
Canada's Venture Capital Market in Q3 2014

Prepared by Thomson Reuters for
Canada's Venture Capital & Private Equity Association



CANADIAN VENTURE CAPITAL
&
PRIVATE EQUITY ASSOCIATION



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Canada's Venture Capital Market in Q3 2014

Canadian VC market trends

Deal-making in Canada's venture capital (VC) market stayed on a growth path in dollar terms in the third quarter of 2014. VC funds invested a total of \$734 million in financing rounds nationwide in this period, up 26% from the \$581 million invested at the same time in 2013. Disbursement levels in Q3 2014 were also up 45% from amounts invested in Q2 2014.

Higher VC flows went to fewer deals between July and September. Financings of Canadian innovative companies totaled 102 this time around, down 18% from the 124 financings reported the year before. VC financings completed in Q3 2014 were also reduced on a quarter-over-quarter basis.

At the end of the first nine months of 2014, Canadian VC market activity was continuing to track ahead of activity at the same time last year. To date, VC funds have invested more than \$1.6 billion in total, which is 16% more than the \$1.4 billion invested in the first nine months of 2013. The number of VC deals done also increased 6% year over year, with 361 financings counted at the end of September 2014.

Growth in dollars invested in the third quarter of 2014 was driven by several large-sized VC deals. These included financings of Kitchener, Ontario's Desire2Learn, Vancouver's Hootsuite Media, Montréal's LightSpeed Retail and Toronto's FreshBooks. As a result, amounts invested per company tended to be greater in this period. In Q3 2014, company financing sizes averaged \$7.2 million, compared to financing sizes that averaged \$4.7 million in Q3 2013.

Despite growth in Canadian VC financing sizes between July and September, the gap in deal capitalization levels between Canada and the United States remained comparatively wide in the first nine months of 2014. Since January, Canadian companies have accounted for 39% of the VC going to companies in the United States. During the whole of 2013, the Canadian share was 56%.

The global deal-making of Canadian VC funds in the first nine months of 2014 was generally on par with activity reported at the same time last year. As of September 30th, Canadian funds have invested a total of \$167 million in U.S.-based and other non-resident innovative companies. In all of 2013, these funds accounted for \$231 million invested abroad.

Canada's Venture Capital Market in Q3 2014

Canadian VC trends by region

Investment activity in Canada's VC market continued to show wide diversification by region in the first nine months of 2014. Ontario continued to lead national trends, with \$580 million invested in total in this period, up 66% from the same time in 2013. This gave the province a 36% share of all disbursements at the end of September.

Québec-based VC market activity expanded in the third quarter of the year. This influenced the \$397 million that was invested in total in the first nine months, however, due to slower trends in 2014's first half, activity was still down 25% year over year. As a result, Québec accounted for a below-par 24% of total VC invested in Canada.

British Columbia took third spot in Canadian deal-making in the first nine months of 2014, with \$339 million invested in total, or a 21% domestic market share. VC flows in the province were nonetheless down 8% from the year before. In contrast, Alberta-based VC activity continued to make gains, with \$201 million invested at the end of September, or 69% more than at the same time in 2013.

Canadian VC trends by investor type

Canadian VC funds and their domestic syndicate partners continued to be more active in dollar terms in the first nine months of 2014. To date, Canadian private-independent funds, government funds, retail funds and other investors have deployed \$743 million in total, which exceeds levels of activity reported the year before, and suggests that they are on course to exceed their \$955 million invested in the entire of 2013.

The deal-making of American VC funds and other foreign investors in the Canadian market was also increased in this period compared to the same time in 2013. To date this year, foreign investors have brought a total of \$610 million to domestic VC financing rounds, or 37% of all disbursements.

Canadian VC trends by sector

Year-over-year growth in dollars invested in Canada's VC market in the first nine months of 2014 continued to be led in information technology (IT) and life sciences sectors. Companies in computer software, Internet-focused activity, semiconductors and other IT sectors captured more than \$1.0 billion in this period, which now effectively matches the amount invested during the entire of 2013. This gave IT-related companies a 64% share of all disbursements this time around.

Canada's Venture Capital Market in Q3 2014

To date this year, VC investment activity in biopharmaceuticals, medical devices and other life sciences sectors is also running ahead of activity at the same time last year. Dollars going to life sciences companies totaled \$299 million in the first nine months of 2014, surpassing the \$251 million invested in all of last year. As a result, life sciences activity took 18% of total VC invested at the end of September.

In contrast, VC flows to non-technology sectors decreased in the first nine months of 2014, with a total of \$223 million invested, down 19% year over year. Deal-making in clean technology sectors also lost ground over this period, with \$56 million invested in total as of September 30th, or only a fraction of the \$263 million invested at the same time in 2013.

Trends in Canadian VC Fund-Raising

New capital commitments to Canadian VC funds continued to show decline in the third quarter of 2014. A total of \$158 million was raised in this period, which is down 39% from the \$258 million added to VC industry coffers at the same time in 2013. On the other hand, fund-raising in Q3 2014 grew 41% compared to the amount raised between April and June.

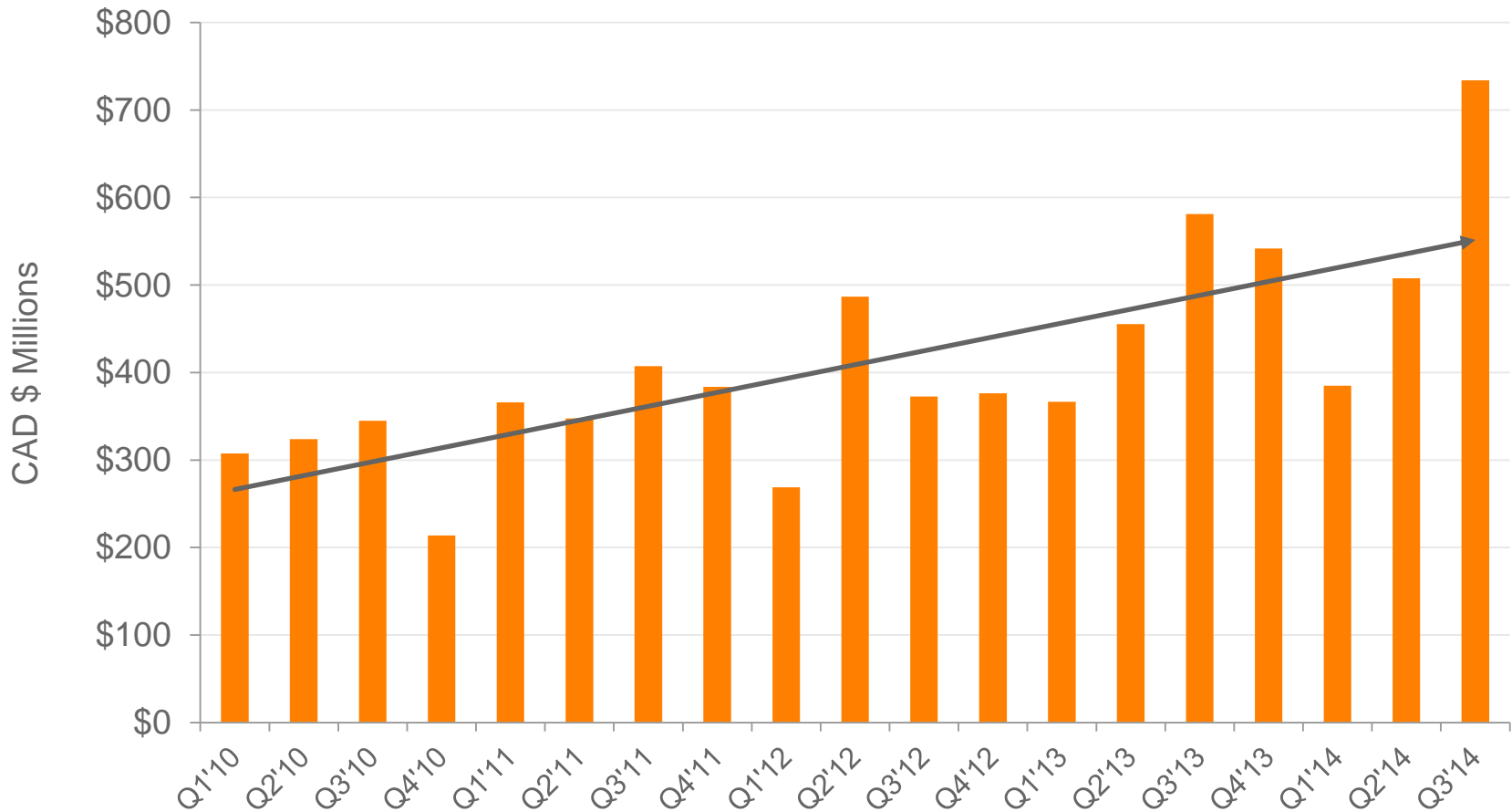
At the end of the first nine months of 2014, Canadian fund-raising activity also continued to lag market trends of the year before. To date, a total of \$801 million has been committed to domestic VC funds, which is down 29% from the \$1.1 billion committed during the first nine months of 2013.

Since January, Canadian VC funding-raising has been led by private-independent funds. Private funds have brought \$578 million of new commitments into the market as of September 30th, or 72% of the total raised, and up 23% from the first nine months of 2013. In contrast, labour-sponsored and other retail funds have so far accounted for \$215 million raised in 2014, or close to half of the \$421 million they raised the year before.

Trends in US VC Fund-Raising

In contrast with Canadian VC fund-raising activity, activity in the United States continued to show growth in the third quarter of 2014. New commitments totaled US\$6.1 billion in this period, up 40% from the year before. In the first nine months of 2014, American VC fund-raising brought a total of US\$23.8 billion into the market, which surpasses results reported for the whole of 2013.

