



THOMSON REUTERS

Québec's Venture Capital Market in Q3 2010

A REPORT PREPARED FOR

Réseau du capital d'investissement du Québec

NOVEMBER 2010

© 2010 by Thomson Reuters (Canada); All Rights Reserved

All data used for this report derive from the proprietary databases of Thomson Reuters; No part of this report may be copied or reproduced without permission.

Québec's Venture Capital Market in Q3 2010 - Summary

On the heels of substantial growth in Q2 2010, Québec venture capital (VC) market activity slowed in the third quarter, with \$76 million invested in total, or 22% below the \$97 million invested at the same time in 2009. On the other hand, the number of Québec-based companies financed in this period, totaling 51, was slightly higher.

With the slower pace of Q3 2010, Québec VC activity to date this year is now tracking somewhat behind activity in 2009. At the end of September, a total of \$279 million has been invested in 125 firms, down 12% from \$319 million invested in 123 firms in the first nine months of last year.

Over the same nine-month time span, Québec-based activity has nonetheless continued to reflect an above-par share of the overall market in Canada. Since January, Québec has accounted for 31% of all disbursements made across the country, and for 46% of total companies financed.

In the North American VC market, trends varied in the third quarter. Across Canada, a total of \$261 million was invested in this period, up 20% as compared to one year ago, while in the United States, US\$4.9 billion was invested, down 6%.

Québec VC deal sizes tended to be smaller between July and September, with amounts invested per company averaging \$1.5 million. This occurred despite several major deals done, including the US\$19.5 million financing of Saint-Laurent's Accedian Networks.

VC activity in communications and other IT sectors led in Québec in the third quarter, with \$39 million invested, or just over half of all disbursements. In contrast with market trends in Q2 2010, life sciences sectors saw a mere \$5 million invested this time around. Non-technology sectors instead gained ground, absorbing \$31 million, or 41% of the total.

Québec deal-making in Q3 2010 once again owed to local VC funds and other Canadian investors, which deployed \$54 million, up 16% from the year before. Labour-sponsored and other retail funds were key to this trend, investing \$32 million. Foreign investors were less active, bringing \$21 million to deals, however, their share of total activity remained an above-par 28%.

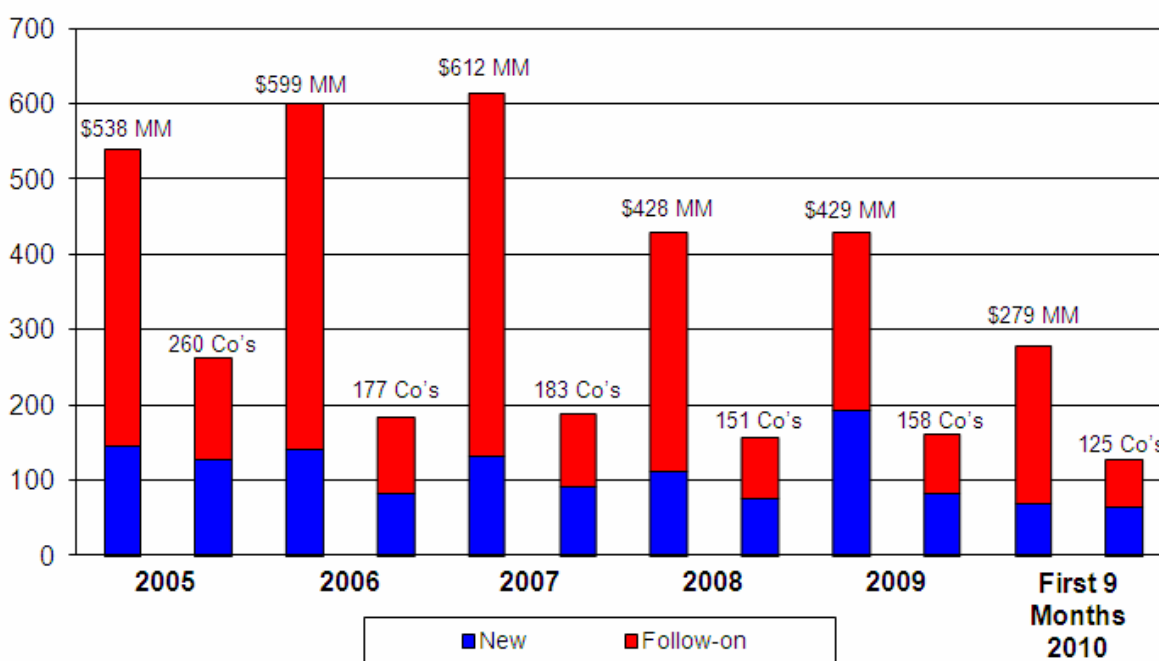
Canadian VC fund-raising activity was particularly slow in the third quarter, with only \$35 million committed in total. Consequently, activity to date in 2010, totaling \$611 million, approximates the historically low levels of 2009. Over this nine-month period, Québec-based funds have accounted for the largest share of new commitments, or 43%.

