

# **Cantor Fitzgerald Canada Technology Conference 2012**

***Assessing the Canadian Tech Landscape  
Can PMs make money?***

**September 27, 2012**

**Disclosure: given the forum and direction of  
the Conference organizers, this presentation  
contains both facts *and* opinion**

**wellington**  
FINANCIAL

## Highlights of Wellington Financial LP



- Wellington Financial is a venture debt fund, focused on Innovation companies:
  - Founded in 2000;
  - ~\$190 million of deal leads since this crisis ended in 2009.
  - HQ in Toronto; opened California office in Nov. '09.
  - Deal pipeline: 35/65 Canada/USA.
  - 7 year CAGR:
    - Revenue: 27.5%
    - Earnings: 28.5%
  - ~\$20 million of warrant gains across our first three funds.
- Fund I: 2000 vintage, \$7 million of re-circulating capital.
- Fund II: 2004 vintage, \$83 million of re-circulating capital.
- Fund III: 2006 vintage, \$150 million of re-circulating capital.
- Fund IV: 2012 vintage, \$177.5 million of re-circulating capital.
- Capital is provided by Canadian institutions and Family Offices.
  - 100% equity funded.
- Management co. is owned by our team and merchant bank Clairvest Group Inc. (CVG:TSX).

## Highlights of Wellington Financial LP

- We offer a simple product: secured venture debt plus equity upside.
  - Less than half the “cost of capital” of traditional VC equity.
- Disciplined Targeting:
  - High growth companies that want to delay the dilution of equity -- typically with venture capital or corporate sponsor.
  - Focus on high quality, mid-stage companies.
  - Attractive firms that can’t access sufficient bank debt due to the fact their key asset is IP.
- Usually require the firm to have an existing VC syndicate playing the role of “sponsor”.
- 8 exits during the past year, despite difficult markets.
  - Portfolio regularly attracts top quality acquirors: 3M, Ericsson, First American, Nokia, Onex, Sanchez, Suez, etc.
- We partner with the pros:



## Assessing the Canadian Tech Landscape

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- Despite the recent public market success of Catamaran, Constellation Software, MKS, Mosaid and Q9, PMs always seem to be more focused on 180Connect, GuestTek, Day4 Energy, JumpTV and SMART Technology....
- On the private side, memories are starting to fade about the \$6.3 billion of VC capital invested in private Canadian companies in 2000 – 132% more than 1999.
  - Seems crazy now, but 45% of that \$6.3 billion of capital went to “early stage” deals – primarily Telecom, Internet and computer-related firms.
- Times have been tough on the private side of the market over the past five years, but there is reason for hope.
- There were dozens of Canadian VCs with money 10 years ago.
  - Today there are 10 truly active firms.
  - Versus 935 funds in the USA, of which >400 were active in 2011.
- My goal today is straightforward:
  1. Explain why the Canadian VC industry hit the wall five years ago.
  2. Remind you why you should still care about Canadian tech companies.
  3. Share a few representative names of successful private Canadian tech companies that you should meet.

## Comparing Canada's VC industry stats to the USA

- We punch dramatically below our weight:
  - American VCs invested US\$29.5 billion in 2011 (up 26% versus 2010) across 3,834 companies.
    - US\$9.85B for Late Stage (33.3%)
    - US\$9.7B for Expansion State (33.0%)
    - US\$8.9B for Early State (30%)
    - Only US\$1B for Seed Stage (3.6%)
      - Software attracted 24%, Biotech 16%, Industrial/Energy 13% and Medical Devices 9.5%.
  - 444 different Canadian VC-backed firms brought in \$1.5 billion.
    - 46% invested in IT, 33% for Life Sciences, 16% to Clean Tech.
- Year to date, USA firms are on track to raise US\$26 billion.
  - Canadian entrepreneurs are looking at \$1.45 billion.
  - Through the first 6 months of 2012 there's not been a single Canadian VC-backed IPO, as compared to 30 in the USA.
  - 19 Canadian exits, versus 204 in the USA.
    - Fits the 11-1 US/Canada GDP ratio.

## Why did Canada's VC industry hit the wall 5 years ago?

- It actually began in August 2005 when the Ontario government announced the end to the Labour Sponsored Investment Fund tax credit:
  - The “incentive to investors no longer needed in [a] healthy venture capital market,” said Finance Minister Greg Sorbara.
  - At that point, 600 Ontario companies with 74,000 employees had been funded by Ontario's LSIF funds.
- With the loss of the provincial tax credit, firms such as VenGrowth, Growthworks, Covington and VentureLink began to wind down.
- Reduction in VC deployments was almost immediate: dropped 35% year-over-year in Ontario by Q2 2007.
  - For the 1<sup>st</sup> time in memory, Quebec attracted more than Ontario, despite having almost half the population base.
- Around the same time that the Ontario LSIF program was killed by the McGuinty government, several traditional lead supporters of the Canadian VC asset class disappeared, too:
  - CDP: went from being a lead LP to co-founder of fund-of-fund player Teralys.
  - CPPIB: formerly the lead LP for Edgestone Venture Partners, Lumira and Ventures West, now only indirect (and rare at that).
  - OMERS: previously lead LP for JL Albright, etc. Now in-house.
  - Ontario Teachers: ceased both direct (such as Mosaic Venture Partners) and indirect VC funding.

