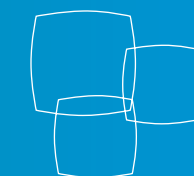




Q1 2014

VENTURE CAPITAL MONITOR

A QUARTERLY UPDATE ON THE CANADIAN VENTURE CAPITAL INDUSTRY



www.ic.gc.ca/vcmonitor

This publication by the Small Business Branch provides current information about the venture capital industry in Canada. The series will track trends in investment activity, report on topical research and look at key technology clusters where investment is taking place.

Introduction

This issue covers venture capital (VC) investment and fundraising activity in Canada during the first quarter of 2014.

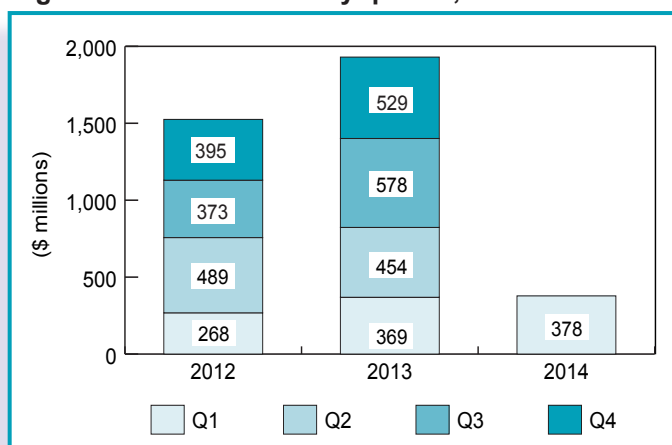
VC Activity Overview

Investment and fundraising

Quarterly VC investment remains stable

Canadian VC investment in Q1 2014 remained almost unchanged relative to VC investment in Q1 2013, with only a 2 percent year-over-year increase. However, when compared to Q1 2012, the change represents a 40 percent increase in VC investment levels (Figure 1).

Figure 1: VC Investment by quarter, 2012 to 2014



Source: Thomson Reuters Canada 2014.

While the dollar value of investment experienced very little growth year-over-year, the number of deals increased by 16 percent during the same time period, rising from 105 deals in Q1 2013 to 122 in Q1 2014. The majority of the VC investments were focused in the information technology sector; however investments increased considerably in the life sciences sector.

VC fundraising increased over 10 percent, rising from \$481 million in Q1 2013 to \$531 million in Q1 2014 (Table 1).

Table 1: VC investment and fundraising, Q1 2013 and Q1 2014

	Q1 2013	Q1 2014	Percent Change
	(\$ millions)		
Investment	369	378	2.4
Fundraising	481	531	10.4

Source: Thomson Reuters Canada 2014.

Deal size

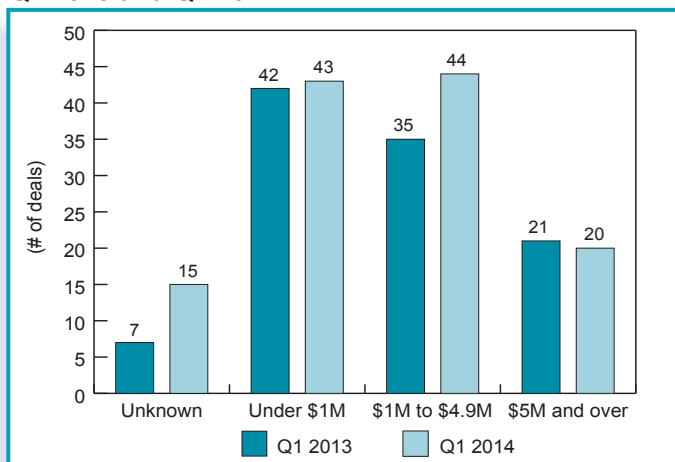
Average deal size drops slightly compared to Q1 2013

Average deal size during the quarter measured \$3.1 million per deal, a decline from \$3.5 million per deal in Q1 2013. Notable VC investments that took place during the months of January to March 2014 include a US\$52 million private placement backing Edmonton-based Aurinia Pharmaceuticals; a \$30-million investment in Vancouver-based BuildDirect; and a \$22.5-million investment in Dorval, Quebec-based Clementia Pharmaceuticals.

