Industry Canada Industrie Canada

Canada

Q3 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 third quarter of 2014.

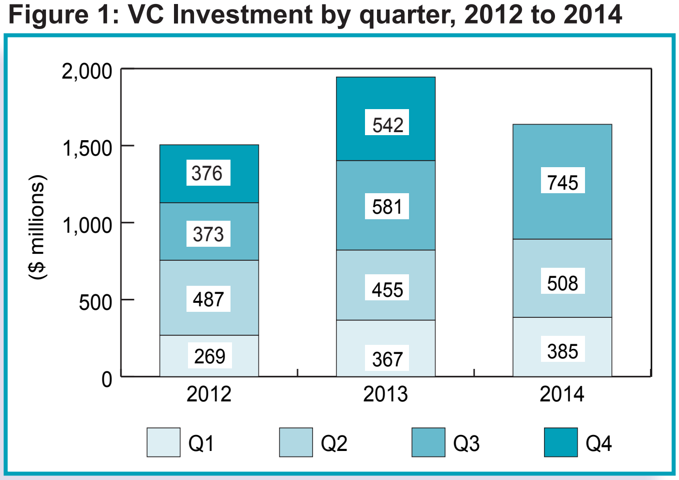
VC Activity Overview

Investment and fundraising

Quarterly VC investment grows but fundraising drops

Canadian VC investment in Q3 2014 reached $745 million (Figure 1). It increased by 26 percent relative to VC investment in Q3 2013 and by close to 200 percent relative to VC investment in Q3 2012. Fundraising experienced a drop of 39 percent from $258 million in Q3 2013 to $158 million in Q3 2014 (Table 1).

Figure 1: VC Investment by quarter, 2012 to 2014



Source: Thomson Reuters Canada 2014.

Table 1: VC investment and fundraising, Q3 2013 and Q3 2014

	Q3 2013 ($ millions)	Q3 2014 ($ millions)	Percent Change
Investment	581	734	26
Fundraising	258	158	-39

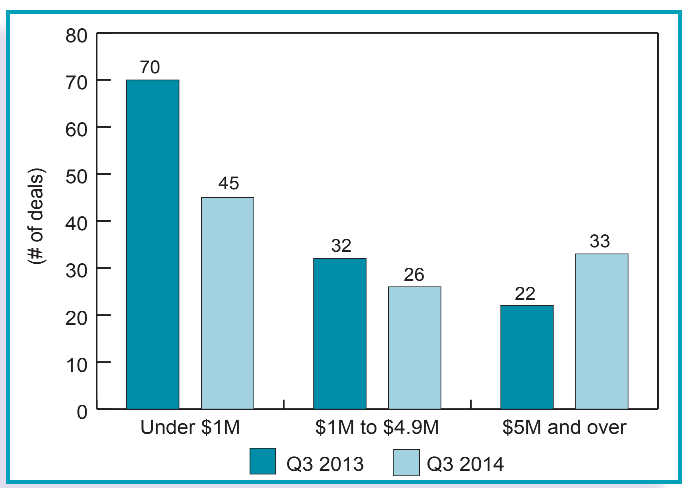
Source: Thomson Reuters Canada 2014.

Deal size

Large deals rise in Q3 2014

In Q3 2014, the average deal size reached $6.92 million, compared to the $4.67 million deal size of Q3 2013. This is due to a combination of a drop in the number of deals by 16 percent, from 124 in Q3 2013 to 104 in Q3 2014 and an increase in the total amount of VC investment in Q3 2014 compared to Q3 2013. Deals under $1 million dropped from 70 in Q3 2013 to 45 in Q3 2014, a 35 percent drop (Figure 2). In contrast, deals over $5 million increased from 22 in Q3 2013 to 33 in Q3 2014, a 50 percent increase.

