



## Québec VCs show renewed optimism for 2002

### Introduction

Québec's venture capital industry is a major catalyst for economic development in Québec. With substantial pools of capital to invest, it is showing a renewed sense of economic optimism. Québec Venture Capitalists ("VCs") foresee increased investments and a return to a situation where VCs operate according to more traditional rules. As such, VCs will increase their due diligence procedures and put more emphasis on the fundamentals. They will ensure proper commercial validation of the investee products and of the management team's ability to execute its business plan.

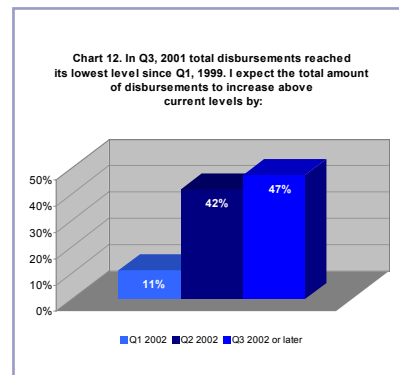
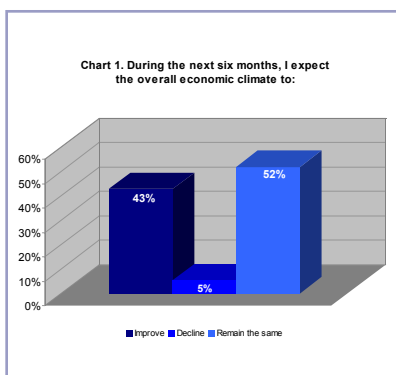
The Québec Venture Capitalist Confidence Survey, produced by Samson Bélair/Deloitte & Touche in conjunction with Réseau Capital, Québec's venture capital association, provides a comprehensive snapshot of Québec VC expectations for the next six months of:

- Economic and market climate;
- Level of expected investments; and
- Investment focus.

This report analyzes the results obtained from Québec's VCs. For the Canadian results, please refer to Deloitte & Touche's Quarter 1, 2002 Canadian Venture Capital Association Survey.

### Results

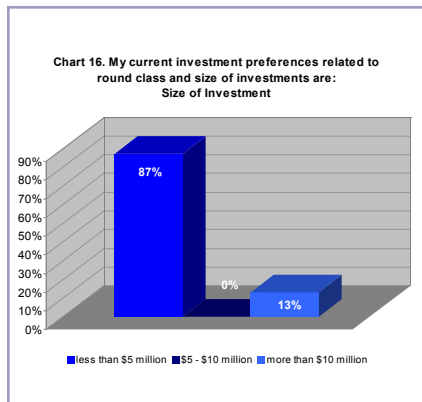
Québec VC expectations of the overall economic environment have improved significantly compared to the previous quarter, with 95% of respondents (50% in Quarter 4 2001) expecting the economic climate to strengthen or remain the same over the next six months. In fact, 42% of respondents believe the recovery will begin in the second quarter of 2002 versus 47% who feel it will happen later in the year.



This positive outlook is reflected in the percentage of VCs who expect transaction volume to increase: 49%, compared to only 19% who expect a decrease. Generally, Québec VCs have substantial funds available for investment, which probably explains why 51% of respondents believe that competition for new investment opportunities is on the rise.

Improvements in valuation expectations compared to the previous quarter indicate that the effects of the shakeout in the technology sector are likely behind us. In fact, only 27% (57% in Quarter 4 2001) of respondents expect exit valuations to decrease, while 86% expect the value of their portfolios to increase or remain the same.

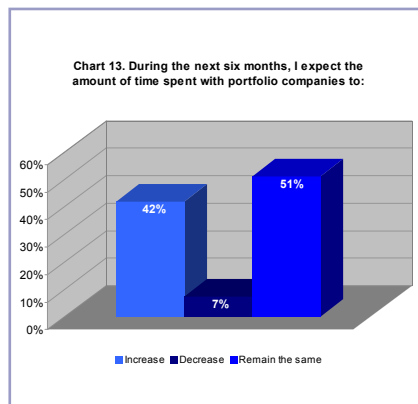
Although 46% of Québec VCs expect the size of each funding round to increase, Québec will likely continue the trend of completing more deals but at generally lower dollar amounts than other provinces, with 87% believing that rounds will be less than \$5 million.



The trend is particularly pronounced for exit valuations, where only 18% of Québec respondents expect further declines, compared to 57% in Quarter 4. This finding is good news for VCs: coupled with a strong feeling that M&A exits will continue to dominate (71% of respondents), it suggests that the value parameters of

strategic acquirers have stopped declining and are stabilizing, pointing to possible increases in transaction volumes.

