

## **Québec's Venture Capital Market in Q1 2010**

In dollar terms, venture capital (VC) market activity in Québec slowed in the first quarter of 2010. A total of \$101 million was invested in this period, which is down 34% from the \$153 million invested at the same time in 2009.

However, with respect to the number of deals and investee firms, VC activity in Québec generally sustained a steady pace. For instance, companies financed between January and March totaled 42, which approximates the 43 companies that were financed the year before.

In addition, Québec-based VC activity continued to lead the Canadian market in the first three months of the year, as it did during the entire of 2009. Québec accounted for 37% of dollars invested, as well as 40% of companies financed. Overall, domestic VC activity was not greatly changed from one year ago, with \$276 million invested in Q1 2010.

However, first-quarter VC trends in both Québec and across Canada varied from trends in the United States, where activity grew on a year-over-year basis. A total of US\$4.7 billion was invested in American market, up 40% from prior levels.

Reduced dollar flows in Québec placed downward pressure on VC deal sizes, despite some major Q1 2010 activity, such as the \$53.8 million-financing of Montréal's Enerkem Technologies. Amounts invested per firm nonetheless averaged a comparatively low \$2.4 million.

In contrast with past trends, clean-tech sectors attracted most of the dollars between January and March. A total of \$54 million went to three firms, including Enerkem, which accounted for the largest clean-tech deal recorded to date in Québec. IT-related activity lagged with \$20 million invested, down 76% from Q1 2009, while life sciences activity took \$8 million, up 46% in the same period.

American VC funds and other foreign investors provided the largest share of cash to Québec deals in Q1 2010, reflecting nearly half of all disbursements. While domestic investors as a whole were less active, private VC funds invested \$25 million, or almost double their activity of the year before, and labour sponsored and other retail funds invested \$21 million, up 13%.

VC fund-raising activity in the Canadian market showed some moderate improvement in the first quarter, with a total of \$268 million in new commitments, up 25% from \$215 million committed one year ago. Of the total amount, VC fund managers headquartered in Québec netted a 23% share.

### **Notice of Data Changes**

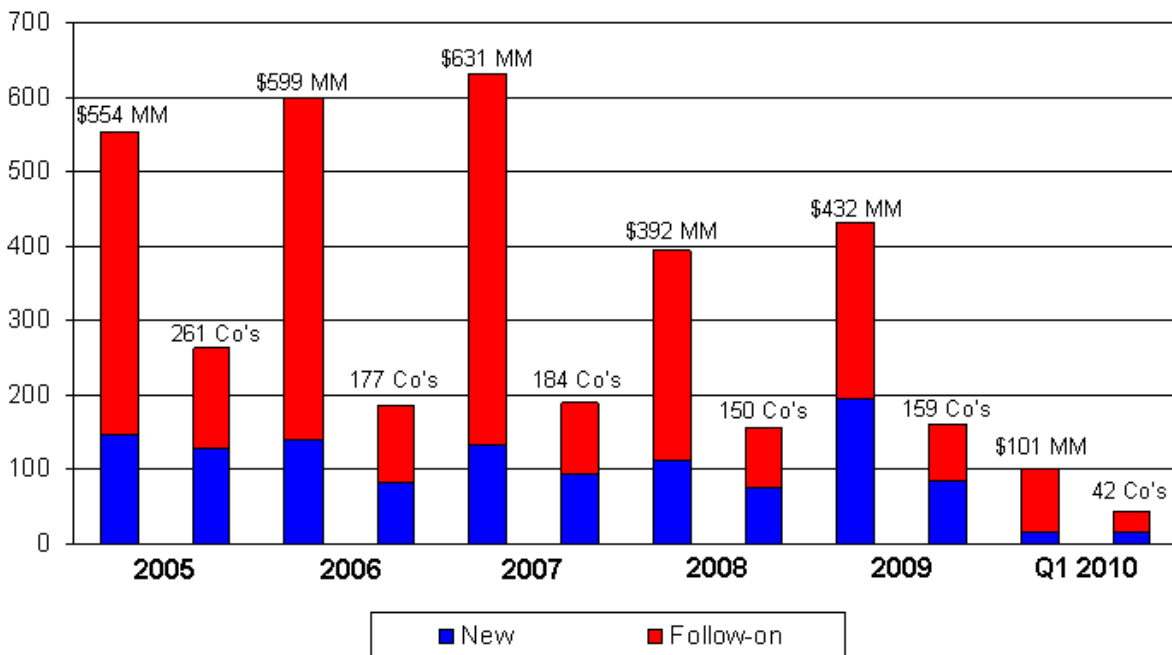
To stay abreast of venture capital market trends in Québec and Canada, Thomson Reuters continually updates all company financing information according to new fund manager reports and other sources. For this reason, current and historical data are subject to regular change. Readers of this report should therefore be alert to revisions to quarterly and annual statistics, in total and across specific categories.

