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## *Québec's Venture Capital Market in Q2 2010*

*A REPORT PREPARED FOR*

*Réseau du capital d'investissement du Québec*

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## *Québec's Venture Capital Market in Q2 2010 - Summary*

Venture capital (VC) market activity in Québec increased substantially in the second quarter of 2010, with \$100 million invested in total, or 45 % more than the \$69 million invested at the same time in 2009. The number of Québec companies financed with VC, totaling 56 in this period, also rose 19 % year over year.

To date in 2010, VC deal-making in Québec appears to be largely approximating trends in 2009. Since January, \$201 million has been invested in 88 companies, which is just 9 % shy of levels reported in the first half of last year.

In absolute dollars, Québec-based activity led in the Canadian VC market in Q2 2010. Québec tied with British Columbia and Ontario in relative share, as each took 30 % of all disbursements. Overall, domestic market activity increased 57 % in the second quarter, with \$334 million invested.

Across the North American VC market, trends were broadly in sync. Deal activity in the United States rose a comparable 53 % year over year, with US\$6.5 billion invested this time around.

Several major VC deals were done in Québec between April and June, the largest of which involved Montréal's Gemin X Pharmaceuticals. However, most company financing sizes tended to be on the low side, with \$1.8 million invested on average.

A handful of large financings in the biopharmaceuticals sector was key to Québec VC activity in Q2 2010, resulting in life sciences capturing \$38 million, up 36 % from one year ago, and reflecting 39 % of the total. IT-related activity followed with \$31 million invested, up 64 % from Q2 2009. Other technology and non-technology sectors also saw gains in this period.

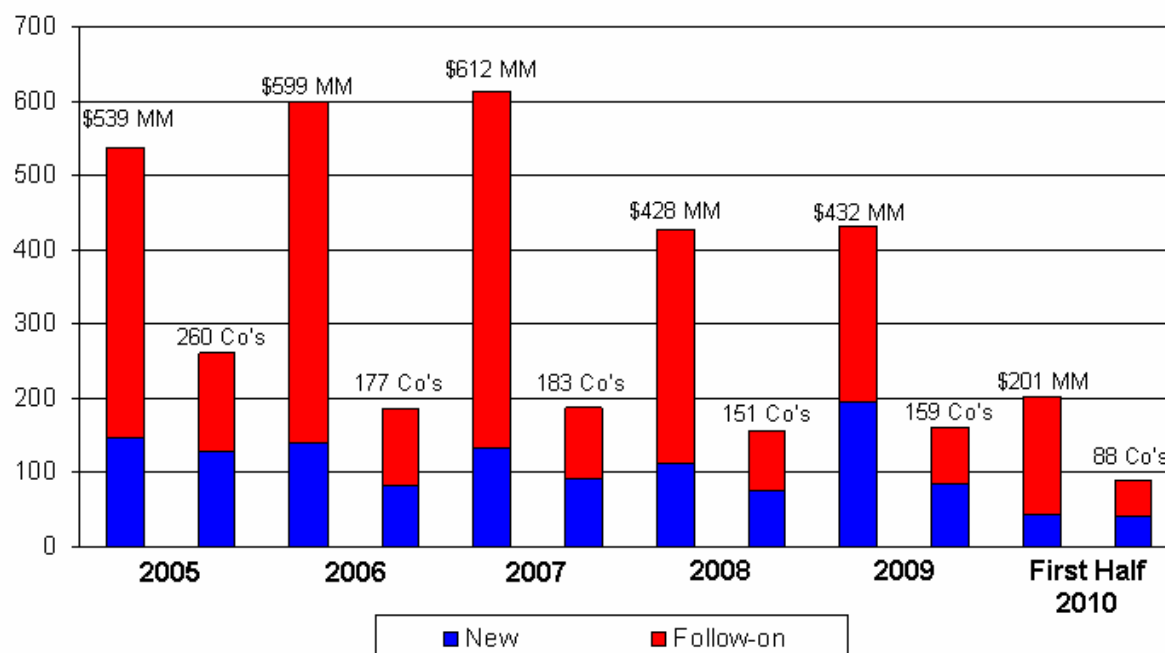
Locally-based and other Canadian VC funds provided most of the heft to Québec activity in the second quarter, investing \$88 million, up 39 % year over year. This trend was led by labour-sponsored and other retail funds, as well as private funds, which grew their disbursements 5 % and 47 % respectively. Foreign investors were also more active, bringing \$12 million to deals.

Canadian VC fund-raising was reduced between April and June, with \$255 million committed in total, down 7 % from the year before. However, funds raised to date in 2010, totaling \$576 million, is up 18 %. Since January, Québec-based funds have netted 40 % of total new commitments.