Figure 2: Distribution of VC investment by deal size, Q3 2013 and Q3 2014



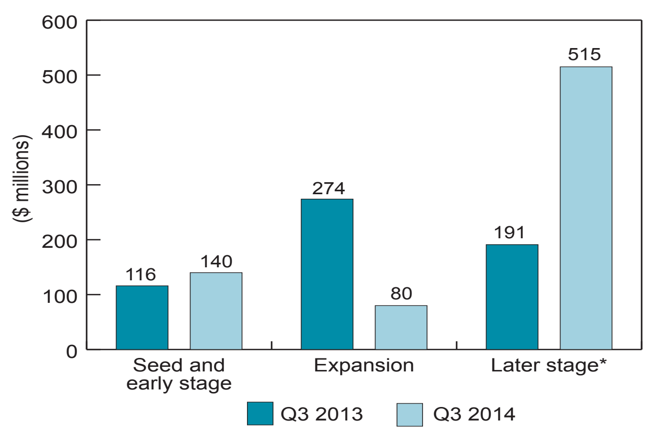
Source: Thomson Reuters Canada 2014.

Stage of development

Investment in later stage companies increases during the quarter

There was $515 million invested in later stage companies in Q3 2014, an exceptional 169 percent increase over the $191 million invested in later stage companies in Q3 2013 (Figure 3). This increase was attributed to a small number of large deals in later stage companies, such as Desire2Learn Inc., Lightspeed POS Inc., Monteris Medical Holdings Inc., and D-Wave Systems Inc. Investment in expansion stage companies dropped from $274 million in Q3 2013 to $80 million in Q3 2014, a 70 percent drop. Investments in seed and early stage companies increased from $116 million in Q3 2013 to $140 million in Q3 2014, a 20 percent increase.

Figure 3: VC investment by stage of development, Q3 2013 and Q3 2014



* In addition to later stage deals, this category includes public market and acquisitions financing.
Source: Thomson Reuters Canada 2014.

New versus follow-on investments

New investments drops during the quarter

The number of companies that received venture capital for the first time dropped to its lowest level in four quarters. There were only 18 of these companies during Q3 2014, compared to 45 in Q2 2014 and 60 in Q3 2013. The number of companies that received follow-on investment increased to 84, compared to 64 in Q3 2013 (Table 2).

Table 2: Number of companies that received new versus follow-on investments, Q3 2013 to Q3 2014

Total Investment		Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
New	Seed and early stage	42	33	26	27	15
	Expansion	7	6	9	7	1
	Later stage	11	18	11	11	2
	All	**60**	**57**	**46**	**45**	**18**
Follow-on	Seed and early stage	18	20	19	30	21
	Expansion	17	15	15	19	22
	Later stage	29	36	45	40	41
	All	**64**	**71**	**79**	**89**	**84**
Total		**124**	**128**	**125**	**134**	**102**

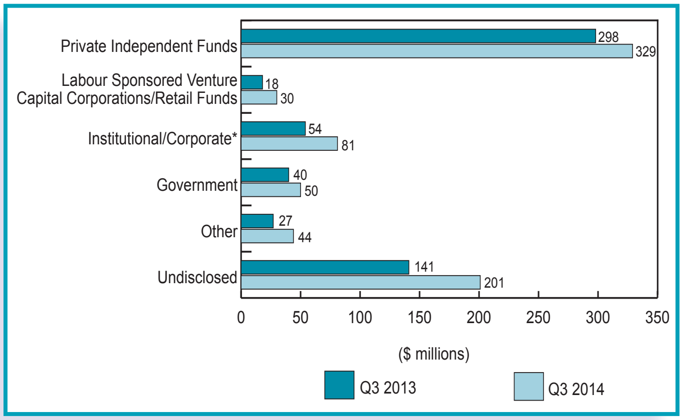
Source: Thomson Reuters Canada 2014.

Type of investor

Private Independent Funds account for close to 45 percent of Q3 2014 VC investment

Private Independent Funds invested $329 million in Q3 2014, an increase of 10 percent compared to the $298 million of Q3 2013. This category represents 45 percent of VC investment in Q3 2014 (Figure 4).