Québec VC Activity Slows in Q3 2010

On the heels of substantial year-over-year growth in Q2 2010, Québec venture capital (VC) market activity slowed in the third quarter, with \$76 million invested in total, or 22% below the \$97 million invested at the same time in 2009. Disbursement levels in Q3 2010 were also 25% shy of the \$101 million invested three months earlier.

Fewer dollars flowed to slightly more Québec-based firms, however. Companies financed with VC totaled 51 between July and September, up from the 49 companies financed one year ago.

New vs. Follow-On Activity; Québec



© Thomson Reuters. All rights reserved.

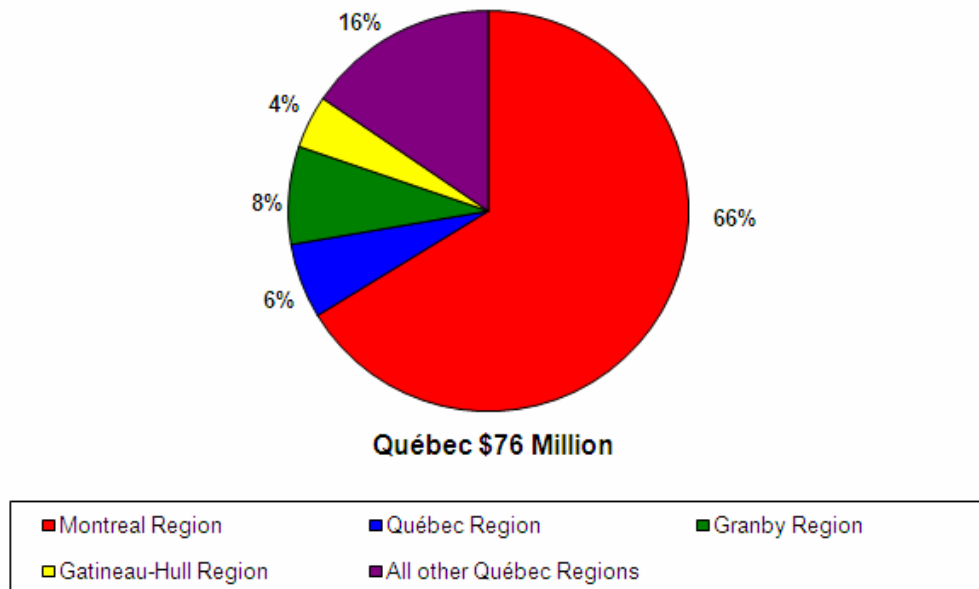
With the slower pace of Q3 2010, Québec VC activity to date this year is now tracking somewhat behind activity in 2009. At the end of September, a total of \$279 million has been invested in 125 firms, down 12% from \$319 million invested in 123 firms in the first nine months of last year.

