



Québec Venture Capitalist Deal Activity Lags Behind Overall Economic Optimism

Introduction

Québec Venture Capitalists ("VCs") are a major driving force behind economic growth in the province. The substantial capital they invest in the Québec economy has a deciding impact, which is why their expectations and forecasts are very important for all Quebecers.

Within this context, Samson Bélair/Deloitte & Touche, in conjunction with Réseau Capital, Québec's venture capital association, presents the latest Québec Venture Capitalist Confidence Survey, which provides a comprehensive snapshot of Québec VC expectations for the next six months of:

- Overall economic climate;
- Deal activity; and
- Investment focus.

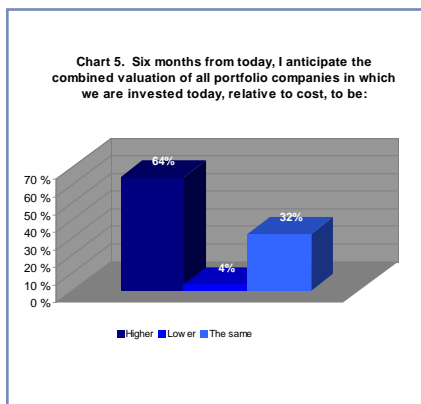
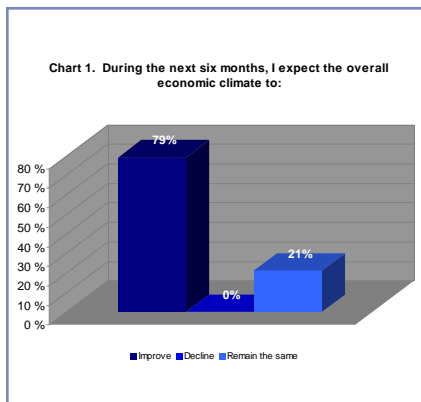
This report has been compiled from responses obtained specifically from Québec's VCs. For the Canadian results, please refer to Deloitte & Touche's Quarter 2, 2002 Canadian Venture Capital Association Survey.

Results

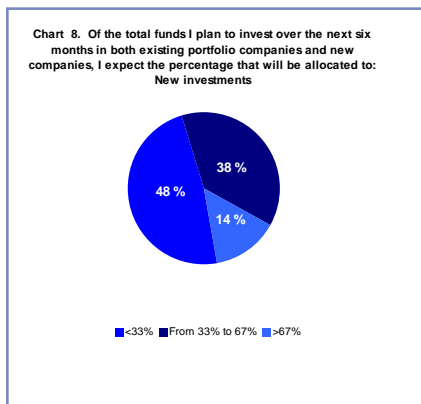
The optimism noted at the end of Q1 concerning the overall economy seems to be intensifying, with 79% of respondents expecting to see the overall economic climate improve and the rest forecasting no change. None of the VCs surveyed anticipate a decline. Last quarter, only 43% expected an improvement and 52% predicted that the climate would remain the same. This optimism is reflected in an expectation of increased portfolio valuations and improved exit valuations. In fact, the proportion of respondents predicting a decrease in exit valuations dropped from 27% in the first quarter to 14% today. All respondents plan to use mergers and acquisitions rather than the IPO scenario to exit from their investments.

Expectations are even more positive in terms of the combined valuation of all portfolios, with investors predicting a higher or unchanged valuation accounting for 64% and 32% of respondents, respectively, compared to Q1 2002, when these two responses both yielded 43%.

Furthermore, 86% of respondents (up from 81%) expect that the volume of transactions will remain the same or increase. However, of this number, those anticipating an increase dropped from 49% to 31%. In fact, 79% of respondents carried out six transactions or less in 2001 and this trend looks like it will continue for 2002.



Despite the enthusiasm about the economic climate, VCs are more balanced in their predictions concerning the activities in the months ahead. Although few changes are anticipated in terms of follow-on investments, respondents expect a decline in the relative importance of new investments. In fact, 48% anticipate that less than 33% of total funds invested will be allocated to investments in new projects up from 36% of respondents in Q1 forecasts. Meanwhile, the percentage of respondents who expect new projects to have a greater weighting compared to Q1 in their portfolios (more than 67% of the portfolio) declined from 26% to 14%.

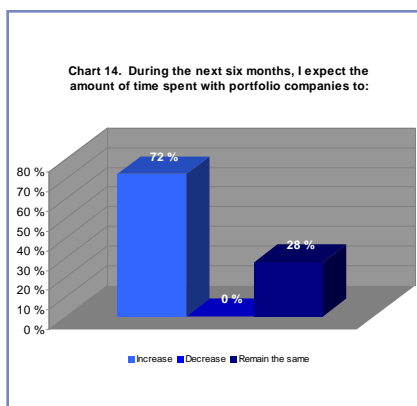


There are no major changes in the expected size of funding rounds, while 86% of VCs expect levels to increase or remain the same.

