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SMALL *Business*

VOL. 5, NO. 2, August 2003

Q U A R T E R L Y

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PERFORMANCE

Trends

Between the first quarter of 2002 and the first quarter of 2003, small businesses created over 163 000 jobs or 39 percent of net new jobs in the economy.

There were 2.36 million self-employed workers in the first quarter of 2003, an increase of 3.7 percent from the same quarter of 2002.

Bankruptcies numbered 2379 in the first quarter of 2003, a decrease of approximately 11 percent from the same quarter of 2002. However, business liabilities involved in bankruptcies rose by almost 30 percent to \$2.4 billion over the same period.

Total business loans outstanding¹ from chartered banks amounted to \$96.7 billion in the first quarter of 2003, which was 2 percent higher than in the same quarter of 2002. Business loans below \$500 000 accounted for 20.4 percent of total business loans.

Total Canadian venture capital disbursements reached \$2.5 billion in 2002, a decline of 35 percent from \$3.8 billion in 2001.

¹ Not including non-residential mortgages, agricultural loans, customer's liability under acceptances and other business loans.

INITIAL PUBLIC OFFERINGS BY SMEs IN CANADA

Access to public (or stock market) financing is a key factor in the growth and development of a business since it provides a permanent source of capital and reduces equity costs to the firm.

Despite the importance of this type of financing, there has been little research on access to Canadian public markets. However, a recent study¹ prepared for Industry Canada examines initial public offerings (IPOs) listed on different stock exchanges in Canada. This study analyses 1891 share issues from 1991 to 2000, and evaluates the costs and performance of smaller issues — including those of small and medium-sized enterprises (SMEs) — both at time of issue, and over the short and medium terms. The authors find that:

- The direct costs of an IPO, such as those incurred in complying with listing requirements (e.g., preparing the prospectus and hiring professionals), are higher for smaller issues than for larger issues in Canada. Direct costs of Canadian IPOs overall were lower than the U.S. average.
- The indirect costs of an IPO (e.g. initial underpricing²) are higher for smaller issues than larger issues in Canada.

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- Canada is a market of relatively small issues: IPOs occur less frequently and the capital raised is significantly less than in the United States, on a standardized basis. This gap in IPO financing is even more acute for technology firms, since Canada finances relatively fewer new firms in this field.
- The study calculates a negative return of 50 percent on small IPOs over the five years following the offering.
- The deficiency in IPO financing in Canada reflects the low survival rate and low growth rate of small businesses making the IPO. The authors estimate the five-year survival rate for such businesses to be around 60 percent. Only 5.9 percent of small IPOs lead to success.³

Higher costs for small businesses compared with larger businesses making the IPO can have a significant impact on their competitiveness. The study indicates a strong correlation between size, profitability and survival rate. The authors believe that, while public financing can encourage the growth and development of businesses, SMEs need to grow further to build up their competitive edge before going public, and therefore the policy of *stimulating* the listing of small businesses should be re-evaluated. In particular, mechanisms should be considered that defer IPOs until the business has a better chance of survival. The study emphasizes that capital supplies should be developed for small businesses prior to issuance and that regulatory burdens at the time of issue should be minimized.

The study, "Initial Public Offerings in Canada: Status, Flaws and Dysfunctions," is available at www.strategis.gc.ca/fdi

¹ Carpentier, C., M. Kooli and J.-M. Suret, "Initial Public Offerings in Canada: Status, Flaws and Dysfunctions," research paper prepared for Industry Canada, Cirano and Université Laval, April 2003.

² Underpricing is the difference between the issue price and the firm's market closing price on the first day of trading. It is expressed as a percentage of the issue price.

³ Successful issuing firms are those that receive proceeds of less than \$5 million but achieve net assets greater than \$10 million within a 5- to 10-year time period.

BUSINESS *Bankruptcies*

In the first quarter of 2003, business bankruptcies numbered 2379, an increase of 227 from the previous quarter but a decrease of 281 compared with the same quarter in 2002. Retail trade (405), construction (369), other services (279), accommodation, food and beverage services (274), and transportation and storage industries (206) accounted for almost two thirds of these bankruptcies.

The level of business liabilities involved in bankruptcies reached \$2.4 billion or approximately \$1.0 million per bankrupt business in the first quarter of 2003. This is an increase of 64 percent from the previous quarter, or 29 percent over the same quarter in 2002. More than half the total liabilities involved were in communication and other utility industries (\$1.4 billion).