**Québec VC Activity Slows in Q1 2010**

In dollar terms, venture capital (VC) market activity in Québec slowed in the first quarter of 2010. A total of \$101 million was invested in this period, which is down 34% from the \$153 million invested at the same time in 2009. Q1 2010 disbursement levels were also 11% shy of the \$113 million invested just three months earlier.

However, with respect to the number of deals and investee firms, VC activity in Québec generally sustained a steady pace. For instance, companies financed between January and March totaled 42, which approximates the 43 companies that were financed the year before.

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



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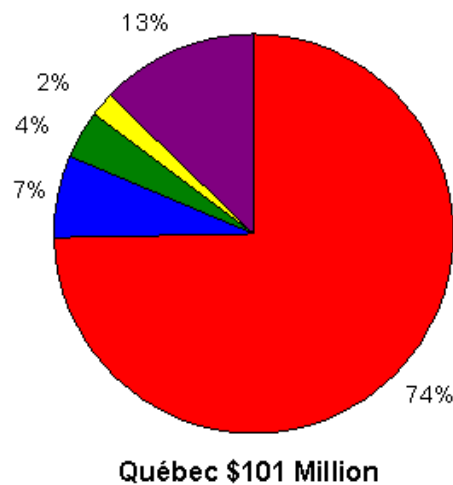
In addition, Québec-based VC activity continued to lead the Canadian market in the first three months of the year, as it did during the entire of 2009. Québec accounted for 37% of dollars invested across the country, ahead of Ontario's 35%, along with 40% of companies financed. Overall, domestic VC activity was not greatly changed from one year ago, with \$276 million invested in Q1 2010.

However, first-quarter VC trends in both Québec and across Canada varied from trends in the United States, where levels of activity actually increased on a year-over-year basis. A total of US\$4.7 billion was invested in American market, or 40% more than the prior US\$3.4 billion.

Reduced dollar flows in Québec placed downward pressure on VC deal sizes, despite some major Q1 2010 activity, such as the \$53.8 million-financing of Montréal’s Enerkem Technologies. Amounts invested per firm nonetheless averaged \$2.4 million, as compared to \$3.6 million in Q1 2009.

VC activity continued to pay most attention to existing portfolio firms in Québec between January and March. In fact, as compared to the year before, follow-on deals made major gains in both absolute and relative terms, accounting for 85% of all disbursements. In contrast, new deals reflected a mere \$15 million invested.

**Dollars Invested by Québec Region; Q1 2010**



■ Montreal Region	■ Québec Region	■ Chicoutimi-Jonquière Region
■ Gatineau-Hull Region	■ All other Québec Regions	

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In large part because of the Enerkem financing, Montréal increased its share of Québec deal-making in the first three months, accounting for close to three-quarters of total VC activity. In second spot was the Québec City region, with a 7% market share.

**Québec Clean-Tech Activity Takes Top Spot**

Over the past two years, deal activity in information technology (IT) sectors has been at the forefront of VC market trends in Québec. In Q1 2010, it was instead energy and environmental technology sectors that attracted most of the dollars. A total of \$54 million went to three clean-tech firms in this period, or six times the \$9 million invested in Q1 2009.

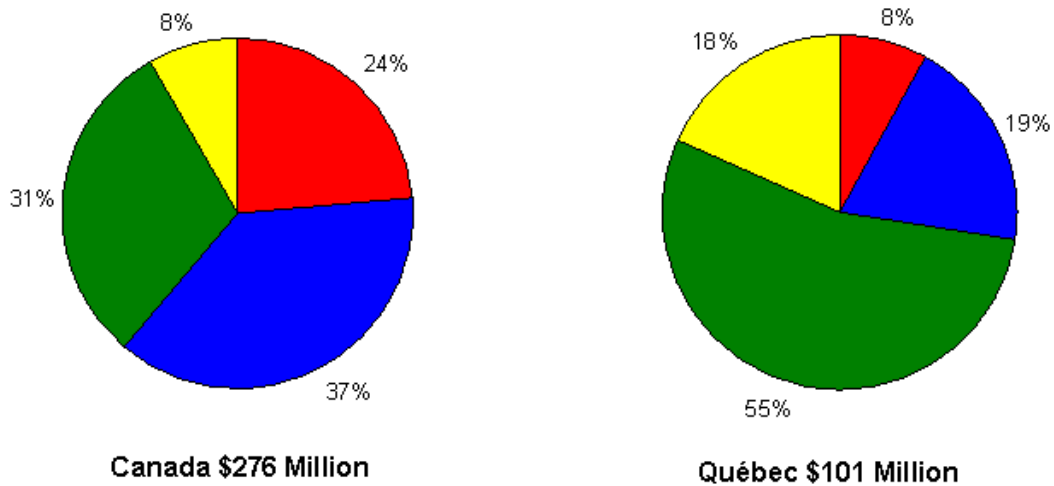
Indeed, clean-tech activity took 54% of all disbursements in Québec, which well surpasses the 5% share such activity has typically averaged in recent years. Of course, the Enerkem financing

