

## Québec's Venture Capital Market in Q2 2009

After exhibiting growth in Q1 2009, venture capital (VC) deal activity in Québec resumed a slower pace between April and June. A total of \$62 million was invested, or 18% below the \$75 million invested at the same time in 2008. In contrast, the number of Québec-based companies financed with VC, totaling 43, rose 26% year-over-year.

At the end of the first six months of the year, VC activity in Québec totaled \$214 million invested. While this is up 11% from the \$193 million invested in the first half of 2008, showings in both periods were the lowest on record for Québec since 1996.

Québec-based VC trends generally mirrored those elsewhere on a global basis. For instance, market activity across Canada was reduced 42% this time around and activity in the United States an even greater 51%. On balance, Québec accounted for an above par 34% of all disbursements in Canada in Q2 2009.

In Québec and across Canada, second-quarter activity pointed to the greater influence of small VC deal sizes. The average amount invested per firm in Québec was \$1.4 million, which represents a substantial drop from an average of \$2.2 million in Q2 2008, and \$3.6 million in Q1 2009.

VC activity in Québec life sciences sectors declined 17% in the second quarter, with \$24 million invested, however, this activity nonetheless led the field with 39% of all disbursements. IT-related activity attracted a mere \$18 million, or 46% below the results of one year ago. In contrast, non-technology sectors once again made real and relative gains, capturing 35% of total activity in Québec to date in 2009.

Domestic VC investors helped sustain levels of activity in Québec in Q2 2009. This was led by labour-sponsored and other retail funds, which actually increased their activity 58% year-over-year, and accounted for 60% of all disbursements. Private funds also assumed a role, with a 17% market share. In contrast, the activity of foreign investors in Québec deal-making was down sharply.

Canadian VC fund-raising also lagged in the second quarter, with \$260 million in new capital committed to domestic funds, down 30% from Q2 2008. Just over half of new resources flowed into the coffers of Québec fund managers.

### **Notice of Data Changes**

*In 2008, Thomson Reuters undertook a major survey of the Canadian venture capital industry, intended to account for the supply impact of consolidation in recent years. This has resulted in a comprehensive restatement of supply statistics effective in Q1 2009.*

*Following extensive consultations, Thomson Reuters has also introduced changes to its data methodology to account for specific supply issues pertaining to retail funds. The most important of these address: (1) data distortions caused by statutory reserves requirements, and; (2) adjustments to the supply data of Québec labour-sponsored and other retail funds to better reflect their diverse private equity activity over time.*

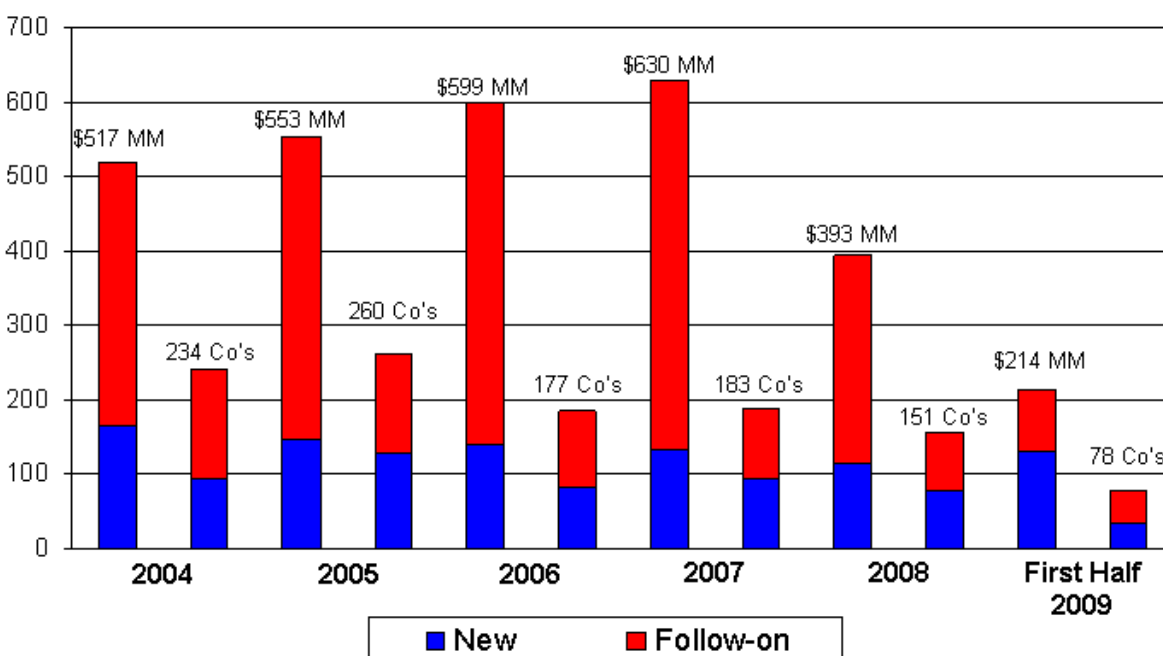
*Thomson Reuters believes restated statistics will provide a more accurate picture of market supply conditions in quarterly reports of venture capital activity across Canada and in Québec. For more information, please go to [www.canadavc.com](http://www.canadavc.com) and see Glossary/Capital Supply Methodology.*