JOB *Creation*

Data from Statistics Canada's *Survey of Employment, Payrolls and Hours* (SEPH) indicate that nearly 417 000 new payroll jobs were created between the first quarter of 2002 and the first quarter of 2003. Table 1 shows that nearly 40 percent of new jobs were found in small firms (those with fewer than 100 employees). However, the contribution to net new job creation by small firms continued its steady decline since the fourth quarter of 2001.

Table 2 shows, using four-quarter averages, how the year-over-year change in employment by size of firm varied across provinces. Growth rates of small firms were highest in the Prairie provinces and Nova Scotia. Growth of micro firms (those with fewer than 5 employees) declined on average owing to negative growth in the Maritime provinces and Quebec. The strongest growth overall was seen in firms with between 20 and 99 employees.

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Table 1: Year-over-year Quarterly Net Change in Payroll Employment by Firm Size, Canada, 2001 to Q1 2003

Quarter	Total Net Change		% Contribution to Total Net Change by Size of Firm (Number of Employees)								
	% , y/y	Jobs, y/y	0-4	5-19	20-49	50-99	0-99	100-299	300-499	100-499	500+
Q1 2001	3.7	446 733	10.1	1.0	8.1	6.0	25.2	10.9	3.5	14.4	60.4
Q2 2001	2.8	350 595	2.0	8.5	13.0	12.0	35.5	10.6	2.6	13.2	51.3
Q3 2001	1.8	224 453	31.0	1.2	17.0	15.7	64.9	-0.3	-0.8	-1.1	36.3
Q4 2001	1.0	125 105	34.2	35.3	34.3	13.7	117.5	-17.9	-37.8	-55.7	38.2
Q1 2002	0.9	115 078	-6.9	28.9	41.5	36.1	99.5	-7.1	-24.8	-31.9	32.4
Q2 2002	1.7	221 503	-0.7	4.3	36.4	37.5	77.5	13.9	-16.0	-2.1	24.6
Q3 2002	2.9	376 159	-0.9	1.5	23.7	25.2	49.5	16.5	-8.5	8.0	42.5
Q4 2002	3.7	472 965	-1.1	2.6	22.1	23.3	46.8	13.0	-2.0	11.0	42.2
Q1 2003	3.3	416 967	0.9	0.9	17.8	19.7	39.2	13.4	2.7	16.1	44.7

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, June 2003.

Table 2: Year-over-year Annual Net Change¹ in Payroll Employment² by Provincial Territory and Firm Size, Four-quarter Averages, Q2 2001 to Q1 2003

Province	Total Net Change		Growth Rates by Size of Firm (Number of Employees)								
	Jobs, y/y	% , y/y	0-4	5-19	20-49	50-99	0-99	100-299	300-499	100-499	500+
			(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Newfoundland and Labrador	7 480	4.3	0.0	-1.0	5.6	5.7	1.8	5.0	-5.9	1.0	7.0
Prince Edward Island	1 673	2.9	-1.9	0.1	0.3	2.6	0.3	21.7	24.7	22.4	-0.6
Nova Scotia	12 435	3.5	-1.7	-0.5	8.3	15.1	4.6	4.2	1.9	3.7	2.5
New Brunswick	5 144	1.8	-0.7	-2.8	4.9	8.7	1.6	0.4	-4.1	-0.9	2.7
Quebec	97 066	3.2	-2.2	1.9	3.4	8.4	2.9	5.7	-2.9	3.1	3.7
Ontario	143 500	2.9	0.3	0.1	7.2	6.8	3.5	4.4	-2.7	2.3	2.6
Manitoba	14 200	2.8	0.3	-2.9	16.0	19.4	7.5	0.1	-8.0	-2.4	1.0
Saskatchewan	8 899	2.4	0.2	-1.1	8.1	13.2	4.0	0.1	-1.4	-0.4	1.9
Alberta	52 830	3.8	1.4	1.0	8.7	13.4	5.3	3.9	-0.7	2.5	2.8
British Columbia	26 473	1.7	1.0	0.2	4.9	7.7	2.9	-1.5	-4.2	-2.3	1.7
Yukon ³	143	0.9	1.8	-1.5	-4.0	-0.1	-1.4	103.7	—	—	—
Northwest Territories and Nunavut ³	2 056	7.0	1.0	0.4	4.7	16.3	4.7	15.7	—	—	—
Canada Total	371 898	2.9	-0.2	0.4	6.3	8.9	3.6	3.7	-2.8	1.8	2.7

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours*, June 2003.

