



Enterprise

CANADIAN VENTURE CAPITAL ASSOCIATION (CVCA)

Overview:

First Half 2001: Canadian Venture Market Stays Surprisingly Strong

With technology stocks in free fall and venture investing in the U.S. on a steep downward slope, the tally for first half activity by the Canadian venture industry was surprisingly strong. A total of \$1.4 billion was invested in the second quarter, up by 23% from the \$1.1 billion invested in Q1, bringing first half disbursements to \$2.5 billion, up slightly from the \$2.4 billion invested over the same period last year. This stability is in sharp contrast to the experience in the U.S. where first half disbursements were U.S.\$23 billion, down by 67% from the U.S.\$54 billion invested in the same period of 2000.

The comparison with U.S. activity is particularly interesting when the role of U.S. venture funds in the Canadian market is examined. Foreign funds – primarily U.S. venture groups – invested \$705 million in Canadian companies in the first half of this year, up by 45% from the \$486 million they invested in the same period last year. This level of activity certainly suggests a continued confidence

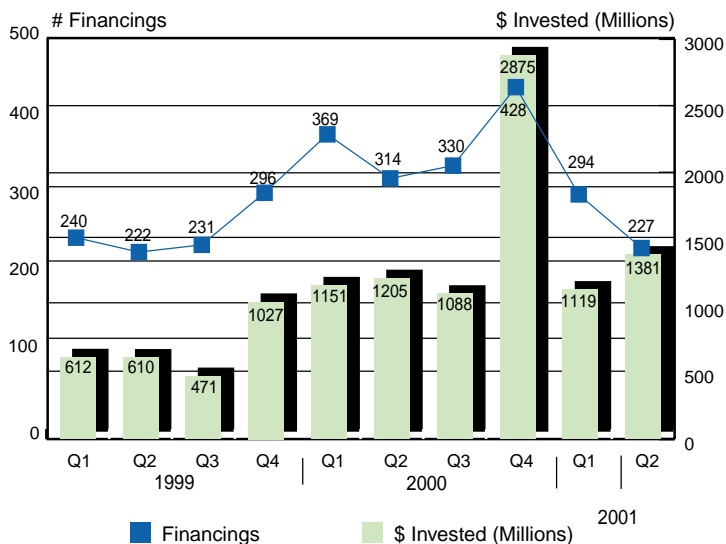
among some U.S. venture funds in the quality and value of the Canadian deals they see. In the process, they have helped to close the gap in VC activity between the two countries.

During the first half of the year, Canadian disbursements were 7% (on a currency-adjusted basis) of U.S. disbursements, up significantly from the 3-4% ratio that has been the norm for the past several years.

While disbursements were strong over the first six months, the number of deals done actually declined in the first half by 30% to 521 from the 680 transactions completed in the same period last year. The average deal size rose from \$3.5 million to \$4.8 million in the process. Investors seem to agree that it is generally harder for companies to raise capital in this environment (particularly for the first time), and fewer companies are doing it successfully, but many of those that do are raising more.

(continued on page 3)

Quarterly Investment Activity
By Canadian Venture Capital Industry



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From the President



The recent difficult market conditions have highlighted the true value of committed and experienced venture capital players in emerging companies. Almost all companies at some point experience difficult times. And when trouble strikes, the ability of a company to make it through is often determined by the quality of its shareholders – and by quality, I am referring to both financial wherewithal and the willingness and expertise to help out.

In recent months, we have seen the collapse of many early stage companies. Clearly, a great deal of these companies deserved to fail. However, there is no doubt some might have succeeded if they had had professional venture players as shareholders. Many collapsed because the angel investors backing them were unable to provide additional funding or were unwilling to roll up their sleeves and turn the companies around. Other companies were simply abandoned because the investors had too many other problem investments to handle.

As painful as they are, these events bode well for experienced and committed venture capital players in Canada. Canadian entrepreneurs are now realizing that, when things get tough, you better have a professional venture investor who is both deep pocketed and willing to play a meaningful role. Having a prestigious group of angel investors or a U.S. venture capital firm as the primary investor may not be enough if there is no willingness to provide additional financial or advisory support.

There is now clear evidence that the market is recognizing this to be true. We have seen continued strong interest in Canadian opportunities by U.S. venture players. The difference today is that, of the 36 foreign backed deals, 32 were made together with Canadian venture players. This reflects the recognition by U.S. investors that a successful outcome is far more likely if there are experienced, like-minded, domestic venture investors involved.