A total of 122 deals were closed in Q1 of 2014, up slightly from 105 deals in Q1 2013. There was very little fluctuation in the number of deals under \$1 million, edging up from 42 deals in Q1 2013 to 43 in Q1 2014. The number of deals over \$5 million in Q1 2014 also remained relatively unchanged, down only one from 21 to 20 deals (Figure 2).

The only significant change in the number of deals occurred in the \$1 million to \$4.9 million category, where deals jumped from 35 in Q1 2013 to 44 in Q1 2014. Also, the "Unknown" category rose from 7 to 15 deals over the same time period.

Figure 2: Distribution of VC investment by deal size, Q1 2013 and Q1 2014



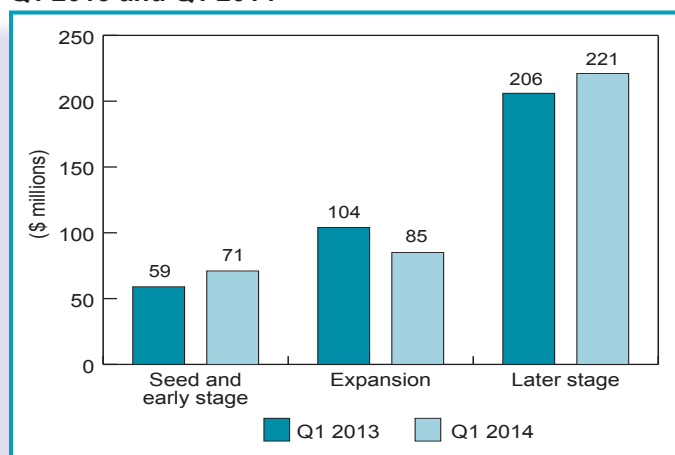
Source: Thomson Reuters Canada 2014.

Stage of development

Investment at later stage of development highest

Investment at the expansion stage of development was the only stage that did not experience a gain in Q1 2014, dropping from \$104 million to \$85 million over the same period in 2013, a decline of 18 percent (Figure 3). Seed and early stage investments rose by 20 percent over the period, jumping from \$59 million to \$71 million and investments at the later stage of development rose from \$206 million to \$221 million.

Figure 3: VC investment by stage of development, Q1 2013 and Q1 2014



Source: Thomson Reuters Canada 2014.

New versus follow-on investments

Follow-on investments grow over Q1 2014

Of the 122 deals completed in Q1 2014, 45 were new investments and 77 were follow-on investments (Table 2). The 45 new deals completed in Q1 2014 were valued at \$57 million. Of those new deals, over half were placed in seed and early stage investments, with a value of \$27 million for the 26 seed and early stage deals.

Table 2: Number of companies that received new versus follow-on investments, Q1 2013 to Q1 2014

Total Investment		Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
New	Seed and early stage	21	33	43	32	26
	Expansion	13	4	7	6	8
	Later stage	9	13	11	18	11
	All	43	50	61	56	45
Follow-on	Seed and early stage	9	18	17	18	17
	Expansion	23	18	17	17	17
	Later stage	30	23	29	34	43
	All	62	59	63	69	77
Total		105	109	124	125	122

Source: Thomson Reuters Canada 2014.

In the Follow-on category, total investments increased over the quarter, rising to 77 deals at a value of \$320 million compared to 62 deals valued at \$303 million in Q1 2013. Follow-on deals were more concentrated in later stage investments, a trend that was consistent over the past four quarters. Q1 2014 saw 43 Follow-on later stage deals at a total value of \$206 million; representing a 64 percent increase compared to Q1 2013 where later stage follow-on deals totalled \$173 million.

Type of investor

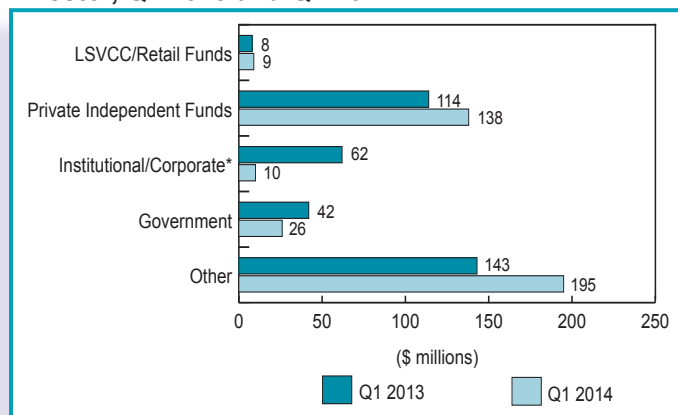
Institutional/Corporate investments experience significant decline