¹ The year-over-year change in net payroll employment is calculated as the difference between the average level of employment in the four quarters ending the first quarter of 2003 and the average level in the preceding four quarters.

² SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.

³ Data for firms with 300 or more employees in the territories are suppressed due to confidentiality restrictions but are included in the size category and territorial totals.

BUSINESS *Establishments*

According to Statistics Canada's *Business Register*, the total number of business establishments¹ in Canada reached 2 204 782 in December 2002, an increase of 0.7 percent or 14 504 businesses from December 2001. The stronger growth in the last six months of 2002 more than compensated for a decline in the first half of the year. The number of employer businesses with between one and four employees decreased throughout 2002.

Table 3 shows the number of business establishments by size in each province and territory. Nearly 36 percent of business establishments were located in Ontario, with 23 percent in Quebec, 35 percent in the four Western provinces and 6 percent in the four Atlantic provinces. The distribution of employer business

establishments by size is similar throughout the provinces: small employer businesses (those with fewer than 100 employees) make up from 97 to 98 percent of total employer businesses, while medium-sized establishments (those with between 100 and 499 employees) comprise from 1.4 to 3.3 percent and large establishments (those with more than 500 employees) account for 0.1 to 0.3 percent of total employer businesses.

¹ An establishment is defined as the most homogeneous unit of production for which the business is able to determine data on value of production, the cost of materials and services, and the quantity and cost of labour and capital used in production. This is in contrast to an enterprise, which can consist of more than one establishment and is defined as the organizational unit of a business for which a set of consolidated financial and balance sheet accounts are produced annually.

Table 3: Business Establishments by Employment Category and Province or Territory, December 2002

Province or Territory	Grand Total	Indeterminate ¹	Total	Employer Businesses							
				Number of Employees							
				1-4	5-9	10-19	20-49	50-99	100-199	200-499	500+
British Columbia	315 277	157 625	157 652	91 818	27 355	18 511	12 604	4 304	1 900	830	330
Alberta	290 678	152 590	138 088	79 841	23 298	16 391	11 502	4 142	1 870	764	280
Saskatchewan	95 592	55 222	40 370	23 903	7 245	4 730	2 928	921	351	229	63
Manitoba	76 002	39 840	36 162	19 266	6 301	4 874	3 569	1 254	501	281	116
Ontario	789 029	442 310	346 719	185 069	60 778	44 283	33 685	12 751	6 181	2 866	1 106
Quebec	498 823	257 375	241 448	151 435	38 696	23 753	16 574	6 138	2 824	1 382	646
New Brunswick	44 626	17 344	27 282	15 732	4 845	3 258	2 222	709	305	152	59
Nova Scotia	51 887	20 778	31 109	17 086	5 636	3 974	2 769	917	470	171	86
Prince Edward Island	10 532	3 619	6 913	3 966	1 275	852	546	164	66	35	9
Newfoundland and Labrador	25 892	8 635	17 257	10 338	3 182	1 769	1 217	399	197	96	59
Nunavut	826	186	640	202	142	114	120	40	16	5	1
Northwest Territories	2 727	919	1 808	751	362	328	240	70	39	16	2
Yukon Territory	2 891	1 198	1 693	896	326	231	153	48	22	15	2
Canada	2 204 782	1 157 641	1 047 141	600 303	179 441	123 068	88 129	31 857	14 742	6 842	2 759

Source: Statistics Canada, *Business Register*, December 2002.

¹ The indeterminate category consists of incorporated or unincorporated businesses without employees. The *Business Register* classifies a business as "indeterminate" when it cannot be determined through payroll data that the firm has paid employees. The firm may well provide work under contract.



Data as of June 26, 2003

SELF-Employment

Statistics Canada's *Labour Force Survey* distinguishes five categories of self-employed workers: those whose businesses are incorporated and those who are unincorporated and, within each category, those who work with paid help and those without paid help; those with unpaid family workers make up the fifth category.

