



QUÉBEC'S VENTURE CAPITAL RESULTS FOR Q3 2008

LOCAL INVESTORS TAKE THE LEAD

MONTRÉAL, Tuesday, November 18, 2008 – Réseau Capital today announced the results for Québec's venture capital industry for the third quarter (Q3) of 2008, as compiled by Thomson Reuters. In the third quarter, deal activity in Québec's venture capital (VC) market continued to reflect the slower pace apparent since the start of the year, with \$110 million invested, down 11% from the \$124 million invested one year ago. Still, the amount invested was the highest so far in 2008, up 58% from the second quarter and up 28% from the first quarter.

In addition, the number of Québec firms securing VC was greater on both a year-over-year and a quarter-over-quarter basis. The companies financed totalled 58 in Q3 2008, or 5% more than the 55 companies financed one year ago. The average amount invested per firm was \$1.9 million in Q3 2008, versus an average of \$2.2 million one year ago.

Despite several improved VC indicators, Québec activity continued to form part of a broad pattern of cyclical downturn in North American and global markets. The decline was evident across the Canadian market in the third quarter, when \$372 million was invested, down 26% from the \$501 million of the year before.

Breakdown by investor type

Québec-based labour-sponsored and other retail funds were key drivers of activity in Q3 2008, increasing their dollars invested on a year-over-year basis to \$55 million. Private funds were second, investing \$26 million.

U.S. venture capital funds and other foreign investors continued to assume a smaller market presence in Québec in the third quarter, bringing \$16 million to deals, or less than half of the \$37 million they brought at the same time last year. To date in 2008, cross-border activity has accounted for \$45 million invested in Québec, or 17% of disbursements. This figure is well shy of the \$144 million and 32% share that foreign investors accounted for in the same nine-month period of 2007.

ACTIVITY BY STAGE

Since the beginning of 2008, early-stage VC activity has dropped sharply in Québec. In the third quarter, however, activity at this end of the spectrum rose 14% year-over-year, going from \$35 million invested to \$40 million invested. Consequently, early-stage firms secured 36% of all disbursements, which is the same share they had in 2007 over all.

Growth was particularly significant for company startups, which garnered \$14 million in Q3 2008, or 41% more than the \$10 million received the year before. In addition, other early-stage deals took \$26 million, up 15% from the previous \$22 million. No seed activity was recorded in Q3.

According to Charles Cazabon, President of Réseau Capital and Vice-President, BDC – Venture Capital, *“Three things stand out in the third quarter. First, the continuation of the cyclical slowdown is a phenomenon affecting not only Québec but also North American and global markets. The second is the sharp decrease in the amount invested by foreign investors; fortunately, Québec’s labour-sponsored and private funds took their place, so that the decline was limited to 11%, which is equivalent to the decrease recorded in the United States. Third, one positive sign is the increase in the level of new investment in startup and early-stage companies.”*

Investment by sector

As was the case throughout 2008, VC activity preferred Québec IT sectors in the third quarter. A total of \$56 million was invested in 18 IT companies, or just over half of all disbursements, which is consistent with trends in the two prior quarters. But in comparison with the \$63 million invested one year ago, IT-related activity fell 11% in Q3.

Life sciences activity in Québec declined on a year-over-year basis. A total of \$29 million was invested in 10 companies in Q3 2008, or 39% below the \$47 million of one year ago. Consequently, life sciences garnered only 26% of VC activity, which is considerably less than its 40% share for 2007 as a whole.

In contrast with technology sectors, non-technology sectors in Québec made appreciable gains between July and September. A total of 26 traditional companies attracted \$23 million, or nearly double the \$12 million of Q3 2007. As a result, the traditional share of total activity moved to 21% from a 16% share for all of last year.

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
Media Relations for Réseau Capital
Direct line: (514) 993-6260
rpv@sympatico.ca