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Venture capital industry weathers storm

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AT a time when there's so much gloom in the high-technology world - and especially about prospects for young companies - Mary Macdonald continues to provide good news, namely there's still lots of venture money available for people with good ideas.

This matters because economic growth and the creation of jobs depends on a continuing flow of innovative ideas that become new businesses. And it's hard to develop new ideas into successful businesses without money.

Moreover, as Macdonald said yesterday, there's also a continuing flow of talented people with good ideas seeking money.

To be sure, the ground rules of venture capitalists have changed with last year's collapse of the high-tech equity markets. These are tougher times for small companies seeking their first $1 million to $2 million, but there are still healthy prospects for companies further along and with good revenue prospects.

Indeed, more and more Canadian companies have grown to the stage where they can successfully raise $60 million to $100 million.

As Macdonald & Associates, which compiles extensive data on venture capital, announced yesterday, the venture capital industry did 294 deals worth $1.12 billion in the first quarter of this year, compared to 369 deals worth $1.15 billion in the first quarter of last year.

Considering all the gloom that's around, that's not bad. Moreover, it underlines the growing size and sophistication of our venture capital industry as well as the growing interest of U.S. venture capital in attractive investment opportunities here.

You only need to think back to the early 1990s, when Canada had a pitifully small venture capital industry, and talented people trying to build high-technology companies were simply unable to raise the capital needed to translate good ideas into successful commercial businesses.

Last year, venture capital firms set an all-time record in Canada, investing $6.3 billion in growth companies and potential growth companies.

Moreover, the venture capital industry raised $4.1 billion last year, roughly equal to what it raised in 1995, 1996 and 1997 combined, bringing its capital under management to $18.8 billion, compared to $6 billion in 1995.

And the venture capital industry, Macdonald said yesterday, continues to be successful in raising capital for new investments.

Venture capital firms such as Mosaic Venture Partners, Jefferson Partners, McLean Watson Capital, BDC Venture Capital, Skypoint Capital Corp., Pinetree Capital, Castlehill Ventures, Royal Bank Ventures Inc., TD Capital Corp., Ventures West and **TechnoCap Inc. raise money from a variety of investors and put these funds into startups and growth companies.**

Another important source of money comes from individuals who invest in labour-sponsored funds, which are RRSP eligible. They include Canadian Medical Discoveries Fund, Working Ventures Canadian Fund, Canadian Science and Technology Fund and Fonds de solidarit   des travailleurs du Qu   bec.

Then there are corporate and institutional investors, companies such as BCE Capital Inc. and Yorkton Securities, as well as U.S. venture investors.

At this year's Canadian IT Financing Forum, which opened in Toronto yesterday, there is both a record number of investors looking for companies to invest in, and a record number of attractive companies putting on presentations to attract investments, Macdonald said. About 150 venture capitalists are attending the two-day event, including representatives of 12 U.S. venture capital firms and 55 Canadian venture capital firms.

The development of our venture capital industry is one of the most important economic developments in Canada in the past decade. Canadian venture capital firms are building up the experience and skills not only to become more sophisticated investors but also to be better mentors to young companies.

To be sure, there's still lots to be done. Our venture firms have yet to acquire the scale and scope of the best U.S. venture firms. Our pension funds and life insurance companies, with a few exceptions, are still reluctant to provide capital for the venture market, unlike their bolder U.S. counterparts.

And although the tax climate is much friendlier to the venture industry than it was, regulatory barriers still exist. A notable example is the failure of the Ontario Securities Commission to expand the opportunities for early-stage angel investing by opening up the so-called exempt market, where young, primarily startup companies raise money from angel investors.

Likewise, more needs to be done to improve the commercialization of ideas originating in universities and other research institutes.

But, as Macdonald's latest report shows, Canada is on the right track, and light-years ahead of where we were a decade ago.

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