Using special tabulations from the *Labour Force Survey*, Industry Canada's Small Business Policy Branch has derived occupational profiles for the different categories of self-employed workers. Table 4 shows the distribution across 32 occupations for each category of self-employed worker, as well as for employees, in 2002.

In 2002, four occupational groups accounted for 68 percent of all self-employed workers. The highest share of the self-employed (21 percent) was found in management occupations, which made up 46 percent and 29 percent of incorporated and unincorporated self-employed workers with paid help, respectively. Sales and service occupations constituted the next highest share, with 19 percent of all self-employed workers; 26 percent of the unincorporated without paid help were in this occupation as were 21 percent of unpaid family workers. Sixteen percent of all self-employed persons worked as trades, transport and equipment operators and related occupations, representing from 13 to 19 percent of the four main categories of self-employed. Finally, 12 percent of all self-employed workers worked in occupations unique to primary industry, as did 45 percent of unpaid family workers.

Occupational profiles for employees bear a similarity to those for the self-employed. Three groups comprised 60 percent of all employees: service occupations accounted for 27 percent of the total, followed by trades, transport and equipment operators and related occupations with 14 percent, and business, finance and administrative occupations with 19 percent.

Revised Methodology in Metropolitan/Non-metropolitan Breakdown by Class of Worker

The feature article of the May 2003 issue of *Small Business Quarterly* presented data on the distribution of different categories of self-employed workers in Census Metropolitan Areas (CMAs) and non-CMAs. The article was based on special tabulations of *Labour Force Survey* data that reflected urbanization as of the 1991 Census. Statistics Canada has since updated its methodology regarding CMAs on the basis

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Canada's real Gross Domestic Product (GDP) growth... increased 2.4 percent at an annualized rate in the first quarter of 2003, up from its 1.6-percent gain in the fourth quarter of 2002. Strong gains in domestic demand (3.5 percent), led by consumer spending (3.5 percent) and residential investment (12.7 percent), supported the growth in the first quarter. Gains were partly offset by declines in real exports (5.7 percent) and non-residential investment (0.9 percent). Corporate profits rose 34.0 percent at an annualized rate in the first quarter of 2003. Personal income rose at an annual rate of 4.0 percent for the seventh consecutive quarter of growth, though at a lower rate than in the previous quarter.

Monthly GDP data... revealed that economic growth has tapered since January 2003. After increases of 0.5 percent in January and 0.2 percent in February, the economy was flat in March. In March, lower output in wholesale and retail trade, utilities, the financial sector and air transportation were offset by continued momentum in home-building, a rebound in manufacturing, and aggressive oil and gas exploration activity. Goods output growth slowed from 0.6 percent in January to 0.2 percent in March, while service output growth slowed from 0.4 percent in January to no growth in March.

The economic outlook... is adversely affected by the Severe Acute Respiratory Syndrome (SARS) outbreak in Toronto, the occurrence of "mad cow" disease in the West, the rise in the value of the Canadian dollar and sputtering U.S. growth. Forecasters have revised their growth outlook downwards, but continue to expect economic activity to pick up in the second half of 2003. The *Consensus Forecast* survey revised its forecast of GDP growth for 2003 to 2.3 percent for the United States and 2.3 percent for Canada, down 0.1 and 0.6 percentage points respectively from the forecasts of three months ago.

Consumer spending... increased by 3.5 percent in the first quarter of 2003, following an increase of 4.4 percent in the fourth quarter of 2002. This resulted from a 1.2-percent decline in outlays for durable goods, which had grown by 11.6 percent in the previous quarter. Lower sales of new motor vehicles (-11.7 percent) were mostly responsible for the slowdown. Meanwhile, helped by higher spending on clothing, food and electricity, expenditures for non-durable and semi-durable goods rose by 5.2 percent and 5.5 percent respectively. Spending on services experienced higher growth (3.7 percent) than in the previous quarter (2.2 percent) thanks to gains in communication and auto repair services.

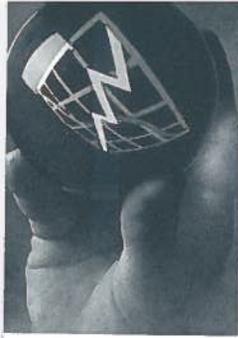
Housing investment... and activity remained strong in the first quarter of 2003, as residential investment grew by 12.7 percent, up from 11.1-percent growth in the fourth quarter of 2002.

