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Québec's Venture Capital Market in Q3 2011

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Québec's Venture Capital Market in Q3 2011 - Summary

Québec venture capital (VC) deal-making increased substantially in the third quarter of 2011, with year-over-year gains registered in all key market indicators. Dollars invested totaled \$145 million in this period, up 81% from \$80 million invested at the same time last year. Québec companies financed with VC, totaling 79, also rose 52%.

As a result, Québec VC market activity showed more considerable year-to-date growth. Disbursements totaled \$421 million at the end of September, up 61% from the year before. In fact, activity in the first nine months of 2011 surpassed the \$370 million invested during the whole of 2010.

Québec-based activity tended to outpace activity elsewhere in the North American market in the third quarter. Across Canada, levels of activity rose 51% year over year, with \$388 million invested in total. In the same period, VC market activity in the United States, totaling US\$7.2 billion, increased 35%.

In addition, Québec led Canadian market trends in Q3 2011, accounting for 37% of all disbursements, compared to Ontario's 27%. Québec also continued to account the largest share of companies financed, with well over half of the total this time around.

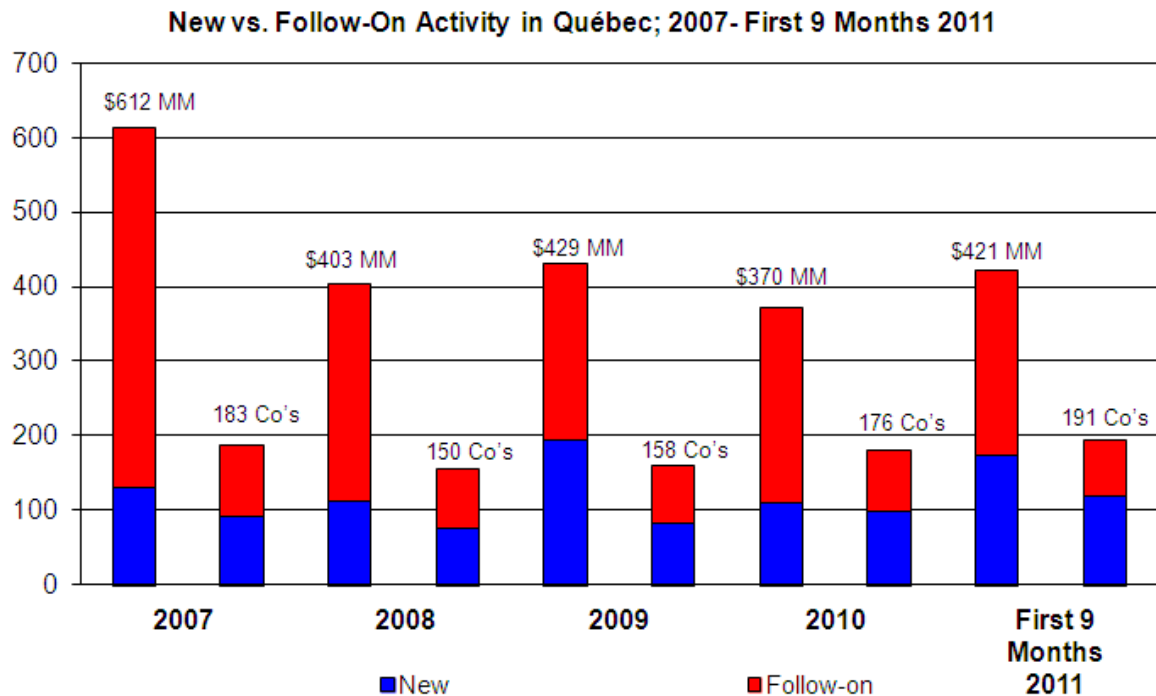
Higher levels of Québec-based VC activity between July and September were spread across emerging technology sectors. Out in front was activity in information technology sectors, which attracted \$57 million, or 40% of all disbursements, and 43% more than in Q3 2010. Life sciences activity also increased year over year, with \$23 million invested, as did clean technology activity, with \$18 million invested.

