

# Connecting Vision to Reality\*

Report on Emerging Canadian Software  
Companies: The CEO Perspective  
May 18, 2010

**Welcome!**





# Report on Emerging Canadian Software Companies: The CEO Perspective

**Peter Matutat**  
National Emerging  
Company Practice Leader

# Conference Agenda

2010 Report Overview – Peter Matutat

Keynote – Bill Tatham, NexJ Systems

*Networking Break*

Software M&A – Bruce Lazenby, Corum Group

IP Issues – Mark Penner, Fasken Martineau

*Lunch*

Leadership – Karyn Garossino

*Cocktail Reception*





# Survey Objectives

1. Examine progress made against challenges identified in past
2. Identify trends from our cumulative survey data
3. Explore new areas – technology trends, leadership



# Most Challenging Issues

- Growing revenues
- Developing channel partnerships
- Raising capital
- Leadership
- Intellectual Property



## Who did we survey?

130 Private and public, emerging Canadian software company CEOs from Vancouver to St. John's, including:

- Calgary
- Edmonton
- Winnipeg
- Waterloo
- Vancouver
- Toronto
- Montreal
- Halifax
- Ottawa
- Quebec City



## Profile of the Respondents

- 37 employees (5 part-time/contract)
- Annual revenues: \$1 – \$10 million
- Enterprise application solutions, Application development and Digital media applications
- 53% are Profitable
- CEO is founder
- Evidence of serial entrepreneurship and greater CEO experience
- Markets – 53% Canada, 36% US, 11% UK/Europe/Asia

# Growing Revenues

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# The Economy



- Over 90% are investing at least somewhat in their business

# The Economy



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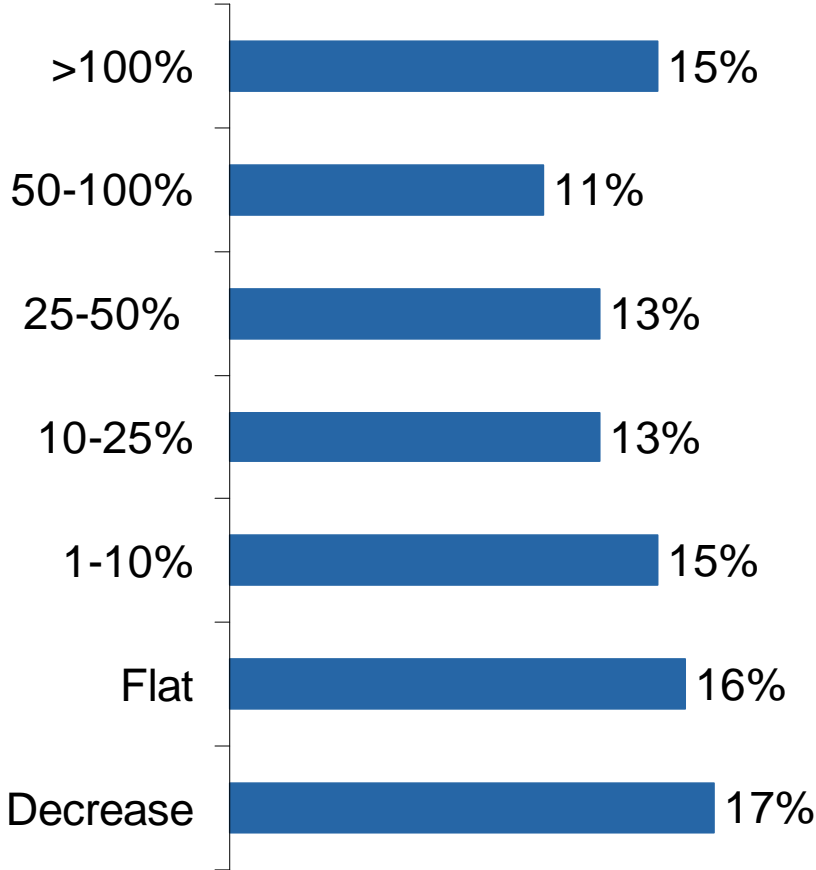