## VC Activity in Québec Drops in Q2 2009

After exhibiting growth in the first three months of 2009, venture capital (VC) deal activity in Québec resumed a slower pace between April and June. A total of \$62 million was invested in the latter period, or 18% below the \$75 million invested at the same time in 2008. Second-quarter activity fell even further from Q1 2009, when \$152 million was invested.

The number of VC-backed firms in Québec did not follow this pattern. Companies financed in Q2 2009, totaling 43, actually rose 26% from one year ago, when 34 companies were financed. As compared to three months earlier, the number was effectively unchanged.

### New vs. Follow-On Activity; Québec



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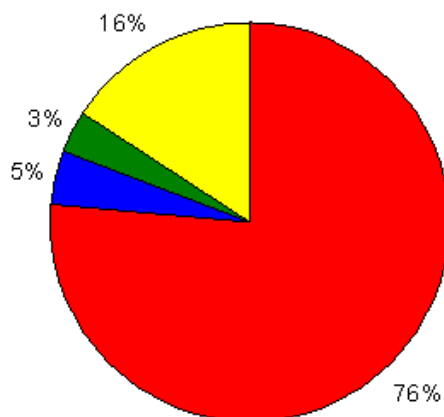
Québec-based VC trends generally mirrored those elsewhere in North American and global markets. For instance, Canada-wide disbursements were reduced 42%, from \$309 million in Q2 2008 to \$179 million this time around. In fact, Q2 2009 results for the overall domestic market were the lowest in 14 years.

At the end of the first six months of the year, VC activity in Québec totaled \$214 million invested. While this is up 11% from the \$193 million invested in the first half of 2008, showings in both periods were the lowest on record for Québec since 1996. Canadian market outcomes were broadly comparable.

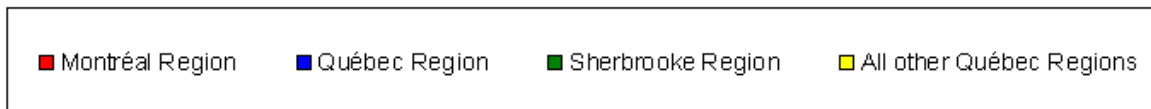
In dollar terms, Québec reflected 34% of total activity across the country in the second quarter, just behind Ontario's 37%, and surpassing its more traditional 28% share during the whole of last year. By a wider margin, Québec also accounted for the largest portion of firms receiving VC, or 46% of the aggregate number.

Levels of Québec activity also proved somewhat steadier vis-à-vis trends in the United States. In the American market, activity declined 51% between April and June, or US\$3.7 billion invested versus US\$7.5 billion invested the year before.

### Dollars Invested by Québec Region; Q2 2009



Québec \$62 Million



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In Québec and across Canada, second-quarter activity pointed to the greater influence of small VC deal sizes. The average amount invested per firm in Québec was \$1.4 million, which represents a substantial drop from an average of \$2.2 million in Q2 2008, and \$3.6 million in Q1 2009.

On the heels of a highly active first quarter, new deal-making in Québec fell backwards in Q2 2009. Firms seeking VC for the first time obtained \$16 million, or one-quarter of all disbursements, which confirms the relatively low share this activity has assumed in recent years. However, real activity was up on a year-over-year basis.

Montréal increased its domination of the Québec VC landscape between April and June, garnering over three-quarters of total activity. The Québec City region finished a distant second with 5%, followed by Sherbrooke with a 3% share.