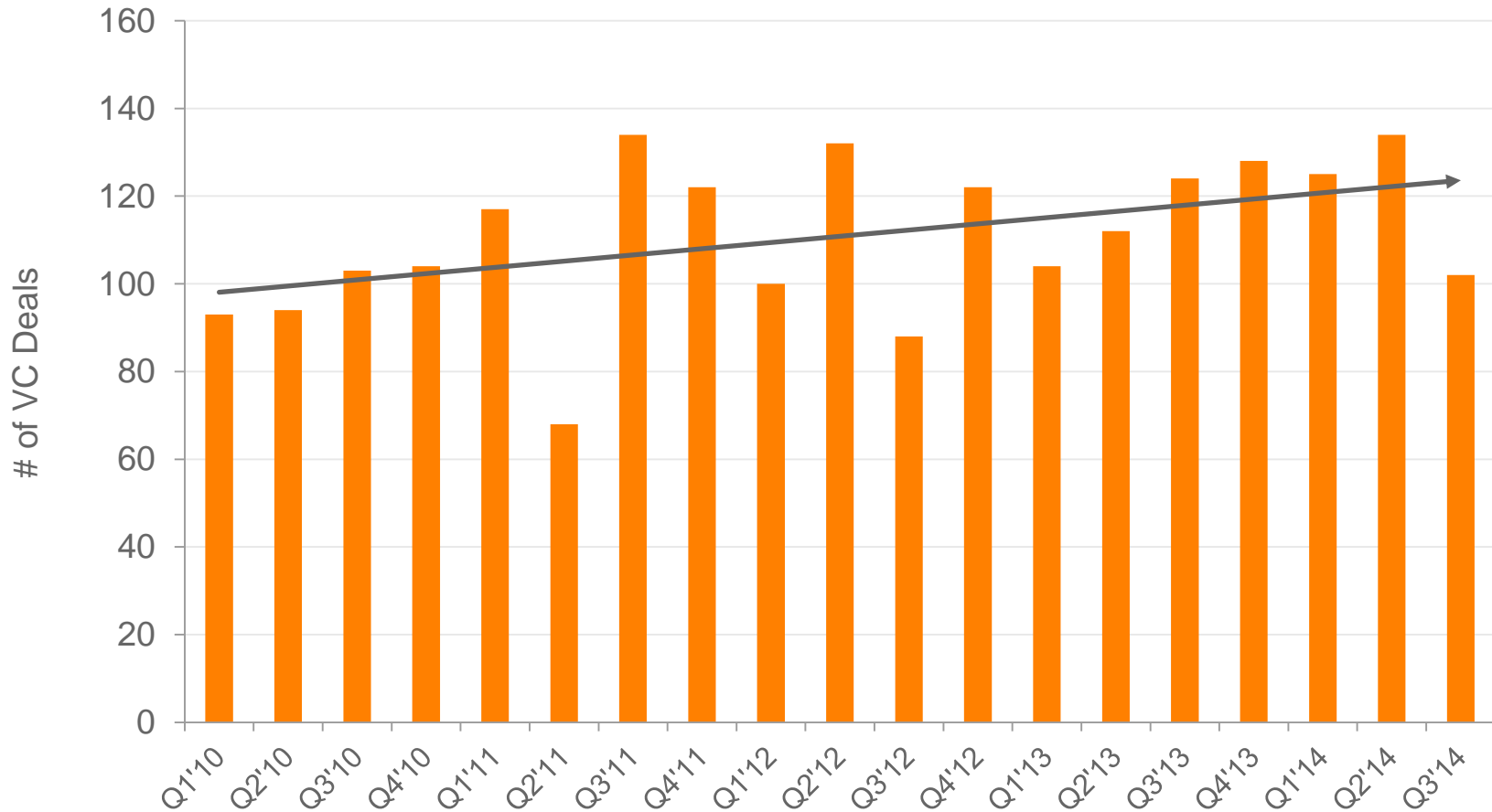
Canadian VC Invested Grows 26% in Third Quarter