Locally-based VC funds were key to Québec deal-making trends in the third quarter, investing \$125 million, up 116% from the year before. This time around, activity was led by private VC funds, which deployed \$44 million, followed by labour-sponsored and other retail funds, which deployed \$23 million. Relative to the recent past, foreign investors were less of a presence in Q3 2011, bringing \$20 million to deals.

Like deal-making, new commitments to Canadian VC funds grew in the third quarter, with \$365 million raised in total. As a result, new supply reached \$739 million in the first nine months of 2011, or just shy of the \$741 million of the same time in 2010. Québec-based funds accounted for 42% of total fund-raising activity at the end of September.

Québec VC Activity Up 81% in Q3

Québec venture capital (VC) deal-making increased substantially in the third quarter of 2011, with year-over-year gains registered in all key market indicators. Dollars invested totaled \$145 million in this period, up 81% from \$80 million invested at the same time in 2010. Disbursement levels were also up 13% from Q2 2011.



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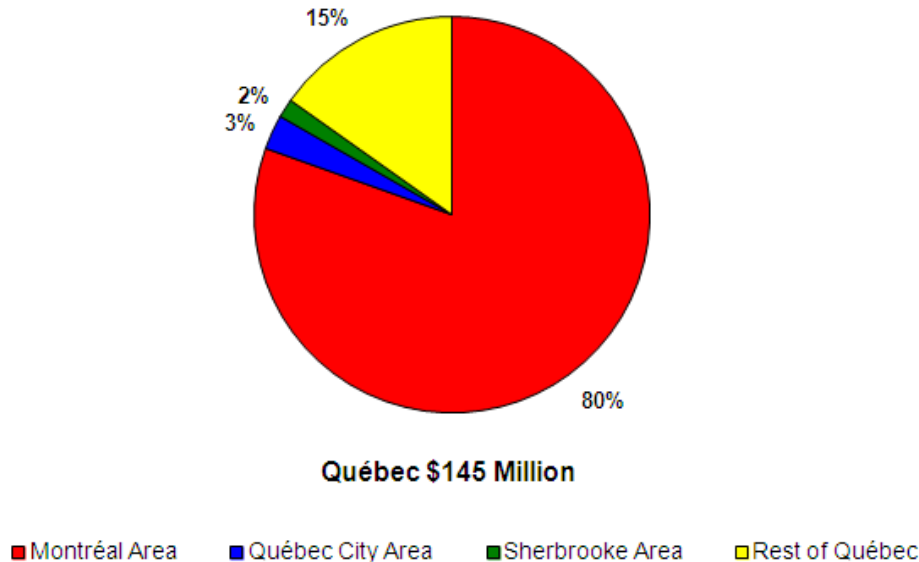
Higher dollar flows were obtained by a greater number of firms headquartered in Québec. Between July and September, companies financed with VC totaled 79, or 52% more than the 52 companies financed the year before. The number of VC-backed firms was also slightly more on a quarter-over-quarter basis.

As a result, Québec VC activity showed more considerable year-to-date growth. Disbursements totaled \$421 million at the end of September, up 61% from the \$262 million recorded at the same time in 2010. In fact, activity in the first nine months of 2011 surpassed the \$370 million invested during the whole of last year.

Québec-based VC activity tended to outpace activity elsewhere in the North American market in the third quarter. Across Canada, levels of activity rose 51% year over year, with \$388 million invested in total. In the same period, VC market activity in the United States, totaling US\$7.2 billion, increased 35%.

In addition, Québec led domestic market trends between July and September, accounting for 37% of all disbursements, compared to Ontario's 27%. Québec also continued to account the largest share of companies financed in Canada, with well over half of the total this time around.