## Why did Canada's VC industry hit the wall 5 years ago?

- Then the federal government's Business Development Bank pulled in its horns:
  - BDC cut its VC deployment by 33% in 2009/10, in the wake of losing \$300 million on their VC investments over the prior 5 years:
    - Two years ago, BDC's VC chief Jacques Simoneau told *La Presse* that the investing brakes will be on "until we see attractive returns in a few companies to show that venture capital is still an attractive investment."
    - Despite telling Parliament that its role is counter-cyclical, BDC also reduced the overall VC team (while the overall Canadian start-up ecosystem was in crisis) in an effort to cut expenses...all while increasing spend in its lending and management consulting areas during the recession.
- Guess what? These three sea changes created the environment where Canadian entrepreneurs had substantially less access to capital; in 2010 they raised just \$1.1 billion from VCs, down from \$1.7 billion during 2006 – a 35% hit.
  - U.S. deployments dropped only 15% during the same period.

## Current state of play in the private market

- Several Canadian VC firms have recently raised new or follow-on funds:
  - BlackBerry Partners Fund II -- \$150 million
  - Celtic House IV -- \$105 million
  - Georgian Partners -- \$70 million
  - iNovia Capital III -- \$110 million
  - Lumira Capital II -- \$105 million
  - Rho Canada -- \$100 million
  - Tandem Expansion Fund I -- \$300 million
  - Vanedge Capital I -- \$140 million
  - Wellington Financial Fund IV -- \$177.5 million
- Big name American funds continue to do deals:
  - Sequoia and GrandBanks are in Achievers, Highland is in Beyond The Rack, NEA recently put ~\$60M into Desire2Learn, Kleiner Perkins is in FixMo and Madison Dearborn recapped QuickPlay.
- Some nice exits, too:
  - Belair (a Wellington Financial portfolio co.) was acquired by Ericsson in 2012, and Ceridian bought Dayforce.
  - Q1 Labs earned a 9x for BDC and NBIMC in 2011.
  - Also in 2011, Radian6 generated a 22.8x for Summerhill, Brightspark and BDC when it was acquired by Salesforce.com.
  - LSIF Covington got a 13 bagger with SXC Health Solutions and Protus generated a 9x return, both in 2010.



## Can you still make money with small / mid cap tech?

- I believe so. You just have to be patient, and exit when the operating metrics turn sour after a couple of quarters (particularly if there's a burn).
- Not every deal will work out from day one, but over the past four or five years investors did well on Bridgewater, Dalsa, Miranda, MKS, Q9....
  - Leaving few firms still available to choose from: Aastra, Descartes, Espial, Evertz, Mitel, NexJ, Peer One, QHR, Redknee, Redline, Sandvine....
    - Which is why PMs need to encourage new tech IPOs.
- Not every deal will go like Constellation Software, CGI or SXC, but money has been made in more than the obvious tech names.
- If you'd bought RIM in 1999 and held it to this day, you'd still be up >160%, versus +84% on the S&P TSX index or +19% with the S&P 500 (plus dividends).
- Problems usually arise when you step into unproven situations, where markets have yet to be established:
  - Names such as Bio-Exx, Catch The Wind, Decision Dynamics and EarthFirst were essentially commercializing technology or tackling huge projects with public investor capital.
  - That is a task usually best left to the VC community.
  - Who is surprised they went to zero?

## 5 Private Canadian Tech Firms You Should Meet

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### ***Achievers***

- Employee recognition solutions.
- Backed by Sequoia, GrandBanks and JLA Partners.
- Founder/CEO is Razor Suleman.
- Announced a \$24 million financing led by Sequoia in October 2011.
- Based in Toronto and San Francisco.

## 5 Private Canadian Tech Firms You Should Meet

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### ***BTI Systems***

- Supplier of optical networking equipment that enables carriers and MSOs (multiple system operators or cable companies) to get more bandwidth out of existing fiber optic networks.
- Backed by Bain Capital Ventures, BDC, EDC, Fujitsu Capital, GrowthWorks, VenGrowth and Wellington Financial.
- Last round was a \$23 million financing in 2011 led by Bain.
- Based in Ottawa and Boston.



## 5 Private Canadian Tech Firms You Should Meet

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### ***Desire2Learn***

- Founded in 1999.
- Comprehensive cloud-based learning platform.
- 700 clients and 8 million learners have used its tools.
- Backed by NEA and OMERS Ventures.
- Founder/CEO is John Baker. COO is former RIM CFO Dennis Kavelman.
- Announced an \$80 million financing led by NEA earlier this month.
- Based in Waterloo.



## 5 Private Canadian Tech Firms You Should Meet

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### **FixMo**

- Securing the *Bring Your Own Device* world for governments and enterprises.
- Authenticity, protection, compliance and auditability of the mobile devices and apps running within any large environment.
- Through a technology transfer agreement, Fixmo's products have been built on a foundation of technologies initially developed by the U.S. Government's National Security Agency.
- Backed by Kleiner Perkins, Extreme Venture Partners, Horizons, iNovia, Paladin, Panorama and Rho Canada.
- Raised US\$23 million late last year.
- CEO Rick Segal spent time at Microforum and Microsoft prior to his VC role at JLA Ventures.
- Based in Toronto and Virginia.

## 5 Private Canadian Tech Firms You Should Meet

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### ***Vision Critical***

- Founded in 2000.
- Develops and operates software and tools that are used to help companies recruit, engage and learn more from their customer advisory panels.
- Over 500 employees around the world, up from ~35 in 2006.
- Targets Global 5000 customers.
- Backed by Telus Ventures, Bridgescale, OMERS Ventures and Wellington Financial.
- Executive Chairman Angus Reid is one of Canada's best entrepreneurs.
- Announced a \$20 million financing earlier this month.
- Based in Vancouver.



## Some Other Hot CDN Private Tech Stories You Should Meet

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- 33Across
- Beyond The Rack
- Blueprint Software
- Chango
- Hootsuite
- QuickPlay
- Real Matters (a WF portfolio co.)
- Shopify
- Silanis
- Solace Systems
- Vixs
- Wattpad
- Wave Accounting
- Well.ca