## Québec VC Activity Up in Q2 2010

Venture capital (VC) market activity in Québec increased substantially in the second quarter of 2010, with \$100 million invested in total, or 45 % more than the \$69 million invested the year before. Disbursement levels in this period effectively matched levels in Q1 2010, when \$101 million was invested.

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



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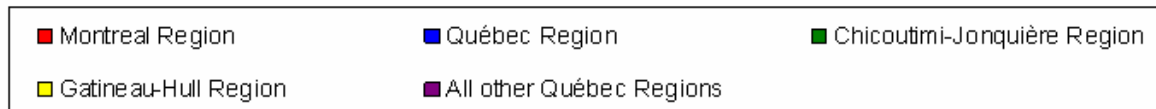
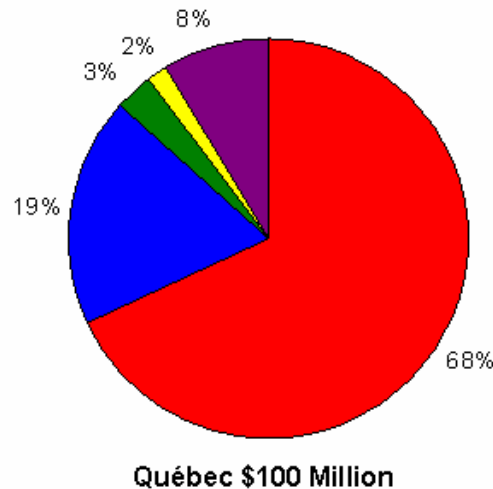
On a year-over-year basis, dollars invested also reached a greater number of firms based in Québec. Companies financed with VC totaled 56 between April and June, up 19 % from the 47 companies financed at the same time in 2009.

To date this year, VC deal-making in Québec appears to be largely approximating activity reported in 2009. Since January, a total of \$201 million has been invested in 88 companies, or just 9 % shy of the \$222 million invested in the first half of last year.

In absolute dollars, Québec-based activity once again led in the Canadian VC market in Q2 2010. Québec tied with British Columbia and Ontario in relative market share, as each took 30 % of all disbursements. Overall, domestic market activity increased 57 % in the second quarter, with \$334 million invested in total.

Across the North American VC market, trends were broadly in sync, as deal activity in the United States rose a comparable 53 % year over year. Dollars invested totaled US\$6.5 billion this time around, as compared to US\$4.3 billion invested in Q2 2009.

### Dollars Invested by Québec Region; Q2 2010



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Several major VC deals were done in Québec in the second quarter, the largest of which involved Montréal's Gemin X Pharmaceuticals and Vantrix Corp. In comparative terms, however, most company financing sizes tended to be on the low side, with \$1.8 million invested on average, up from \$1.5 million in Q2 2009, but down from \$3.3 million in Q2 2008.

VC investors continued to give most emphasis to follow-on deals in Q2 2010, which accounted for 72 % of all disbursements. Québec firms seeking VC for the first time nonetheless made gains with \$28 million invested, which is up 41 % year over year.

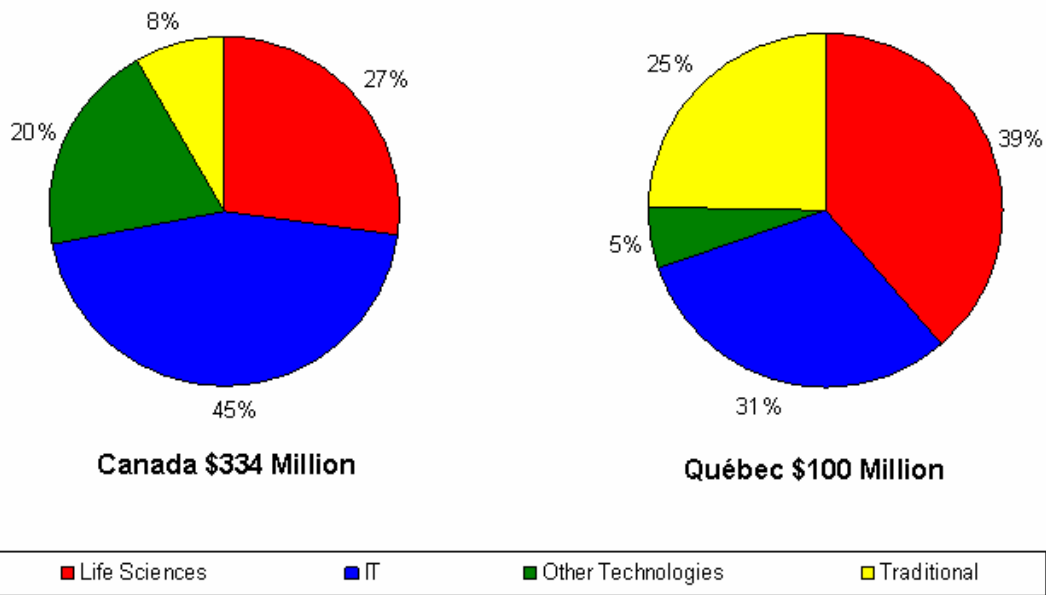
Montréal remained the primary focal point of deal activity in Québec between April and June, garnering over two-thirds of dollars invested. Québec City increased its share, however, obtaining nearly one-fifth of the total.