Dollars Invested by Québec Region; Q3 2011



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A number of major VC deals were done in Québec in Q3 2011, including financings of Montréal's Enobia Pharma Inc. and Saint-Laurent's Beyond the Rack Inc. Such deals helped to lift amounts invested per company to \$1.8 million on average in this period, compared to \$1.5 million on average in Q3 2010.

The majority of Québec VC-backed firms in the third quarter were involved in first-time deals, which took \$75 million invested, or more than double cash infusions at the same time last year. Consequently, new financings led follow-on financings, capturing 52% of all disbursements.

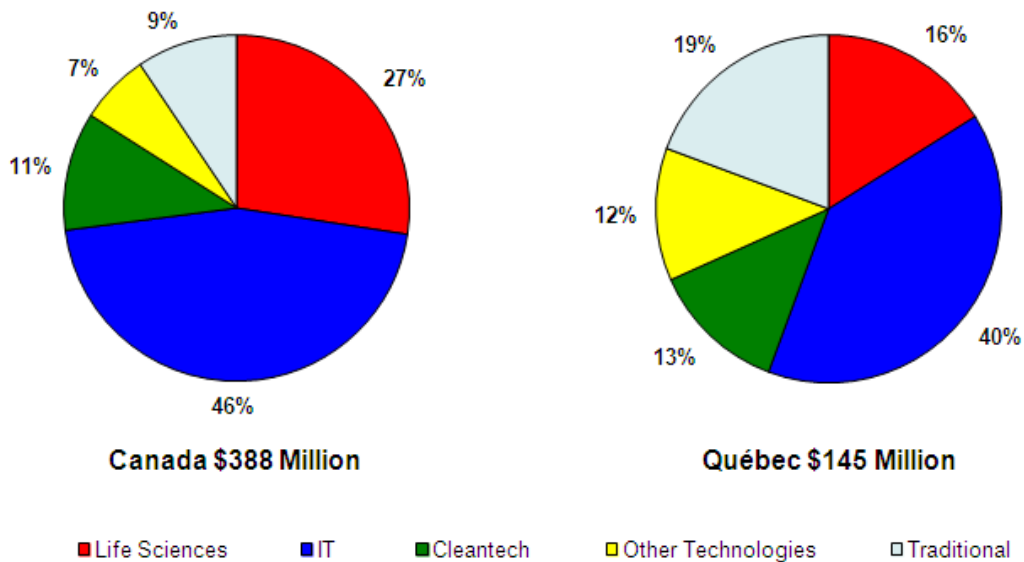
An even larger proportion of deal-making than usual was located in the Montréal region between July and September, accounting for 80% of dollar flows. Québec City and Sherbrooke followed with 3% and 2% market shares, respectively.

Québec Technology Gains From Q3 Growth

Year-over-year growth in Québec-based VC activity in Q3 2011 was spread across emerging technology sectors. Out in front was activity in information technology (IT) sectors, which saw 28 companies attracting \$57 million, or 40% of all disbursements, and 43% more than the \$40 million invested at the same time in 2010.

This trend was driven in internet-focused and software sectors. One dozen internet-focused firms, including Beyond the Rack and Hopper of Montréal, absorbed \$26 million in the third quarter, up 80% from \$14 million invested the year before. Eight software firms, including Montréal-based Acquisio Inc. and Gamerizon Studio Inc., took \$19 million, or nearly five times the \$4 million invested previously.

Dollars Invested by Sector; Q3 2011



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Levels of VC activity in Québec life sciences sectors also increased, with \$23 million going to eight biopharmaceuticals companies, including Montréal's Enobia Pharma and Glcare Pharma Inc., which greatly improves on \$5 million invested in Q3 2010. On the other hand, life sciences activity accounted for a comparatively low market share in Q3 2011, or 16%.

Deal-making in alternative energy and other clean technology sectors also had momentum between July and September. A total of \$18 million went to six companies, among them the Montréal-based Enerkem Inc., outdistancing activity at the same time last year. This resulted in clean-tech activity assuming 13% of VC invested this time around.