Investments by Institutional/Corporate funds experienced significant year-over-year declines with total investments in Q1 2014 valued at \$10 million, a drop of 84 percent relative to \$62 million in Q1 2013 (Figure 4). The drop is intensified because the Q1 2013 figures in the Institutional/Corporate category were bolstered by \$44 million in Corporate Private Equity/Venture Fund investments. Also experiencing declines were investments by Government funds, falling by 40 percent, from \$42 million in Q1 2013 to \$26 million in Q1 2014.

By contrast, a total of \$195 million was invested by the category of "Other" investors, rising 37 percent from \$143 million in Q1 2013. The "Other" category is comprised of investors who do not disclose their identities; therefore it is difficult to determine exactly what could be attributed to this increase.

Private independent funds and Labour Sponsored Venture Capital Corporations (LSVCC)/Retail funds also experienced growth, with investments increasing by 21 percent and 11 percent respectively.

Figure 4: Distribution of VC investment by type of investor, Q1 2013 and Q1 2014



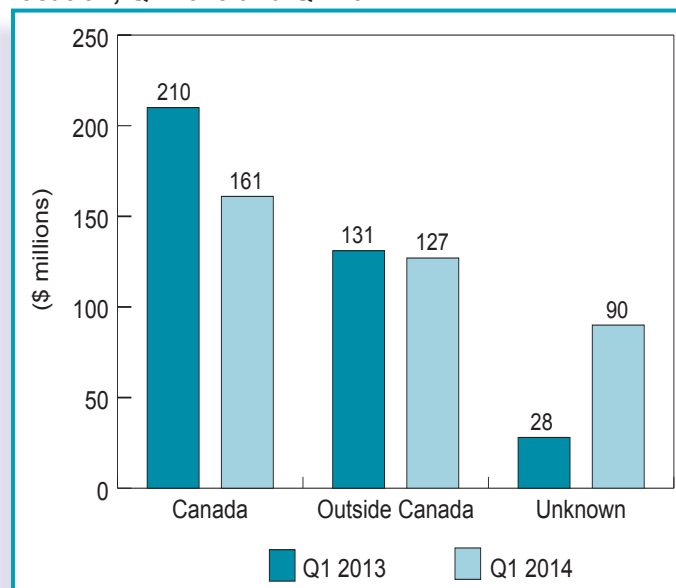
* Institutional/Corporate refers to direct investments by banks, financial institutions, endowments, foundations, pension funds and corporate venture funds.

Source: Thomson Reuters Canada 2014.

Source of funds

Year-over-year investment by Canadian VC funds declined in Q1 2014, dropping by 23 percent to \$161 million from \$210 million in Q1 2013 (Figure 5). Conversely, investments from unknown sources increased by 216 percent; rising from \$28 million in Q1 2013 to \$90 million in Q1 2014. Although there was significant activity by both types of investors in the quarters, given the number of deals of “Unknown” origin in Q1 2014, (\$90 million and 24 percent of total investment) it is not possible to draw conclusions regarding trends.

Figure 5: Distribution of VC investment by fund location, Q1 2013 and Q1 2014



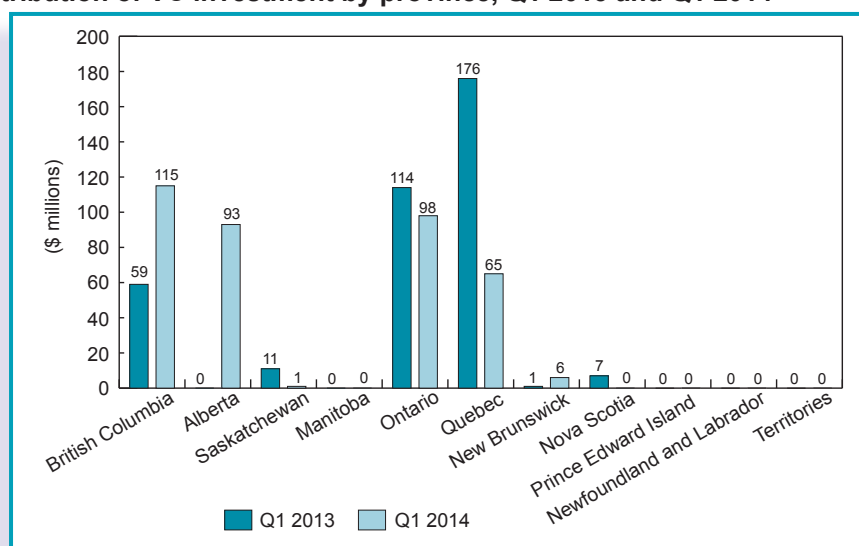
Source: Thomson Reuters Canada 2014.