At the Annual CVCA Conference in Halifax, our lunchtime keynote speaker, Robert Fleming, described the venture marketplace by stating, "the summer is over and the tourists have all gone home". I couldn't agree more.



John Eckert, President, CVCA

New AdVENTURES

■ **BMO Nesbitt Burns** has recently added **John Easson** and **Paul Cataford** to their team. John, formerly with RBC Dominion Securities, now joins as Managing Director and Head of Technology. John may be contacted at john.easson@bmonb.com or (416) 359-8088. Paul, formerly President and Managing Director of BCE Capital Inc., now joins BMO Nesbitt Burns Equity Partners Inc. as Executive Managing Director and can be reached at: paul.cataford@bmonb.com or (416) 359-8076. Acting as President of BCE Capital Inc. in the interim is Dave McCarthy, and he can be reached at dmccarthy@bcecapital.com or 416-815-0920.

■ **Business Development Bank of Canada** is pleased to announce that **Michel Ré** is now Executive Vice-President, Investments. Michel has been with BDC for over 25 years. In his new position Michel is responsible for all the Bank's subordinate financing and venture capital activities across the country. Michel can be reached at michel.re@bdc.ca or (514) 283-8030.

■ **Jefferson Partners** has moved to Soho Centre, 260 Queen Street West, 4th Floor, Toronto, Ontario M5V 1Z8. Phone and fax remain unchanged at: (416) 367-1533 and (416) 367-5827.

■ **J. L. Albright Venture Partners** announces the addition of **Rick Segal** to their team. Rick, formerly President and Chief Executive Officer of Microforum, joins as Partner. Rick can be contacted at segal@jlaventures.com or (416) 367-2440.

■ **MM Venture Partners** welcomes two new individuals to their team. **Phil Ladouceur**, formerly with Futurelink as Chairman & CEO, now joins as Partner focusing on the telecommunications and networking sectors. You can reach Phil at pladouceur@mmvp.com. **Amit De** is Vice President, responsible for identifying, assessing, and managing investment opportunities. He may be contacted at amitde@mmvp.com or you may reach both at: (416) 977-9718.

■ **OMERS** is proud to announce the promotion of **David Rogers** and the addition of **Jennifer Morais** to their team. David, formerly Senior Portfolio Manager, Funds with OMERS, now is Vice President of a ten-person Merchant

Banking and Private Placement group. In this capacity, his team is responsible for structuring, sourcing, and negotiating equity and debt co-investment transaction mainly in the Canadian private marketplace. David may be reached at: drogers@omers.com or (416) 350-6734. Jennifer joins OMERS from BayStreetDirect Inc. In her new capacity as Senior Analyst, Merchant Banking & Private Placements she is involved in private equity investments in primarily VC and merchant bank funds. Jennifer can be contacted at jmorais@omers.com or (416) 350-6724.

■ **Royal Bank Capital Partners** has added **Peter Diedrich**, **Dev Bhangui** and **Euclid Sarjoo** to their Telecommunications Fund team focused on North American telecom ventures. Formerly with BCE Inc. as Vice President, Corporate Strategy, Peter now joins as Managing Director, Telecommunications and Media Fund where he heads up the new \$200 million telecommunications fund. You can reach Peter at peter.diedrich@rbcap.com or (416) 842-4075. Dev, formerly with Royal Bank of Canada as Senior Manager, Telecom Credit Risk Management, now joins as Director, Telecommunications Fund where he is focused on making new investments. Dev can be reached at devdatt.bhangui@rbcap.com or (416) 842-4102. Euclid, formerly with Credit Suisse First Boston in M&A and Corporate Banking, joins as Associate, Telecommunications Fund where his focus is on making new investments. You may contact Euclid at euclid.sarjoo@rbcap.com or (416) 842-4104. **Tony Manastersky** and **Gregory J. Smith** have also joined the company as Managing Directors. Both are Co-managers of a \$200MM mezzanine fund focusing on \$7MM-\$30MM subordinate debt investments in Canada and the United States, supporting management teams and equity sponsors, and providing flexible investment structures. Tony, formerly with Northface Capital as Managing Partner, can now be reached at tony.manastersky@rbcap.com or (416) 842-4054. Gregory, formerly with Deloitte & Touche as Managing Director, can now be contacted at greg.smith@rbcap.com or (416) 842-4052.

