



Québec's Venture Capital Market in 2010

A REPORT PREPARED FOR

*RÉSEAU CAPITAL
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Québec's Venture Capital Market in 2010 - Summary

Québec venture capital (VC) market activity was moderately reduced in dollar terms last year, with \$391 million invested in total, or 9% below the \$429 million invested in 2009. This occurred despite comparatively high disbursement levels in the final quarter, when \$109 million was invested.

Fewer dollars invested went to more Québec-based firms, however, suggesting the influence of deal sizes in 2010 trends. Companies financed with VC totaled 174 last year, up 10% from the 158 companies financed in 2009.

Even with the year-over-year drop in VC invested, Québec continued to account for an above-par share of the overall domestic market. Québec took 34% of all disbursements in 2010, and led in total companies financed in Canada, with a 49% share.

Last year, the North American VC market showed improved indicators for the first time since 2007. (The Québec market showed growth in 2009.) Across Canada, \$1.1 billion was invested in 2010, up 10% from the year before, while activity in the United States grew 19%, with US\$21.8 billion invested this time around.

Québec featured the largest VC deal done in Canada in 2010 – the \$53.8 million financing of Montréal clean-tech firm Enerkem Technologies. However, financing sizes tended to be smaller in the main, with amounts invested per firm averaging \$2.2 million last year, down from an average of \$2.7 million in 2009.

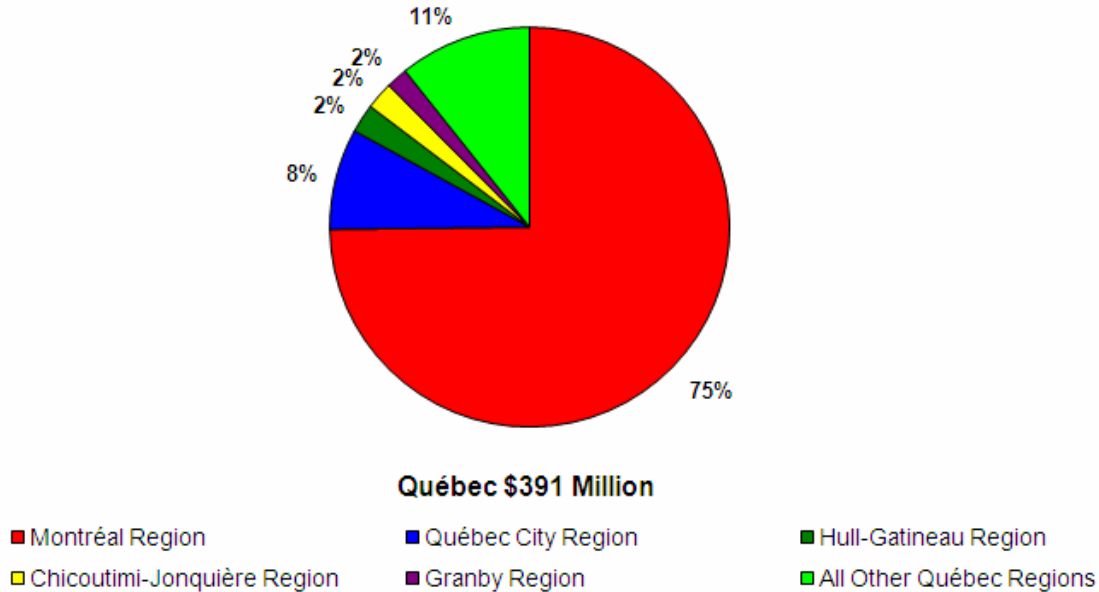
Québec IT sectors once again led VC activity last year, obtaining \$121 million, or 31% of the total, though activity was down 40% from the year before. Life sciences sectors squeezed out some small gains, with \$87 million invested, while clean-tech sectors had their best year on record in 2010, accounting for 16% of all disbursements. Non-technology sectors took second spot to IT-related activity, with \$116 million invested.

Labour-sponsored and other retail funds invested \$135 million in Québec in 2010, reflecting a leading 35% share of total VC activity. Private funds substantially increased their dollars invested, putting \$67 million to work, or a 17% share. Foreign investors brought \$107 million to Québec deals last year, down 14% from 2009, however, related dollar flows into Québec were the highest in Canada last year.

Canadian VC fund-raising activity was especially tepid in 2010. New capital commitments to VC funds totaled \$819 million last year, down 24% from 2009, and the lowest per-annum level reached in the domestic market in 16 years. VC funds based in Québec accounted for the largest share of new supply, 42%, or \$347 million.

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Dollars Invested by Québec Region; 2010



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Existing portfolio companies in Québec were once again paid the most attention by VC investors last year, as follow-on deals captured 72% of all disbursements. This happened in part because of a decline in first-time deal-making, which reflected \$109 million invested in 2010, down 43% from 2009.

