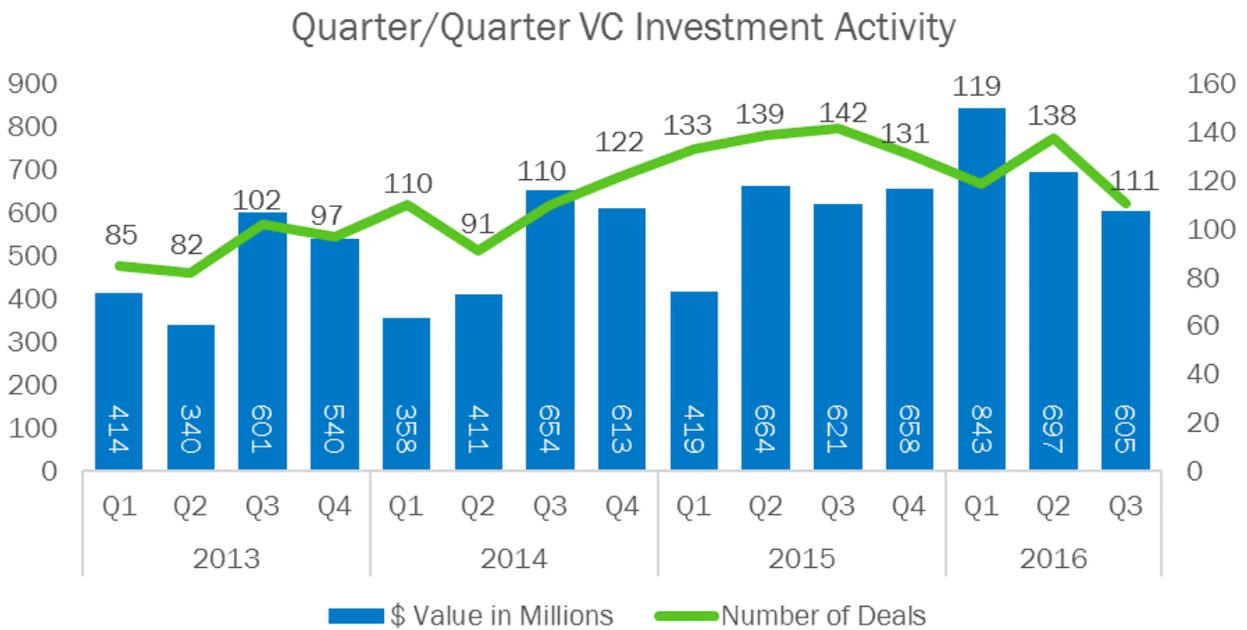
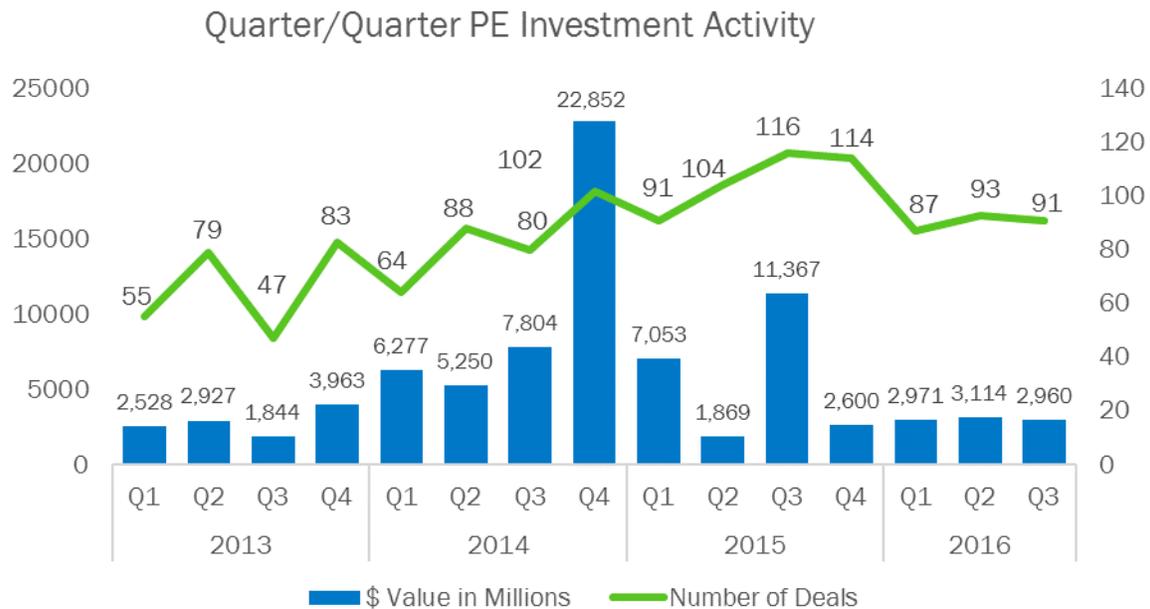


## Valitas Insights: Stark Contrast in Private Equity versus Venture Capital Activity, YTD/2016

“It was the best of times, it was the worst of times...” a reference to Dicken’s *Tale of Two Cities*, or alternatively, the contrast in year to date activity for Canadian Venture Capital (VC) versus Private Equity (PE).

The Canadian Venture Capital and Private Equity Association’s [recent VC & PE Canadian Market Overview//YTD Q3 2016](#) reports on VC and PE activity for the first 9 months of 2016. While the Dickens quote, admittedly, overstates the status of current PE activity, results for VC and PE investors reflect very different trends.





*“Canadian VC is on a much needed upswing.”* Mike Woollatt, CEO, CVCA

VC activity showed continued strength in Q3 with total investment of \$605 million, an 8% increase over the quarterly average calculated since 2013. Year to date investment totaled \$2.11 billion, just 9% below full year 2015 levels.

Activity for Canadian PE, however, took a different direction. Year to date investment totaled \$9 billion, down 55% from the same period last year. Deal volume dropped as well, with a deal count of 271 versus 311 for 2015.

What are the factors behind this significant difference?

We’ve written [previously](#) about current challenges for PE investors, including rising valuations and a shrinking pool of quality investments. The Canadian environment reflects the broader North American trend in this regard, as strategic buyers continue to compete with PE investors for acquisitions.

Canadian VC investors, with their focus on early stage targets, have the upper hand – at least for the time being. They face less competition from strategic investors (although we will discuss in an upcoming article why this advantage could erode). In addition, Canadian government support has been forthcoming with the Venture Capital Action Plan, whereby \$400 million of government investment was contributed



to four private-sector led VC funds totaling \$1.35 billion, with the last fund closing this year.

It is exciting to witness the growing support by VC's for startups and early stage companies – a trend that should promote entrepreneurial innovation in Canada. We wonder, however, whether competition for early stage innovators will expand. Perhaps strategic buyers will look to these companies as targets, in the process of reshaping their own corporate strategies to address an evolving business environment. More on this to come...