Also, 59% of investors anticipate an increase in the time period required to close a funding round. Approximately 72% of respondents expect the timing of first meeting to term sheet to be about four months.

In Q4 2001, total disbursements reached their lowest level since Q1 1999. When we asked VCs to predict the timing of a recovery, responses were mixed. More than half, or 52%, answered that no rebound would take place until Q4 2002. It is important to note, however, that the percentage of respondents expecting a recovery during Q3 increased from 11% to 17%.

Over the next six months, existing portfolio companies will be getting more attention. None of the VCs surveyed anticipate a decrease in the time spent with portfolio companies. In fact, 72% expect an increase, which is a much higher than the 42% observed in Q1. Those who plan to spend the majority of their time focusing on new investments dropped from 45% in the first quarter to 34%, while 62% will concentrate on portfolio management, an increase of seven points.

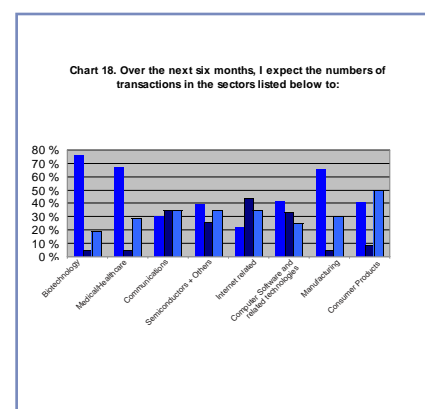


Expectations regarding the size of investments remain essentially unchanged, with 86% of respondents planning to carry out transactions of \$5 million or less, 13 points more than for VCs elsewhere in Canada.

For the third quarter running, the Biotechnology and Medical/Healthcare sectors remain the preferred sectors for investment. In effect, 76% and 67% of VCs, respectively, expect a rise in the number of transactions in these two sectors, compared to 56% and 64% in Q1. As for the other leading-edge sectors-Communications,

Semiconductors, Internet, and Software and Related Technologies-expectations remain modest, albeit more optimistic than in Q1.

Finally, the trend observed in Q1 2002 for Manufacturing seems to be continuing, with 65% of respondents anticipating an increase in activity in this sector, up seven points from the last survey. Of those surveyed, 41% expect activity in the Consumer Products sector to grow, a slight drop from the 42% observed in the previous quarter.