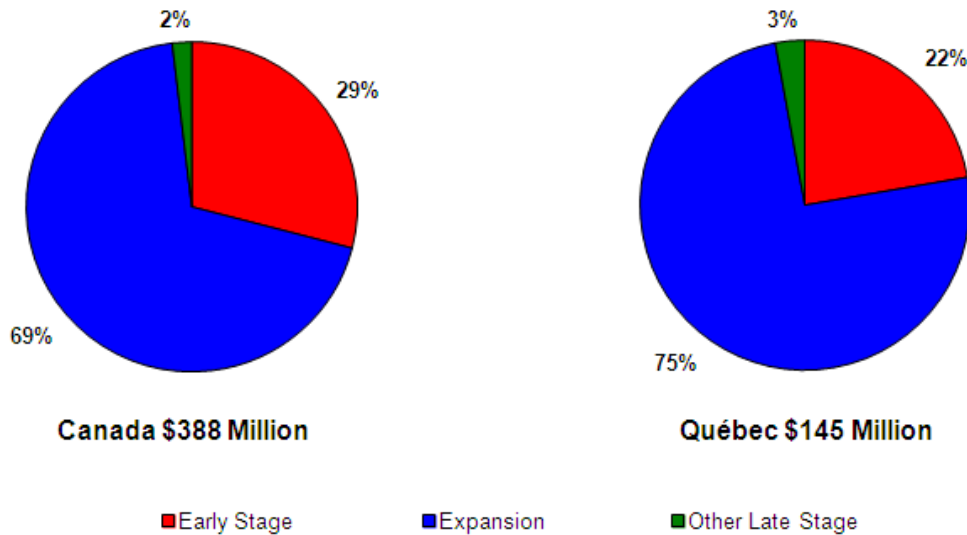
In contrast with technology sectors, non-technology sectors in Québec lost ground in the third quarter, with \$28 million invested in 33 companies, or 17% below the \$34 million invested the year before. This gave traditional activity just under one-fifth of total VC activity, down from its 31% share during the whole of 2010.

Across Canada, technology sectors also benefited from increased VC activity in Q3 2011. As in Québec, IT-related activity led with \$177 million invested, up 31% from Q3 2010, followed by life sciences activity with \$106 million invested, up 83%.

Québec Late-Stage Deals Take Most Cash

VC activity in Québec continued to be propelled by late-stage company financings, which accounted for 78% of total dollars invested in the third quarter. As in past quarters, this trend relied primarily on firms in expansion mode, 49 of which secured \$108 million, or almost quadruple the \$26 million invested the year before.

Dollars Invested by Stage; Q3 2011



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In contrast, overall levels of early-stage activity were lower between July and September, with \$32 million going to 28 companies, down 24% from \$43 million invested at the same time in 2010. However, over the same period, seed-stage financings experienced moderate growth, with 10 firms garnering \$2 million.

