



Enterprise

CANADIAN VENTURE CAPITAL ASSOCIATION (CVCA)

Overview:

First Nine Months, 2001: Canadian Venture Industry Moderates Its Pace

Faced with a sluggish economy and few exit opportunities, Canada's venture capital industry continued to slow its pace in the first nine months of 2001. A total of \$1.2 billion was invested in the third quarter, down slightly from the \$1.4 billion of Q2, raising disbursements to \$3.8 billion to date. This reflects a 15% drop from the \$4.4 billion invested at the same time in 2000. Despite this reduction overall, the Canadian industry continues to exhibit surprising strength, particularly in comparison with its counterpart in the US, where disbursements in the same nine-month period stood at US\$31 billion, down a precipitous 63% from US\$83 billion of one year prior.

While activity in the American industry has plummeted, investment by US venture and strategic corporate groups in Canada has never been greater. By the end of September, US and other foreign investors disbursed an astonishing \$1.1 billion, up by 44% from the \$797 million recorded during

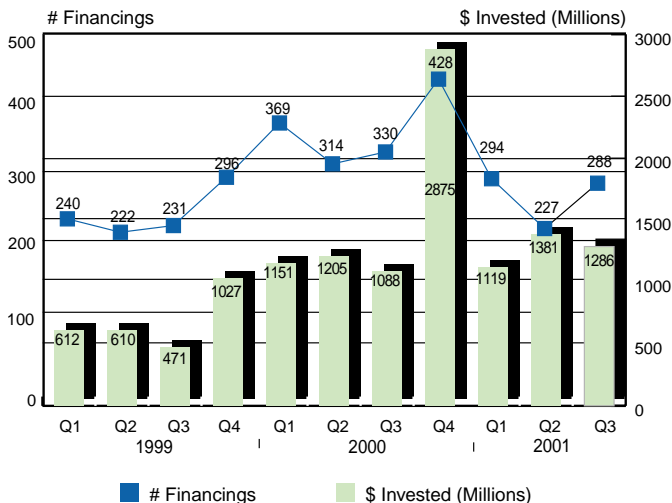
the same time last year. In Q3 alone, foreign groups brought amounts totalling \$432 million into the country, most frequently in partnership with Canadian investors in deals involving high growth IT and life science companies.

One result of these trends was further closing of the gap between Canadian and US disbursement levels. As of the third quarter of 2001, Canadian capital invested was 8% (on a currency-adjusted basis) of US capital invested, twice the 3-4% ratio that has been typical in recent years.

Along with disbursements, the number of deals done fell in the first nine months, by 27% to 809 from 1,107 transactions at the same time in 2000. The average financing size jumped to \$4.7 million, as compared to the \$4.0 million average of the year before. This points to the continuing influence of large transactions (\$5 million and above) in keeping capital flows robust in Canada. In fact, large deals represented 80% of all amounts invested this time around.

(continued on page 3)

Quarterly Investment Activity
By Canadian Venture Capital Industry



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From the President



Like many of you, I was pleased at how strongly the Canadian venture capital industry performed this past quarter. I was particularly surprised at how significant the foreign investor component was in Canada, particularly in light of the dramatic decline in the U.S. marketplace. The fact that Canadian venture opportunities are continuing to attract venture capital from abroad speaks volumes about the relative attractiveness of our domestic entrepreneurs, a trend that hopefully will continue. Despite the difficult public market conditions, now represents the best time to commit new money to the venture industry.

The past few months have seen significant activity by the Public Policy Committee of the CVCA led by John Bradlow from Penfund. We have had a number of meetings with members of the House of Commons, the Senate and officials from Finance Canada to address a host of issues restricting the development of our industry. At this point, we are cautiously optimistic that we will get relief regarding the barriers restricting domestic institutions and the large passive foreign investors from investing in domestically managed venture funds. Let's keep our fingers crossed.

October witnessed the first CVCA industry-networking luncheon at which the Right Honourable Joe Clark, leader of the Progressive Conservative Party, set out his views on the role of government in the new economy. We have received much positive feedback from our members on the event and look forward to organizing similar events in the future.

Please also mark on your calendars the upcoming New Members' Reception for November 20, at which we will be welcoming the 55 new firms and more than 150 individual members that have joined the CVCA over the past year.



John Eckert, *President, CVCA*

New AdVENTURES

■ **Gary Rubinoff**, formerly a Partner with J.L. Albright Venture Partners, has recently joined **BCE Capital Inc.** Gary, who has a wide range of experience in finance, law and entrepreneurial management is now active as President & Managing Director of BCE. You may contact Gary at grubinoff@bcecapital.com or by dialing (416) 815-0001.