### Québec Life Sciences, IT Drive Q2 Growth

A handful of dollars-intensive financings in the biopharmaceuticals sector was key to Québec VC activity in the second quarter. Along with Gemin X, Aeterna Zentaris and Medicago of Québec City, and Bellus Health of Laval, were among 7 life sciences firms that attracted \$38 million in total, up 36 % from \$28 million in Q2 2009.

Consequently, life sciences activity led trends in Québec this time around, accounting for 39 % of all disbursements. This share well exceeds the 20 % taken by life sciences during the whole of last year.

**Dollars Invested by Sector; Q2 2010**



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Also contributing meaningfully to Q2 2010 market outcomes was activity in information technology (IT) sectors, which totaled \$31 million invested in 11 companies, or 64 % more than the \$19 million invested at the same time last year. This gave IT-related activity just under one-third of the Québec total.

Internet-focused firms, such as Montréal’s VM6 Software and Woozworld, led among IT sectors, with \$18 million invested, up 62 % from one year ago. Semiconductor firms also had some momentum between April and June, capturing \$5 million, as did firms in computer software and electronics, both of which saw \$3 million.

Three other technology companies, including Montréal-based Game on Audio, accounted for \$5 million invested in the second quarter, which is also higher

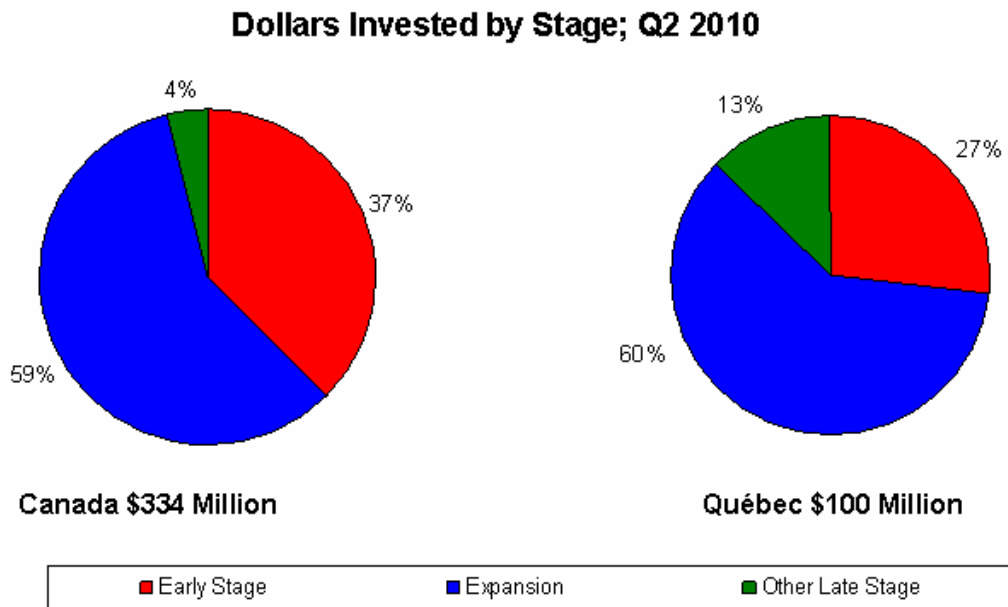
vis-à-vis the year before. This VC activity included 2 company financings in clean technology sectors.

Québec non-technology sectors also experienced a year-over-year increase in deal activity in Q2 2010, as 35 companies secured \$25 million, or 28 % more than the \$19 million invested at the same time in 2009. As a result, consumer, manufacturing and other traditional activity assumed a one-quarter market share.

Canada-wide, IT-related activity helped power trends, with \$149 million invested between April and June, up 72 % from Q2 2009. Dollars invested in clean-tech and life sciences sectors also rose significantly in this period.

**Early- & Late-Stage Firms Both Score Gains**

Expansion and other late-stage VC deals remained at the forefront of market activity in Québec in the second quarter, with \$73 million invested in 41 companies, or nearly three-quarters of all disbursements. This activity also grew 27 % from the year before, when \$57 million was invested.