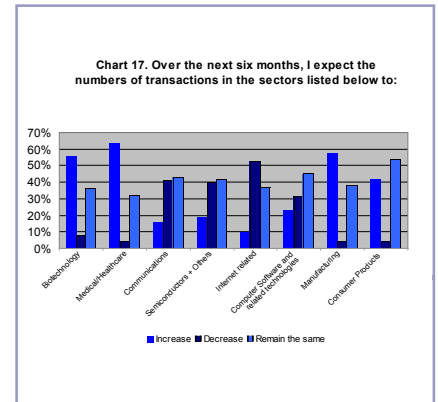
The shorter amount of time VCs expect to spend with portfolio companies (only 42% see an increase, compared to 75% in Quarter 4) and our finding that 45% of VCs now expect to spend most of their time on new investments are both healthy signs for companies seeking equity capital. This could also point to higher portfolio quality than what was initially expected in a context of economic slowdown. Nevertheless, the bar for these companies is still high, as 77% of Québec VCs are demanding high-quality deals.



For the second quarter in a row, the Biotech and Medical & Healthcare industries remained the preferred sectors for increased investment: 56% and 64% of respondents respectively expect transactions in these related areas to increase (53% and 59% in Quarter 4).

Economic recoveries are invariably accompanied by a resurgence in the manufacturing sector. Therefore, the fact that 58% of Québec VCs expect more activity in this sector, compared to 4% who anticipate less, could serve as a leading indicator that the much-anticipated economic recovery is not too far off. It could also reflect the wish of some VC funds to commit more capital to

traditional sectors and/or companies closer to the revenue generation phase.



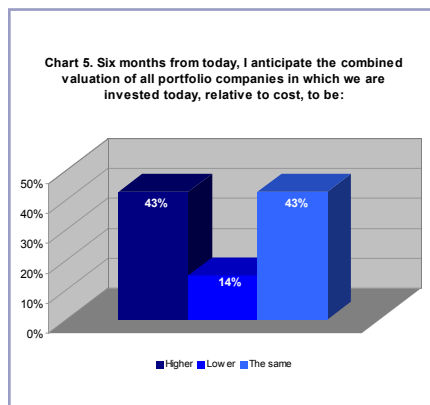
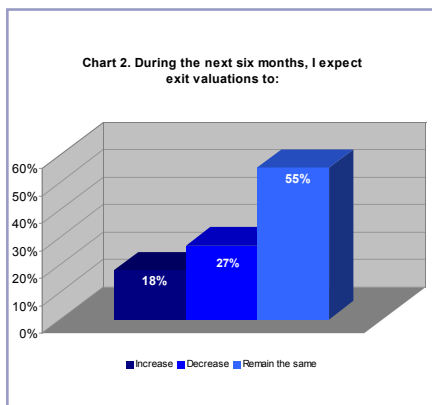
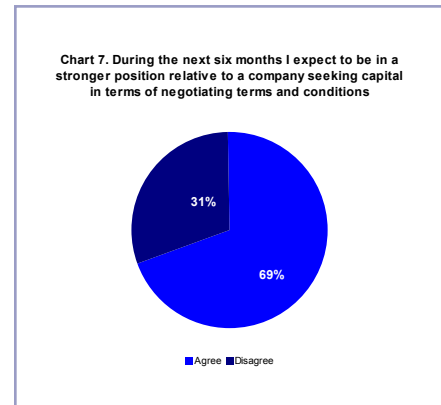
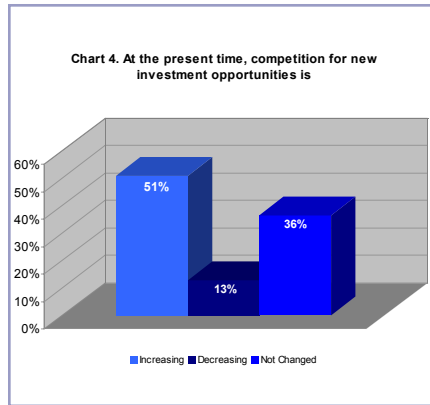
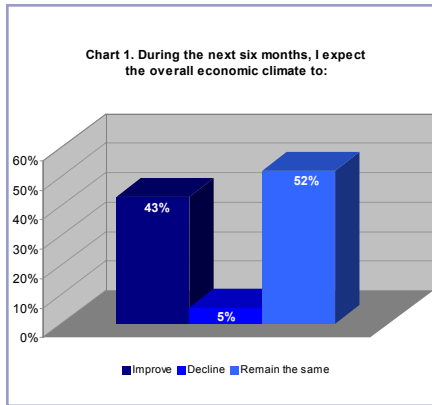
It is worth noting that the interest in consumer related sectors, revealed by this survey, is a trend that we have not seen in quite a while, as investments over the last five years have increasingly targeted high technology industries.