Greater Montréal garnered three-quarters of Québec VC invested in 2010, which surpasses its traditional market share. Québec City accounted for 8% of the total, followed by the Chicoutimi-Jonquière, Granby and Hull-Gatineau regions, which each took 2%.

Québec IT, Non-Technology Out in Front in 2010

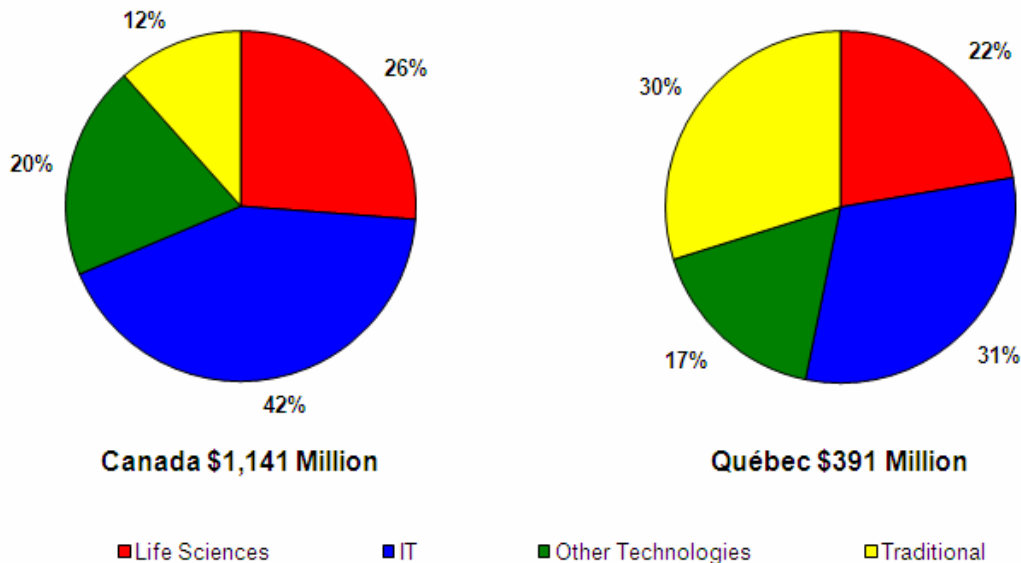
While Québec information technology (IT) and non-technology sectors absorbed the largest percentage of dollar flows in 2010, it was deal-making in clean technology and life sciences sectors that made some year-over-year gains.

VC activity in IT sectors once again led market trends in Québec last year, with 32 companies obtaining \$121 million in total, or 31% of all disbursements. However, actual levels were 40% below activity the year before, when \$199 million was invested.

Among IT sectors, only internet-focused activity showed clear growth in 2010, with \$42 million going to 9 firms, up 93% from the \$22 million of 2009. In second spot was

communications and networking, with \$38 million invested in 6 firms, though this was at some distance from the \$118 million invested the year before.

Dollars Invested by Sector; 2010



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Québec biopharmaceuticals and other life sciences sectors squeezed out some small gains last year, with \$87 million invested in 13 companies, up from \$86 million invested in 2009. The market share held by life sciences activity increased more tangibly over this period, coming in at 22% this time around.

VC deals involving alternative energy and other clean-tech sectors in Québec had their best year on record in 2010. Enerkem and 7 other companies took \$61 million, or 16% of total dollars invested, which well surpasses the 5% share averaged in recent years.

Québec non-technology sectors saw \$116 million going to 117 companies last year. While this is 10% below the \$129 million invested in 2009, activity in consumer and business services, manufacturing, and other traditional firms, reflected an above-par 30% of total VC activity in 2010.