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Company expansion financings once again provided the impetus behind the year-over-year increase. Thirty-eight firms took \$60 million this time around, which is 59 % more than the \$38 million received at the same time in 2009. Other late-stage deals lost some ground in this period, with \$13 million invested.

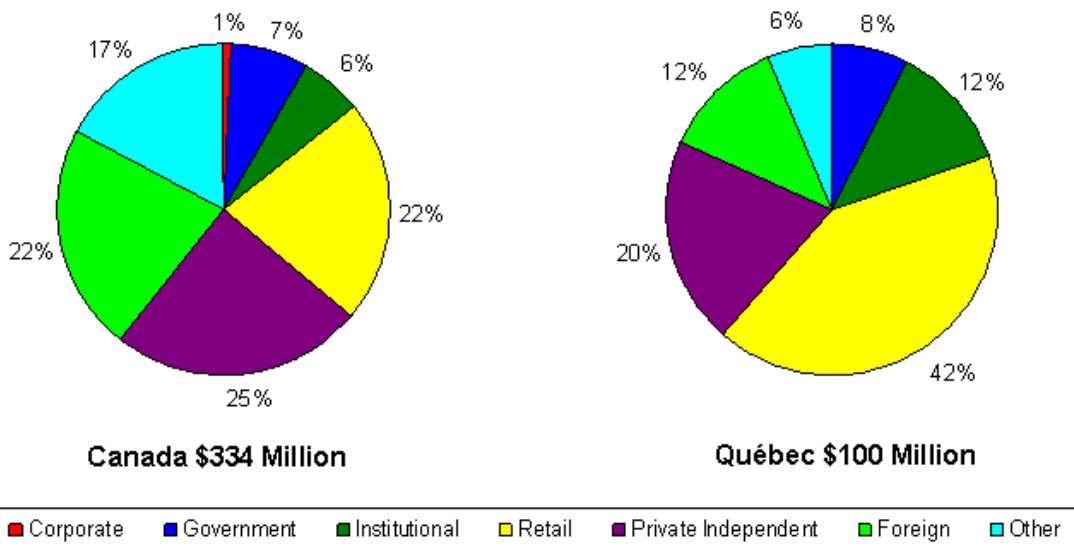
Québec company startups and other early-stage activity was not neglected as a result of these trends, as 15 firms absorbed \$27 million, or better than double the \$11 million invested in Q2 2009. The 27 % market share reflected by early-stage deals was, however, sub-par by historical measures.

Early- and late-stage VC activity also experienced growth across Canada in Q2 2010. As in Québec, expanding firms, which obtained \$196 million, were of greatest influence in domestic market outcomes.

**Local Investors Lead Québec VC Trends**

Locally-based VC funds and other Canadian investors provided most of the heft to deal-making in Québec in the second quarter. Taken together, domestic investors put \$88 million to work, up 39 % from the \$63 million they accounted for at the same time in 2009.

**Dollars Invested by Investor Type; Q2 2010**



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Labour-sponsored and other retail funds were in the front ranks of this activity, investing \$42 million, or the leading market share this time around, and 5 % more than the \$40 million they invested one year ago. Retail fund activity involved 36 Québec-based companies.

The activity of private-independent funds also proved influential, as they deployed \$20 million to 14 companies between April and June. This surpasses by

47 % the \$14 million invested by private funds the year before, giving them an above-par one-fifth of all disbursements.

The presence of American VC funds and other foreign investors in Québec also increased year over year, as \$12 million was brought to deals in Q2 2010, or twice the previous level. By the end of the first half of 2010, foreign investors had contributed 29 % of dollars invested in Québec, which matches their share during the whole of 2009.

Local VC funds also led in the entire Canadian market in Q2 2010, accounting for \$260 million invested, up 59 % from one year ago. Levels of foreign activity, totaling \$74 million, also showed growth.

### ***VC Fund-Raising Activity Slower in Q2***

Canadian VC fund-raising was slightly reduced in the second quarter, with \$255 million committed in total, down 7 % from the \$274 million committed one year ago. However, due to more robust Q1 2010 trends, funds raised to date this year, totaling \$576 million, is 18 % ahead of the \$489 million raised in the first half of 2009.

Of the total amount of new supply brought into the domestic market in Q2 2010, VC funds headquartered in Québec netted 47 %. In addition, since the beginning of the year, Québec funds have accounted for a 40 % share.

Private-independent funds continued to attract most new commitments made on a Canada-wide basis between April and June, or \$158 million. Labour-sponsored and other retail funds assumed the balance, or \$97 million.