■ **Tom Tutsch**, Chairman, President and CEO of **BMO Nesbitt Burns Equity Partners** will be retiring this year. Holding a bachelors degree from Loyola College and an M.B.A from York University, Tom has been Deputy Chairman of BMO Nesbitt Burns, and a member of the Executive Committee. He has also sat on the board of directors for Ingle Life, Health Ingenia Polymers Corp., and Actronix Inc. Prior to starting at BMO Tom was Executive Vice President of Burns Fry.

■ **Brightspark Ventures LP** is pleased to announce the addition of **Mark Dubowitz** to their team. Mark, formerly Director of International Development at DoubleClick Inc., now joins Brightsparks as Vice President, Ventures. He is responsible for identifying new investment opportunities, raising additional funds for portfolio companies as well as working on public offerings, mergers and acquisitions. Mark may be reached at mdubowitz@brightspark.com or (416) 488-1999 ext. 333.

■ **GTI Capital Inc.** welcomes **Jean-Francois Couturier** to their team. Jean-Francois, previously with Transcontinental as President, e.media, now joins GTI as Investment Director. In this new capacity, he is responsible for investment and cities portfolio management. To contact Jean-Francois please e-mail jfcouturier@gticapital.com or call (514) 845-3800 ext. 29.

■ **Macdonald & Associates Limited** is proud to introduce **Wei Dai** as a new Research Associate to their team. Formerly with Reuters Canada Limited as Data Analyst, Wei is now responsible for researching and inputting venture capital information for an accurate and up to the minute database. Wei can be contacted at wdai@canadavc.com or (416) 964-1265 ext. 225.

■ **Le Mouvement des caisses Desjardins** is pleased to announce two recent appointments. **Luc Chabot**, formerly with Lactel Group as General

Manager, is now active as President and Manager of **Capital régional et coopératif Desjardins**, responsible for the new venture capital firm devoted to regional development, and support for the cooperative setting. You may contact Luc at luccha@invdesjardins.qc.ca. **Bruno Riverin**, President of Investissement Desjardins, has now been appointed to Chairman of the Board of Directors for the Capital régional et coopératif Desjardins. Bruno may be reached at bruriv@invdesjardins.qc.ca. Alternatively, both individuals may be contacted at (514) 281-7131.

■ **Ontario Teachers' Pension Plan Board** is pleased to announce the appointment of **Jim William Leech** to Senior Vice President, Merchant Banking. James has an impressive reputation for building strong companies and has more recently directed technology start-ups, from concept to revenue producing. Jim may be contacted at jim_leech@otpp.com or (416) 228-5900.

■ **TD Capital Communications Partners** has added **Branka G. Gonzalez** and **Lorenzo Russo** as Associates. Both will be responsible for evaluating and assisting in the execution of media and communications transactions in Europe. Branka, formerly with the Mergers & Acquisitions department and Media Corporate Finance group of Morgan Stanley, can be contacted at branka.gonzalez@tdcapital.com or +44 (0)20 7170 8810. Lorenzo, previously with the Telecom & Technology team of Nomura International can be reached at lorenzo.russo@tdcapital.com or +44 (0)20 7170 8809. **TD Capital Private Equity Investors** welcomes **Michael Flood** to the group as an Associate. Formerly with Harrowston Inc., where he was involved in building two of its platform companies as well as assessing and investing in new investment initiatives, Michael is now actively working with TD Capital Private Equity Investors focusing on North American and Western Europe fund commitments. He can be reached at michael.flood@tdcapital.com or (416) 308-3679. **Geoff Dover** and **Suzanne Petrela** have recently joined **TD Capital Canadian Private Equity Partners**. Both are actively working with the team focusing on making equity investments in middle-market companies across Canada in a wide range of industries including communications, manufacturing, media, technology, energy and healthcare. Geoff, formerly with Donaldson, Lufkin and Jenrette, is an Analyst with TD Capital

Private Equity Partners. He can be contacted at geoff.dover@tdcapital.com or (416) 308-6964. Suzanne, formerly with Salomon Smith Barney's investment banking division, is now an Associate and can be contacted at suzanne.petrela@tdcapital.com or (416) 308-1370. **TD Capital Mezzanine Partners** has added a new Associate to their team. **Luis Fonseca**, formerly an Associate with the Mergers & Acquisitions group of TD Securities, is now active in TD Capital's mezzanine group focusing on compelling investment opportunities in industries with strong fundamentals in specific industry sectors. Luis can be contacted at luis.fonseca@tdcapital.com or (416) 308-7332.