VC Dollars Invested in Canadian Companies



More VC Goes to Fewer Canadian Innovative Companies in Q3 2014



Number of VC Deals in Canadian Companies

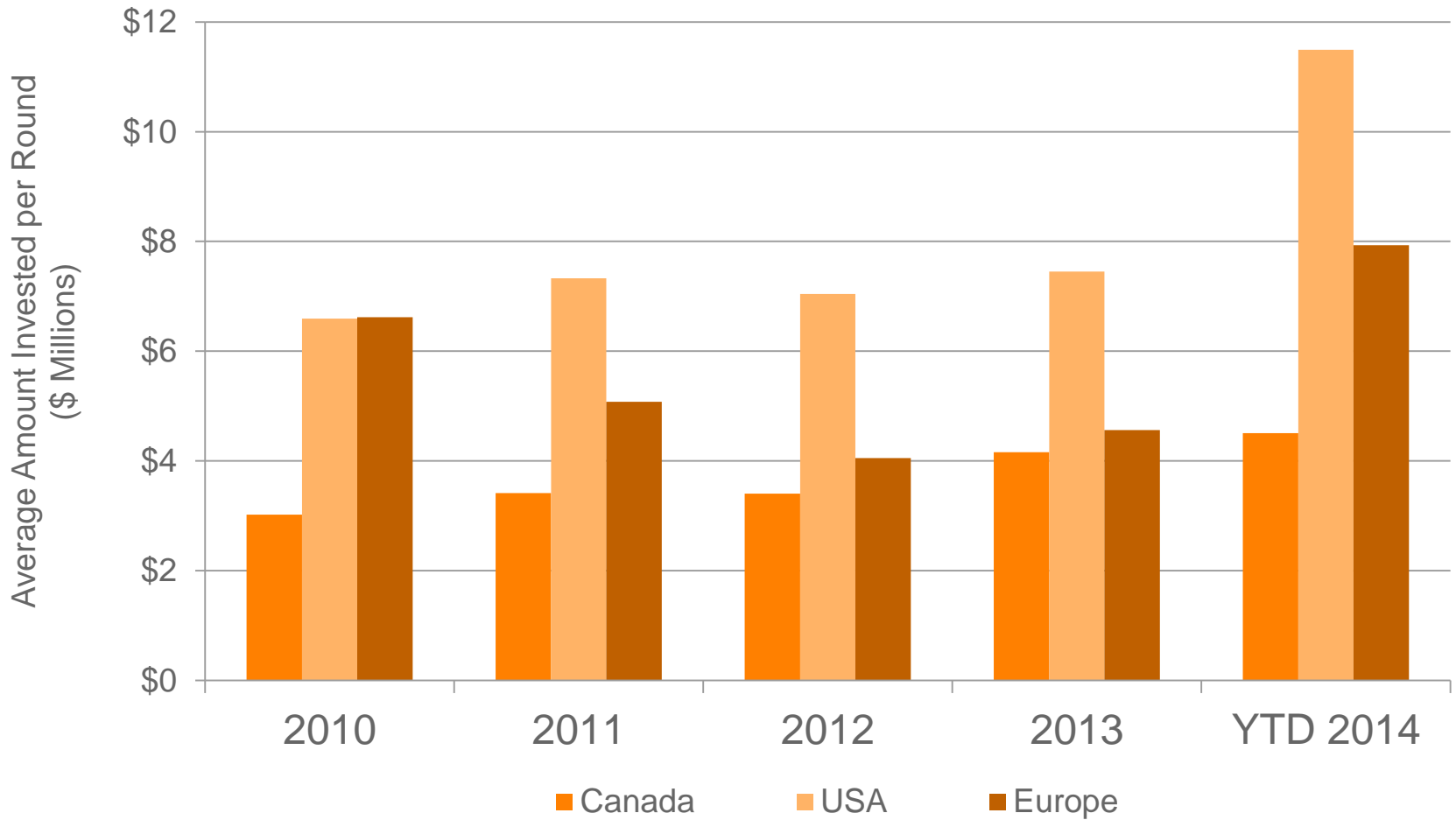


North American Venture Capital Invested by Province & State

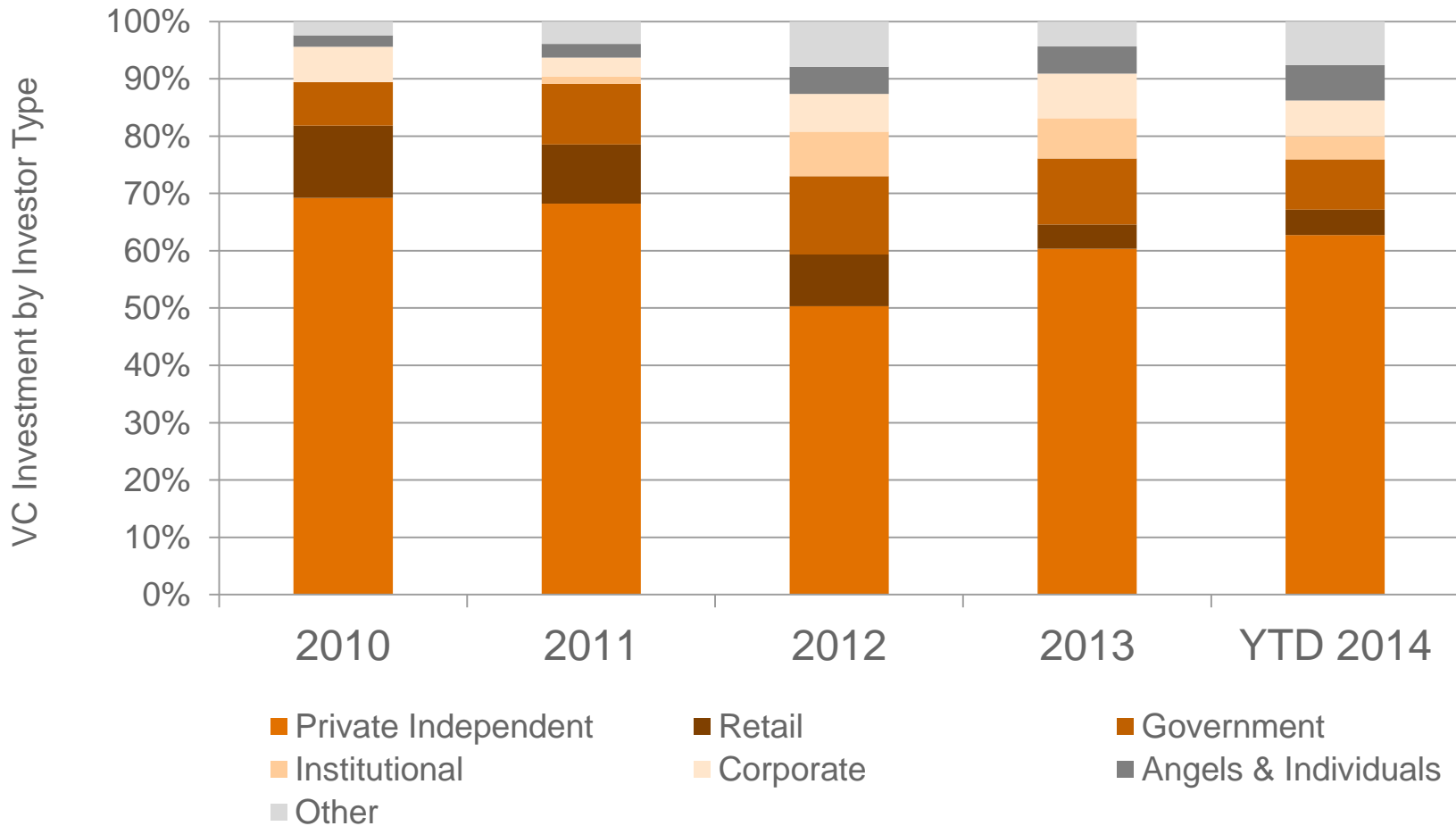
State / Province	2014 Rank	2013 Rank	First 3Q 2014 VC Invested (CAD \$ Millions)	First 3Q 2014 North American Market Share	Market Share Change From 2013
California	1	1	\$21,280	56.0%	+8.6% ▲
New York	2	3	\$3,585	9.4%	+0.6% ▲
Massachusetts	3	2	\$2,927	7.7%	-2.2% ▼
Texas	4	4	\$1,084	2.9%	-1.4% ▼
Washington	5	5	\$854	2.2%	-0.7% ▼
Utah	6	17	\$831	2.2%	+1.2% ▲
Illinois	7	12	\$613	1.6%	+0.2% ▲
Pennsylvania	8	10	\$587	1.5%	+0.1% ▲
Ontario	9	6	\$580	1.5%	-0.5% ▼
Colorado	10	11	\$485	1.3%	-0.2% ▼
Connecticut	11	22	\$418	1.1%	+0.4% ▲
Quebec	12	9	\$397	1.0%	-0.8% ▼
Virginia	13	8	\$353	0.9%	-1.0% ▼
Georgia	14	15	\$346	0.9%	-0.4% ▼
British Columbia	15	13	\$339	0.8%	-0.5% ▼



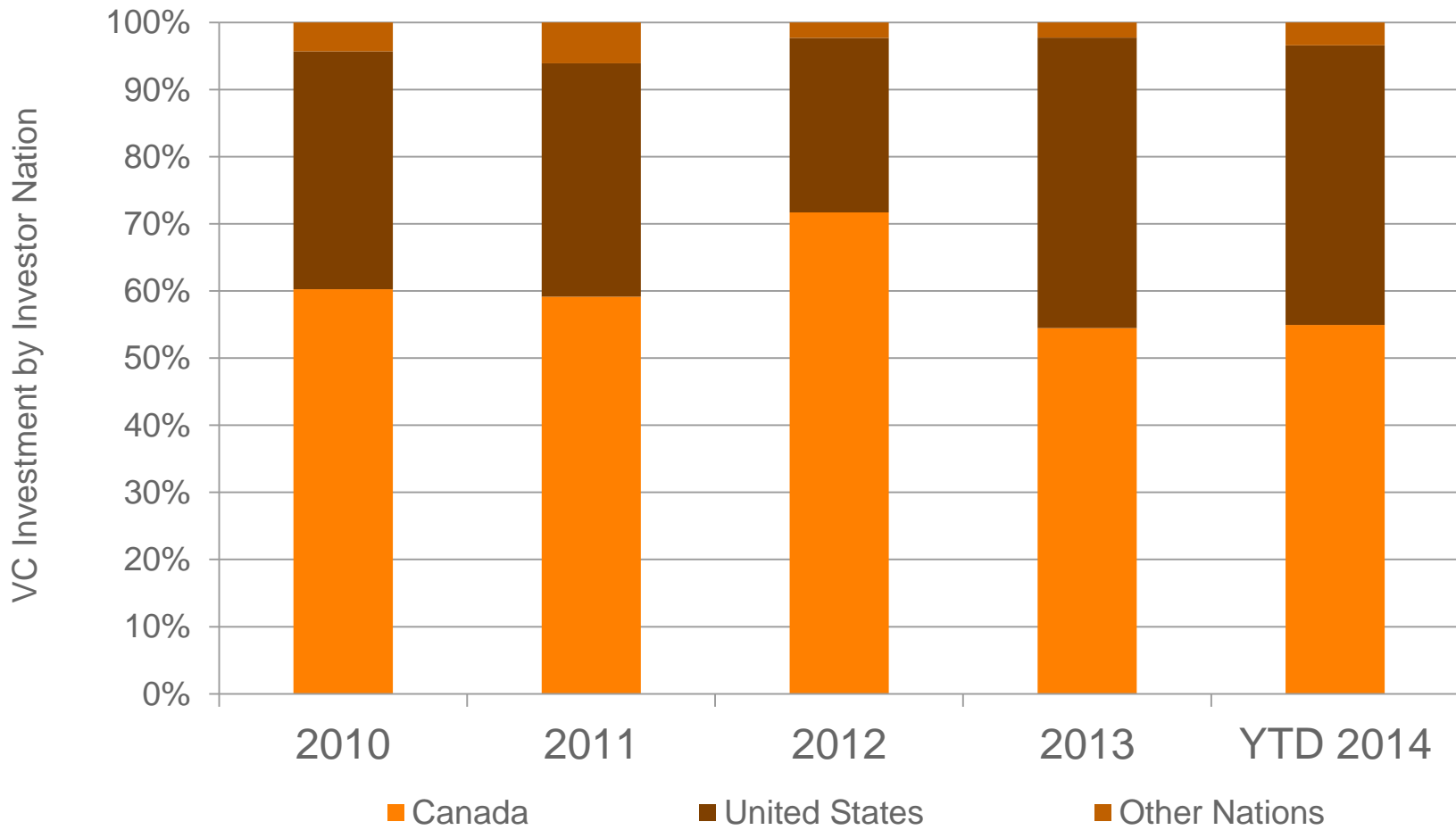
YTD, Canada-U.S. VC Deal Size Gap Widens



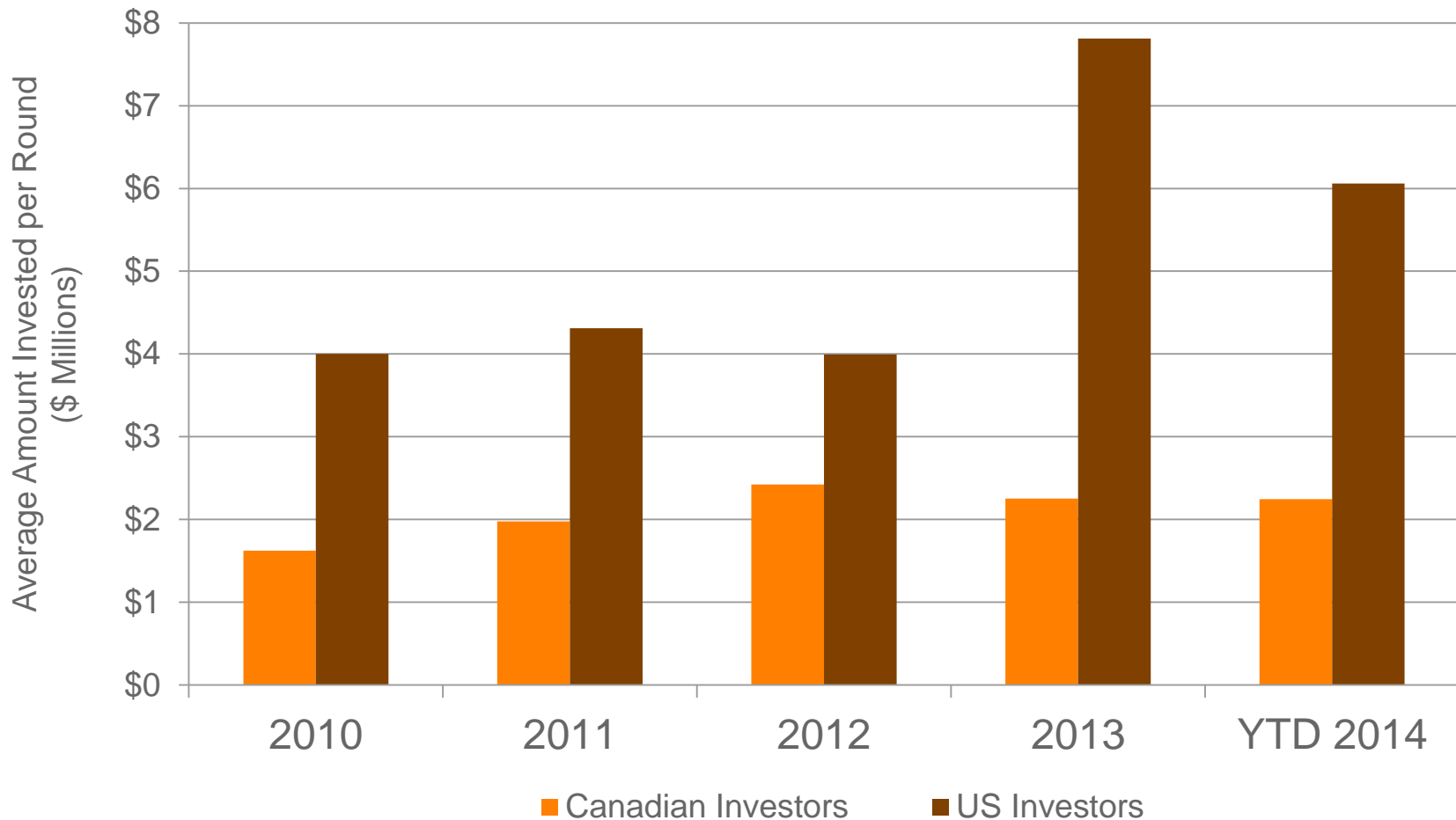
Private Independent Funds Lead Most Deals