drove this outcome, being the largest disclosed clean-tech deal recorded to date in Québec, and one of the three largest recorded in Canada.

IT-related activity lagged in the first quarter, with 9 companies securing \$20 million, down 76% from \$83 million secured at the same time in 2009. Among IT sectors, only internet-focused activity made year-over-year advances, as the Montréal-based Beyond the Rack and two other firms captured \$8 million. Much of the balance, or \$7 million, went to two telecom firms.

As a consequence, IT-related activity accounted for less than one-fifth of total VC activity in Québec this time around. This compares against the 46% market share that this activity reflected during the whole of last year.

**Dollars Invested by Sector; Q1 2010**



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VC activity in biopharmaceuticals and other life sciences sectors grew between January and March, with \$8 million invested in 4 companies, including Laval’s Leap Medical. This level of activity is up 46% from \$6 million invested the year before. However, with only 8% of all disbursements, the relative share assumed by life sciences remained sub par.

Companies based in consumer, manufacturing and other non-technology sectors saw less emphasis in deal-making in the first three months, as 25 of these in total obtained \$18 million, or 67% below the \$55 million invested in Q1 2009. This gave traditional activity 18% of total VC activity in Québec.

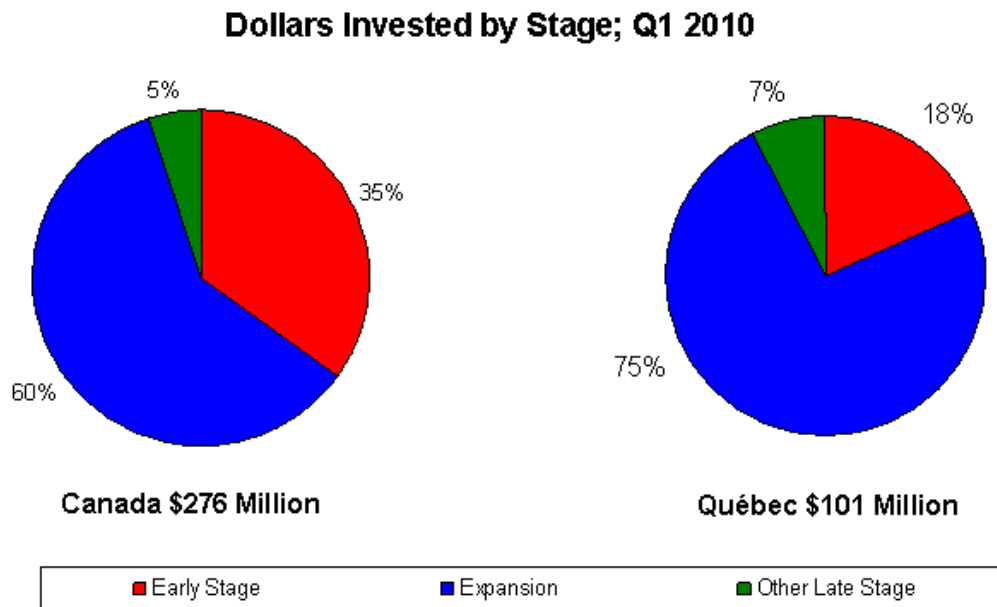
IT sectors were once again the focus of Canadian VC activity in Q1 2010, accounting for 37% of all disbursements, though absolute activity fell 37% from one year ago. Primarily due to Québec-

based trends, domestic clean-tech activity rose sharply in the same period, as did life sciences activity.

**Québec Expansion Deals Consume Most VC**

As it did over the course of 2009, Québec late-stage VC activity edged out early-stage activity in the first quarter of this year, but this time with even greater market share. A total of \$82 million was invested in late-stage deals, increasing 31% from the year before, and capturing over 80% of all disbursements.

