



QUÉBEC'S VENTURE CAPITAL RESULTS FOR 2008

VENTURE CAPITAL IN QUÉBEC REFLECTS GLOBAL TREND

MONTRÉAL, Tuesday, February 17, 2009 – Réseau Capital today announced the results for Québec's venture capital industry for 2008, as compiled by Thomson Reuters.

Levels of venture capital (VC) activity declined on an international basis in 2008. This trend included the Québec market, where deal activity slowed 46% last year, with \$349 million invested, compared with \$642 million in 2007. The number of Québec companies financed with VC totalled 141, a decline of 26%. These are among the lowest annual results since the mid-1990s.

Québec trends were in line with those of the overall Canadian market, where investment was down 36% in relation to 2007. Activity was also significantly reduced in Ontario, which saw a 40% decline. On balance, Québec accounted for 26% of all disbursements across the country in 2008, after recording a 31% share one year ago. Québec nonetheless continued to have the largest proportion of VC-backed firms, with 38% of the Canada-wide number.

Breakdown by investor type

Québec labour-sponsored and other retail funds led this time, investing \$111 million in 96 companies, or almost one-third of all disbursements. Private-independent funds assumed second spot in Québec in 2008, with a total of \$83 million invested in 37 companies, although this amount was also shy of their \$94 million one year ago. Even so, private funds accounted for close to one-quarter of all disbursements.

A major factor influencing trends in Québec, and across Canada, was the smaller market presence of U.S. and other foreign VC investors. Last year, levels of foreign VC activity in Québec dropped 62%, going from \$204 million in 2007 to \$78 million in 2008, or the lowest level in five years. As a result, this activity represented only 22% of all disbursements.

According to François Chaurette, Co-President of Réseau Capital and General Partner at Novacap, *“The decline in foreign investment, combined with the effects of the recession and tight credit, has had a substantial impact on our industry, and no significant upturn is expected until 2010. Given all these factors, Réseau Capital will mobilize all its members to address the precarious situation of our industry and our portfolio companies, namely the need for new capital that will maintain fund raising, avoid illiquidity in the investment chain and enable our venture capital companies to increase investment in R&D.”*

ACTIVITY BY STAGE

Early-stage activity in Québec fell sharply, as a total of \$100 million was invested in 44 firms in 2008, or 57% less than the \$235 million of the year before. Seed and startup activity obtained \$3 million and \$47 million, respectively, down 66% and 24%. Other early-stage deals also fell, with \$49 million invested in 2008 versus \$162 million in 2007.

Partly as a consequence, late-stage activity dominated Québec trends last year, capturing 71% of total activity, with \$250 million going to 98 firms. But the amount invested was also reduced 39% from the \$407 million invested in 2007. Expansion deals saw the most sizeable decline, with \$207 million invested in 2008, down 45% from the \$379 million of one year ago.

INVESTMENT BY SECTOR

Information technology (IT) companies were preferred in 2008, attracting 45% of all disbursements, up from their previous share of 33%. In real terms, however, levels of IT-related activity in Québec were down on a year-over-year basis. A total of \$157 million was invested in 43 IT companies in 2008, or 25% less than the \$209 million invested in 62 companies one year ago.

The life sciences sectors saw activity decline substantially in 2008, in contrast to 2007, when they took the lion's share. A total of \$112 million was invested in 26 companies, or less than half of the \$256 million injected into the same number of companies in 2007. Life sciences took 32% of Québec activity, down from 40% the previous year.

FUND RAISING

New commitments of capital going to VC funds across Canada totalled \$1.2 billion, a figure 2% below the level of 2007. The largest share of new commitments made across Canada, or 46%, flowed to Québec-focused VC fund managers.

Private-independent funds attracted the most new resources, with \$673 million in 2008, for a substantial 45% increase over the \$464 million raised the previous year.

According to François Chaurette, Co-President of Réseau Capital and General Partner at Novacap, *“The fact remains that fund raising has been dropping constantly each year since 2001. It is interesting to note, however, that the funds raised by private-independent funds have recorded compound annual growth of 19.5% over five years – an encouraging sign in this economic downturn.”*

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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