## Insights

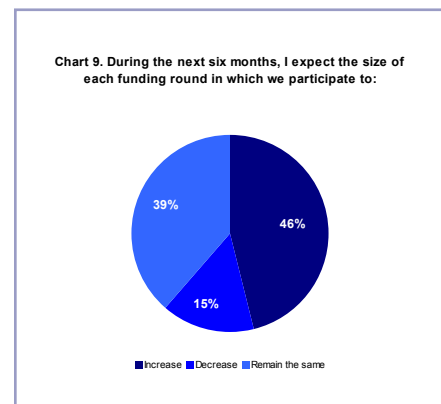
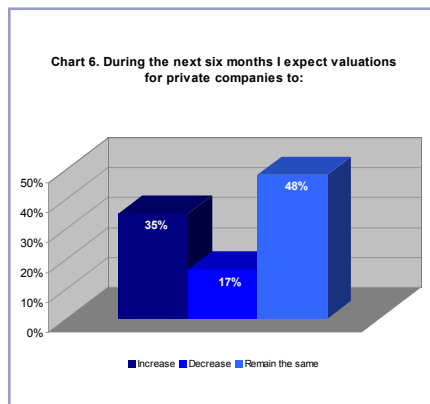
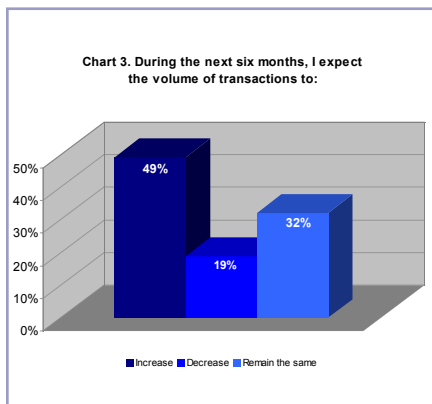
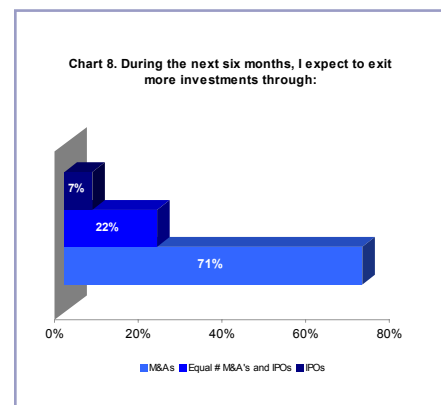
- The overall survey results indicate a strong recovery in VC investment confidence while strong competition for deals should translate into more favourable conditions for companies seeking private equity capital.
- Mergers and acquisitions ("M&A") are expected to continue to be the preferred exit vehicle, given ongoing weakness in the IPO market. More companies see this route as an alternative liquidity source to ensure their economic survival and enable rapid commercialization of their products or services.
- Venture capital investing has returned to being a long-term business that aims to build value through follow-on investments prior to executing an exit strategy.
- For the second quarter in a row, Biotech, Medical & Healthcare and Manufacturing continued to be the sectors most preferred by VCs while Communications and IT related sectors should show softer support from the VC industry.

# VC Confidence Survey: Detailed Results – Québec

## Economic and market climate



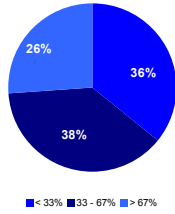
## Level of expected investments



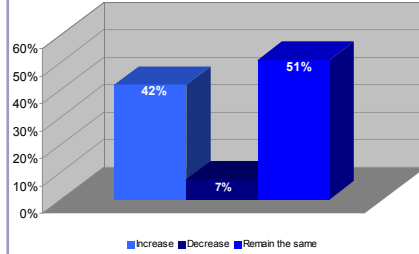
# VC Confidence Survey: Detailed Results – Québec

