Goodmans LLP Update

CVCA Releases Q4 2018 VC & PE Canadian Market Overview

On March 13, 2019, the Canadian Venture Capital and Private Equity Association (CVCA) released its Q4 2018 VC & PE Canadian Market Overview, providing a comprehensive overview of venture capital (VC) and private equity (PE) activity in Canada for the year.

Canadian VC Activity in Q4 2018

A total of $1.3B was invested across 165 deals in Q4 2018, bringing the year-end total VC investment in Canada to $3.7B across 610 deals – 2% lower than in 2017. There was a total of 15 mega-deals ($50M+) which accounted for a 30% share of total dollars invested. The average deal size declined by 3% to $6.1M in 2018, though this was still a 16% increase compared to the average of $5.3M between 2013 and 2017.

Although there were no VC mega-deals in Q4, there were 15 mega-deals throughout the year. Included in the mega-deals were Ottawa-based Assent Compliance's $161M growth equity infusion from Warburg Pincus, Montreal-based Hopper Inc.'s $129M series D round from a syndicate of investors including BDC IT Fund and OMERS Ventures Management Inc., and Montreal-based Milestone Pharmaceuticals Inc.'s $103M series D round from an investor syndicate that included BDC Healthcare Fund and Fonds de solidarité FTQ.

Canadian VC activity saw growth in deals between $5M-$20M, which captured 34% of total dollars invested for a total of $1.3B, a 7% and the largest year-over-year increase from its share in 2017. Approximately seventy percent of all deals were under the $5M mark in 2018.

Information communications technology companies saw the greatest amount of VC activity, receiving $2.6B over 386 deals (a little over two-thirds of total dollars invested in 2018). The next most active were life sciences companies, receiving $630M over 101 deals (representing a 17% share), followed by Cleantech companies which received $264M over 47 deals (a 7% share). In terms of location, deals were concentrated in Toronto, Montreal and Vancouver, with $1.5B across 197 deals (41% of total dollars disbursed), $901M across 119 deals (24%), and $400M across 71 deals (11%), respectively, for the year.

The share of investment in later stage companies grew by 8% over 2017 to 49% ($1.8B) of total dollars invested. Early stage companies received a 42% share ($1.6B, a decrease from 52% in 2017), while seed investments increased from 6% to 8% ($303M) over 2017.

The number of M&A exits kept pace with the previous year (34 in 2018 compared to 35 in 2017), but the average exit value declined by a third to $24.4M. The largest exit involved a cannabis operation; a BC Tweed venture was acquired by Canopy Growth for $374M.

"We are seeing more VC flowing into more Canadian companies at all stages which is an important metric for the health of the sector," said Kim Furlong, Chief Executive Officer, CVCA. "A healthy mix of new growth funds, increased interest from international investors and government support through VCCI is helping to fuel the momentum."

PE Rebounds in Q4, Still Not on Par with 2017

PE investment rebounded in Q4 2018 with dollars invested tripling that of Q3 to reach $6B. The 2018 year-end total was $22.3B over 543 deals. Although this is a 15% decline from 2017 ($26.4B), it is 62% higher than the 2016 results ($13.8B). Corporate appetite for debt continued into Q4 2018, with PE debt accounting for four of every 10 deals, with the average deal size of $8.5M dropping 15% from 2017.

Deal activity in the small end of the market (deals less than $25M) helped drive totals in 2018, amounting to 68% of all deals, an 8% jump from the 60% share in 2017. Deals between $25M-$100M captured only an 8% share of deals in 2018, down from 11% in 2017. Two additional $1B+ mega-deals in Q4 brought the year-end total to four deals amounting to $14.4B, or 65%, of total PE investment - double the share percentage of the three previous years. The driving force behind this was the $11.8B acquisition of Tim Hortons. The largest disclosed mega-deals included: the $5.1B recap of GFL Environmental Inc. by a syndicate that included Ontario Teachers' Pension Plan, the $5B secondary sale of Husky Injection Molding Systems Ltd. by OMERS Private Equity Inc., and the $2.7B privatization of Mitel Networks Corp. by an investor group led by US-based Searchlight Capital Partners.

The industrial and manufacturing sector was the busiest in terms of PE activity, representing 22% of all deals, for a total of 118 deals. Information communications technology companies saw the second largest share of PE deals, accounting for 16% (88) of all deals, and the consumer and retail sector pulled in an 11% (59 deals) share of deal flow.

The pace of PE exits in Canada slowed, with only 82 exits totalling $11.1B compared to 2017 when there were 149 exits totalling $11.6B. This was due in part to four IPOs: Tilray, which completed its IPO on the NASDAQ with a market cap of $2.1B, IPL Inc., which completed its IPO on the TSX with a market cap of $709M, MAV Beauty Brands, which completed its IPO on the TSX with a market cap of $571M, and Pinnacle Renewable Energy Inc., which completed its IPO on the TSX with a market cap of $370M.

In terms of location, Ontario saw the highest value PE activity, with $13.9B across 103 deals, followed by Quebec, Alberta, and BC, with $7B over 338 deals, $685M across 41 deals, and $345M across 37 deals, respectively.

"Canada continues to be an attractive source of investment opportunities for both domestic and international investors," said Kim Furlong, Chief Executive Officer, CVCA. "We will watch to see if the mega-deal trend in Canadian PE experienced last year will continue in 2019 or if we see a return to more conservative sizing."

Goodmans Tech Group

To assist clients in the technology sector, Goodmans brings together our acknowledged expertise in corporate/commercial, private equity, corporate finance, mergers and acquisitions, outsourcing, licensing, intellectual property, privacy, regulatory and media, cleantech, tax, litigation, human resources, corporate restructuring and administrative law. We do so both for innovative businesses in their start-up phase and for well-established businesses of all types. Goodmans continues to lead in the technology sector and is partnered with the DMZ at Ryerson University. The DMZ is a leading business incubator (selected by UBI as the top-ranked university incubator in North America, and third in the world), which connects its start-ups with resources, customers, advisors, investors, and other entrepreneurs. Goodmans is also a proud partner of IDEABoost, an initiative of the Canadian Film Centre's Media Lab; building the next generation of technology-based media entertainment products, services and brands. Through these partnerships, Goodmans provides legal advice, mentorship and networking opportunities to assist start-ups in maximizing their potential.

Goodmans is also an internationally recognized leader in other aspects of technology law and transactions. From our thought leadership, through participation on the Boards of associations such as CanTech (Canadian Technology Law Association), CORE (Centre for Outsourcing Research and Education), CIEG (Canadian Institute for Exponential Growth, which organized the Summit) and iTechLaw (International Technology Law Association), to our involvement in major technology procurement, joint venture and outsourcing transactions, to our representation, in court proceedings and in arbitrations, of major technology providers, and users of technology, in ground-breaking cases, our Technology Group is consistently at the forefront of leading technology transactions and cases.

Members of our Technology Group are recognized as leading technology lawyers in *Chambers Global*, *Lexpert*, *Legal 500 Canada*, Legal Media Group's *The Best of the Best*, *The Best Lawyers in Canada*, Law Business Research's *The International Who's Who of Business Lawyers*, and *The Lexpert/American Lawyer Guide to the Leading 500 Lawyers in Canada*, teach internet and communications law at Canada's largest law schools, are regular lecturers at technology industry events and legal conferences, and have published articles in the technology law field.

Authors

Allan Goodman
agoodman@goodmans.ca
416.597.4243

Dan Eitutis
deitutis@goodmans.ca
416.849.6931

The authors would like to thank Abid Khalid, Articling Student-at-law, for his assistance in writing this Update.