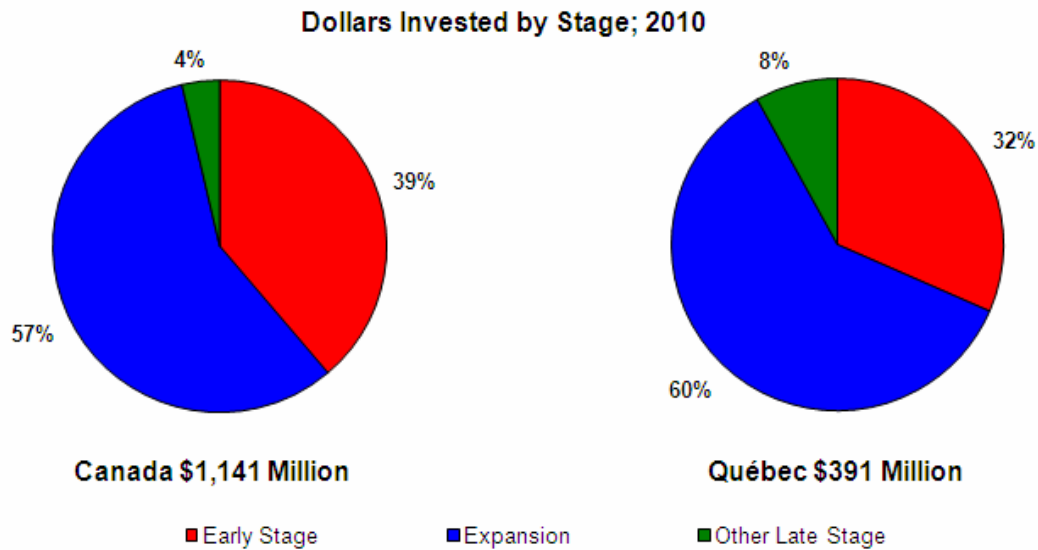
Across Canada, IT sectors accounted for a leading 42% of all disbursements in 2010, or \$484 million, though this was down 3% from the year before. On the other hand, clean-tech and life sciences activity rose 38% and 58%, respectively.

Top (Disclosed) Québec VC Deals of 2010

Company	City	\$CAD MM Invested
Enerkem Technologies Inc.	Montréal	\$53.80
Accedian Networks Inc.	Saint-Laurent	\$20.50
Gemin X Pharmaceuticals, Inc.	Montréal	\$16.00
Vantrix Corporation	Montréal	\$14.30
Aeterna Zentaris Inc.	Québec	\$12.20
Beyond the Rack Inc.	Saint-Laurent	\$12.00
Medicago Inc.	Québec	\$10.00
Alethia Biotherapeutics Inc.	Montréal	\$9.60
Bellus Health Inc.	Laval	\$5.10
VM6 Software Inc.	Montréal	\$4.20

Québec Late-Stage Deals Take More Cash

Counter to Québec VC market trends as a whole in 2010, late-stage deals attracted more dollars invested year-over-year. In total, \$267 million went to 137 companies in later stages of development, or 68% of all disbursements, and up 17% from the \$229 million of 2009.



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Propelling this increase was expanding firms, 121 of which consumed \$236 million last year, or 57% more than the \$150 million invested in 2009. Over the same period, other late-stage activity was significantly decreased, with \$31 million invested this time around versus \$79 million the year before.

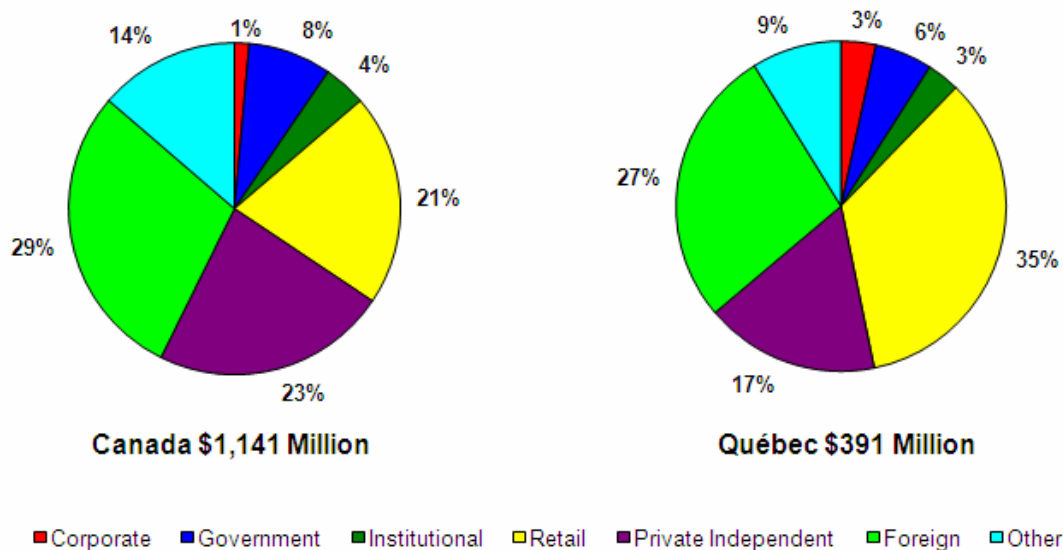
Early-stage VC activity, by contrast, lost ground in Québec last year, as \$123 million was invested in 37 companies, down 38% from \$200 million invested in 2009. The erosion was located entirely in seed-stage and startup deals, which accounted for a respective \$4 million and \$38 million in 2010.