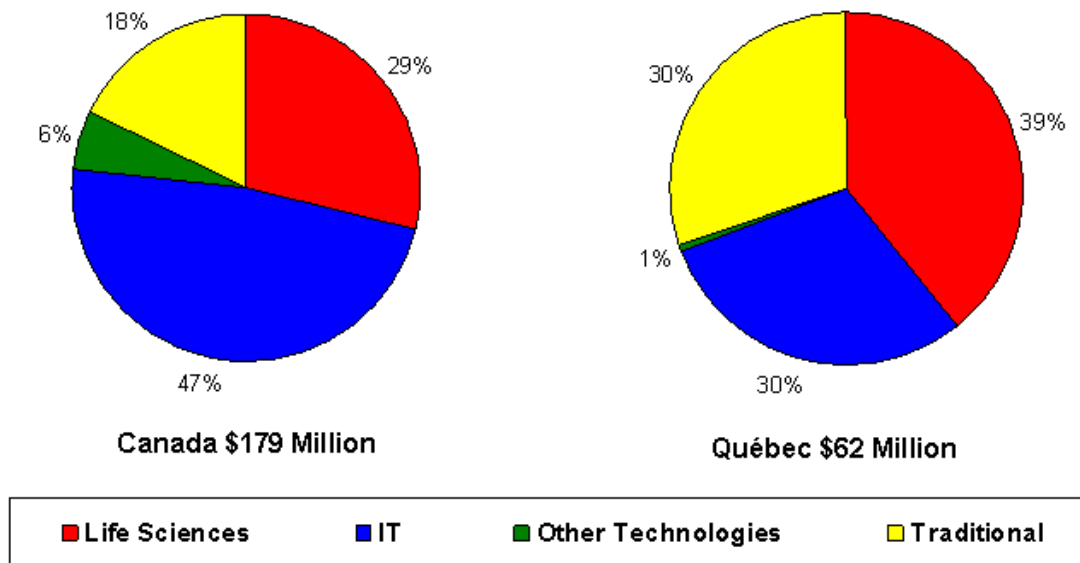
#### *Life Sciences on Top, But Non-Tech Makes Gains*

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. This occurred despite some prominent financings, such as those backing Aeterna Zentaris of Québec City and Les Ambulances Radisson of Sainte-Anne-des-Monts.

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.

Activity in communications and other IT sectors drove higher levels of VC activity in Québec in Q1 2009, with \$82 million invested. This was not repeated three months later, however, as 8 companies attracted a mere \$18 million, which is 46% below the \$34 million invested of Q2 2008.

### Dollars Invested by Sector; Q2 2009



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Consequently, IT-related activity secured a sub-par 30% of total activity in Québec this time around. Internet-focused firms, which took \$11 million, were among those that mitigated against this Q2 2009 trend. Firms in other IT services, which included Montréal's Nexio Technologies, also posted a small increase, with \$3 million invested.

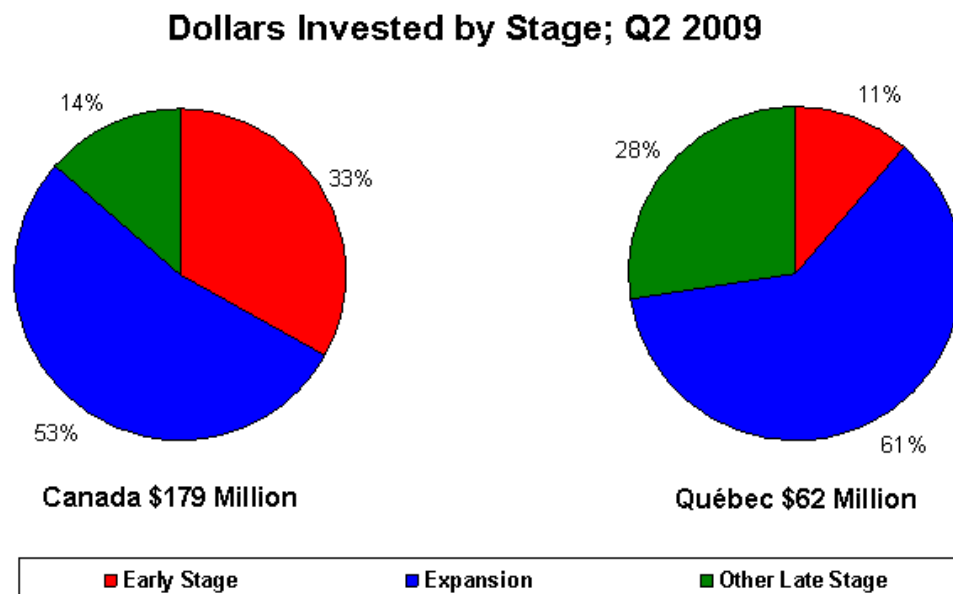
In contrast, non-technology activity once again had momentum in Québec in the second quarter. A total of \$19 million went to 23 companies in consumer, manufacturing and other traditional sectors. While this does not come close to matching the \$55 million invested in Q1 2009, it is better than triple the \$6 million of the year before.

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.

Canada-wide, IT sectors obtained almost half of all disbursements, and life sciences sectors a 29% share, though activity was down 43% and 54% respectively from one year ago. As in Québec, traditional sectors accrued both real and relative gains.

### Late-Stage Deals Take Lion's Share of Dollars

Deal activity in Québec was decidedly late-stage in orientation in the second quarter. In contrast with the first three months of the year, when companies in late stages of development actually lost ground with 45% of all disbursements, activity subsequently took a whopping 89%.



