



QUEBEC'S VENTURE CAPITAL MARKET IN Q2 2009

Slower Pace of Investment in Q2 2009

MONTREAL, Tuesday August 11, 2009 – Réseau Capital announced today the results for Quebec's venture capital industry for the second quarter (Q2) of 2009, as compiled by Thomson Reuters. A total of \$62 million was invested in the second quarter, or 18% below the \$75 million invested at the same time in 2008.

The number of VC-backed firms in Québec did not follow this pattern. Companies financed in Q2 2009, totalling 43, actually rose 26% from one year ago, when 34 companies were financed.

In dollar terms, Québec reflected 34% of total activity across the country in the second quarter. By a wider margin, Québec also accounted for the largest portion of Canadian firms receiving VC, or 46% of the aggregate number. The average amount invested per firm in Québec was \$1.4 million, which represents a considerable drop from an average of \$2.2 million in Q2 2008, and \$3.6 million in Q1 2009.

At the end of the first six months of the year, VC activity in Québec totalled \$214 million invested. This is up 11% from the \$193 million invested in the first half of 2008. Levels of Québec activity also proved steadier vis-à-vis trends in the United States, where activity declined 51% between April and June, and US\$3.7 billion were invested versus US\$7.5 billion the year before.

TYPE OF INVESTORS

Québec labour-sponsored and other retail funds grew their activity. They invested \$37 million in 31 companies in Q2 2009, up 58% from a previous \$23 million. As a result, their activity comprised 60% of total VC activity in Québec.

Private-independent funds invested \$10 million in 8 companies in the second quarter. While this is below the \$18 million contributed one year ago, private funds were nonetheless responsible for 17% of all disbursements in Québec.

The activity of American VC funds and other foreign investors, which saw \$49 million invested in Q1 2009, was not continued between April and June. On the contrary, foreign investors brought only \$6 million to deals. As a consequence, foreign investors reflected only 9% of all disbursements in Québec in the second quarter,

INVESTMENT BY SECTOR

VC activity in biopharmaceuticals and other life sciences sectors declined in the second quarter, with \$24 million going to 9 companies, or 17% less than the \$29 million invested one year ago. Life sciences activity nonetheless led the field between April and June, capturing an above average 39% of all disbursements in Québec. By way of comparison, this share was 30% during the entire of 2008.

In the IT sectors, 8 companies attracted \$18 million, down 46% from the \$34 million invested of Q2 2008, and representing 30 % of total activity in Quebec. Internet-focused firms, which took \$11 million, were among those that mitigated against this Q2 2009 trend.

Non-technology activity once again had momentum in Québec in the second quarter. A total of \$19 million went to 23 companies in consumer, manufacturing and other traditional sectors. While this does not come close to matching the \$55 million invested in Q1 2009, it is better than triple the \$6 million of the year before and to-date in 2009, firms situated in non-technology sectors have absorbed 35% of all disbursements in Québec. This market share is nearly double the recent average recorded for such activity on per annum basis.

According to François Charette, Co-President of Réseau Capital and General Partner at Novacap, *“While investment levels declined in Q2, Québec-based activity in the first six months of 2009 increased 11 % over 2008, which is substantially better than market activity across Canada which was reduced by 42 %, and activity in the United States which declined by 50 %.”*

INVESTMENT ACTIVITY BY STAGE

At the forefront were expanding and late stage firms, attracted \$55 million, which alone accounted for over 89% of total VC activity in Québec.

However, seed, startup and other early-stage activity in Québec plummeted in Q2 2009, with \$7 million invested in 11 companies, or 50% below the \$14 million of the same time in 2008.

FUND-RAISING

Fund-raising activity in the overall Canadian market was also found to be lagging in the second quarter. A total of \$260 million in new capital was committed to VC funds, down 30% from the Q2 2008. Just over half of new commitments went to Québec fund managers.

According to François Chaurette, Co-President of Réseau Capital and General Partner at Novacap, *“It is still too early to make meaningful projections on the economic recovery. The fact that Quebec seems to sustain higher levels of investment than the national average is promising.”*

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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