■ **RoyNat Capital Inc.** has opened its first U.S. office. The new office is located at: Bank One Centre, 600 Superior Avenue East, Suite 1300, Cleveland, Ohio 44114. Telephone number (216) 861-7197 and fax (216) 479-6801. Co-managing this location are **Wayne**

Declercq and **Bob Uhrig**. Wayne, formerly Assistant V.P. and Manager of RoyNat's Fraser Valley British Columbia office, can be contacted at: declercq@roynat.com. Bob, formerly Vice President in charge of National Bank's asset based lending operation in Buffalo, New York, can be reached at: uhrig@roynat.com. Alternately both can be reached at: (216) 479-6809.

■ **Schroders and Associates** has relocated to 1800 McGill College Avenue, Suite 3000, Montreal, Quebec H3A 3J6. Telephone and fax number remain the same at: (514) 397-0700 and (514) 861-2495 respectively.

■ **Raymond Bachand** will be resigning as president and chief executive officer of the **Solidarity Fund QFL**. Raymond completes seven years as a member of the Fund's senior management team, including four years as president and CEO, as well as over seventeen years as a member of the board of directors. For further information please contact Guy Versailles, Vice President, Communications, Marketing and Public Relations, at 1-800-361-5017.

■ **Telsoft Ventures Inc.** has moved to 1250 René-Lévesque Blvd. West, 38th Floor, Montreal, Quebec H3B 4W8. Telephone and fax number remain unchanged at (514) 397-8450 and (514) 397-8451 respectively.

■ **TD Capital Canadian Private Equity Partners**, which focuses on CDN\$10 to \$75 million investments in Canadian middle-market companies to fund buyouts, growth and expansion, acquisitions and recapitalizations, has added **Mark Landecker**, Analyst, to the investment team. Mark joins TD from PricewaterhouseCoopers, and he can be reached at: mark.landecker@tdcapital.com or (416) 308-6367. **TD Capital Communications Partners**, which focuses on making investments of U.S.\$10 to 60 million in U.S. and European media and communications companies, has added **Christopher McDermott**, Senior Associate, to the investment team. Christopher joins TD from Salomon Smith Barney, and he can be reached at: chris.mcdermott@us.tdcapital.com or (212) 827-7498. **TD Capital Technology Ventures**, which focuses on making investments of U.S.\$3 to \$10 million in enabling technology businesses across industry sectors, as well as pure-play technology and service companies in the financial services sector in North America, has added **Jonathan Lin**, Senior Analyst, to

NEW Funds



■ **CROWN VENTURES FUND INC.** is Saskatchewan's newest labour sponsored investment fund. The fund was created to put dollars to work, enhance business growth, retain and create jobs, and facilitate ownership of business in the provinces of Saskatchewan. For further information regarding this fund please contact Mike Merth, Vice President & CFO, at: mmerth@sk.sympatico.ca or (306) 546-8003.

■ **DISCOVERY CAPITAL CORPORATION** is pleased to announce the filing of a preliminary prospectus for a new technology limited partnership. **DISCOVERY CAPITAL 2001 TECHNOLOGY LIMITED PARTNERSHIP** has filed for a \$30 million offering. For more information please contact Charles Cook, Chief Financial Officer, at ccook@discoverycapital.com or (604) 683-3000 ext. 102 or Michelle Hohn, Corporate Communications, at mhohn@discoverycapital.com or (604) 683-3000 ext. 115.

■ **EAGLE ONE VENTURES** is Ottawa's newest venture capital firm. The firm is located at 350 Terry Fox Drive, Suite 350, Kanata, Ontario K2K 2W5. Telephone: (613) 270-1005 and Fax: (613) 271-0066. The new fund is focused on early stage networking firms. For more information regarding this fund please contact Conrad Lewis at conrad@eagleoneventures.com or Ken Wigglesworth at ken@eagleoneventures.com.

