

Canada's venture capital industry surprisingly strong in Q1, researcher says

By David Paddon

TORONTO (CP) -- Canadian venture capitalists were surprisingly bullish in the first quarter of this year, especially given the recent caution of their U.S. counterparts, the industry's leading market researcher said Tuesday.

Venture capitalists invested a total of \$1.1 billion in Canada during the three months ended March 31, the same as in the first quarter last year, said Mary Macdonald, founder of Macdonald & Associates.

"I was really expecting we were going to see disbursements to fall below \$1 billion given the market meltdown and people being much more cautious with their dollars," Macdonald said Tuesday.

In fact, the much larger U.S. venture capital industry saw a 56 per cent year-to-year decline during the same period, Macdonald said.

"It's not a big surprise," she said. "The dot-com meltdown was most obvious in the U.S. and a lot of the VCs have pulled back quite dramatically."

Venture capitalists invest in relatively small companies at an early stage of their development. VCs aim to sell their stake at a profit after the startup company is publicly traded on a stock exchange or it is bought by a larger corporation.

Of the \$6.3 billion in venture capital disbursed in Canada last year, 71 per cent was invested in the information technology sector, with biotech and medical being the second-largest recipient with 18 per cent of the total.

But Canadian venture capitalists didn't climb aboard the dot-com bandwagon that carried away many U.S. investors last year. Instead, Canada's VC industry put only about one-quarter of its resources into Internet-specific investments.

"Because the Canadian industry has been more diversified in its focus, it has allowed them to weather this storm," Macdonald said.

Richard Prytula, a Montreal-based venture capitalist who does extensive business in the United States, said in an interview that it's only a matter of time until Canada's venture capital industry follows its neighbour's lead.

"Canada was late getting into the game and it's late getting out of the game," said Prytula, president and chief executive of TechnoCap. "Canadian venture capitalists kept on trucking when the U.S. guys had stopped."

American venture capitalists aren't putting money into any new deals, instead focusing their resources on providing additional financing to the strongest of their existing partners, Prytula said.

As a result Canadian companies, which historically have found the United

States a better place than Canada to find venture capital, will have difficulty finding a backer if they don't have one already, he said.

"You aren't going to see that many new companies launched this year in Canada with U.S. venture capital," he said. "You will see some. But nothing like we saw last year."

Macdonald's research found that there was still money in Canada for new deals in the first quarter. About \$441 million, or 41 per cent of the total, went to new deals.

However, she acknowledged that Canadian venture capitalists are more careful about where they put their money. They are investing in fewer but larger new deals and providing additional funding to their existing partners, she said.

"A very young, embryonic company that's looking for a million or two (dollars) is likely to have a more difficult time in this environment," Macdonald said.

But experienced startups with a strong technology will still be able to raise \$20 million to \$50 million, she said.

Already this year, there have been at least eight Canadian venture capital deals worth \$30 million or more, including Tropic Networks at \$92 million, Q9 Networks at \$88.5 million and Mobile Satellite Ventures, at about \$75 million.