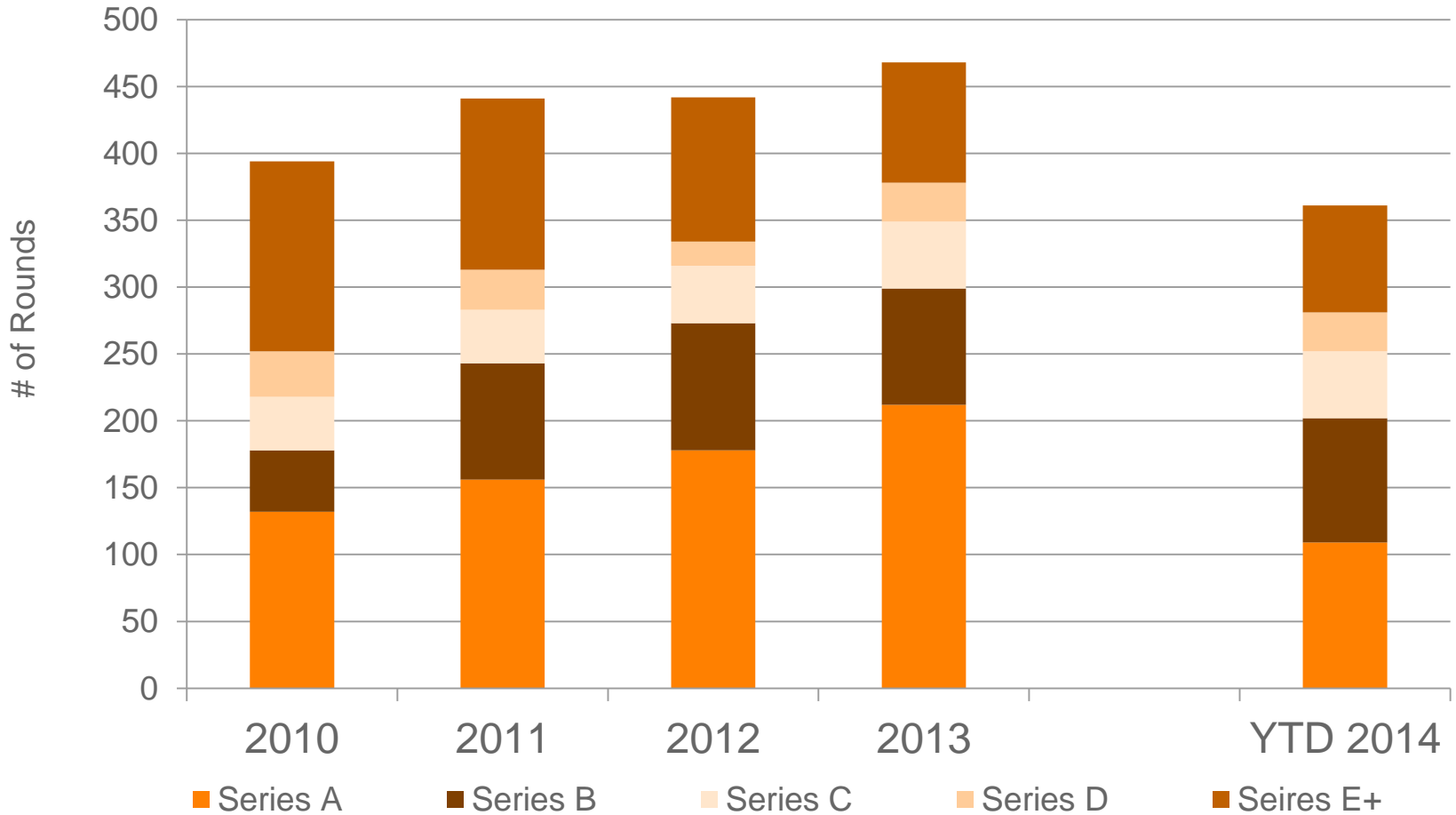
55% of Capital from Domestic Canadian Sources



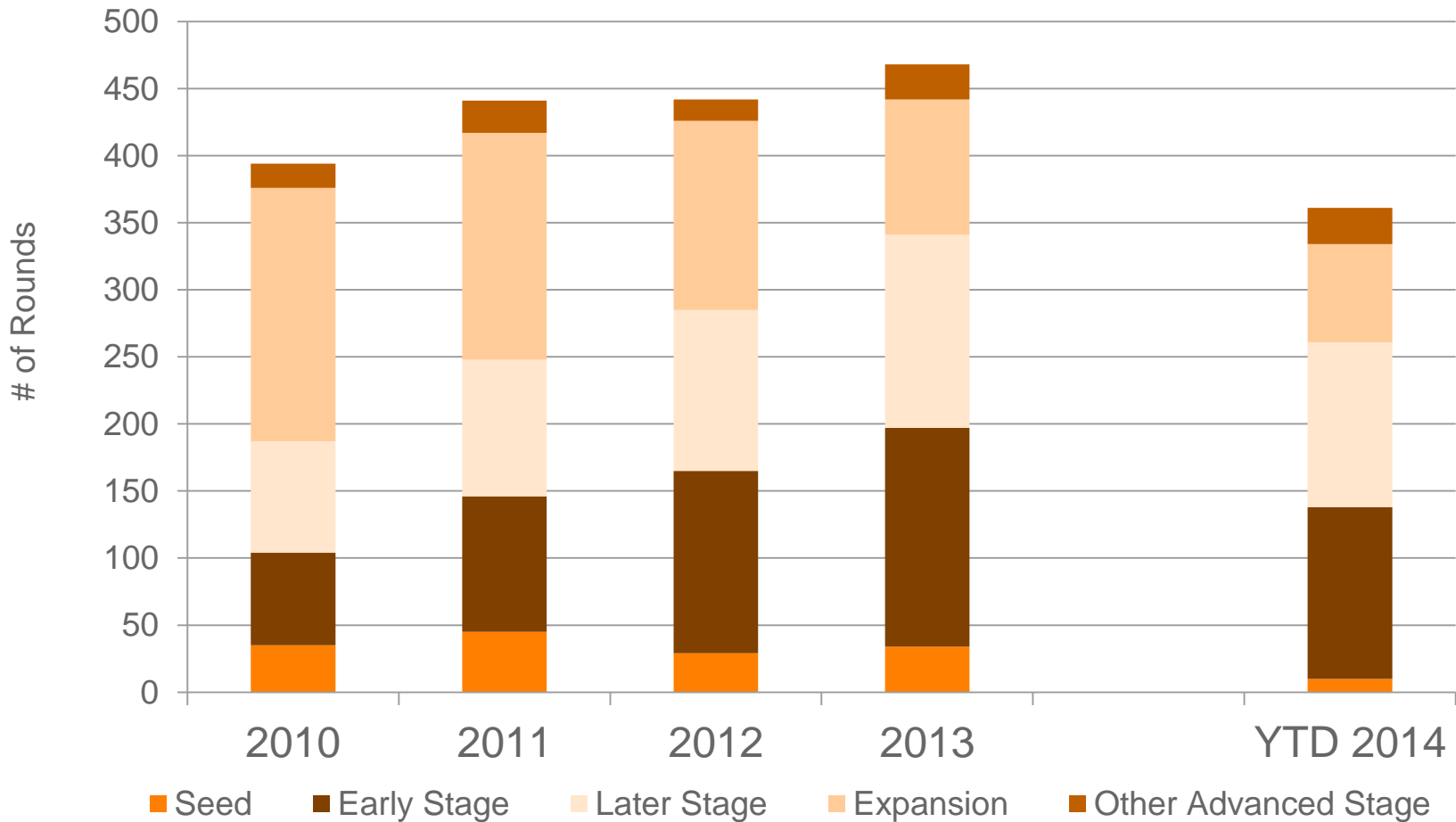
U.S. VC Investors Make Largest Investments



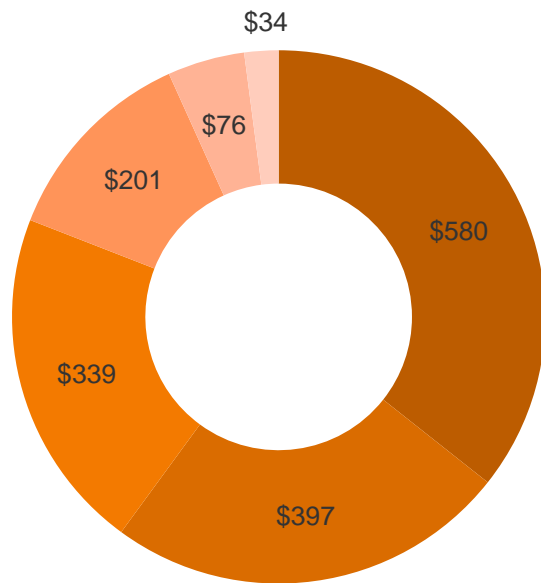
YTD, Canada Seeing Fewer New VC Rounds



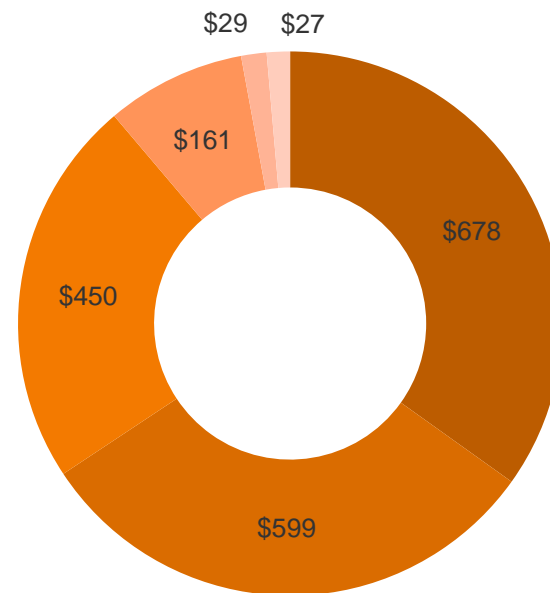
YTD, Fewer Seed-Stage Companies Financed