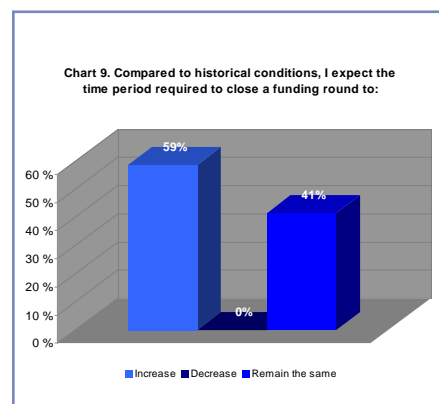
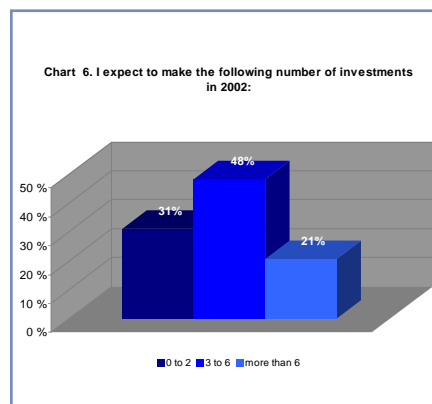
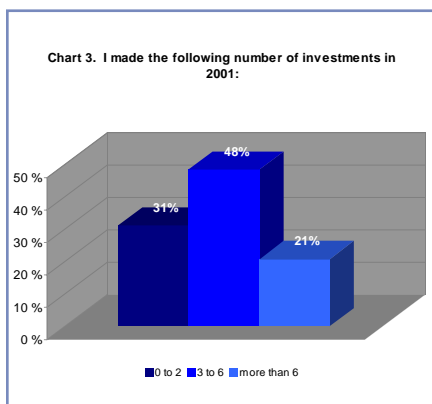
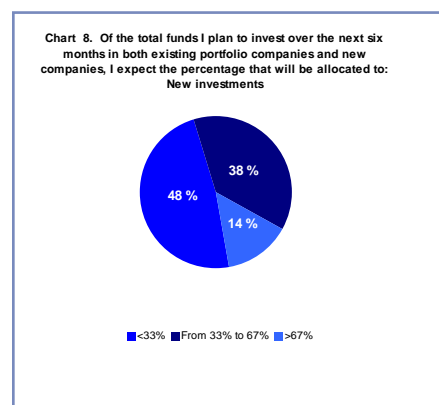
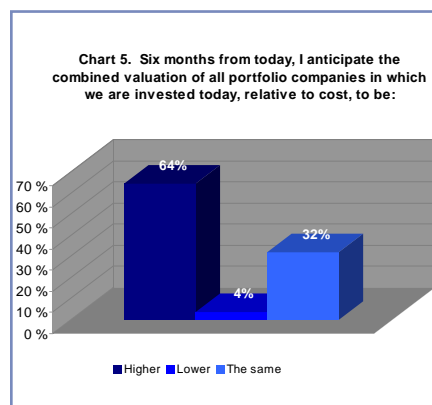
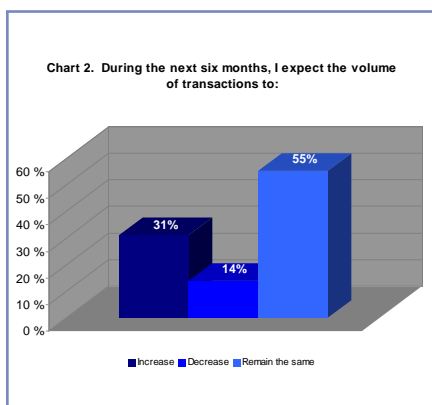
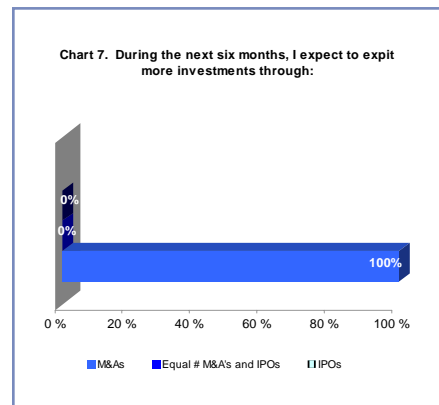
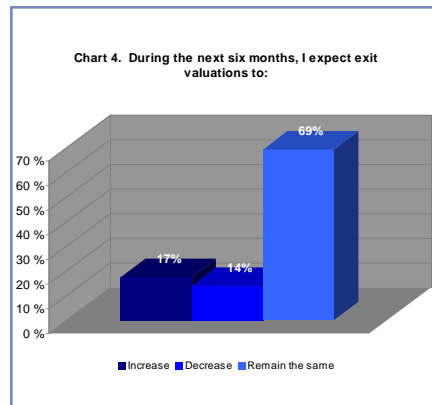
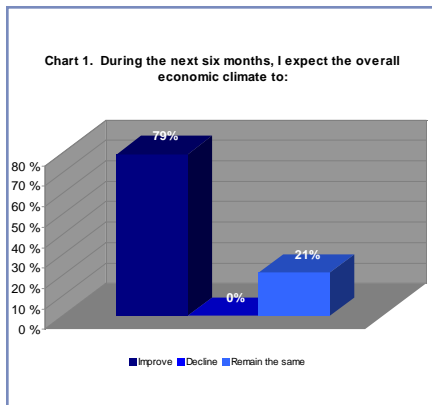
Insights

- Québec VCs are far more optimistic about the overall economic climate than was the case in the last survey, conducted in the first quarter. Expectations of a general economic recovery appear to be rising. Respondents also expect an increase in exit valuations and growth in portfolio valuations. Mergers and acquisitions should continue to be the preferred exit vehicle, while IPO activities remain virtually nonexistent.
- However, this relative optimism is slow in revealing itself in respondents' investment forecasts. Even more than last quarter, investors expect to concentrate on their current portfolio investments rather than invest in new projects. As a result, more time will be spent with portfolio companies and less weighting given to adding new investments to the portfolio.
- More than half of Québec VCs expect an upturn in deal activity in 2003.
- The strength anticipated in Q2 in the preferred sectors - Biotechnology, Medical/Healthcare and Manufacturing - is continuing to increase.

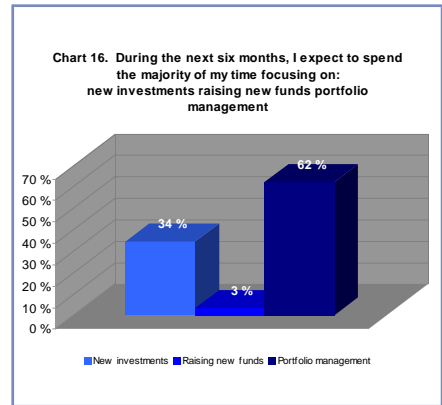
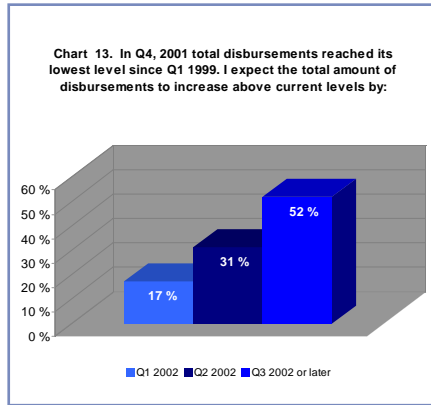
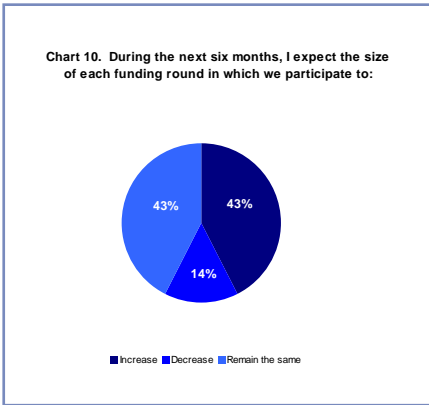
VC Confidence Survey: Detailed Results - Québec