■ **Ventures West Management Inc.** welcomes two new individuals to their organization. **Bob Campbell**, former Senior Vice President and founder of Mobile Data Solutions Inc., now joins Ventures West as an Entrepreneur in Residence. In this role, Bob is focused on investment opportunities in the IT, Wireless and telecommunications sectors. He is based in the Vancouver office, and may be contacted at bcampbell@ventureswest.com or (604) 891-3285. **Wilson Lee** has also recently joined Ventures West. Previously with FloNetwork Inc. as Chief Financial Officer, Wilson now takes on the role of an Entrepreneur in Residence at the Toronto office. In this capacity Wilson is responsible for reviewing and evaluating investment opportunities in the IT sector, as well as, working with existing portfolio investments. You may contact Wilson at wlee@ventureswest.com or (416) 861-2281.

■ **Cindy Gordon** has left **XDL Intervest Capital Corporation**. She has more than 15 years of senior executive experience in professional and industry services and has aided global 500 companies rethink their organizational structure. Before joining XDL, Cindy was active as an Associate Partner at Andersen Consulting where she was a practice leader in knowledge management and electronic commerce. Cindy can now be reached at her home office at pmuhlberis@home.com or (416) 488-4248.

NEW Funds



■ **BAND OF SCOUNDRELS** is one of Ottawa's newest formal angel investment groups. The group was formed to put money into the telecommunications and communications software industries in Ottawa. On average the group plans to invest anywhere from \$150,000 to \$700,000 in any particular one investment. For further information please contact Rainer Paduch, group leader, at rpaduch@novacap-inc.com or by calling (613) 862-1196.

■ **HDL CAPITAL PARTNERS** is in the process of raising **HDL Founders Club**; a \$35 million fund focused on early-stage, Canadian technology investments, particularly in the IT, communications and software sectors. The fund has raised \$4 million in commitments from individual investors to date, and expects to have its first closing of \$15 million. For additional information please contact David Hass, Managing Partner, at david@hdlcapital.com, or (416) 599-7330 or you may visit the company website at www.hdlcapital.com.

■ **LE MOUVEMENT DES CAISSES DESJARDINS** has recently launched

■ **CAPITAL REGIONAL ET COOPÉRATIF DESJARDINS**. This new venture capital fund is dedicated to the economic development of Québec predominantly in its resources region. Over the next 10 years the fund plans to raise \$1.5 billion from Québec investors with subscriptions capping at \$150 million per year. Investissement Desjardins will be managing the fund along with Luc Chabot, President and General Manager, of Capital regional et coopératif Desjardins. For more information regarding the fund please contact André Chapleau, Manager – Media Relations Fédération des caisses Desjardins du Québec, at andcha@invdesjardins.qc.ca or (514) 281-7229, or visit the company website at www.desjardins.com.

■ **PURPLE ANGEL** a new angel group based in Ottawa, comprised mostly of former Nortel Executive staff was formed early this year. The group is dedicated to investing, guiding and mentoring start-up companies in the Ottawa region, particularly in the communications infrastructure sectors. For more information please contact Irving Ebert at ebert@purple-angel.com or (613) 829-1029, or visit the groups website at www.purple-angel.com.

■ **VENGROWTH CAPITAL PARTNERS** has completed its first closing of **VENGROWTH V** with commitments of over \$55 million from leading Canadian and American institutional investors. This new fund is focused on early stage companies in the communications, networking, semiconductor, internet infrastructure and software sectors within Canada and the U.S. For additional information please contact Christy Theriault at christy@vengrowth.com or (416) 971-6656 ext. 237, or visit the company website at www.vengrowth.com.

Update from CVCA's Public Policy Committee

The Public Policy Committee has been very active during the past few months. The main thrust has revolved around the CVCA's efforts to persuade the Federal Government to amend certain aspects of the Income Tax Act, which negatively affect the Canadian venture capital sector. These include the absence of "user friendly" investment vehicles for domestic institutions; provisions which discourage foreign institutions from investing in Canadian ventures; the inequitable treatment of cross-border mergers; and continuing inequities with employee stock options.