YTD, Ontario, Québec, B.C. Lead Canadian VC Activity



First 9 Months 2014: \$1,627 Million



2013: \$1,945 Million

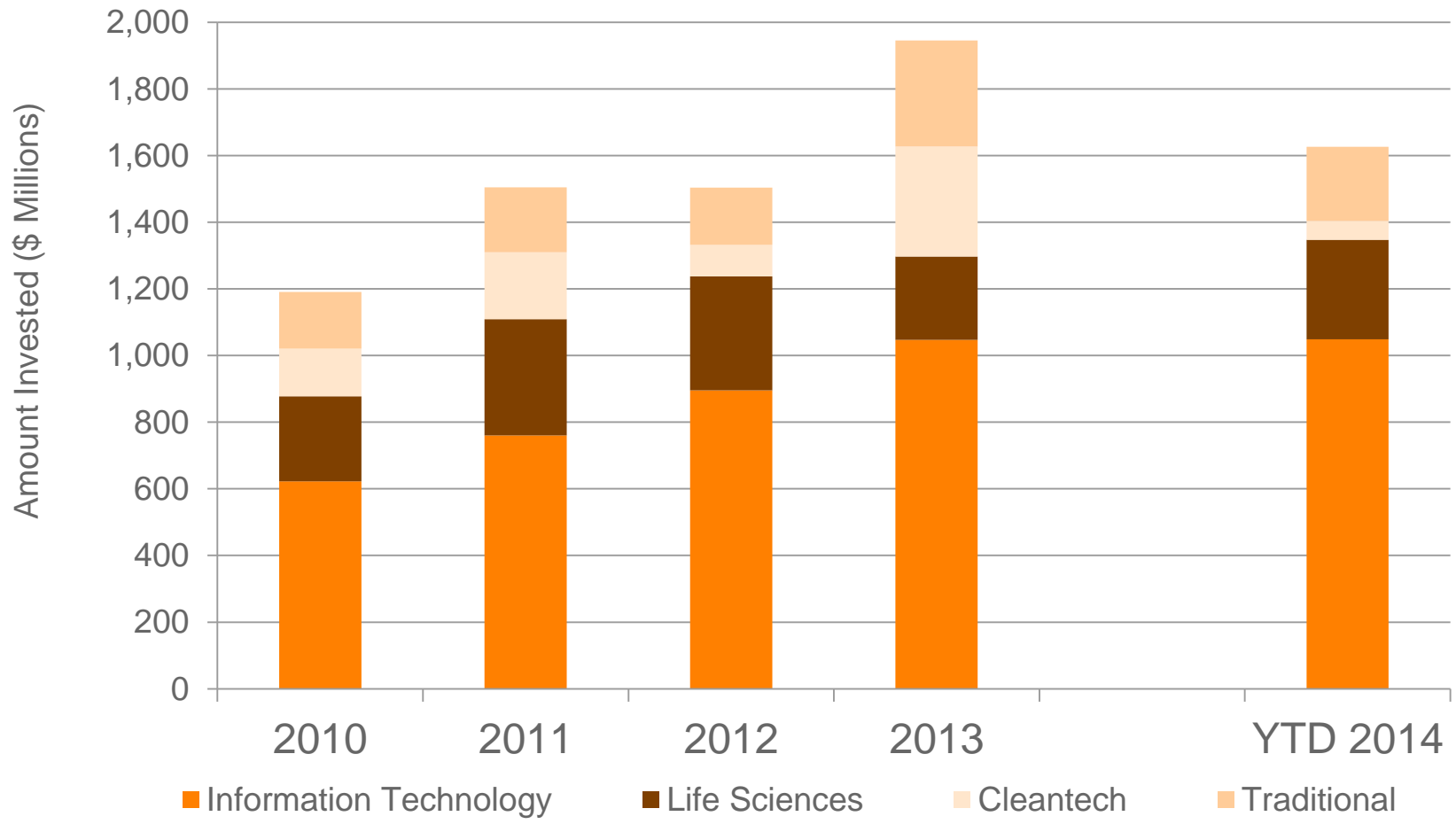
■ Ontario
■ Alberta

■ Québec
■ Atlantic Canada

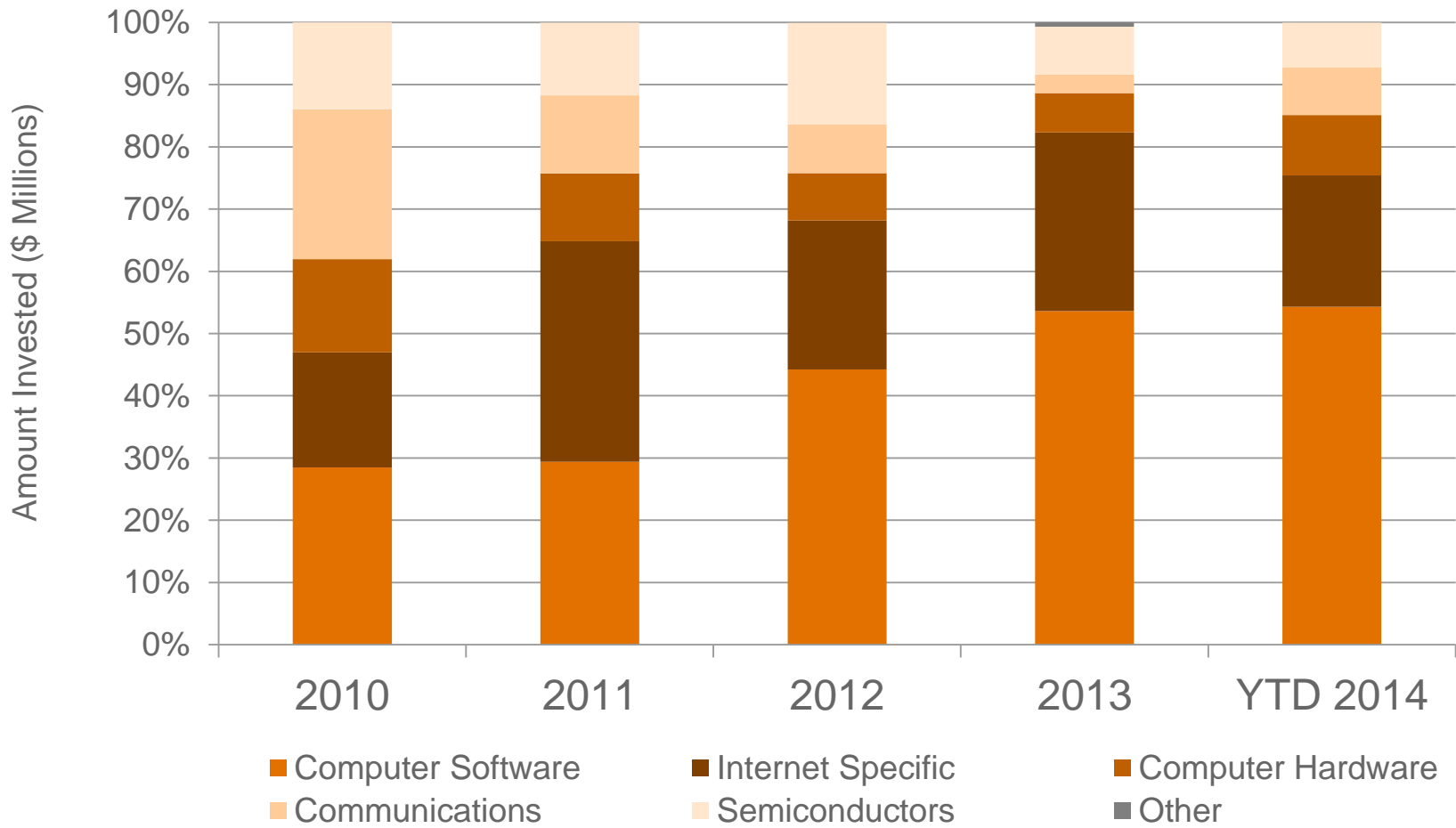
■ British Columbia
■ Manitoba-Saskatchewan