■ The University of Toronto has launched a new incubator fund. **EXCELER@TOR** is a project of the Innovations Foundation at the University. It is a centre of business development, which allows

entrepreneurs to grow their companies, in addition to providing a collaborative environment, access to a range of resources offered at the University and access to a cost effective range of technology infrastructure and services. This incubator focuses on early stage technology companies in the southern Ontario area. For more information please contact Andrew Maxwell at exceler@tor.ac or (416) 946-7248 or visit the foundation's Web site at: www.innovationsfoundation.utoronto.ca.

■ **KODIAK VENTURE PARTNERS**, a Massachusetts firm investing in Canadian companies, has closed on \$290 million in its second fund, **KODIAK VENTURE PARTNERS II, L.P. (KVP II)**. The fund focuses on seed and early stage companies in the communications, semiconductor and software sectors in eastern North America. For further information please contact C.C. Cave at (978) 369-3687 or visit their website at: www.kodiakvp.com.

■ **SCHRODERS & ASSOCIATES CANADA INC.** has closed its **SCHRODER CANADIAN BUY-OUT FUND III**. This \$204 million buyout fund has a general industry focus, excluding only real estate, oil and gas and start-up situations. The primary interest areas for the fund are wholesale distribution, general and industrial manufacturing, services to established markets, as well as mid-technology and life sciences firms. For further information please contact David Price, Analyst, at (514) 397-0700 or you can visit the company's website at www.schroders.ca.

■ **TECH CAPITAL PARTNERS** attracts new investors to its **WATERLOO TECH CAPITAL FUND**, causing it to grow by 30% to \$30 million in total. The lead investor in this round is the Business Development Bank of Canada, which joins a list of other investors such as OMERS, and Cranston, Gaskin, O'Reilly & Vernon Investment Counsel. Tech Capital Partners primarily invests in early stage, core technology companies. For more information please contact Tim Jackson, Partner, at jackson@techcapitalpartners.com or (519) 883-0959 or Andrew Abouchar, Partner, at abouchar@techcapitalpartners.com or (519) 747-8104 or visit their website at www.techcapitalpartners.com.

Overview (continued from page 1)

Some very large deals were done in Q2, helping to sustain disbursements. Solinet Systems, which develops high-speed optical internet systems, raised U.S.\$93 million (Cdn\$140 million), the largest round ever for a Canadian company, with much of the money coming from U.S. investors. Canadian VC funds also stepped up to some large rounds, including the \$88.5 million follow-on round raised by Q9 Networks. Investors continue to focus a large share of their time and money on existing portfolio companies, which accounted for more than two-thirds of deals done and capital invested in the first half.

Foreign investors – primarily U.S. venture funds – are playing a key role in the Canadian market this year, accounting for almost 29% of the capital invested in the first half. "Other" investors, including mutual funds and strategic corporate investors, accounted for a further 21%, meaning that only half of the capital invested actually came directly from Canadian-based venture groups.

In short, aggregate disbursements in Canada are holding up remarkably well and the gap in the amount of capital flowing into Canadian companies relative to their U.S. competitors is closing quickly. For the time being at least, many Canadian venture-backed companies should be at least well positioned as their U.S. competitors to survive this period of economic turbulence.

Message from 2001 Conference Chair



I'd like to thank everyone who attended CVCA's Annual Conference, just held this past June in Halifax. CVCA is very pleased to report record attendance

this year, wonderful networking time with colleagues (record partying!), a solid speaker program and a very healthy infusion of funds for the CVCA — especially due to the outstanding support of our sponsors.

Our Gala Evening, in addition to our Entrepreneur of the Year presentation to Denis Gadbois (see Winners Circle, Pg. 4) featured an outstanding performance by Natalie MacMaster. We understand that Ron Begg is currently on tour with Natalie closing her performances doing his famous two step with the star from Cape Breton.

The weather in Halifax was very cooperative and the wrap up Friday afternoon cruise aboard the Highlander Sea was to a balmy 35° celsius.

I would like to extend my sincere appreciation to everyone involved in making this conference a success, a special thank you to Kathryn Ryan who worked above and beyond the call of duty.

Conference 2002 will be moving back to Toronto and we'd like everyone to note the dates of June 19 - 21, 2002. The event will take place at the Four Seasons – Yorkville, in Toronto.

Peter Forton
2001 CVCA Conference Chair

New AdVENTURES *(continued from page 2)*

the investment team. Jonathan joins TD from Clearway Technologies, and he can be reached at: jonathan.lin@us.tdcapital.com or (617) 728-4898.

