments at the same time the year before.

Results for the first three months suggest that

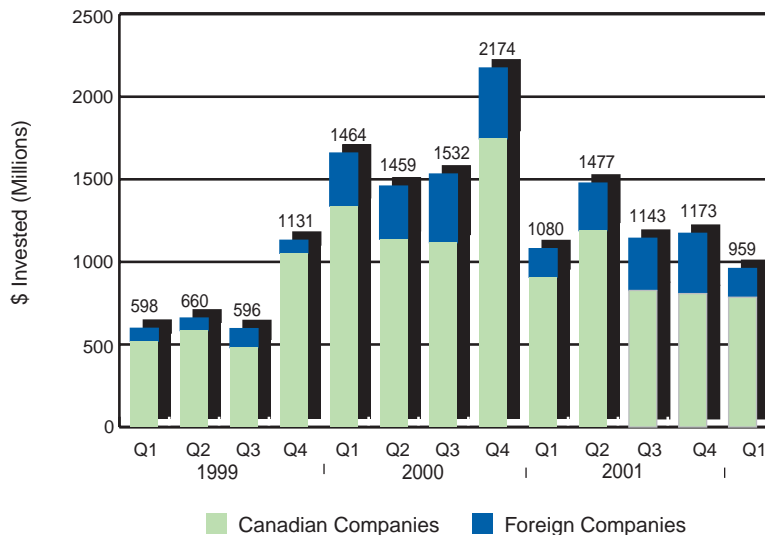
the Canadian industry may have returned to its traditional pattern of beginning the year slowly and intensifying activity in subsequent quarters. 2001 broke with this pattern when, due to a spillover in activity from the record-breaking 2000, Q1 and Q2 were unusually intense. Early 2002 results also indicate that venture professionals are awaiting a definitive upturn in public markets, technology stocks and exit options prior to increasing their pace.

The surest sign of continuing industry caution was in the rate of follow-on investment. Canadian investors poured a whopping 86% of the capital invested in Canadian companies into existing portfolio companies in the first quarter, up sharply from 76% for the whole of 2001. This suggests that resources available to first-time financings are very near to drying up. Higher average company infusions persist as a factor in capital flows, with the average standing at \$4.2 million in Q1.

Foreign investors, led by US venture funds/corporate groups, remained very influential in Canada as 2002 got underway. Foreign sources invested \$369 million in

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Quarterly Investment Activity By Canadian Venture Capital Industry



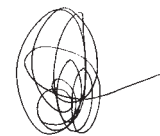
From the President



Unfortunately, venture capital activity continued to contract in the first quarter of 2002. On the bright side, Canada greatly outperformed its US neighbour, which has now suffered from a 70% contraction from the highs reached in 2000. Surprisingly, the amount of US investment in Canada continues to increase with the foreign share of investment this past quarter hitting a whopping 47% of total capital invested. Clearly, Canada represents an outstanding investment opportunity and the challenge for Canadian venture players is to beat back the negative investor psychology hanging over the marketplace. Smart money knows there has never been a more attractive time to invest.

We were thrilled to have had the now former Minister of Finance, Paul Martin speak about his vision for Canada at a CVCA lunch in May. After the lunch, Mr. Martin and his Deputy Minister, Kevin Lynch met privately with the CVCA Board to discuss in more detail the tax changes aggressively advocated by the CVCA regarding access to domestic and foreign capital. With Minister Manley as the new head of Finance, my sense is we will still receive the necessary support from Government but it may be delayed given the current tumultuous period in Ottawa.

I am looking forward to the 2002 Conference at the Four Seasons Hotel in Toronto in June. Jim Hall, the Conference Chairman and the staff of the CVCA, Kathryn Ryan and Lauren Linton have all worked very hard to execute what I know will be an outstanding success. Look forward to seeing you there.



John Eckert, President, CVCA

New AdVENTURES

■ As part of its expanding presence in North American private equity markets, **Banyan Capital Partners** has added **Frank Stack** of Calgary and **George Clute** of Seattle, Washington, to its senior personnel. Mr. Stack previously worked for six years at Vencap Equities, while Mr. Clute was a founding partner of OVP Venture Partners, a leading venture capital firms based in the US Pacific Northwest. Banyan makes significant equity investments in businesses with between \$5 million and \$100 million in revenue located in Western Canada and the United States. For more information please call 604-608-0858 or visit the website at www.banyancapitalpartners.com.