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At the forefront were expanding firms, 26 of which absorbed \$38 million, which alone accounted for over 61% of total VC activity in Québec. This took place despite the fact that real expansion activity was reduced 39% from the year before. On the other hand, other late-stage deals experienced growth, with \$17 million invested this time around.

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. Needless to say, this result is also well shy of the very substantial \$83 million that was invested at the early-stage end of the market spectrum in Q1 2009.

Across Canada, early-stage activity also decreased in the second quarter, but accounted for a greater one-third of all disbursements. A total of \$120 million went to expanding and other late-stage firms, down 36% from one year ago.

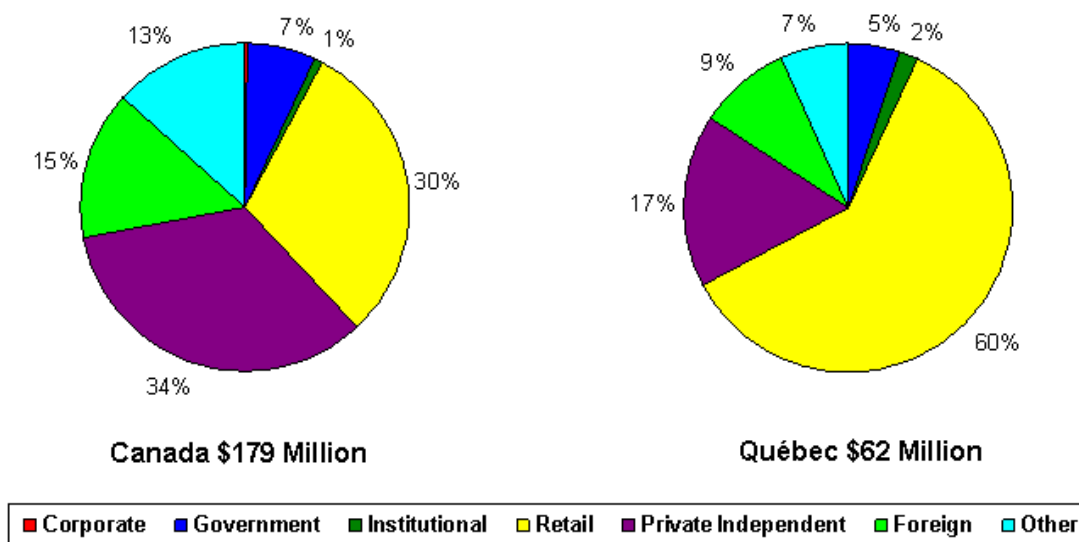
### Retail, Private Funds Sustain Québec VC Activity

The revived Québec-based activity of American VC funds and other foreign investors between January and March, which saw \$49 million invested, was not continued between April and June. On the contrary, foreign investors brought only \$6 million to deals. This level is also down from Q2 2008, when \$15 million was invested.

As a consequence, foreign investors reflected 9% of all disbursements in Québec in the second quarter, which is at some distance from the 21% share that was accounted by this activity during the whole of last year.

The market presence of locally-based VC funds and other Canadian investors also contracted this time around, though not to the same degree. Taken together, domestic investors put \$56 million to work in Québec, down 7% from their \$60 million invested the year before.

### Dollars Invested by Investor Type; Q2 2009



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Integral to this trend were Québec labour-sponsored and other retail funds, which actually grew their activity appreciably on a year-over-year basis. Retail funds invested \$37 million in 31 companies in Q2 2009, up 58% from a previous \$23 million. As a result, their activity comprised a major 60% of total VC activity in Québec.<sup>1</sup>

In addition, 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 an above par 17% of all disbursements in Québec.

Reduced VC activity was also apparent across key investor groups in the Canadian market. As in Québec, a particularly sharp decline was registered by foreign investors, which contributed \$26 million to deals, down 76% from Q2 2008.

#### *VC Fund-Raising Continues to Slow in Q2 2009*

Like deal activity, fund-raising activity in the overall Canadian market was 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 \$373 million committed the year before. Private funds accounted for close to three-quarters of the new resources, with retail funds assuming the balance.

To date in 2009, new funds raised in the domestic VC market have reached \$439 million. This level of activity reflects a decline of 48% as compared to the first six months of 2008, when \$839 million was raised in total.

<sup>1</sup> Québec labour-sponsored and other retail funds are increasingly doing a mix of direct VC activity and limited partner activity (i.e., making commitments to private funds). Both roles are relevant to reports of market trends.

Just over half of new commitments made in the VC market in Canada between April and June went into the coffers of Québec fund managers. Québec-based funds also received a comparable 47% share of all new inflows reported for the entire first half of the year.