Like Québec, VC activity in late-stage firms was up across Canada last year, with \$699 million invested, while early-stage activity was reduced, with \$442 million invested.

Retail, Foreign VC Funds Lead Québec Activity

Taken together, VC invested by locally-based and other Canadian funds in Québec, totaling \$284 millions was down 7% in 2010, compared against the \$305 million invested the year before. However, this overall trend masked the substantial market role assumed by retail funds in this period, as well as growth in dollars invested by private funds.

Dollars Invested by Investor Type; 2010



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Labour-sponsored and other retail funds once again led VC activity in Québec, investing \$135 million in 128 companies last year, or just over one-third of the total amount. This also effectively matched levels of retail-fund activity in 2009, when \$137 million was invested.¹

Private-independent VC funds put \$67 million to work in 30 companies in 2010, or 25% more than the \$53 million they invested in 2009. As a result, private funds increased their share of total Québec-based activity to 17%, compared to the 15% averaged in recent years.

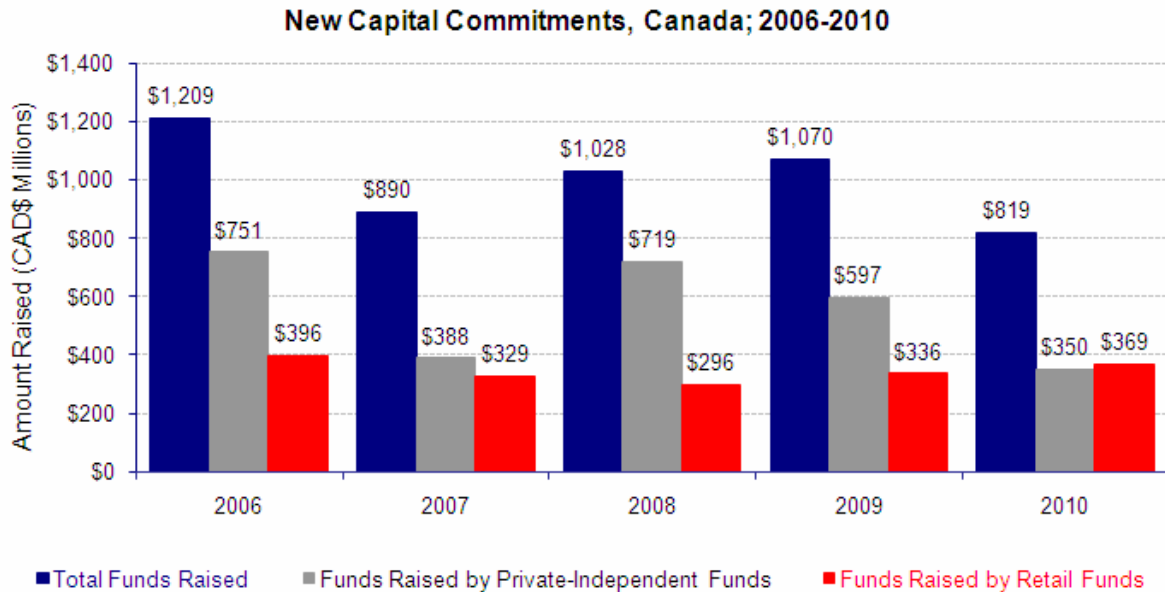
American VC funds and other foreign investors brought \$107 million to Québec deals last year, down 14% from the \$125 million they accounted for in 2009. Nonetheless, cross-border dollar flows into Québec were the highest in Canada in 2010, and reflected a slightly above-par 27% of all disbursements.

Both domestic and foreign investors were more active in the Canadian market in 2010. In total, domestic VC funds invested \$811 million, up 11% year-over-year, while foreign activity brought \$331 million to deals, up 6%.

Canadian VC Fund-Raising Falls Further in 2010

¹ Québec labour-sponsored and other retail VC funds are increasingly doing a mix of direct investments and limited partner activity (i.e., making commitments to private funds). Both roles are relevant to reports of market trends, though data cited here reflect direct investments only.

In contrast with deal-making, Canadian VC fund-raising activity was especially tepid in 2010. New capital commitments to VC funds totaled \$819 million last year, down 24% from \$1.1 billion committed the year before, and the lowest per-annum level reached in the domestic market in 16 years.



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A key factor in the year-over-year drop in funds raised was a comparative shortage of major VC partnership closings. Private funds brought \$350 million of new supply into the Canadian market last year, or 41% below their activity in 2009. Retail funds were not able to compensate for this trend, despite having secured 10% more new commitments in 2010, or \$369 million.

VC fund managers headquartered in Québec continued to account for the largest percentage of new commitments in Canada in 2010. Of the \$819 million raised in total, Québec funds secured a 42% share, or \$347 million.