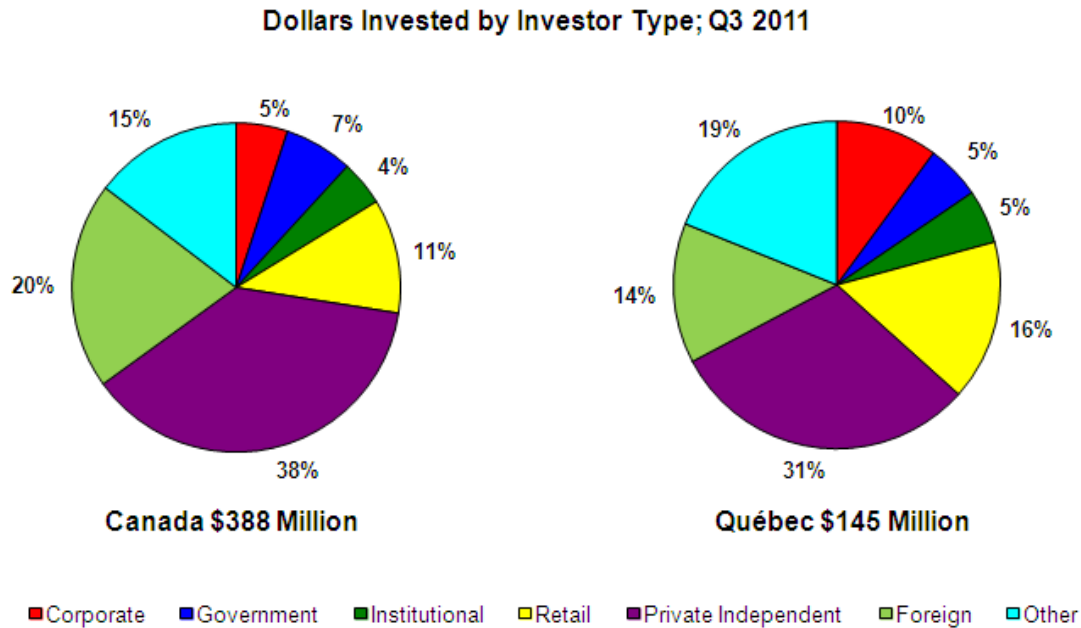
Late-stage VC deals also dominated Canadian market activity in Q3 2011, accounting for 71% of all disbursements. This share was driven by major growth in dollar flows to expanding firms, relative to Q3 2010, though early-stage firms also made some gains.

Québec Deal-Making Led by Local Funds

Locally-based VC funds and other Canadian investors were essential to deal-making trends in Québec in the third quarter. Taken together, domestic investors put a total of \$125 million to work in the market, or 86% of all disbursements, and 116% more than the \$58 million they accounted for at the same time in 2010.

This time around, it was private-independent VC funds that were at the forefront of Québec-based activity, at least in dollar terms. Private funds invested \$44 million in 29 companies

in Q3 2011, or more than four times the \$10 million they invested the year before. In so doing, private fund activity reflected 31% of total VC activity, well up from its historical average share of 12%.



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Labour-sponsored and other retail funds continued to assume a vital role in Québec activity, deploying \$23 million to 31 companies in third quarter, which was responsible for 16% of total VC invested. This occurred despite a 34% reduction in disbursement levels attributable to retail funds, given their previous \$35 million invested.¹

Relative to the recent past, American VC funds and other foreign investors were somewhat less of a market presence between July and September, bringing \$20 million to syndicated deals, or 14% of total dollar flows. At the same time last year, foreign activity brought moderately more cash to Québec company financings.

Like Québec, locally-based funds were of central importance to VC activity across Canada in Q3 2011, investing \$309 million, up 77% from Q3 2010. In contrast, levels of foreign activity in the domestic market dropped a slight 5% year over year.

¹ Québec labour-sponsored and other retail VC funds undertake 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.

Canadian VC Fund-Raising Also Up in Q3

Like deal-making, new capital commitments to Canadian VC funds increased in the third quarter. A total of \$365 million of fresh supply was introduced to fund manager coffers, well above the mere \$47 million recorded at the same time last year. Fund-raising levels in Q3 2011 also improved on the \$132 million raised three months earlier.

Consequently, instead of lagging domestic market outcomes in 2010, as VC fund-raising had been doing in the first half of 2011, activity is now tracking trends of the previous year. In the first nine months, new commitments totaled \$739 million, or just shy of the \$741 million committed the year before. Québec-based funds continued to net the largest share of new resources, or 42% of the year-to-date total.

Canadian VC partnership closings contributed a total of \$83 million to activity between July and September, while labour-sponsored and other retail funds brought an additional \$89 million into the market. This period also the launch of a new institutional fund, OMERS Ventures.