Business investment in machinery and equipment (M&E)... rose 2.2 percent in the first quarter of 2003, following decreases of 4.1 percent in the previous quarter and 1.3 percent in the third quarter of 2002. In 2002, M&E investment fell 3.2 percent, following an increase of 0.3 percent in 2001.

Corporate profits... rose sharply (34.0 percent at an annualized rate) in the first quarter of 2003, lifted by higher profits in the oil and gas industry, which benefited from increases in the price of crude oil and natural gas. These gains were partially offset by weakness in mining and transportation. This marked the fifth consecutive quarterly rise in corporate profits.

The current account... posted its 15th consecutive surplus (\$8.0 billion) in the first quarter of 2003, \$3.2 billion higher than in the previous quarter. Exports increased modestly while imports decreased, boosting the merchandise trade surplus by \$1.9 billion to \$15.5 billion. The deficit on services increased by \$0.3 billion to

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of 1996 Census data, and the results are dramatically different. Data based on the updated methodology are available from 1996 onward. Chart 1 shows the percentage of employees, total self-employed and the five categories of self-employed workers living outside CMAs for 2002. The sharp contrast between this chart

and the chart in the May 2003 issue reflects the changing degree of urbanization between 1991 and 1996.

Should you have any questions, please contact the editor at sethchindapong.prichya@ic.gc.ca

Table 4: Employment Shares by Selected Occupations and Category of Worker, 2002

Occupation	Self-employed							Unpaid Family Workers
	Employees Total	Total	Incorporated		Unincorporated			
			With Paid Help	No Paid Help	With Paid Help	No Paid Help		
Management occupations	7%	21%	46%	15%	29%	10%	—	
Senior management occupations	1%	0%	1%	—	—	—	—	
Other management occupations	6%	21%	45%	15%	29%	10%	—	
Business, finance and administrative occupations	19%	10%	9%	13%	8%	9%	25%	
Professional occupations in business and finance	3%	5%	4%	8%	4%	5%	0%	
Financial, secretarial and administrative occupations	5%	3%	4%	4%	2%	2%	14%	
Clerical occupations, including supervisors	12%	2%	1%	1%	1%	2%	10%	
Natural and applied sciences and related occupations	7%	6%	5%	13%	2%	5%	—	
Health occupations	6%	4%	4%	2%	11%	4%	—	
Professional occupations in health, nurse supervisors and registered nurses	3%	4%	4%	1%	11%	2%	—	
Technical, assisting and related occupations in health	3%	1%	—	1%	—	1%	—	
Occupations in social science, education, government service and religion	8%	4%	3%	4%	7%	4%	—	
Occupations in social science, government service and religion	3%	3%	2%	3%	7%	3%	—	
Teachers and professors	4%	1%	—	1%	—	1%	—	
Occupations in art, culture, recreation and sport	2%	7%	2%	6%	2%	10%	—	
Sales and service occupations	27%	19%	9%	15%	11%	26%	21%	
Wholesale, technical, insurance, real estate sales specialists, and retail, wholesale and grain buyers	3%	6%	6%	9%	3%	6%	—	
Retail salespersons, sales clerks, cashiers, including retail trade supervisors	8%	0%	—	—	—	—	9%	
Chefs and cooks, and occupations in food and beverage service, including supervisors	4%	0%	—	—	—	—	—	
Occupation in protective services	2%	0%	—	—	—	—	—	
Childcare and home support workers	2%	5%	—	1%	2%	9%	—	
Sales and service occupations not elsewhere classified	9%	7%	3%	5%	6%	11%	8%	
Trades, transport and equipment operators and related occupations	14%	16%	13%	19%	16%	18%	4%	
Contractors and supervisors in trades and transportation	1%	5%	11%	2%	11%	1%	—	
Construction trades	2%	4%	1%	4%	2%	6%	—	
Other trades occupations	5%	4%	1%	6%	2%	5%	—	
Transport and equipment operators	4%	4%	1%	7%	1%	6%	—	
Trades helpers, construction, and transportation labourers and related occupations	2%	0%	—	—	—	—	—	
Occupations unique to primary industry	2%	12%	7%	10%	12%	13%	45%	
Occupations unique to processing, manufacturing and utilities	9%	2%	3%	3%	2%	2%	—	
Machine operators and assemblers in manufacturing, including supervisors	8%	2%	2%	3%	2%	2%	—	
Labourer in processing, manufacturing and utilities	2%	—	—	—	—	—	—	
Total, all occupations	100%	100%	100%	100%	100%	100%	100%	

Source: Statistics Canada, *Labour Force Survey*, special tabulations.