■ **Rick Nathan** has taken on a new position as Managing Director of **Goodmans Venture Group** based in Toronto. Rick may be reached at 416-597-5143, fax 416-597-5922 rnathan@goodmans.ca. Previously, Rick was one of the founding partners of **Brightspark Inc.**

■ Industry Minister Allan Rock announced on April 15th the appointments of **Cynthia Bertolin** and **Gordon Feeney** to the Board of Directors of the **Business Development Bank of Canada**. Ms. Bertolin's experience includes financing geared to entrepreneurs in Canada's aboriginal community, while Mr. Feeney's background includes banking and finance.

■ **e-Scotia Acquisition Inc.** is pleased to announce the promotion of **Tony S. Cestra** to Managing Director. Mr. Cestra may be reached at tony_cestra@e-scotia.com or 416-945-4088. e-Scotia continues to be interested in receiving new business and investment opportunities that would have a strategic fit within the Scotiabank Group, including areas such as security, white-label services, smart cards, payments, wealth management, financial planning, trading, voice and wireless technologies.

■ **EdgeStone Capital Partners** (www.edgestone.com) has moved its offices in Toronto and Montreal effective May 6, 2002. The new addresses are as follows: **Toronto:** The Exchange Tower, 130 King St. W., Ste. 600, PO Box 187, Toronto ON M5X 1A6 Tel. 416-860-3740 Fax. 416-860-9838; **Montreal:** 1010 Sherbrooke West, Suite 500, Montreal, QC H3A 2R7 Tel. 514-282-2100 Fax. 514-282-1944.

■ **Maury Donen** recently joined **ENSIS Management Inc.** as Associate. Previously with Vision Capital Fund, Mr. Donen will be managing private equity and debt transactions at ENSIS. He can be reached at 204-949-3720 or mdonen@ensis.mb.ca.

■ **Bruce Froebe** joins **ENSIS Management Inc.** as the new Associate taking on the responsibilities of investment analysis and due diligence research. Bruce was previously a manager for Man Agra Capital Inc. He can now be reached at 204-949-3705 or bfroebe@ensis.mb.ca.

■ **Steven Stang** joins **ENSIS Management Inc.** as the new Vice President of Investments. Mr. Stang's new responsibilities will be management of venture capital activity. Mr. Stang has 20 years corporate finance experience, formerly with TD Bank, and can be reached at 204-949-3721 or sstang@ensis.mb.ca.

■ As of January 2002, **Jason Stefanson** takes on the position of Vice President for **ENSIS Management Inc.** Mr. Stefanson was previously the Vice President of Corporate Development for Assante Corporation, and can be reached at ENSIS at 204-949-3703 or jstefanson@ensis.mb.ca.

■ **Tony Yee** recently transferred from Financial Services Manager of Oil and Gas to Financial Services Manager of **EDC's Equity** group. Mr. Yee will be responsible for deal sourcing and structuring and investing in high technology venture capital financings. Mr. Yee can be reached at 613-598-6696 or tyee@edc.ca.

■ **Greg Stewart** has been promoted to the position of Senior Vice-President, National Lending Operations, responsible for **Farm Credit Canada's** national sales. **Jim Taylor** was appointed to the position of Vice-President, Venture Capital, responsible for establishing, structuring and leading the forthcoming **FCC Venture Capital Fund**.

■ **Maurice Prud'homme** is now the new CEO of **Investissement Quebec**. M. Prud'homme can be reached at 514-873-1400 or maurice.prudhomme@invest-quebec.com.

■ On April 19th **Jon Prosser** left **J.L. Albright Venture Partners** to pursue an opportunity as Director of Finance for **Q9 Networks**. Mr. Prosser can be reached at jon.prosser@q9.com.

■ **Philip Olsson** has joined **KJ Harrison and Partners Inc.** as Director. KJ Harrison & Partners Inc. specializes in focused investing for a select group of client-partners. Mr. Olsson can be reached at 416-867-8595.

