



QUÉBEC'S VENTURE CAPITAL RESULTS FOR Q1 2009

Growth in Québec!

MONTRÉAL, Tuesday, May 12, 2009 – Réseau Capital Réseau Capital today announced the results for Québec's venture capital industry for the first quarter (Q1) of 2009, as compiled by Thomson Reuters.

Despite the widespread decline in venture capital (VC) activity around the world, activity in the Québec market actually grew in the first quarter of 2009. A total of \$156 million was invested in Québec, up 33% from the \$118 million invested during the same period in 2008. Q1 2009 activity also surpassed that of three months earlier, when \$90 million was invested.

Québec-based activity contrasted sharply with trends at the Canada-wide level, where disbursements fell 25%, from \$367 million in Q1 2008 to \$275 million in Q1 2009. The key to this result was a plunge in VC activity in Ontario, which saw a year-over-year drop of 62%. Consequently, Québec accounted for 57% of all disbursements across the country in the first quarter, which significantly improves on its 28% share for the whole of 2008. Québec also continued to reflect the largest proportion of VC-backed firms, or 49% of the overall Canadian number.

A handful of major deals pushed the amount invested per firm in Québec to an average of \$3.1 million, up from \$2.3 million one year ago, and \$1.7 million in Q4 2008.

According to Janie C. Béïque, Co-President of Réseau Capital and Senior Vice-President, New Economy, Solidarity Funds QFL, *"Despite the difficult economic context around the world, Québec's technology companies attracted a large share of the investments made in Canada. This shows the quality of Québec's technology companies and confirms the need to quickly put in place measures to ensure they have ongoing access to the capital they need for their development."*

Breakdown by investor type

The activity of U.S. venture capital funds and other foreign investors in the Québec market, which fell precipitously last year, was revived in the first three months of 2009. Cross-border activity brought a total of \$49 million to Québec deals, or better than double the \$18 million of Q1 2008.

Consequently, foreign investors were responsible for 31% of all disbursements in Québec between January and March, and played a vital role in several major deals.

Québec labour-sponsored and other retail funds also increased their activity slightly on a year-over-year basis, with \$24 million invested in 34 companies, versus \$23 million one year ago. As a consequence, retail fund activity reflected 15% of total VC activity in Québec in Q1 2009.

Government VC funds also increased their activity 17%, putting \$15 million to work between January and March. In contrast, the activity of private-independent funds in Québec was sub-par, with \$12 million invested, or 32% below the activity recorded the year before.

INVESTMENT BY SECTOR

Increased levels of Québec VC activity in the first quarter occurred in several sectors. The primary beneficiary was information technology, which saw \$82 million go to a dozen companies, up 82% from the \$45 million invested the year before. As a result, IT-related activity accounted for more than half of all disbursements in Québec in Q1 2009, in comparison with its 41% share in 2008 overall.

Telecom led this trend, as two firms, including Montréal's Airborne Mobile, received \$54 million, which greatly improves on the \$17 million of one year ago.

Unlike IT-related activity, unfortunately Québec's life sciences sectors saw sharply reduced activity in the first quarter. A mere \$5 million went to four companies, or roughly one-quarter of the \$21 million invested in Q1 2008. This trend was also apparent for the whole of Canada, with life sciences obtaining only 4% of total VC activity, which is one of its lowest shares on record.

Québec's non-technology sectors gained momentum in the first quarter. Mostly as a result of Zoom Media and other business services-related activity, 32 companies in these sectors received \$60 million, up 52% from the \$39 million of Q1 2008. Traditional activity thereby took 38% of total dollars invested in Q1 2009, which is an improvement from last year.

ACTIVITY BY STAGE

After a steady decline over the course of 2008, early-stage VC activity in Québec had something of a comeback in Q1 2009. While early-stage firms, totalling 18, were in the minority, they attracted more than half of the investments, or \$83 million. This amount compares favourably with the \$35 million that went to early-stage deals at the same time last year.

Of these 18 companies, eight were startups, which captured \$65 million, or better than triple the \$21 million of Q1 2008. Startups alone accounted for 42% of total activity in Québec, as compared with an 11% share during the whole of last year. Still, no seed activity was reported this time.

Half of the companies financed in the first quarter were seeking VC for the first time, and these secured \$111 million, or better than double the \$43 million of Q1 2008. This gave new activity 71% of all disbursements, which greatly exceeds its 28% share for last year as a whole.

Fund raising

Fund-raising activity reported in the Canadian market was especially tepid in the first three months of 2009. New commitments of capital totalled a modest \$149 million, which is a far cry from the \$418 million committed at the same time last year. VC fund managers based in Québec accounted for 29% of the Q1 2009 total.

According to Janie C. Béïque, Co-President of Réseau Capital and Senior Vice-President, New Economy, Solidarity Funds QFL, *“Once again, the statistics show just how difficult it is for venture capital funds to raise capital. Given that they are an important source of funds for Québec’s technology companies, it is vital that measures be taken to facilitate their financing. The creation of the Teralys Fund, which aims to raise \$825 million, should not only facilitate the capitalization of these private funds but also help position Québec as fertile ground for the development of promising companies. It is important to sustain today’s young companies, for they represent the Québec of tomorrow. But, as Réseau Capital has pointed out, additional measures must be taken to reach that objective quickly.”*

About Réseau Capital

Réseau Capital – the Québec Venture Capital and Private Equity Association – was founded in 1989. Its members represent public and private venture capital companies, as well as firms of professionals serving the industry. Réseau Capital’s mission is to contribute to the development and smooth functioning of the investment chain. Its preferred approaches are training, information, networking, advocacy and representation.

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