Expansion transactions provided the impetus behind this overall trend. Twenty-five expanding companies in Québec were financed with \$75 million between January and March, or close to quadruple the \$20 million of the same time last year. In contrast, firms at other late stages of development took only \$7 million.



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Ten Québec-based early-stage firms received a total of \$18 million in the first quarter, which is at some distance from the \$90 million invested one year ago. Only seed deal activity experienced some year-over-year growth, absorbing \$4 million this time around.

Also led by expansions, late-stage company financings gained ground across the Canadian market in the first three months, with \$179 million invested, up 46% from Q1 2009. Over the same period, early-stage activity declined 38%.

**Foreign, Private Funds Lead Québec VC Activity**

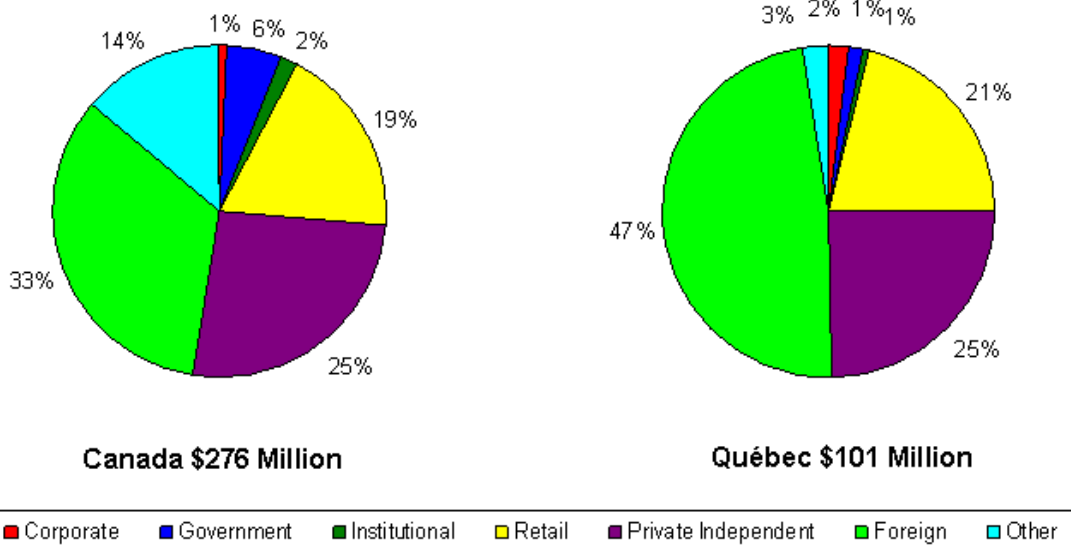
American VC funds and other foreign investors were a major market presence in Québec last year, reflecting 29% of all disbursements. This trend was repeated in the first three months of 2010, as cross-border activity brought \$48 million to Québec deals, matching activity in Q1 2009, and accounting for close to half of the total.

Consequently, foreign investors once again led Québec VC trends in dollar terms. In addition, Québec attracted the largest proportion of total cross-border activity in the domestic market in this period, or 52%. This was also the case during the whole of 2009.

The Québec-based activity of local VC funds and other Canadian investors was, in combination, reduced in the first quarter, with \$53 million invested. However, these overall results mask year-over-year increases in the dollars invested of two key investor groups.

For instance, between January and March, private-independent VC funds put \$25 million to work in 11 companies, or close to double their previous \$13 million. This gave private funds one-quarter of total VC activity this time around, as compared to a 13% share during the entire of 2009.

**Dollars Invested by Investor Type; Q1 2010**



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In addition, the activity of Québec labour-sponsored and other retail funds was also greater, with \$21 million invested in 28 companies, or 13% more than the \$19 million they invested at the same time last year. This gave retail funds just over one-fifth of all disbursements.<sup>1</sup>

<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.

Foreign investors were also essential to VC activity across Canada, accounting for one-third of the total in Q1 2010. Also like Québec, combined domestic activity dropped as compared to one year ago, despite growth on the part of private-fund activity.

### **Canadian VC Fund-Raising Up in Q1 2010**

VC fund-raising activity in the Canadian market showed some moderate improvement in the first quarter of 2010, with a total of \$268 million in new commitments, up 25% from \$215 million committed the year before. Of the total amount, VC fund managers headquartered in Québec netted a 23% share.

Private fund-raising led these trends, with VC partnerships absorbing \$140 million, or just over half of all commitments between January and March, and well surpassing their prior \$42 million. New resources going to labour-sponsored and other retail funds made up the balance, or \$128 million, though this was 26% below the \$173 million of Q1 2009.