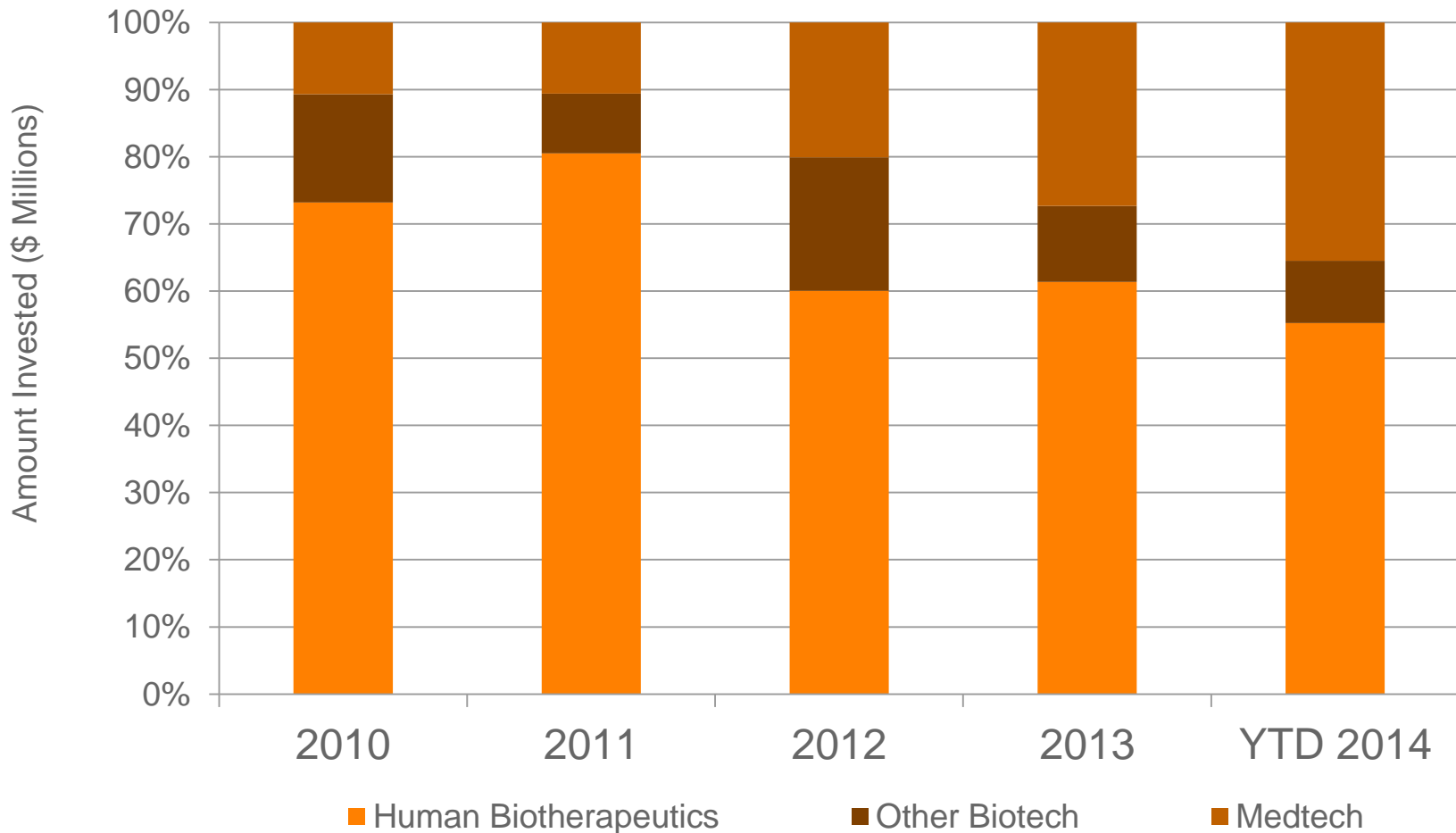
Investment in IT, Life Sciences Sectors Already Exceeding 2013 Totals



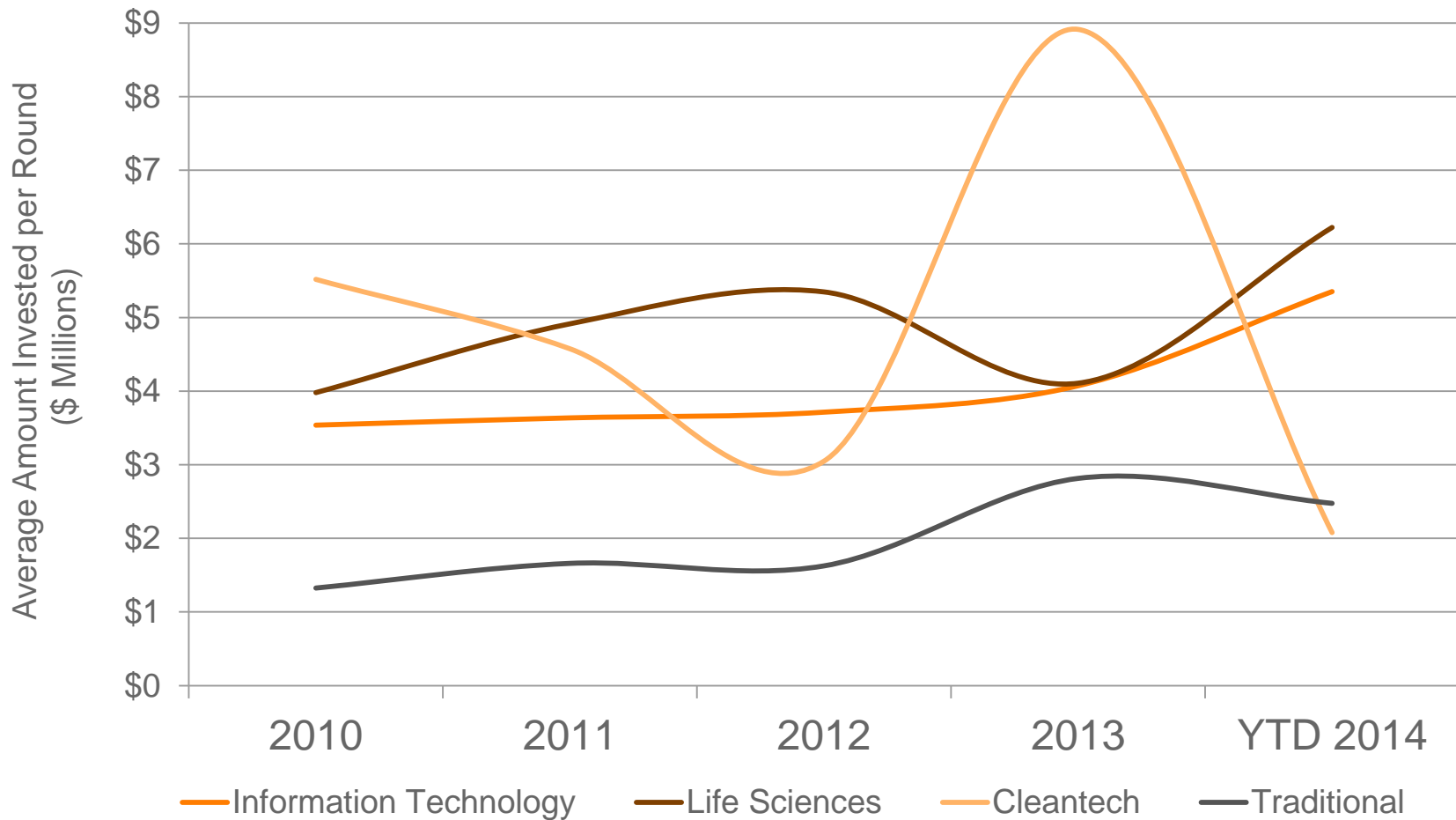
Computer Software Buoy Information Technology Sector



Medical Therapeutics & Diagnostics Growing in Canada's Life Sciences Sector



Information Technology & Life Sciences Round Sizes Up Substantially in 2014



Top VC Deals in Canadian Companies First Nine Months 2014

Company	Province	Value (CAD \$ Millions)	Disclosed Investors
Desire2Learn	ON	\$85.0	Columbus Nova Technology Partners, Graham Holdings, Four Rivers Group and Aurion Capital. Silicon Valley Bank, New Enterprise Associates, OMERS Ventures
Hootsuite Media	BC	\$66.7	Accel Partners, Insight Venture Partners and OMERS Ventures, Silicon Valley Bank
Verafin	NL	\$60.0	Spectrum Equity
Aurinia Pharmaceuticals	AB	\$57.1	venBio, New Enterprise Associates, Redmile Group, RA Capital Management, Great Point Partners, Apple Tree Partners, Lumira Capital, ILJIN Life Science Co., Difference Capital
Wattpad	ON	\$50.2	OMERS Ventures, August Capital, Raine Ventures, Northleaf Venture Catalyst Fund, Union Square Ventures, Khosla Ventures, Golden Venture Partners
LightSpeed Retail	QC	\$35.0	iNovia Capital, Accel Partners



Most Active Canadian VC Firms Private Independent

Firm Name	First 9 Months 2014 Rank	Estimated Amount Invested (CAD \$K)	# of Deals	Market Share (By # of Deals)
Private Independent Funds				
Yaletown Venture Partners	1	\$17,668	18	4.5%
Relay Ventures	2*	\$19,222	16	4.0%
Real Ventures	2*	\$16,448	16	4.0%
Avrio Capital Management	4	\$15,835	12	3.0%
iNovia Capital	5*	\$34,683	11	2.8%
Version One Ventures	5*	\$16,952	11	2.8%
Cycle Capital Management	7	\$11,636	9	2.3%
Georgian Partners	8*	\$32,013	8	2.0%
Chrysalix Energy Venture Capital	8*	\$27,292	8	2.0%
Lumira Capital Investment Management	10*	\$19,122	6	1.5%
Golden Venture Partners	10*	\$10,897	6	1.5%