Figure 4: Distribution of VC investment by type of investor, Q3 2013 and Q3 2014



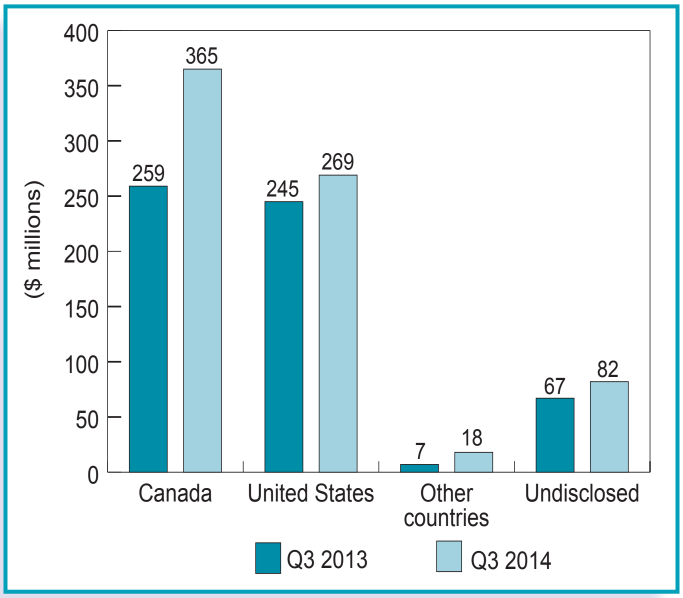
* Institutional/Corporate refers to direct investments by banks, financial institutions, endowments, foundations, pension funds and corporate venture funds.
Source: Thomson Reuters Canada 2014.

Source of funds

Domestic investors experiences faster growth

In terms of source of funds, Q3 2014 witnessed an increase in VC investment from all locations. Canadian VC funds increased their investment activity to $365 million in Q3 2014, compared to $259 million in Q3 2013, a 40 percent increase. VC investment from the United States increased by 9 percent, from $245 million in Q3 2013 to $269 million in Q3 2014. Finally, VC investment from undisclosed countries increased by 22 percent, from $67 million in Q3 2013 to $82 million in Q3 2014 (Figure 5).

Figure 5: Distribution of VC investment by fund location, Q3 2013 and Q3 2014



Source: Thomson Reuters Canada 2014.

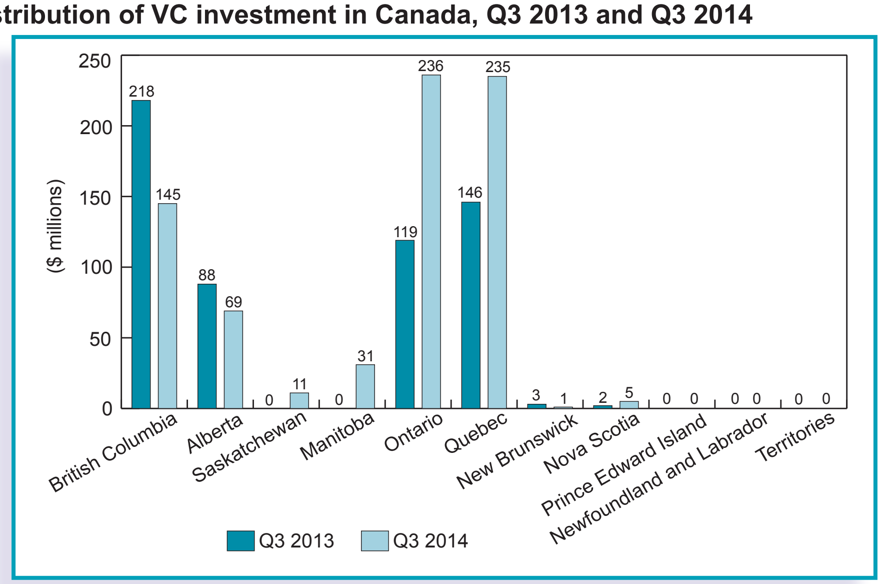
Regional distribution

VC investment grew significantly in Ontario and Quebec

VC investment in Ontario grew by close to 100 percent from $119 million in Q3 2013 to $236 million in Q3 2014. Quebec also experienced significant growth in VC investment, though in smaller percentage than Ontario, from $146 million in Q3 2013 to $235 million in Q3 2014, a 60 percent increase. British Columbia experienced a significant drop in VC investment from $218 million in Q3 2013 to $145 million in Q3 2014, a 33 percent drop (Figure 6). VC investment also dropped in Alberta from $88 million in Q3 2013 to $69 million in Q3 2014, a 21 percent drop.