Over the same nine-month time span, Québec-based activity nonetheless continued to reflect an above-par share of the overall market in Canada. Since January, Québec has accounted for 31% of all disbursements made across the country, and for 46% of total companies financed.

In the North American VC market, trends varied in the third quarter. Across Canada, a total of \$261 million was invested in this period, or 20% more as compared to the same time last year. On the other hand, VC activity was reduced 6% in the United States, with US\$4.9 billion invested this time around.

Given that more Québec firms consumed less cash in Q3 2010, VC deal sizes tended to be smaller. Amounts invested per firm averaged \$1.5 million, as compared to \$2.0 million on average in Q3 2009. This occurred despite several major deals done in the third quarter, including the US\$19.5 million financing of Saint-Laurent's Accedian Networks.

Dollars Invested by Québec Region; Q3 2010



© Thomson Reuters. All rights reserved.

Year-over-year, dollars invested in both new and existing portfolio companies in Québec were reduced between July and September. Follow-on deals nonetheless continued to account for the greater relative share, or 67%.

Accounting for two-thirds of dollars invested in Q3 2010, Greater Montréal continued to be at the centre of deal-making. The Granby region took second spot with an 8% share, followed by Québec City with 6%, and Gatineau-Hull with 4%.

Québec IT, Non-Technology at the Fore in Q3 2010

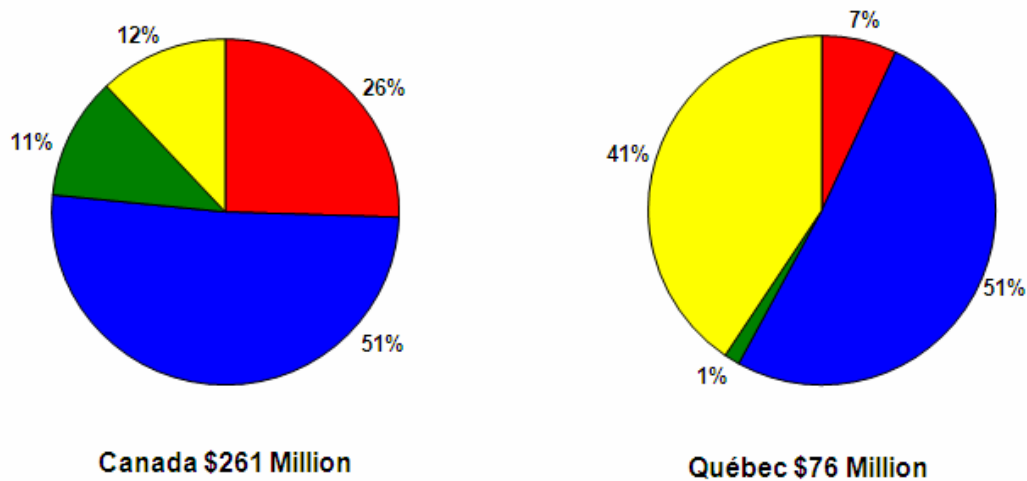
VC activity in information technology (IT) sectors led market trends in Québec in the third quarter, with close to a dozen companies attracting a total of \$39

million, or just over half of all disbursements. In absolute terms, this level of IT activity was also largely unchanged from the year before.

Communications and internet-related firms were the primary focus of investors this time around. A handful of telecom firms, which included Accedian Networks, garnered \$20 million, though this was 32% below the \$29 million invested in this sector in Q3 2009.

In addition, internet-related firms took \$14 million, which greatly outdistances the \$1 million invested in them at the same time in 2009. Driving this result was a pair of major VC deals involving the Saint-Laurent-based Beyond the Rack and the Montréal-based StatusNet.

Dollars Invested by Sector; Q3 2010



© Thomson Reuters. All rights reserved.

In the second quarter of this year, firms in Québec life sciences sectors experienced appreciable year-over-year growth in VC activity. This was not the case three months later, as life sciences activity saw only \$5 million invested in 4 companies, or a mere fraction of the \$35 million invested one year ago.