Regional distribution

VC investment grew significantly in Alberta and British Columbia

British Columbia attracted the largest amount of total VC investment among the provinces in Q1 2014, with a total investment of \$115 million, up 94 percent from \$59 million in Q1 2013. This was followed by the province of Ontario, which captured \$98 million in VC investments in 2014, down slightly from the \$114 million it attracted in Q1 the year before (Figure 6).

Figure 6: Regional distribution of VC investment by province, Q1 2013 and Q1 2014



Source: Thomson Reuters Canada 2014.

Following British Columbia and Ontario, the province of Alberta had the third highest amount of total VC investment in Q1 2014. Growing from \$500 thousand in Q1 2013 to \$93 million in Q1 2014, the province also experienced the largest year-over-year growth in VC investment, rising from 1 deal in Q1 2013 to 12 deals in Q1 2014 (Table 3). A large portion of the investment in Alberta was in the form of a \$52 million private placement financing of Aurinia Pharmaceuticals, an Edmonton-based life sciences company listed on the TSX Venture Exchange. Other, smaller deals in the province were directed primarily in companies in the fields of information communications technology and life sciences.

Table 3: Number of companies receiving VC by province, Q1 2013 and Q1 2014

Province	Q1 2013	Q1 2014	Percent Change
British Columbia	18	25	38.9
Alberta	1	12	1100.0
Saskatchewan	2	1	-50.0
Manitoba	0	0	n/a
Ontario	37	44	18.9
Quebec	42	33	-21.4
New Brunswick	2	6	200.0
Nova Scotia	3	1	-66.7
Prince Edward Island	0	0	n/a
Newfoundland and Labrador	0	0	n/a
Territories	0	0	n/a

Source: Thomson Reuters Canada 2014.

Investments in Quebec in Q1 2013 were the third highest in the province since 2001. Relative to the high performance from the previous year, VC investment in Quebec in Q1 2014 dropped 63 percent, representing a return to average quarterly values for the province. Falling from \$176 million in Q1 2013 to \$65 million in Q1 2014, this decline was in step with a drop in the number of VC deals in the province, dropping from 42 to 33 deals during the same period last year.

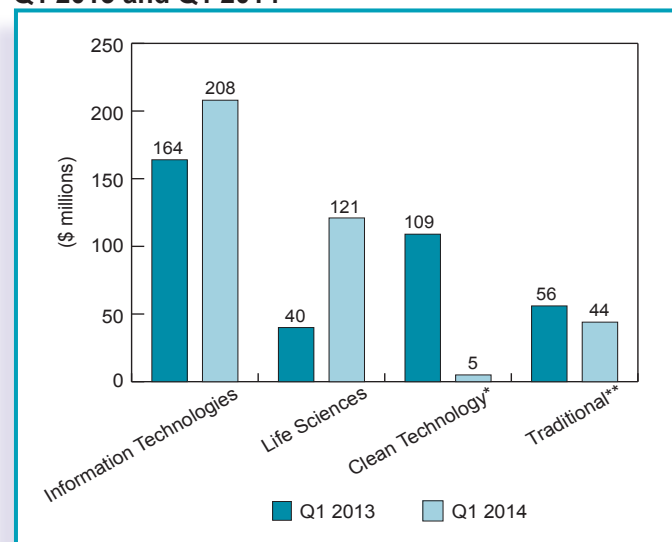
Sector distribution

Investments in life sciences grows, clean technology declines

Investments in the Canadian VC market were largely concentrated in the life sciences and information technology sectors, with both experiencing growth in Q1 2014. The life sciences sector saw a significant jump, from \$40 million in Q1 2013 to \$121 million over the same time period in 2014 (Figure 7). This was due in part to the \$52-million investment in Aurinia and \$22.5-million

investment in Clementia Pharmaceuticals. Investments in information technology, accounting for the majority of total VC investments (55 percent in Q1 2014), grew from \$164 million to \$207 million.