Despite the growth of VC investment in Ontario, the number of deals dropped from 46 in Q3 2013 to 24 in Q3 2014, a 48 percent drop. The growth in investment in Ontario is explained by some large deals. Quebec experienced a 33 percent increase in VC deals, from 33 in Q3 2013 to 44 in Q3 2014. The number of deals dropped in Alberta by 36 percent, from 14 in Q3 2013 to 9 in Q3 2014, while it remained stable in British Columbia during Q3 2014 at 17, compared to 16 in Q3 2013, despite the drop in VC investment the province experienced during Q3 2014 (Table 3).

Figure 6: Regional distribution of VC investment in Canada, Q3 2013 and Q3 2014



Source: Thomson Reuters Canada 2014.

Table 3: Number of companies receiving VC by province, Q3 2013 and Q3 2014

Province	Q3 2013	Q3 2014	Percent Change
British Columbia	16	17	6
Alberta	14	9	-36
Saskatchewan	2	2	0
Manitoba	0	1	n/a
Ontario	46	24	-48
Quebec	33	44	33
New Brunswick	7	3	-57
Nova Scotia	3	1	-67
Prince Edward Island	0	0	n/a
Newfoundland and Labrador	1	1	0
Territories	0	0	n/a

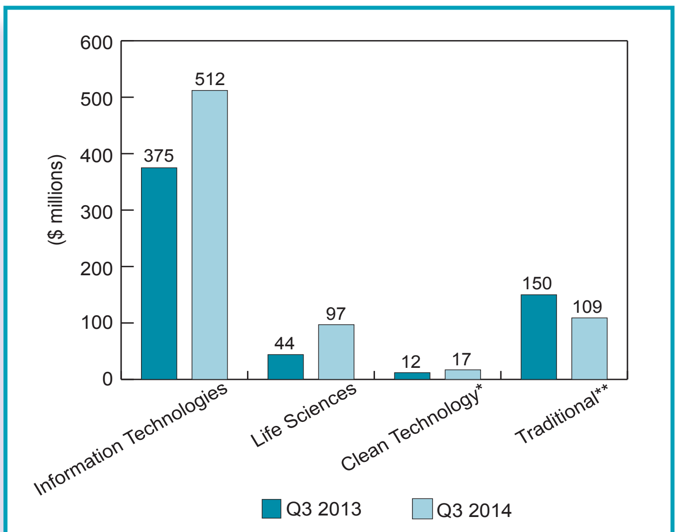
Source: Thomson Reuters Canada 2014.

Sector distribution

Information Technologies sector attracts the bulk of VC investment

The Information Technologies sector attracted the bulk of VC investment in Canada in Q3 2014, with $512 million, up 36 percent from the $375 million in Q3 2013. The Life Sciences sector attracted $97 million in Q3 2014, more than double the amount in Q3 2013. In contrast, Traditional Industry sector experienced a 27 percent drop from $150 million in Q3 2013 to $109 million in Q3 2014 (Figure 7).

Figure 7: VC investment by industry sector, Q3 2013 and Q3 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.

Government Activities

Business Development Bank of Canada activities

During Q3 2014, the Business Development Bank of Canada (BDC) made VC commitments totalling $26.7 million into 22 companies (Table 4). These financings were leveraged by an additional $110.4 million from co-investors for total investments of $137.1 million.

Table 4: VC activities of the Business Development Bank of Canada, Q3 2014

	BDC ($ millions)	Co-investors ($ millions)	Total ($ millions)	Number of deals
Seed/start-up	8.1	22.5	30.6	12
Development	12.9	50.9	63.8	7
Later stage	5.7	37.0	42.7	3
Total	**26.7**	**110.4**	**137.1**	**22**

Source: Business Development Bank of Canada 2014.

Additionally, the BDC invested a total of $10 million into private independent funds. Funds were matched by co-investors for a total of $45 million.

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.

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