With the expert assistance of our tax advisors, Barbara Worndl of Aird & Berlis and Scott Wilkie of Oslers, the Public Policy Committee has prepared a formal submission for presentation to the House of Commons Finance Committee and the Senate Banking Committee (the submission is available on the CVCA website). John Eckert and John Bradlow presented the submission to both Committees on November 1st and have also informally discussed our proposals with several political leaders including Senator Leo Kolber (Liberal), Chair of the Senate Banking Committee, Senator David Tkachuk (Tory), Scott Brison (Tory Finance Critic), Jason Kenney (Alliance Finance Critic) and Charlie Penson (Alliance Industry Critic).

We have also had numerous meetings with officials of the Department of Finance. While it is too soon to claim success, we do feel our proposals are receiving serious attention and that there is a growing appreciation in Ottawa of the counter-productive effects of several provisions in the existing Income Tax Act. We are optimistic that our principal proposals will be accepted.

John Bradlow
Chair, Public Policy Committee

Overview *(continued from page 1)*

Large financings continue to be a feature of technology investment, as venture professionals express confidence in the long-term prospects of companies. At \$935 million, the communications and networking sector attracted the biggest sums, or one-quarter of disbursements. Taken together, internet-related and computer software firms absorbed 29% of resources, while the life science sector sustained its comeback at 18%. Many of these technology companies are very young, evident in the remarkable \$2.2 billion, or 58% of capital invested, that was directed to seed, start-up and other early stage deals. Consistent with a time of market consolidation, most of these same transactions were follow-on in nature, as close to two-thirds of deployed dollars backed existing portfolio firms.

Given their latest capital infusions, foreign groups lead other investors in the Canadian market in the first nine months, accounting for 30% of disbursements at this point. While Canadian venture professionals are investing less in the current environment, activity has not fallen off altogether. Indeed, mainstream industry activity remains vital to leveraging syndicates involving US and other foreign sources.

In short, the Canadian venture capital industry is showing real durability in a turbulent period, while the country's emerging technology sectors continue to attract welcome attention at home and from abroad. It is hoped that these trends will persevere in time for an upswing in the economy and public markets.

Update from CVCA's Networking Committee

I am very pleased to report that CVCA's first Networking Luncheon was a great success. The event, which featured the Right Honourable Joe Clark as our keynote speaker, was held on Tuesday October 23rd at the Hilton Hotel with over 120 attendees. Mr. Clark urged the audience of investors and professionals to expect more from our government to create a better environment in which enterprise and initiative may thrive.

A special thank you to our sponsor, Hewlett-Packard (Canada) Ltd., for helping to make this event a success.

Please be sure to join us at our New Members' Reception on November 20th.

Lauren Linton
Chair, Networking Committee



Events Calendar

CVCA Events

- Tuesday November 20th, 2001 – Toronto
New Members' Reception
5:00 pm to 7:00 pm
at BRAVI Ristorante, 40 Wellington St. E.
Cash Bar
- Wednesday, December 5, 2001 – Toronto
Professional Development Seminar
"Managing the Downturn: Survival Strategies For Venture Capitalists and Entrepreneurs"
TSE Conference Centre,
130 King Street West, Toronto, Main Floor
- June 19-21, 2002 – Toronto
Annual Conference 2002
Four Seasons Hotel, Toronto

Industry Events

- March 5, 2002 – Toronto
Investor Reception
March 6, 2002 – Toronto
Venturefair 2002
Presented by the Toronto Venture Group, a one-day venture capital event, profiling exciting technology companies with investment opportunities.
Sheraton Hotel, 123 Queen St. West
For more details visit www.venturefair.com

- May 13 & 14, 2002 – Toronto
Canadian IT Financing Forum
Presented by Macdonald & Associates Limited and Canada IT.com, 40-50 emerging IT companies will make presentations to a group of major venture capital investors from Canada.
To apply to present and/or register on-line please visit their web site at www.financingforum.com or contact Nancy Hizaka-Vilardo at (416) 964-1265, ext. 227.
Toronto Hilton

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

Winners' Circle

CVCA's 2000 'Deal of the Year Award'

The CVCA is pleased to announce Celtic House International, as the recipient of the CVCA's 3rd 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, 2001.

Celtic House won this year's award for its investment in Abatis Systems. The investment of \$2.7 million generated a return of 487% when Celtic House exited in March 2001 for \$17 million.

Celtic House was honoured at the CVCA's AGM Dinner in Toronto on Monday, September 24, 2001.



Providing data has paid off for Craig Loverock of Jefferson Partners. Craig is Macdonald & Associates Ltd. latest quarterly data draw winner of \$1,000. Congratulations Craig!



Questions, comments and contributions to the **Enterprise** are welcome!
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Information in this edition of **Enterprise** has been prepared with the assistance of Macdonald & Associates Limited.