
Private Equity Week

Canadian VCs Want To Share The Wealth

Danielle Fugazy Sep 10, 2001

When it comes to private equity investments, it's no secret that Canada has always been one stroke behind the U.S. Even during this down year, \$26 billion was pumped into private firms in the U.S. By contrast, a mere \$987 million has made its way into Canada's private sector, according to data from VentureXpert. To top it all off, the VC population in Canada pales in comparison to that of the U.S.

However, the Government of Quebec is trying to turn the tide by making the region more attractive for U.S. businesses and American investors.

"If you are young and innovative, what more could you possibly find in any other North American city?" said Richard Pryula, chief executive of Technocap, a Quebec-based venture capital firm founded in 1993. Technocap currently has \$250 million under management.

Its quaint European atmosphere aside, the Government of Quebec argues that the city is a compelling residence for entrepreneurs because the cost of living there is among the least expensive in North America. Moreover, the area is easily accessible by airplane. It's just a one-hour flight from Boston or New York, and just three hours from Florida.

However, even with all of the geographic benefits Quebec has to offer, U.S.-based VC firms don't venture beyond their domestic borders to the North very often. So in an effort to make its nation's offerings sexier to U.S. businesses, the Government of Quebec has established financial benefits to lure companies to the area. For example, if a company does its research & development in Canada, it gets about 40% of its money back through a tax refund. The government also gives out a plethora of grants and loans.

"Start-ups don't even have to reach profitability to collect their tax benefit," said Daniel Laporte, vice president of technological investments at Fond de Solidarite, which has \$4.5 billion under management and invests mostly in telecommunications and biotech companies in Quebec. LPs Have Overlooked It, Too **Nonetheless, it is not just U.S. businesses and VCs that have largely ignored the region. American LPs don't seem to be opening up their pocketbooks for their northern neighbor, either. Technocap's limited partners include Sofinov of the Caisse de depot, Bombardier Trust, Solidarity Workers Fund, Desjardins Pension Fund, National Bank of Canada and TechnoAnge Inc, all of which are Canadian institutional players. Perhaps even more telling than Technocap's cast of Canadian LPs is Fond de Solidarite's list of non-traditional institutional LPs. Fond de Solidarite and more than half of Canada's**

venture capital dollars under management are labor-sponsored funds. What's more, the investments, which also offer individual investors generous tax credits, allow workers to put a percentage of their paycheck into Fond de Solidarite's fund.

Under the law, the government permits employees to put up to (CAN) \$5,000(U.S. \$3,200), into such funds each year. Based on the firm's previous track record, Laporte said workers are guaranteed returns after investing with Fond de Solidarite for a 10-year period. The workers' fund invests over 60% of its capital locally in Canada.

No Dotcom Hangovers Here It may have been a blessing in disguise or just plain luck, but Fond de Solidarite, along with many other Canadian VCs, did not partake in the dotcom boom and, therefore, are not feeling the hangover that many American VCs are dealing with.

"We avoided the dotcom world mainly because the pricing was too high and we didn't want to pay," Laporte said. Apparently, several venture firms in Quebec shared that sentiment. Denis Dionne, president of Sofinov of the Caisse de depot, the largest investment house in the area, agreed.

"We all feel the effects of what is happening in the U.S., just not as bad," he said. The firm is rare because most of Caisse de Depot's co-investors are American, and 42% of its investments are in U.S.-based companies, while just 23% of its portfolio includes Quebec-based companies.

"The fact that we will have 75% of our investments outside of Quebec or Canada doesn't mean that we are abandoning our activities here," Dionne said. "We are just accelerating and keeping our position in the future." That strategy could pay off for the firm down the line. In 1993, the whole area was only managing a mere \$3 billion, today, Quebec's venture capital community has more than \$12 billion under management and that number is expected to grow significantly by the end of the year.

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