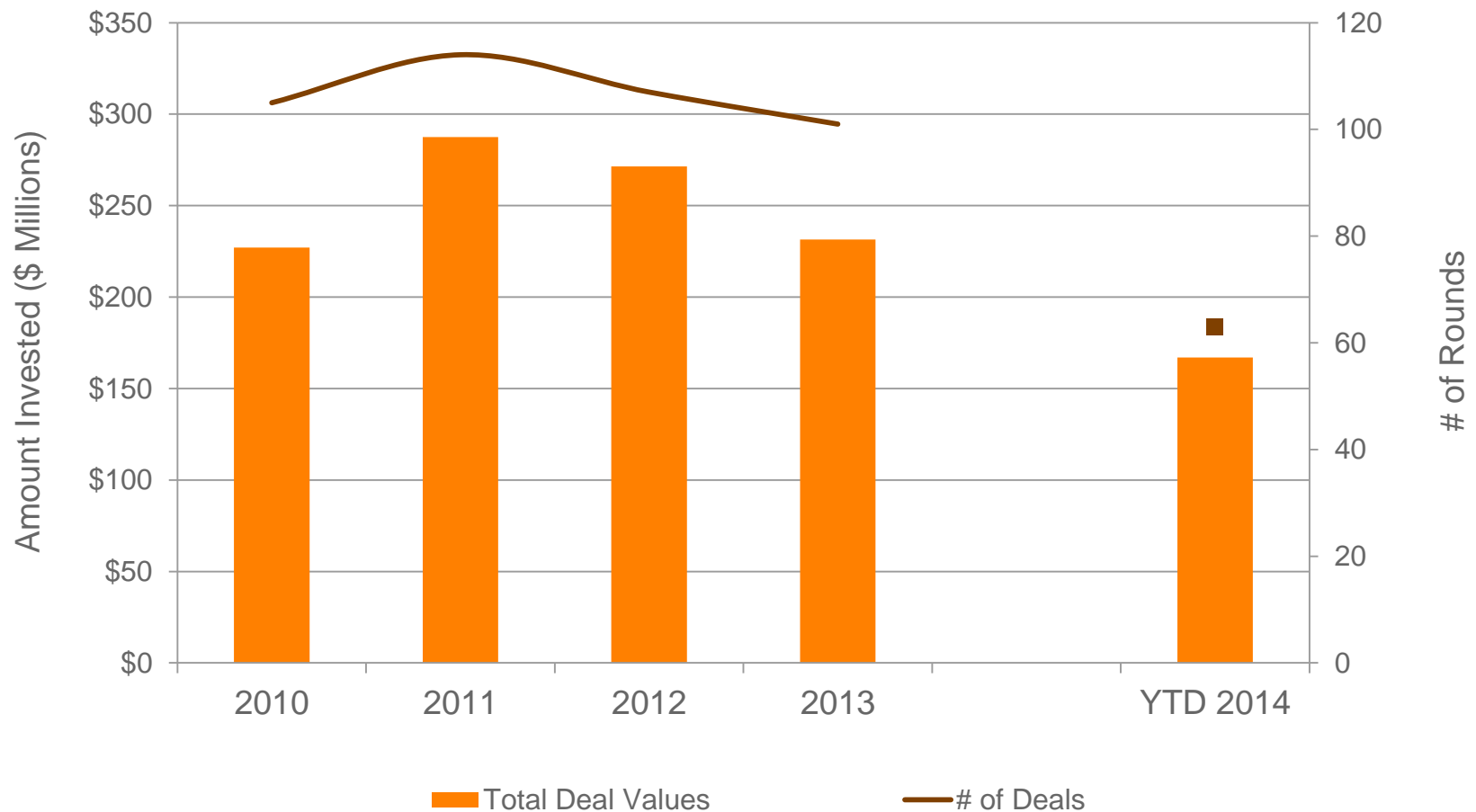


Most Active Canadian VC Firms Government & Other Fund Types

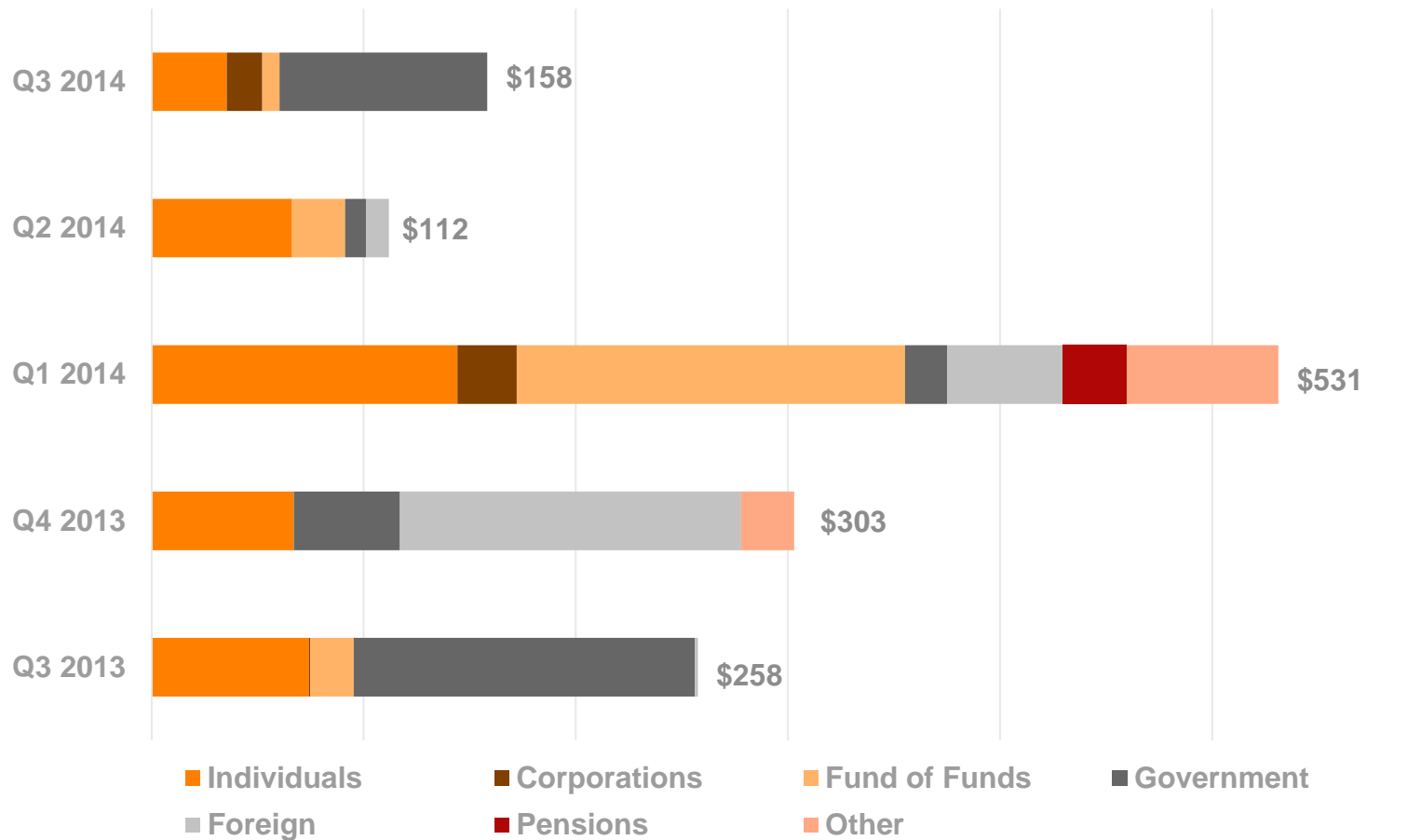
Firm Name	First 9 Months 2014 Rank	Estimated Amount Invested (CAD \$K)	# of Deals	Market Share (By # of Deals)
Government Funds				
Business Development Bank of Canada	1	\$88,062	74	18.7%
Mars Discovery District	2	\$10,716	21	5.3%
AVAC, Ltd.	3	\$7,125	7	1.8%
Sustainable Development Technology Canada	4*	\$9,882	5	1.3%
Export Development Canada	4*	\$6,929	5	1.3%
Pension, Retail, Corporate & Other Public Funds				
Fonds de solidarité FTQ	1	\$50,817	62	15.7%
Desjardins Venture Capital	2*	\$9,019	13	3.3%
New Brunswick Innovation Foundation	2*	\$2,175	13	3.3%
Fondaction	4	\$17,308	10	2.5%
Difference Capital Financial	5*	\$28,207	8	2.0%
OMERS Ventures	5*	\$34,024	8	2.0%
CDP Capital Private Equity	7	\$22,867	6	1.5%



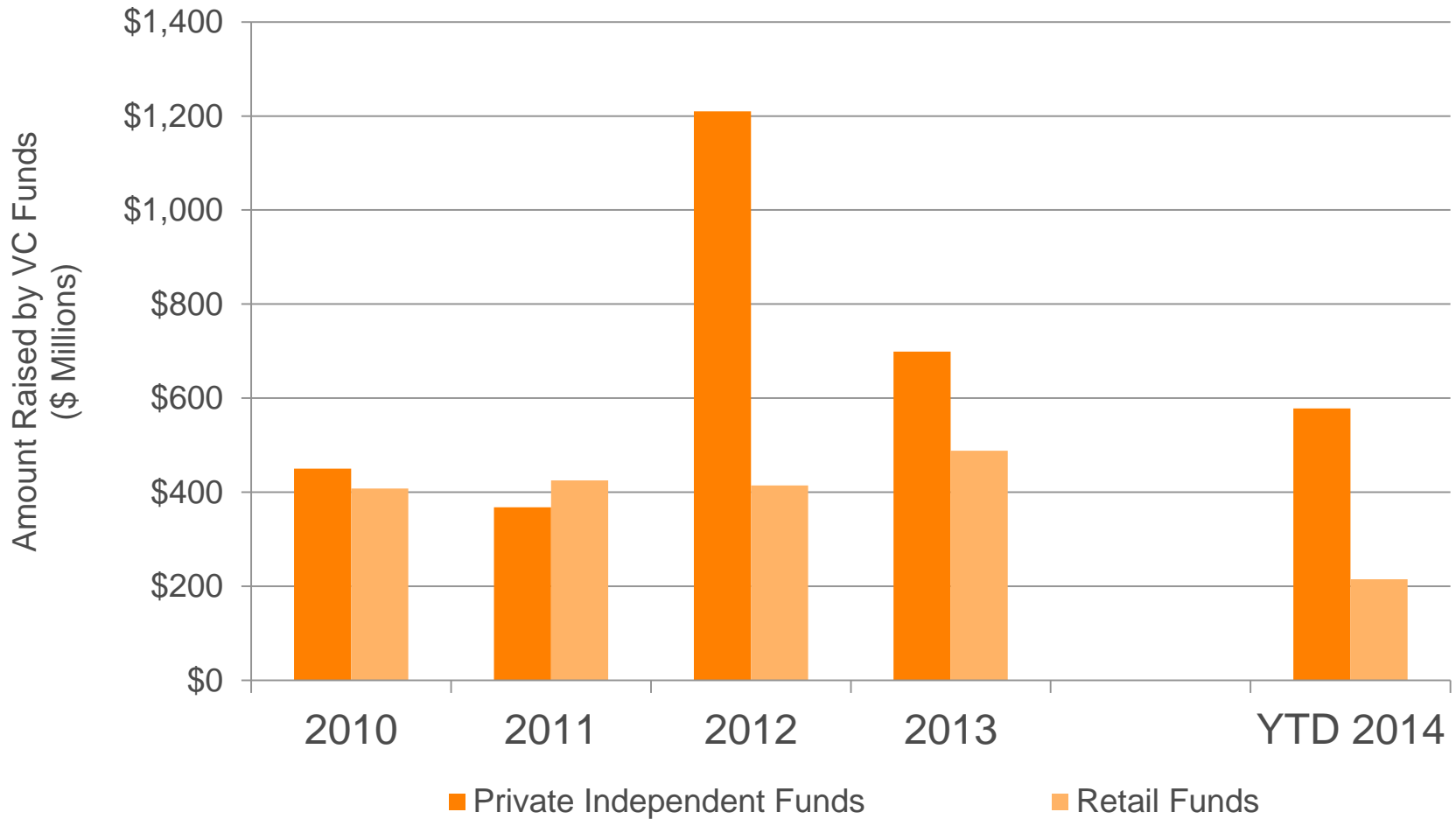
Pace of Canadian VC Activity Outside Canada Steady in 2014