■ **Robin Coster**, formerly with Bereskin & Parr, has joined **TORYS** as Partner in the firm's Technology Group. His focus is on intellectual property law, in particular, strategic planning and management of patents, trademarks and other IP assets. Robin can be reached at rcoster@torys.com or (416) 865-8248.

■ The **VenGrowth** Investment Team continues to expand with the addition of **Andreea Stoica** and **Phil Kurtz**. Andreea, as Investment Analyst, is responsible for reviewing business

opportunities, assessing management, and providing due diligence, and can be contacted at andreea@vengrowth.com. Phil's duties, as Legal Counsel, include negotiation and review of legal agreements governing venture investments and other fund-related legal matters and can be reached at: phil@vengrowth.com. The firm has also expanded its successful Residency Program with the addition of **Jagdeep Baccher** and **Ron Shuttleworth** both of whom have joined VenGrowth as Executives-in Residence where their experience as top technology executives will be utilized by VenGrowth's investee companies. All individuals may be contacted by dialing (416) 971-6656.

■ **Ventures West Management Inc.** welcomes two new people to their team

and bids a fare well to another. **Robin Axon**, who recently graduated from Queen's School of Business MBA program, joins as Associate. Robin focuses on investment opportunities in the IT sector. You can contact Robin at the Toronto office at raxon@ventureswest.com or at (416) 861-2284. **Richard Timmons** also joins the team. Richard, formerly with CyberSafe Canada as Chief Scientific and General Manager now focuses on investment opportunities in the IT, Telecom and Semiconductor Sectors as Entrepreneur in Residence. You can reach Richard at the Ottawa office at rtimmons@ventureswest.com or (613) 270-9911. **Sandra Bernardo**, who was based in Vancouver, has left the team in pursuit of her MBA.

Events Calendar

CVCA Events

- Monday, September 24, 2001, 5:00 p.m.
Annual General Meeting,
Reception & Dinner
Le Royal Meridien/King Edward Hotel, Toronto
- Wednesday, October 17, 2001,
8:00 a.m. - 2:00 p.m.
CVCA Professional Development Seminar
"Mobile Computing and Communications –
Technology Trends and Investment
Opportunities"
Toronto Stock Exchange Conference Centre,
130 King Street West, Toronto, Main Floor.
- Tuesday, October 23, 2001,
12:00 - 2:00, Networking Luncheon
featuring The Rt. Honourable Joe Clark
as keynote speaker,
Toronto Hilton Hotel
- Tuesday, December 5, 2001
Professional Development Seminar
Topic: to be announced
Toronto Stock Exchange Conference Centre,
130 King Street West, Toronto, Main Floor

To register to any of these 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

- The **Canadian IT Financing Forum**, presented by Macdonald & Associates Limited and CanadalT.com, will be held on November 6 & 7 at the Fairmont Hotel Vancouver immediately following Softworld 2001. 40-50 emerging IT companies will make presentations to a group of major venture capital investors from Canada, the U.S. and abroad. To apply to present (application deadline September 21) and/or register on-line please visit their website at www.financingforum.com or contact Nancy Hizaka-Vilardo at (416) 964-1265, ext. 227.

Winners Circle



CVCA's 2000 'Entrepreneur of the Year Award'

The CVCA is pleased to announce Denis Gadbois, President and CEO of Mediagrif Interactive Technologies, as the recipient of CVCA's prestigious Entrepreneur of the Year Award for 2000.

Established in 1992, the purpose of CVCA's competition is to promote, highlight and celebrate the achievements of venture backed Canadian companies. The selection process focuses on individuals whose

entrepreneurial spirit, drive and success personify the qualities that all venture capitalists seek to achieve from their investees.

Mr. Denis Gadbois was honoured at the Gala Evening at the CVCA Annual Conference in Halifax on Thursday June 14, 2001.

CVCA's 2000 'Deal of the Year Award'

We will be awarding our annual 'Deal of the Year Award' at our AGM on Monday Sept. 24, 2001. Full members are asked to submit nominations before Sept. 10th.

Providing data to Macdonald & Associates Limited has paid off for the latest monthly data draw winners. Congratulations to April's winner, Lynette Gould from Working Opportunity Fund, May's winner, Amit De from MM Venture Partners and June's winner, Larry Donohue from Canadian Science & Technology Fund.



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

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