■ **Cynthia Villaverde** has joined the team at **Macdonald & Associates Limited** as Marketing Coordinator. Cynthia can be reached at 416-964-1265 ext. 222 or cvillaverde@canadavc.com.

■ **Paul Chen**, the founder and ex-CEO of FloNetwork has joined **McLean Watson Capital** as an Entrepreneur in Residence. Backed early on by McLean Watson, FloNetwork was a successful on-line email

marketing company before its sale to Doubleclick in June 2002. Mr. Chen can be reached at pchen@mcleanwatson.com.

■ **RBC Technology Ventures Inc.** announced the appointment of **Dr. Teodoro Forcht Dagi** as Managing Director of a new venture capital fund to invest in early stage life science companies in Canada and the US. A neurosurgeon and neuroscientist by training, Dr. Dagi spent the last seventeen year advising institutional investors and managing venture capital funds in the life science sector.

■ **Nandini Tandon** is the new partner within the **RBC Capital Partners Life Sciences** group to be based in San Francisco along with Dion Madsen, an existing partner who moved from Edmonton. Mr. Tandon's previous experience was with US biotechnology firms, including Chron, Glaxo, Hyscq and Zyomyx. Mr. Tandon can be reached at 415-633-8619 or nandini.tandon@rbccap.com.

■ **Valerie Scott** is the new Director, Mergers and Acquisitions, of **RoyNat Capital Inc.'s** Corporate Finance Group. Her role at RoyNat Capital will be to help companies meet their strategic goals for transactions in the \$25 million – \$100 million range. Ms. Scott can be reached at 416-933-2730 or email her at scottv@roynat.com.

■ **Leon Rudanycz**, Managing Director and Director at **Skylon Capital Corporation**, resigned as of May 3, 2002. Leon is now the President of the newly formed **Cornermark Capital Corporation**, an investment management company. Leon can be reached at 416-720-5254 or leon.rudanycz@cornermarkcapital.com.

■ **TD Capital Technology Ventures** has added **Elliot G. Swan** as Managing Director. Formerly a Director at Intel Capital, Mr. Swan will focus on investments in North American technology businesses across sectors, as well as established companies in the financial services, as of June 1, 2002. Mr. Swan can be reached at (617) 425-0820 or elliot.swan@tdcapital.com.

■ **Wendy Del Mul**, a Partner and Member of the Technology Group at **Torys LLP**, has been appointed Managing Partner of the firm's Venture Capital Practice. Ms. Del Mul can be contacted at 416-865-8176 or wdelmul@torys.com.

■ **Aaron Davidson** has joined **Ventures West Management** as Vice President. Mr. Davidson will be based in Ventures West's Toronto office and will manage activity in the biotechnology sector, particularly in relation to early stage companies in Ontario and Quebec. Mr. Davidson can be reached at 416-861-2283 or adavidson@ventureswest.com.

NEW Funds



■ **ARGOSY BRIDGE FUND, L.P.I.** is a new fund geared to doing loans from \$1-8 million for short maturities, generally from 4 months up to 2 years. The fund, which is being managed by Michael Boyd, formerly of HSBC Capital, is looking to raise up to \$40 million and has already secured a lead investor. Mike can be reached at 416-867-8070 or boyd@argosypartners.com.

■ Ralph Goldsilver of Goldsilver Consulting Inc. and Daren, Martenfeld, Carr, Testa and Company LLP are pleased to announce the formation of **DMCT CAPITAL INC.** Mr. Goldsilver will continue his practice of Corporate Finance and Mergers and Acquisitions as President of DMCT Capital Inc. Ralph can be reached at DMCT Capital Inc. 416-646-8773 or rgoldsilver@dmct.com.

■ MSBI Inc., a provider of seed and early stage venture capital for the commercialization of innovations in life sciences, information technology and physical sciences, announced the close of **MSBI LP**, its \$26 million seed and early-stage venture capital fund. **MSBI LP** will fund technology-based businesses in sectors such as biotechnology, pharmaceuticals, bioinformatics, software, communications and networking. For more information please contact Mr. Joe Rouse at 514-982-2261 or jrouse@msbi.ca.