Figure 7: VC investment by industry sector, Q1 2013 and Q1 2014



*Clean Technology refers to companies that are developing clean technologies and that are not already included in the industry sectors of Life Sciences or Information Technologies.

** Traditional refers to companies that are not included in the other sectors.

Source: Thomson Reuters Canada 2014.

The Canadian clean technology sector experienced remarkable gains in Q1 2013, where the sector accounted for 30 percent of all VC investments in that quarter. The majority of this growth was buoyed by large investments in Quebec's clean technology and alternative energy companies. By comparison, investments in Q1 2014 declined significantly, dropping 95 percent from \$109 million in 2013 to \$5 million in 2014. From January to March 2014, the industry accounted for only 1 percent of total investments, a significant change from the previous year and previous quarterly averages.

Declines were also felt in traditional industry sector, dropping from \$56 million in 2013 to \$44 million in 2014.

Government Activities

Business Development Bank of Canada activities

During Q1 2014, the Business Development Bank of Canada (BDC) made VC commitments totalling \$13.9 million into 20 companies (Table 4). These financings were leveraged by an additional \$31.3 million from co-investors for total investments of \$45.2 million.

Additionally, the BDC invested a total of \$60.5 million into private independent funds. Funds were matched by co-investors for a total of \$461.8 million.¹

Table 4: VC activities of the Business Development Bank of Canada, Q1 2014

	BDC	Co-investors	Total	Number of deals
	(\$ millions)			
Seed/start-up	2.7	3.5	6.2	11
Development	6.3	24.7	31.0	7
Later stage	4.9	3.1	8.0	2
Total	13.9	31.3	45.2	20

Source: Business Development Bank of Canada 2014.

Other government activities

In recent months, the federal and provincial governments made further announcements related to the Government of Canada's Venture Capital Action Plan. The Governments of Canada and Ontario announced they will each be investing \$36 million into the newly established Northleaf Venture Catalyst Fund, which reached an initial closing of \$218 million. This venture capital fund-of-funds is targeting an overall size of \$300 million.

1. These amounts refer to what the BDC "authorized." Therefore, these amounts may differ from the amounts considered in the rest of this publication, which are based on amounts disbursed.

Notes

This publication is part of a series prepared by the Small Business Branch. The branch analyses the financial marketplace and how trends in this market impact small businesses' access to financing.

To be added to the distribution list of online release of the Small Business Branch publications, please subscribe at: www.ic.gc.ca/SMEresearch/subscription.

For questions related to its content, please email: VCMonitor-MoniteurCR@ic.gc.ca.

Copyright

This publication is also available online in HTML in print-ready format at www.ic.gc.ca/vcmonitor.

To obtain a copy of this publication or an alternate format (Braille, large print, etc.), please fill out the [Publication Request form](#) or contact:

Web Services Centre
Industry Canada
C.D. Howe Building
235 Queen Street
Ottawa, ON K1A 0H5
Canada

Telephone (toll-free in Canada): 1-800-328-6189

Telephone (Ottawa): 613-954-5031

TTY (for hearing-impaired): 1-866-694-8389

Business hours: 8:30 a.m. to 5:00 p.m. (Eastern Time)

Email: info@ic.gc.ca

Permission to Reproduce

Except as otherwise specifically noted, the information in this publication may be reproduced, in part or in whole and by any means, without charge or further permission from Industry Canada, provided that due diligence is exercised in ensuring the accuracy of the information reproduced; that Industry Canada is identified as the source institution; and that the reproduction is not represented as an official version of the information reproduced, nor as having been made in affiliation with, or with the endorsement of, Industry Canada.

For permission to reproduce the information in this publication for commercial purposes, please fill out the [Application for Crown Copyright Clearance](#) or contact the Web Services Centre (see contact information above).

© Her Majesty the Queen in Right of Canada,
as represented by the Minister of Industry, 2014
ISSN 1911-9267

Aussi offert en français sous le titre *Le Moniteur du capital de risque — Premier trimestre de 2014*.