

Venture Capital Discussion Paper Edmonton Centre PC Association

Access to capital is an issue in Alberta, particularly in the early stage equity of \$500,000 to \$1 million primarily due to lack of expertise and high overhead cost of due diligence on such projects.

Current Situation in Alberta

In 2003 Alberta's share of all national activity, venture capital was 4.1% in 2004 it dropped to 1.5%. There are said to be less than 5 venture capital funds headquartered in Alberta.

Venturer Capital data for Canada, BC and Alberta.

	2000	2001	2002	2003	2004	2005
Total Invested in Canada	\$ 5,029,759,000	\$ 3,262,388,000	\$ 2,228,560,000	\$ 1,356,362,000	\$ 1,424,456,000	\$ 1,457,657,000
Total Invested in BC	\$ 518,056,000	\$ 431,706,000	\$ 289,917,000	\$ 109,386,000	\$ 241,634,000	\$ 211,178,000
Total Invested in Alberta	\$ 152,222,000	\$ 79,606,000	\$ 32,617,000	\$ 55,527,000	\$ 21,695,000	\$ 42,780,000

Venturer Capital data for Alberta as percentage of Canada's national.

Alberta %	2000	2001	2002	2003	2004	2005
\$ Invested	3.0%	2.4%	1.5%	4.1%	1.5%	2.9%
# Companies	5.0%	3.4%	3.6%	4.6%	2.8%	3.2%
# Investments	4.6%	3.5%	2.8%	3.1%	1.5%	2.1%

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Alberta's economy represents between 13% and 17% of Canada's GDP, and the province has about 10% of the country's population, but only 2% to 6% of Canada's venture capital is deployed here. In 2003, a single B.C. company, Victoria's Aspreva Pharmaceuticals, landed nearly \$80 million in venture capital – more than all Alberta companies combined. There aren't a lot of high tech people flocking to Alberta. R & D becomes fruitful through angel and venture capital. As of September 2005 there were 120 accredited investors registered with Deal Generator Alberta.

Ernst and Young's 2006 Alberta Technology Report indicates that "funding is still a primary concern" for technology companies in Alberta. Forty-two percent of respondents to the survey, Alberta technology companies, indicated that the lack of availability of financing from either equity markets or government is the biggest competitive disadvantage of doing business in Alberta.

National and International Experience

The Province of British Columbia has launched the Equity Capital Program with \$20 million per year. It provides tax incentives of up to 30% to invest in early stage companies. Part 1 is the Angel Investor where tax credits are provided. Part 2 – an individual can invest in a company pool

Venture Capital Fund of Funds (VCFoF): A venture capital (VC) fund, which invests in other VC funds. Just as a VC fund invests in a number of different ventures, a VCFoF holds shares of many different VC funds. These funds were designed to achieve greater

diversification than traditional VC funds. In addition, for governments this creates a possibility to remove actual investment decision-making away from the government or government controlled structures. With a proper policy and executions such VC FoF lead to significant leverage rates by attracting significant private funding (a leverage of 1:3 is usually achievable).

There are various schemes on actual implementation of the government VC FoF. Using VC FoF by the governments to catalyze a VC industry, and support and develop entrepreneurship is a widely spread practice. Below are some examples of existing initiatives:

US States:

Oklahoma	US\$100M
Utah	US\$100M
Ohio	US\$125M
Iowa	US\$100M
Oregon	US\$100M
Michigan	US\$150M
Indiana	US\$73M
Maryland	US\$30M
California	US\$2.3B

Other countries VC FoF:

Singapore TIF	US\$1.3B
New Zealand VIF	NZ\$100M
Australian IIF	\$220.7M
Scottish Co-Investment Scheme	£40M
UK	€29M
Ireland	€172M
Israel	€66M
France	€188M
Germany	€250M
Slovakia	€40M
Greece	€150M

New Zealand example: Identifying the need for patient, home-grown venture investment in the wake of the 1987 stock market crash and the 2000 tech implosion, the New Zealand government created the Venture Investment Fund, a co-investment fund for startup and seed ventures. In July 2002, a \$100-million NZ fund-of-funds was launched, matching private investment on a 1:2 ratio. Five new sub-funds were created, all offering a significant incentive to further private-sector investment with a buy-out right: investors were offered the option of buying out the VIF five years into development.

Supporting Environment

A good practice in implementing government intervention schemes to support development of venture capital industry is to simultaneously support other elements of the innovation system, that encourages new venture development, industry relevant research and business investment in R&D.

Other elements of VC environment: US examples: Other approaches include the government operated VC funds and the funding schemes that provide funding other than equity financing, such as loans, loan guarantees, grants, repayable grants, subsidies, etc. Some of the states implement several initiative (from VC FoF to grants) recognizing that there is a continuum of needs and that various initiatives work better in a system.

- Several states implemented directly the government funded VC funds under public or private management (examples in US\$): Maryland (\$3.3M), Massachusetts (\$8M+), New Jersey (\$30M, leveraged to \$80M), New York (\$75M+), North Carolina (\$30M+), Pennsylvania (\$210M+).
- Other states implemented other funding programs supported by the governments such as loans, loan guarantees, convertible loans and grants, etc (examples in US\$): Maryland (\$150M+), California (\$6M+ per year), Connecticut (\$22M), Georgia (\$200M+), Massachusetts (a number of comprehensive programs), Michigan (\$150M+), New Jersey (\$5M+ per year), New York (\$100M), North Carolina (a number of programs), Pennsylvania (\$20M+), Virginia (\$50M+).

New Zealand example: Private investment drove the development of incubator environments, with management services available to ensure startup companies didn't fail because of problems other companies had already solved. Capital attracted talent into the sector, and organic growth began to occur. Developments since the fund's launch have been gratifying. In 2004, for example, the New Zealand Venture Capital Association reported \$158 million NZ in new deals, an 80% increase over 2003. (Venture capital investment reported in Alberta in 2004? \$22 million.) In total, committed venture capital has grown to \$1.56 billion NZ.

Currently in Alberta, there are several initiatives that support the creation of the environment stimulating the deal quality deal flow development: AVAC Ltd., TEC Edmonton, Northern Alberta Business Incubator in St. Alberta, University Technologies International in Calgary, Calgary Technologies Inc., CETAC-West, and WestLink Innovations. Alberta colleges and technical institutions are pursuing initiatives to develop industry relevant applied research programs and services, e.g. NAIT, SAIT, Olds College, Grand Prairie Regional College, etc.

Hand holding support for information assembly, support through a number of province-wide initiatives, such as the Banff Venture Forum, Deal Generator and VenturePrize programs, Kireitsu Forum, Alberta California Venture Channel, which are designed to match investors with projects.

Momentum

Both large provincial universities, University of Alberta and University of Calgary, are working to establish early stage venture capital funds. They are seeking involvement from both private sector and the government.

Mayor Steven Mandel is spearheading a government and private-sector initiative to create a more vibrant, robust tech sector. Mandel wants to see a local venture capital fund established by the end of the year. Mandel himself says that the key is involving private investors alongside government. “If we were the only investor-interested, then we shouldn’t do it, of course,” he says. “But we spend \$450 million a year on research and development in this province, and it’s time to take that to the next level. My hope is that government will see they’ve got to take the next steps, take that leap. It isn’t a level playing field, and we can fix that.”