■ A new partnership between government, a group of Saskatchewan credit unions and Prairie Financial

Management has been formed to establish a Saskatchewan-based venture capital fund. **PRAIRIE VENTURES FUND** is expected to raise up to \$60 million in capital over the next five years for new or expanding companies in Saskatchewan. For more information please contact Mr. Randy Beattie at 306-791-4833 or Mr. Ted Boyle at 306-787-9039.

■ On February 28, 2002, **RBC LIFE SCIENCES LIMITED PARTNERSHIP II** had announced its first closing of US\$50 Million, for a planned total of US\$125 MM. The fund will focus on early to mid-stage North American life science activity. Partners are located in Montreal, Vancouver and San Francisco. For more information on this fund please contact Justin Stephenson at 604-665-5140 or justin.stephenson@rbcap.com.

■ On May 1st, 2002, the **RBC TECHNOLOGY LIMITED PARTNERSHIP II** fund was initiated. This early stage North American technology fund of CDN\$150 MM will have a significant concentration in Canadian deal opportunities. For more information please contact Richard Black at 416-842-4108 or richard.black@rbcap.com.

■ **SVERICA INTERNATIONAL**, which announced the first closing of two new private equity funds in August 2001, announced a second closing in February, 2002. With \$65 million in capital, Sverica International Investment Fund I-A LP and I-B LP will focus on acquisition/buyout opportunities in Canada and the United States. The February announcement included the opening of Sverica's Canadian office in Montreal. For more information please contact Managing Director Martin Steber at 514-499-9500 or visit the website at www.sverica.com.

■ On April 9, 2002, **TD CAPITAL PRIVATE EQUITY INVESTORS** announced the initial closing of its premiere fund-of-funds, **TD CAPITAL PRIVATE EQUITY INVESTORS**, one of the first of its kind in this country. With a final target of US\$250 million, the TD Capital fund-of-funds select from top quality venture capital and buyout funds in Canada, the United States and

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Semiconductors/electronics were also strong in Q1 2002, with 24 firms capturing \$138 million, or 18% of the total. Semiconductor financings were chiefly behind this trend, led by Silicon Access Networks and Hyperchip. Twenty-eight computer software firms garnered \$48 million, while 16 companies with an internet-focus took \$29 million, levels that are below par for these sectors, based on recent trend lines.

The life sciences sector also continued to enjoy momentum in the first three months, with 23% of all deployments – up from 17% last year – or \$183 million in 46 companies. Among the largest life science financings were Micro Optics Design Corporation (Moncton), Neuromed Technologies (Vancouver) and Novadaq Technologies (Winnipeg).

Given the emphasis on follow-on investments last year, it is not surprising that a growing share of capital went to finance expansions in Q1 of this year. Expanding companies captured 59% of disbursements, based on \$467 million in 63 firms. Comparatively smaller average company injections help to explain a somewhat reduced emphasis of seed, start-up and other early stage deals. In total, 98 early stage firms absorbed \$234 million, or a 30% share of dollars invested, down from 63% in all of 2001.

While Ontario continued to hold the greatest portion of national disbursements, fluctuations within the province reduced this share in the first three months. Ontario-based firms secured \$384 million, down by 32% from \$568 million during the same time last year. Only activity in the Ottawa area proved durable, where IT firms took \$352 million, or a remarkable 92% of the provincial total and 45% of disbursements nationwide.

Industry activity rose significantly in Quebec, where 93 firms raised capital, accounting for half of all VC-backed companies across the country. Quebec-based activity reflected \$237 million, up by 11% from the same period last year, giving the province a 30% share of all disbursements, as compared to 25% in the full of 2001.

British Columbia also began the year auspiciously, with 18 companies obtaining \$101 million, or well in excess of the \$59 million disbursed in the same period last year. As a consequence, the firms in that province secured 13% of total capital invested in Canada.

While activity in the Canadian industry slowed somewhat at the outset of 2002, fund-raising provided some signs of potential renewal. Propelled by a fairly steady season of LSVCC fund-raising, and the creation of several new funds, the industry secured \$1.5 billion in new capital commitments. Private independent funds alone raised \$200 million in the first quarter, which is 41% of the total amount these funds raised in 2001 overall.

