



QUÉBEC'S VENTURE CAPITAL RESULTS FOR Q1 2008

VENTURE CAPITAL ACTIVITY DECLINES

AS PRIVATE FUNDS TAKE THE LEAD

MONTRÉAL, Tuesday, May 13, 2008 – Réseau Capital today announced the results for Québec's venture capital industry for the first quarter (Q1) of 2008, as compiled by Thomson Reuters. Venture capital (VC) market activity in Québec declined in Q1 2008 in relation to the previous year. A total of \$86 million was invested, or roughly half of the \$171 million invested in Q1 2007. The number of Québec-based companies financed with VC was also down on an annual and a quarterly basis. A total of 41 companies were financed from January to March, versus 54 in Q1 2007 and 56 in Q4 2007

The slower pace of activity in Québec and across Canada was due in part to fewer large VC transactions. In Québec, the average amount invested per company was \$2.1 million between January and March, versus \$3.2 million during the same period last year.

Lower levels of deal activity in Québec appear to be part of a North American trend. Across Canada, VC disbursements totalled \$323 million in the first three months, or 47% below the \$610 million during the same period of 2007. The United States also saw a decline, with US\$7.4 billion invested in 946 companies, down slightly from the US\$7.5 billion of Q1 2007.

Breakdown by investor type

Private-independent funds have been capturing a comparatively greater proportion of market activity in Québec in recent years, as evidenced by their 15% share in 2007. Until 2005, private funds often averaged about 10% or less.

In the first three months of 2008, private funds established a milestone by leading VC activity in Québec, with 23% of all disbursements. This translated into \$19 million invested in 13 companies, which is almost unchanged from the year before. The activity of other major VC funds, however, was down in real and relative terms. This included LSVCC and other retail funds, which contributed \$16 million to Québec deals in Q1 2008, as well as foreign investors, which contributed \$14 million. One year ago, these investors accounted for \$52 million and \$76 million, respectively.

According to Charles Cazabon, President of Réseau Capital and Vice-President of Venture Capital at BDC, *“The reduction in the amount invested in Quebec and in Canada can be explained by a fewer number of large transactions in 2008 and by the difficult economic and capital market conditions facing North America.”*

ACTIVITY BY STAGE

VC trends in Québec in the first quarter continued to prefer expansions and other late-stage deals. Indeed, late-stage activity consumed two-thirds of all disbursements in Québec, which is consistent with its above-average take for last year as a whole.

As in 2007, expansion activity stood out with its share of funds in Q1 2008, as \$49 million was invested in 21 companies, or 56% of the Québec total. In real terms, however, expanding firms received 25% less than in Q1 2007, when \$65 million was invested.

Early-stage activity in Québec registered a substantial year-over-year drop, with \$29 million going to 16 companies in Q1 2008, or less than one-third of the previous \$102 million of 2007. One bright spot in early-stage trends in Québec between January and March was found in startup activity. Company startups, totalling 11, absorbed \$23 million, or almost three times the \$8 million of Q1 2007. In contrast, seed activity was down, with just over \$1 million invested.

According to Charles Cazabon, President of Réseau Capital and Vice-President of Venture Capital at BDC, *“The large reduction in early stage investing and first time activity in Q1 2008 compared to the previous year is explained by the market conditions not currently being favorable to divestiture, fund managers must support portfolio companies longer and need to reserve funds to this end. Also, in the current environment, companies offering a shorter path to liquidity are favored.”*

Investment by sector

In contrast with recent VC trends in Québec, IT-related activity was in the forefront in the first three months. Indeed, levels of activity in IT sectors proved to be the only major source of year-over-year growth this time. A total of \$44 million flowed to about a dozen IT companies, or 82% more than the \$24 million invested in the same number of companies in Q1 2007. Given the decrease in activity involving other Québec industry sectors, this increase afforded IT a disproportionately large share of total activity in Q1 2008 – 51% of all disbursements. In the whole of last year, this share was 32%.

As a consequence, life sciences activity accounted for about one-quarter of all disbursements in Québec in Q1 2008. This is a significant decrease from the near 40% share that life sciences sectors have been averaging since the market renewal of 2004.

Other technology sectors in Québec also reflected lower VC activity in the first quarter. This decline included the energy and environmental technology sectors, which saw four companies secure \$12 million, down one-third from the \$18 million of the year before.

In addition, non-technology sectors witnessed significantly reduced activity, with \$8 million invested in 13 companies, or less than half of the \$19 million invested in 22 companies during the same period of 2007.

About Réseau Capital

Réseau Capital – the Québec Venture Capital and Private Equity Association – was founded In 1989 and has more than 525 members who represent public and private venture capital companies, as well as firms of professionals serving the industry. Its mission is to foster the growth of the industry and the professional development of its members.

– 30 –

Source:

Charles Cazabon
President Réseau Capital
Vice-President, BDC – Venture Capital

For information:

Robert Pierre Venne
Director, Media Relations
Réseau Capital
Telephone: (514) 993-6260
robert-pierre@reseaucapital.com