Overall economic climate

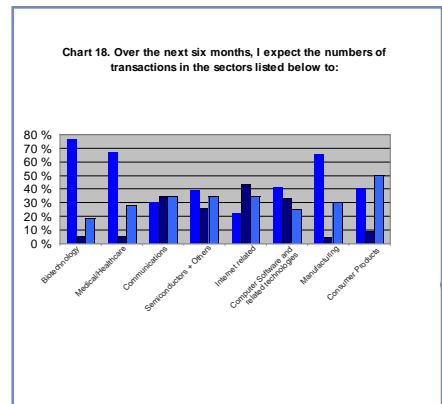
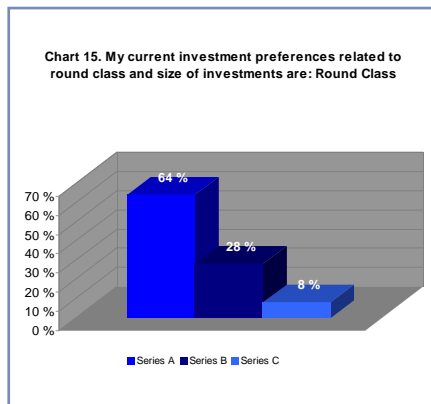
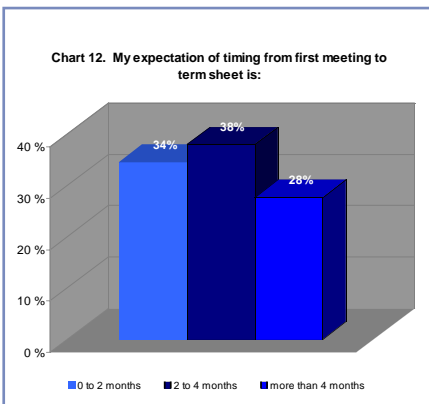
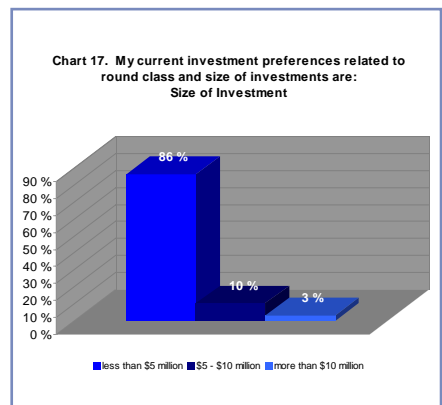
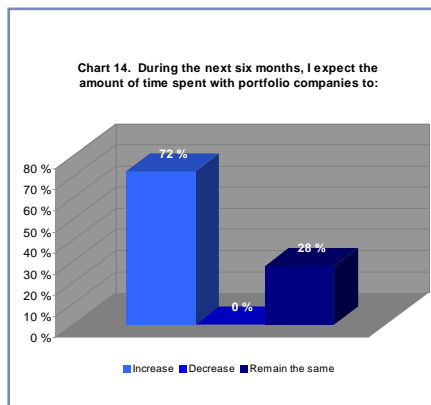
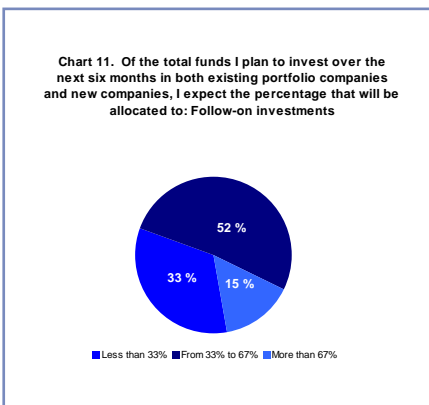
Deal activity



VC Confidence Survey: Detailed Results - Québec



Investment Focus



Contacts

Deloitte & Touche Corporate Finance initiated this survey and collected results from May 9 through May 23, 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 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.

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