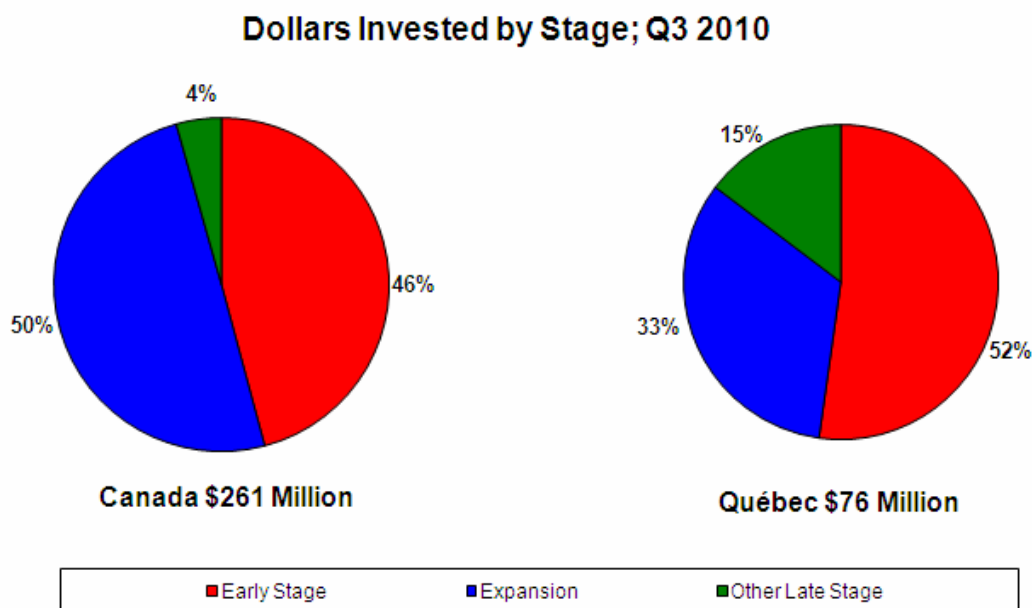
In contrast, non-technology sectors gained some ground between July and September, as 34 companies absorbed \$31 million, up 39% from \$22 million the year before. Consequently, the market share assumed by consumer, manufacturing and other traditional activity grew to 41%. During the whole of 2009, this share was 30%.

Across Canada, IT-related activity played an especially vital role in deal-making in Q3 2010, with \$133 million invested, up 57% from Q3 2009. Dollars invested in life sciences sectors also increased in this period.

Québec Early-Stage Deals Capture Most VC

Both early-stage and late-stage VC deals were impacted by the overall drop in disbursement levels in Québec in the third quarter. On the other hand, this environment allowed early-stage firms to increase their market share to 52% this time around, or \$40 million invested in total.

This trend was driven by startups and other early-stage VC activity, which accounted for \$15 million invested in 5 companies, and \$24 million invested in 8 companies, respectively, in Q3 2010. In the case of the latter, this is 56% more than the \$15 million that went to other early-stage activity at the same time in 2009.



© Thomson Reuters. All rights reserved.

The erosion in late-stage VC activity's dominance occurred because of a 30% dip in disbursements, as 38 companies secured \$36 million between July and September, versus \$52 million one year ago. With \$25 million invested, expansion activity saw decline in this period, while other late-stage deals made gains with \$11 million invested.

In contrast, expansion and other late-stage activity increased 31% across Canada in the third quarter, taking \$141 million. Dollars invested in early-stage companies was also up as compared to Q3 2009.

