



QUÉBEC'S VENTURE CAPITAL RESULTS FOR Q2 2008

Q2 2008: CAUSE FOR CONCERN

MONTRÉAL, Tuesday, August 12th, 2008 – Réseau Capital today announced the results for Québec's venture capital industry for the second quarter (Q2) of 2008, as compiled by Thomson Reuters.

Deal activity in the Québec venture capital (VC) market declined in the second quarter of 2008. A total of \$68 million was invested, or less than half of the \$153 million of Q2 2007. Activity was also down 21% from three months earlier, when \$86 million was invested.

Slower market conditions were apparent across North America. Canada-wide, VC disbursements totalled \$302 million, down 31% from one year ago. Québec accounted for 22% of the funds invested in Canada between April and June. Relatively few large-sized deals contributed to these results, with the amount invested per company in Québec averaging \$2.1 million between April and June.

Breakdown by investor type

With respect to key investors, the slower pace of VC activity in Québec in the second quarter was apparent across the board. LSVCC and other retail funds led the pack, with \$18 million invested in 18 companies, or 26% of all disbursements. Even so, the Q2 2008 activity of retail funds was less than half of the \$47 million they accounted for one year ago.

U.S. venture capital funds and other foreign investors occupied second spot, contributing \$17 million to Québec deals, or one-quarter of the total. Still, this activity was down 47% from the \$31 million of Q2 2007. To date in 2008, foreign disbursements have totalled \$30 million, an amount well shy of the \$108 million they brought to Québec in the first half of last year.

Private-independent funds took third spot, investing \$15 million in 10 companies, down 34% from the \$23 million of the year before. Consequently, private funds reflected 22% of all disbursements in Québec in the second quarter, which is comparable to their above-average Q1 2008 share.

ACTIVITY BY STAGE

Expansion transactions accounted for an especially large share of VC activity in Québec in the second quarter. In total, 25 expanding firms captured \$60 million, or 89% of all disbursements. This amount compares favourably with their 60% share for the whole of 2007, itself substantial relative to prior years.

That being said, expansion-related activity was reduced 37% in real terms, given the \$95 million invested during the same time last year. Moreover, in contrast with Q2 2007, there was no other late-stage activity reported in Q2 2008.

As in the first quarter, Québec's seed, startup, and other early-stage activity declined precipitously between April and June. Total activity reflected \$8 million invested in seven firms, which is a far cry from the \$51 million invested the year before. Consequently, early-stage deals accounted for a mere 11% of all disbursements, versus 36% in 2007 overall.

According to Charles Cazabon, President of Réseau Capital and Vice-President, BDC – Venture Capital, *“The level of activity fluctuates from one quarter to another and from one year to another, but the latest statistics for disbursement, fund raising from foreign investors, in the first half of the year, and investment by development stage are hardly encouraging. The decline is due partly to the economic uncertainty in North America but it also raises questions about the industry's ability to sustain itself. It is important that industry decision makers on all levels work together on solutions to assist the industry.”*

Investment by sector

VC activity in Québec between April and June was once again emphasized IT sectors. But, although IT-related activity increased on a year-over-year basis in the first quarter, it decreased in the second. In total, \$31 million was invested in 14 companies, or 46% of all disbursements, but also roughly one-third of the \$89 million invested in Q2 2007.

Not far behind IT-related activity in Québec was activity in biopharmaceuticals and other life sciences sectors. These sectors saw \$28 million invested in Q2 2008, or 42% of total VC activity, an amount that effectively matches the \$27 million for the same period in 2007. In contrast, activity in the life sciences sectors across Canada was reduced, with \$107 million invested, or 17% less than the dollar amount of one year ago. Life sciences thus received 36% of all disbursements in the second quarter.

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:

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