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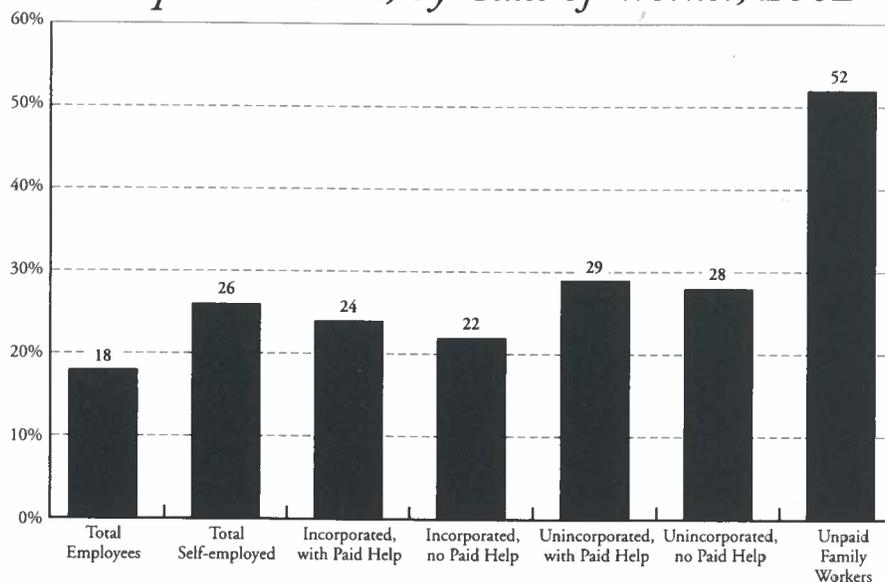


ECONOMIC Snapshot

Data as of June 26, 2003

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Chart 1: Self-employed Workers Living Outside Metropolitan Areas, by Class of Worker, 2002



Source: Statistics Canada, Labour Force Survey, special tabulations.

\$2.0 billion. The deficit on investment income decreased by \$1.6 billion to \$5.8 billion, owing to a \$1.1-billion decrease in the direct investment balance component. Current transfers registered a surplus of \$367 million, lower than the \$451 million posted the previous quarter. In 2002, the current account surplus fell to \$23.4 billion from \$26.9 billion the previous year, with the goods surplus falling by \$13.1 billion as exports fell and imports rose. Investment income fell from \$37.3 billion in 2001 to \$27.5 billion in 2002, while the services deficit edged down \$61 million.

The April Business Conditions Survey...

indicated that manufacturers' outlook on production prospects for the second quarter fell by 21 points, the largest decline since the 31-point drop in January 2001. Half of manufacturers expected to keep their production levels unchanged and 19 percent expected to raise them; however, 82 percent stated that their work force would remain the same or increase. More producers were concerned about declining orders and higher inventories, while most manufacturers continued to be satisfied or optimistic.

Employment...

edged down for the second consecutive month in May, which recorded a decrease of 13 000 full-time jobs. So far in 2003, 35 000 jobs have been created, compared with

249 000 for the same period in 2002, not enough to keep pace with growth in the labour force. The unemployment rate rose by 0.3 percentage points to 7.8 percent in May, down 0.2 points from its peak of 8.0 percent in December 2001. Good economic conditions in recent years have encouraged more Canadians to enter the labour force, partially offsetting the downward effect of job creation on the unemployment rate. In May, the labour force participation rate was the highest on record.

The Consumer Price Index (CPI)... rose 3.0 percent in April, a lower rate than the 4.3 percent increase in March. "Core" inflation — which excludes the most volatile components of the overall CPI and indirect taxes, and which is the measure of inflation the Bank of Canada uses to set monetary policy — fell from 2.9 percent in March to 2.1 percent in April, close to the midpoint of the official 1- to 3-percent target range.