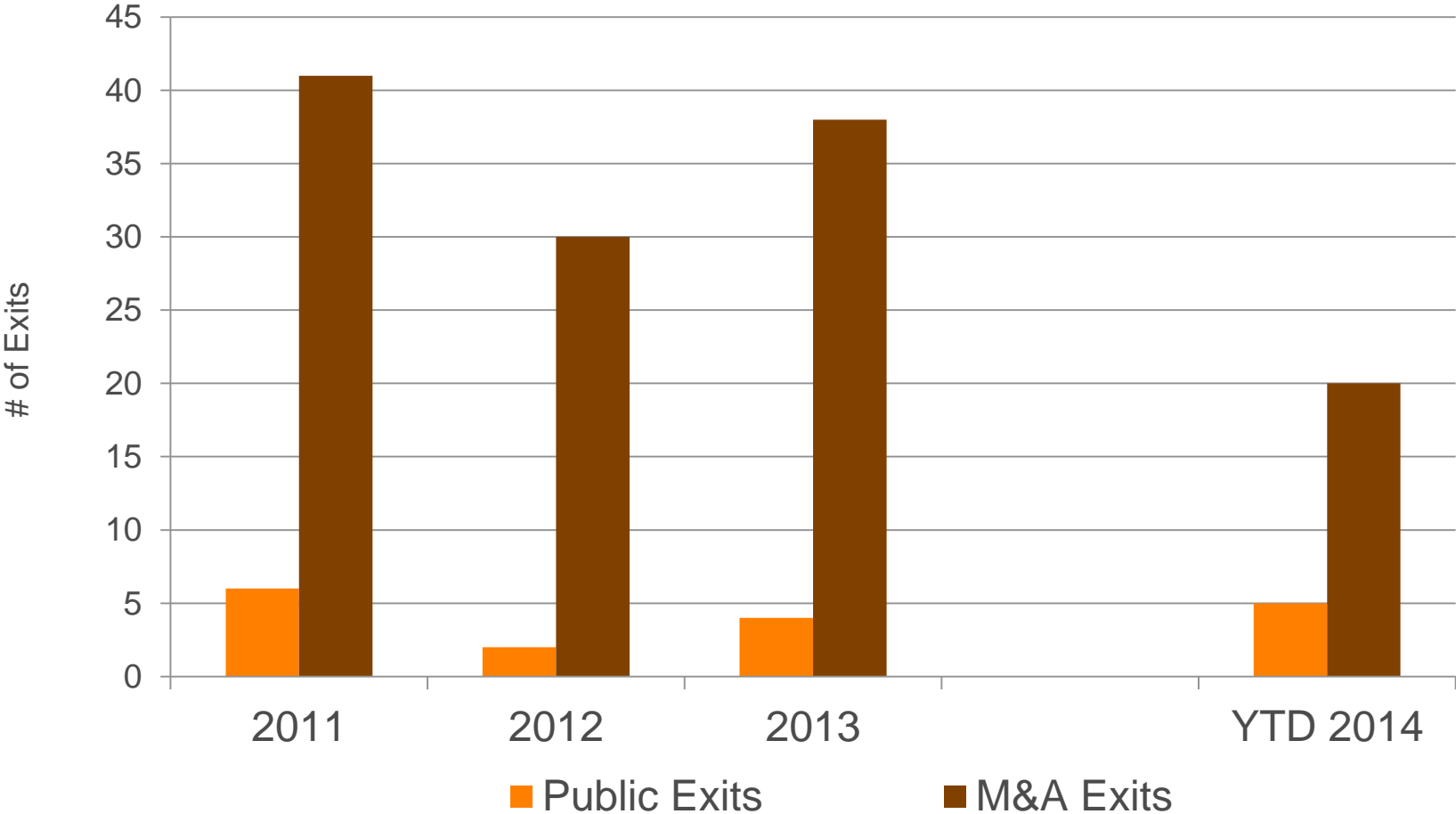
Individuals, Governments Remain Primary Sources for VC Fund-raising



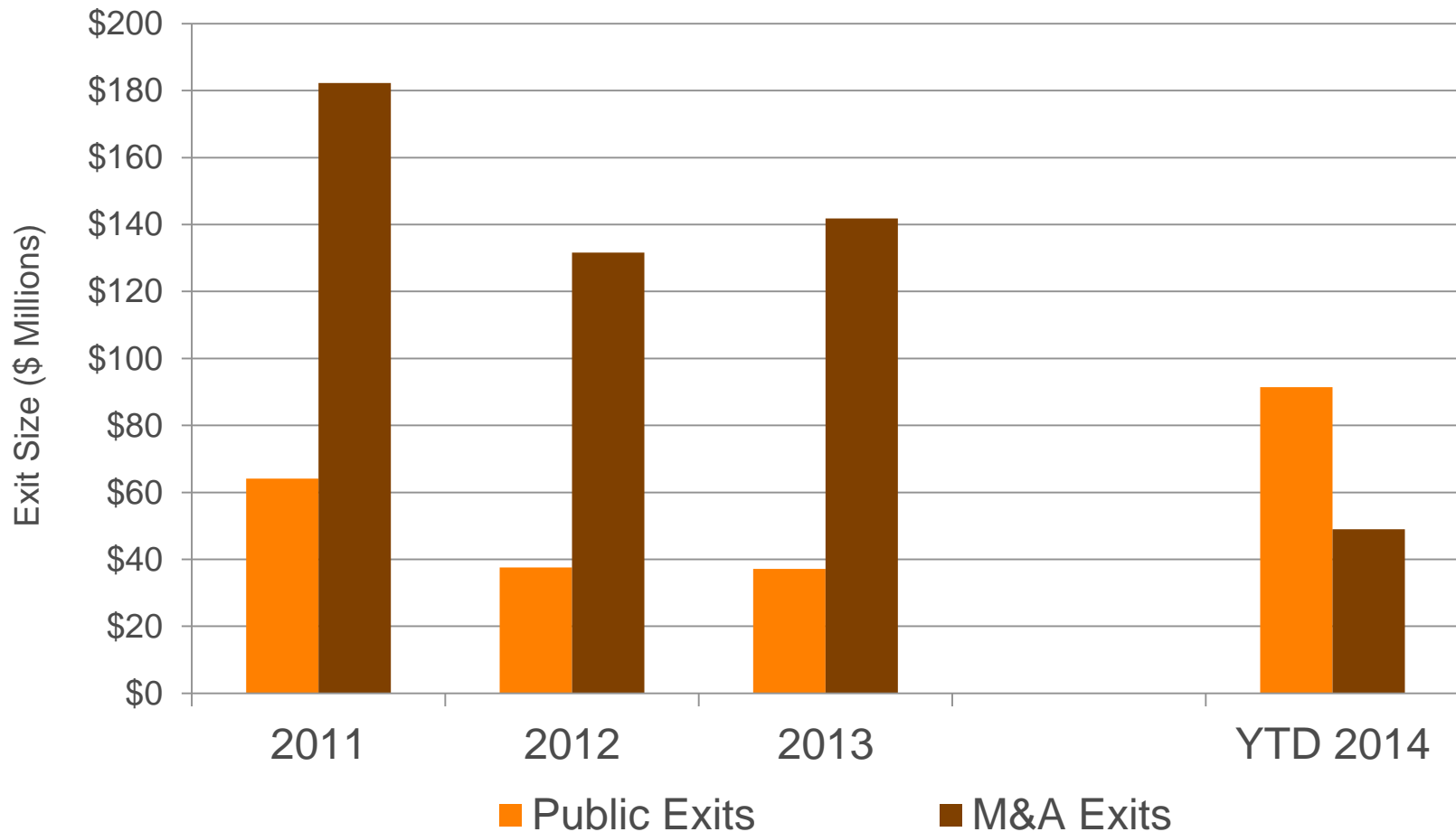
VC Partnerships Leading Fund-raising Activity



Fewer M&A Exits for Canadian Companies, Public Liquidity Events Increasing



Canadian Companies' Public Exits Overtaking M&A Exits in Size in 2014



Explanatory Notes

1. Rankings of top VC investors include only investment activity made by Canadian firms, regardless of the nation of the portfolio company. Estimated investment activity is based on the actual syndicate breakdown, where available, and is split equally among disclosed investors where actual breakdowns are not available. Market share is based upon the number of deals per firm as compared to the total number of VC deals globally involving one or more Canadian investors. Private independent, government, and other funds are independently ranked in their respective categories.
2. All current and previous years data is as of October 27th, 2014.
3. All figures are in Canadian dollars unless otherwise noted.
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