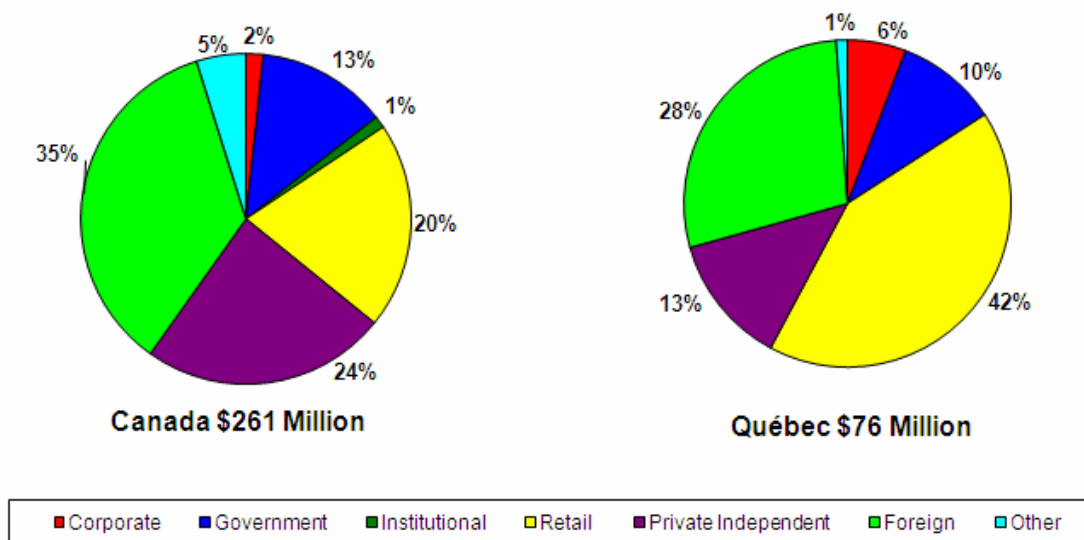
Local VC Funds Grow Québec-Based Activity

Like Q2 2010, most of the energy behind Québec deal-making in Q3 2010 owed to VC funds at the local level, along with other Canadian investors. Indeed, combined domestic disbursements in the third quarter were actually increased from the year before, with \$54 million invested, or 16% more than the previous \$47 million.

Once again, the activity of labour-sponsored and other retail funds was integral to this trend, as they invested \$32 million in 34 companies, which almost equals the \$33 million they accounted for at the same time in 2009. This gave retail funds a leading 42% share of total VC activity this time around.¹

With \$10 million invested in 20 companies between July and September, the activity of private-independent VC funds rose 15% year over year. This was also the situation for government funds, which put \$8 million to work in Q3 2010.

Dollars Invested by Investor Type; Q3 2010



© Thomson Reuters. All rights reserved.

American VC funds and other foreign investors were less active in Québec in the third quarter, bringing \$21 million to deals, or less than half of the \$50 million they accounted for one year ago. Foreign investors nonetheless sustained an above-par share of total activity in the most recent period, with 28% of all disbursements.

¹ 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, though data cited here reflect direct activity only.

Levels of foreign VC activity increased 19% across Canada in Q3 2010, with \$92 million invested. Led by private funds, domestic investors deployed a total of \$169 million, which was up 20% as compared to Q3 2009.

Canadian VC Fund-Raising Plummets in Q3 2010

The pace of VC fund-raising activity in the Canadian market was particularly slow in the third quarter. New capital commitments to domestic VC funds, totaling only \$35 million, reflected a small fraction of the \$118 million committed to funds at the same time in 2009.

A key contributor to these results was the absence of any major VC partnership closings between July and September. Instead, almost all of the new supply in this period was accounted for by LSVCC and other retail funds.

Consequently, VC fund-raising levels in Canada to date in 2010 approximate the historically low levels of 2009. At the end of September, new commitments to funds totaled \$611 million, which comes very close to matching the \$606 million committed during the first nine months of last year.

Over this period, VC funds headquartered in Québec have continued to account for the largest share of funds raised. Since January, Québec funds have netted \$260 million of new resources, or 43% of the domestic total.