With LSVCCs as the chief beneficiaries, individuals were the top source of capital for the industry, with \$1.2 billion. Corporations were responsible for \$120 million, followed by governments at \$96 million, while pension funds and other institutional investors accounted for just over \$50 million of the new commitments.

Overview *(continued from page 1)*

Canadian companies, up from \$339 million in Q1 2001, and accounted for an astonishing 47% of the total, as compared to 30% last year. In keeping with their cautious stance, the activity of Canadian funds was below par. LSVCCs led with \$97 million, while private independent funds disbursed \$82 million, followed by government funds with \$75 million, institutional investors with \$42 million, and corporate groups with \$28 million.

The communications and networking sector continued to be at the forefront of activity in Canada, attracting \$278 million for 17 firms, or a 35% share of all disbursements to Canadian companies in the first quarter, up substantially from 28% in all of 2001. The bulk of the capital invested went to companies geared to fibreoptics/photonics and telecommunications equipment, including Catena Networks and Innovance Networks.

CVCA's Luncheon with the Honourable Paul Martin

On Tuesday May 21st, the Honourable Paul Martin, former Minister of Finance for Canada, spoke to a sold-out group of CVCA members and guests.

Mr. Martin's speech focused on **'Private Equity, Entrepreneurship and the Future of Canada'**. Mr. Martin called upon institutional investors to 'change the prevailing mindset' and invest more in Canada's future companies and jobs. Mr. Martin urged more co-operation from the provinces for securities rules, and even hinted at the need for a single system of securities regulation to help Canada complete globally. Mr. Martin's speech is available at <http://www.fin.gc.ca/news02/02-040e.html>

A special thank you to our exclusive sponsor of the lunch, TSX Group, for helping to make this event a success.



CVCA's Networking Reception in Ottawa, February 27, 2002



CVCA's Young Venture Capitalists Niagara Wine Region Cycling Tour, May 29, 2002



Events Calendar

- June 19-21, 2002 – Toronto
Annual Conference 2002
Canada's premiere Venture Capital and Private Equity Conference
"Ride the Wave"
Four Seasons Hotel
- August 28, 2002 – Brampton
Sharwood / CVCA Golf Classic
In support of the Parkinson Society Canada
Lionhead Golf & Country Club
*Individual registrations are SOLD OUT – you may play as a hole sponsor. Visit www.gtigolf.com/sharwood
- September /October, 2002 (TBD)– Toronto
Luncheon Series
Keynote Speaker – The Honourable Allan Rock, Minister of Industry
Venue to be confirmed
- September/October, 2002 (TBD) – Toronto
Professional Development Seminar
Management Due Diligence
TSE Conference Centre
130 King Street West, Main Floor
- September 25, 2002
Annual General Meeting & 'Deal of the Year Award'
- September 26, 2002 – Ontario
Young Venture Capitalists (YVC) Annual Golf Tournament
Greystone Golf Course
- June 11-13, 2003 – Ottawa
Annual Conference 2003
Canada's premiere Venture Capital and Private Equity Conference
Fairmont Chateau Laurier

To register to any of the CVCA events, please visit the events page of our web site for more information which will be posted as soon as it is available, at www.cvca.ca, or e-mail your contact info and questions to cvca@cvca.ca

NEW Funds *continued from page 3*

Europe. The next closing is scheduled for June 20, 2002. To find out more about this offering, call 1-866-831-2343 or visit our WebCast at: www.tdcapital.com/WebCast. User ID's and Passwords to access the WebCast can be obtained from TD Evergreen and TD Private Investment Council offices or TD Private Client Centres.

■ **WESTERN LIFE SCIENCES VENTURE FUND LP** was launched January 24th, a \$45 million fund created to close the gap between research discoveries and the commercial application of those

discoveries. Mr. Kevin McGarry, CEO of Lombard Life Sciences Inc., will manage the fund, which was created by five founding investors including Keystone Technologies Inc., Biovail Technologies, Manitoba Development Corporation, The Crown Investment Corporation of Saskatchewan/ Saskatchewan Opportunities Corporation, and a group lead by ENSIS Management Inc. that includes ENSIS Growth Fund. Mr. McGarry can be reached at 204-943-0066 or kmcgarry@lombardlifesciences.com.



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