

Goodmans^{LLP} Update

CVCA Releases Q3 2018 VC & PE Canadian Market Overview

On November 26, 2018, the Canadian Venture Capital and Private Equity Association (CVCA) released its Q3 2018 VC & PE Canadian Market Overview, providing a comprehensive overview of venture capital (VC) and private equity (PE) activity in Canada for the year thus far.

Canadian VC Activity in Q3 2018

A total of \$652M was invested across 127 deals in Q3 2018, bringing the year-to-date (YTD) total VC investments in Canada to \$2.4B. Although 12% lower than Q3 2017, the CVCA anticipates 2018 VC activity will close similarly to 2017. The Canadian VC market remains strong even if some of the high growth we have been experiencing may seem to be slowing.

Q3 2018 saw two large deals (\$50M+), bringing the YTD tally to nine mega-deals totalling \$0.7B. One of those involved Montreal-based travel app Hopper, which closed a \$129M Series D round led by OMERS Ventures and included BCD IT Venture Fund, Brightspark Ventures, and Caisse de dépôt et placement du Quebec. The other mega-deal involved Toronto-based Kira Systems, with a \$70M minority foreign investment. These large deals for Canadian based companies are an important step in growing the Canadian ecosystem.

However, growth was not limited to mega-deals. Canadian VC activity also saw growth in deals between \$5M-\$20M, which captured 36% of total dollars invested and represented a 7% gain over last year. Seventy-five percent of all deals were under the \$5M mark thus far in 2018. Average deal size in Q3 2018 was \$5.1M, marking a 22% drop since last quarter. Volume across the spectrum is also an important indicator of the vibrant Canadian technology market.

Information communications technology companies saw the greatest amount of VC activity, receiving \$1.6B over 280 deals (or 69% of total VC dollars for the first three quarters of 2018). Next in line were life science companies, receiving \$285M over 66 deals (representing a 12% share). Cleantech companies were not far behind, receiving \$228M over 36 deals (or a 10% share). In terms of location, deals were concentrated in Ontario, Quebec and BC, with \$1.3B across 174 deals, \$558M across 127 deals, and \$363M across 60 deals, respectively, for the YTD.

“The Canadian venture capital ecosystem is thriving,” said Darrell Pinto, Interim COO, CVCA. “With the recent VCCI infusions into the industry, we are fully anticipating the year to close positively”. All of this activity continues to validate the growing success of the Canadian technology market.

PE Debt Flourishing Despite a Slumping Overall Market

Q3 2018 saw \$1.9B invested over 112 PE deals in Q3 2018, the lowest dollar amount since Q3 2013. This brought the 2018 YTD total to \$16.5B across 415 deals and represented a 24% decline from the \$21.7B invested in the first three quarters of 2017. Corporate appetite for debt continued into Q3 2018, with PE debt accounting for four of every 10 deals.

Deal activity in the small end of the market segment (deals less than \$25M) helped drive 2018's YTD totals, garnering 68% of all deals and representing an 8% jump from last year's 60% share. Deals between \$25M-\$100M captured only a 6% share of deals so far this year, down from 11% last year. There were no mega-deals in Q3 2018, unlike in the previous two quarters.

The industrial and manufacturing sector was the busiest in terms of PE activity, representing 23% of all deals. Information communications technology companies saw the second largest share of PE deals, accounting for 15% of all deals, and both the consumer and retail sector and the business products and services sector pulled in a 10% share each. PE investment in the life sciences sector has already exceeded the total for 2017.

The pace of PE exits in Canada slowed, with only 61 exits totalling \$10.6B compared to last year's 151 exits totalling \$11.3B. This was due in part to four IPOs: Tilray, which completed its IPO on 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, Quebec saw the most PE activity, with \$4.4B over 255 deals, followed by Ontario, Alberta, and BC, with \$11B across 76 deals, \$647M across 35 deals, and \$216M across 27 deals, respectively.

"The private equity market continues to compete with an abundance of corporate debt", said Mr. Pinto. "The CVCA will continue to monitor all PE segments on our way through the balance of 2018".

Goodmans Technology 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 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.

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