The Bank of Canada... left its policy rate unchanged on June 3, 2003, based on reduced inflation and softer economic activity. This followed two increases totalling 50 basis points in March and April. In the United States, the Federal Reserve reduced the Federal Funds rate by 25 basis points to 1.0 percent in June, stating that the probability of a large decline in inflation was creating a risk of economic weakness in the foreseeable future.

The Canadian dollar... which ended 2002 at US\$0.63, surged to over US\$0.74 on June 11, 2003, levels not seen since the early 1990s. This recovery was prompted by the weakening of U.S. currency, more favourable economic conditions and higher interest rates in Canada than in the United States, as well as rising commodity prices.

The "Economic Snapshot" is prepared by the Micro-Economic Policy Analysis Branch of Industry Canada. Please address comments to Joseph Macaluso at 613-954-3495 or at macaluso.joseph@ic.gc.ca

FINANCING

State of Venture Capital Activity in 2002

The Canadian venture capital (VC) industry disbursed \$2.5 billion among 677 companies in 2002, compared with total disbursements of \$3.8 billion in 2001 (Table 5). Despite this decline of 35 percent in disbursements, the Canadian VC market continued to be less volatile than in the United

Table 5: Canadian Venture Capital Activity, 1998-2002

	New Investment		Follow-on Investment	
	(\$M)	# of Deals	(\$M)	# of Deals
1998	625	424	933	550
1999	1 077	412	1 572	571
2000	2 110	476	3 668	859
2001	860	292	2 941	676
2002	646	264	1 820	550

Source: Macdonald and Associates Limited, 2003.

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States, where year-end capital invested totalled US\$21.2 billion in 2002 — only half the US\$41.3 billion disbursed in 2001.

The lower level of VC activity in Canada reflected some significant challenges for Canadian SMEs:

- The average size of VC investment per company fell to \$3.6 million in 2002, compared with \$5.1 million in 2001 and \$5.7 million in 2000.
- Companies seeking VC for the first time faced increased difficulties as follow-on investments¹ represented 74 percent of total VC investments, a figure well above the more customary 60 percent. In 2002, \$646 million of first-round VC investments were disbursed compared with \$860 million in 2001 and \$2.1 billion in 2000 (Table 5).

On the other hand, early-stage firms² in the technology sector continued to attract most VC activity, accounting for \$1 billion or 42 percent of total VC investments, which represented 52 percent of the overall number of VC financings. While this level is lower than the \$2.3 billion invested in 2001, there was a significant rise in VC disbursements in the technology

sector in the fourth quarter of 2002. Disbursements reached \$754 million in the fourth quarter of 2002, 51 percent higher than recorded in the third quarter of 2002.

New capital raised by VC funds declined from \$4.6 billion in 2001 to \$3.2 billion in 2002. However, the capital available for VC investment rose to \$7.4 billion in 2002 from \$6.3 billion in 2001. Furthermore, the pool of capital under VC management reached \$22.5 billion in 2002, compared with \$20.2 billion in 2001.

¹ Follow-on investments are supplementary rounds of financing in an existing portfolio firm that builds on its original financing. Follow-on investments are not necessarily made by the same investor.

² Early-stage firms consist mostly of start-up firms that are still in product development or have started initial marketing but have not yet fully started commercial production.

Small Business Quarterly Small Business Policy Branch

The *Small Business Quarterly* (SBQ) provides a quick and easy-to-read snapshot of the recent performance of Canada's small business sector. The SBQ is published by the Small Business Policy Branch of Industry Canada.

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ISSN 1205-9099

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RECENT *Developments*

Strategic Plan 2003–04 to 2005–06: Industry Canada's Small Business Policy Branch

At the end of July 2003, the three-year Strategic Plan for Industry Canada's Small Business Policy Branch (SBPB) was released on the Small Business Research and Policy Web site. In addition to guiding the branch's work for the next three fiscal years, SBPB's 2003–2006 Strategic Plan sets out the business environment, policy framework and program context relating to the development and growth of Canada's SMEs. The Agenda consists of two key strategies:

- to ensure that the business and policy environment is conducive to growth in the following core systems of governance — taxation, regulation, financial marketplace, and business support programs and services; and
- to provide strategic and relevant information in the policy areas of management skills, human resources development, innovation, international trade and financing for growth to help stakeholders develop policies that enhance competitiveness and encourage economic growth.

The document can be found at
www.strategis.gc.ca/sbstrategicplan