## Investment Focus

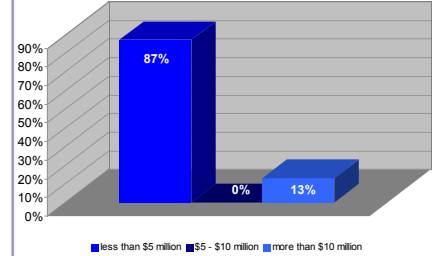
**Chart 10.** Of the total funds I plan to invest over the next six months in both existing portfolio companies and new companies, I expect the percentage that will be allocated to: New Investments



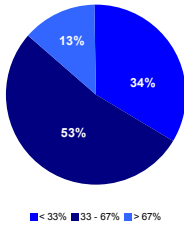
**Chart 13.** During the next six months, I expect the amount of time spent with portfolio companies to:



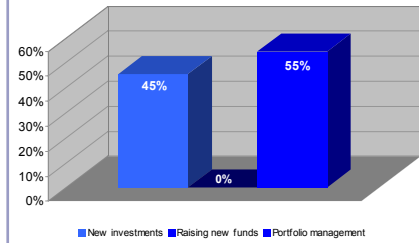
**Chart 16.** My current investment preferences related to round class and size of investments are:



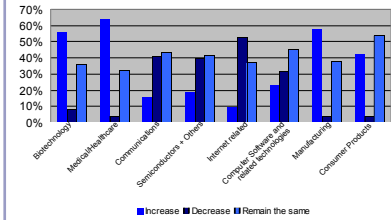
**Chart 11.** Of the total funds I plan to invest over the next six months in both existing portfolio companies and new companies, I expect the percentage that will be allocated to: Follow-on investment



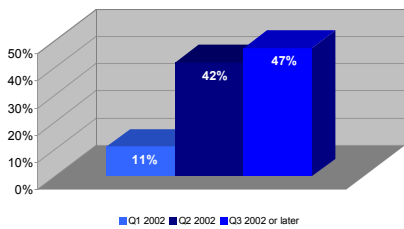
**Chart 14.** During the next six months, I expect to spend the majority of my time focusing on:



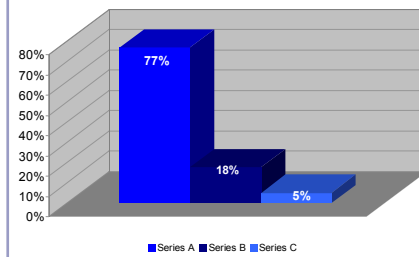
**Chart 17.** Over the next six months, I expect the numbers of transactions in the sectors listed below to:



**Chart 12.** In Q3, 2001 total disbursements reached its lowest level since Q1, 1999. I expect the total amount of disbursements to increase above current levels by:



**Chart 15.** My current investment preferences related to round class and size of investments are:



## Contacts

Deloitte & Touche Corporate Finance initiated this survey and collected results from January 29, through February 14, 2002. The VC Confidence Survey is conducted on a quarterly basis.

For more information about this survey or to find out more about how Samson Bélair/Deloitte & Touche can assist the deal initiation and execution process, please contact us.

We welcome suggestions for issues to be addressed in future VC Confidence Surveys.

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## About Deloitte & Touche Corporate Finance

Deloitte & Touche Corporate Finance provides deal initiation and lead financial advisory services for private equity and venture capital firms as well as growth companies. Main service areas include acquisitions, sales/divestiture, and corporate finance advisory. Deloitte & Touche Corporate Finance has a presence in all key global and U.S. financial centres.

Samson Bélair/Deloitte & Touche is the largest professional services firm offering assurance and advisory, tax, financial advisory services and management in Québec. Some 1600 people regularly use their expertise to serve clients from all sectors of the economy. Outside Québec, the firm operates as Deloitte & Touche with over 5,400 people in more than 44 locations across the country. Our firm's professionals have been developing effective business solutions for Canadian and international companies for more than 150 years. We are dedicated to helping our clients and our people excel, and have been recognized as one of the 35 best companies to work for in Canada by Report on Business magazine. Our firm is part of Deloitte Touche Tohmatsu, a global leader in professional services with more than 92,000 people in over 130 countries.

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## About Réseau Capital

Réseau Capital, the Québec Venture Capital Association, has more than 550 members from investment companies and professional firms. Its mission is to advance the development of the industry and its members through training, information, networking and promotion of their interests. By helping to create an environment conducive to equity financing of businesses, Réseau Capital is proud to contribute to the economic growth of its members and their portfolio companies. In comparison with the major international venture capital associations, Réseau Capital is noted for the size of its membership, the quality of its services and the investment activities of its members.

For additional information on this survey or on Réseau Capital activities, please contact the following persons:

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