# The Economy

- Over 90% are investing at least somewhat in their business
- 30% did not have to partake in any form of cost containment
- Most were cautious with new hiring and over 25% had a hiring freeze
- Less than 20% had significant layoffs

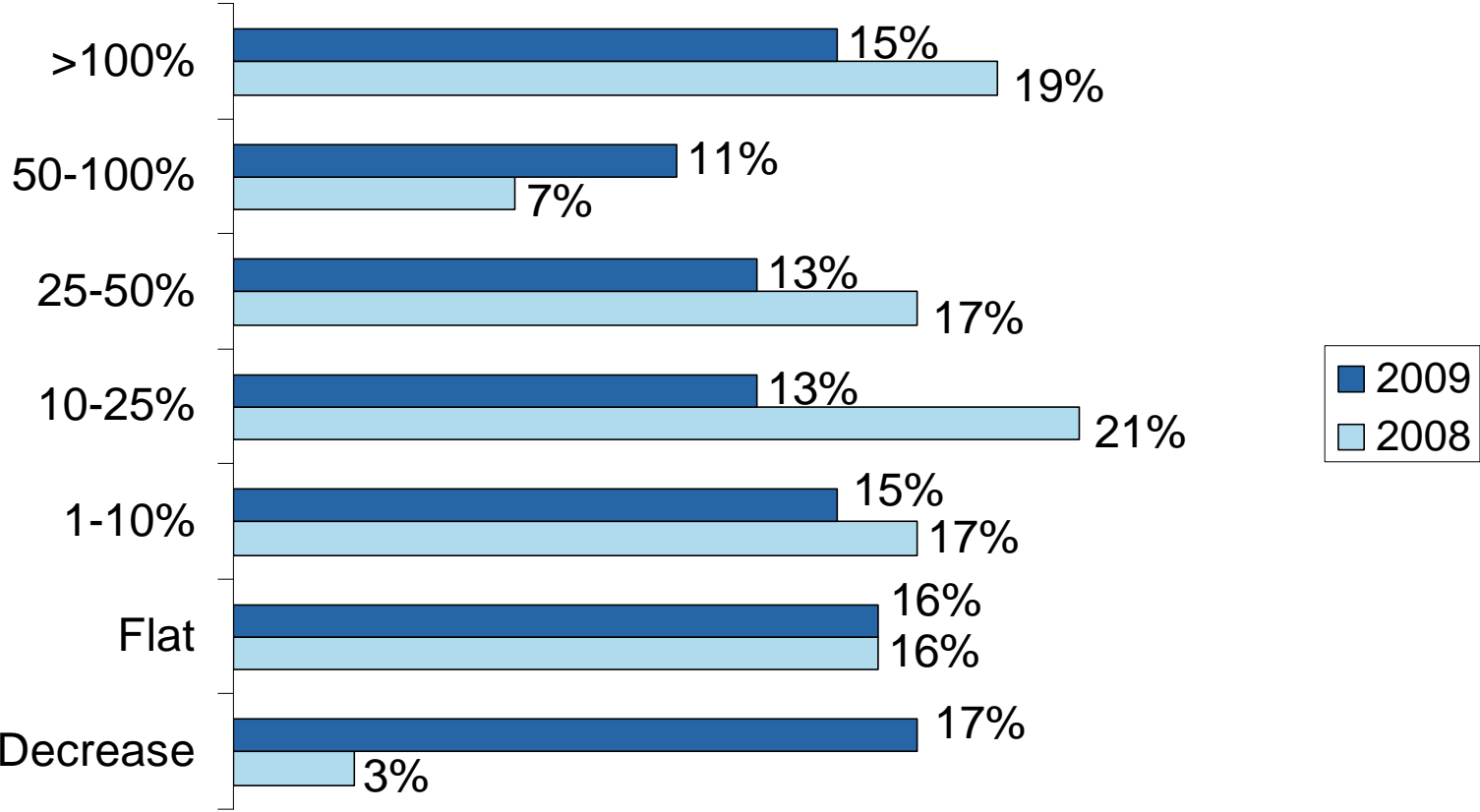
# Growing Revenues

## Revenue Growth in 2009



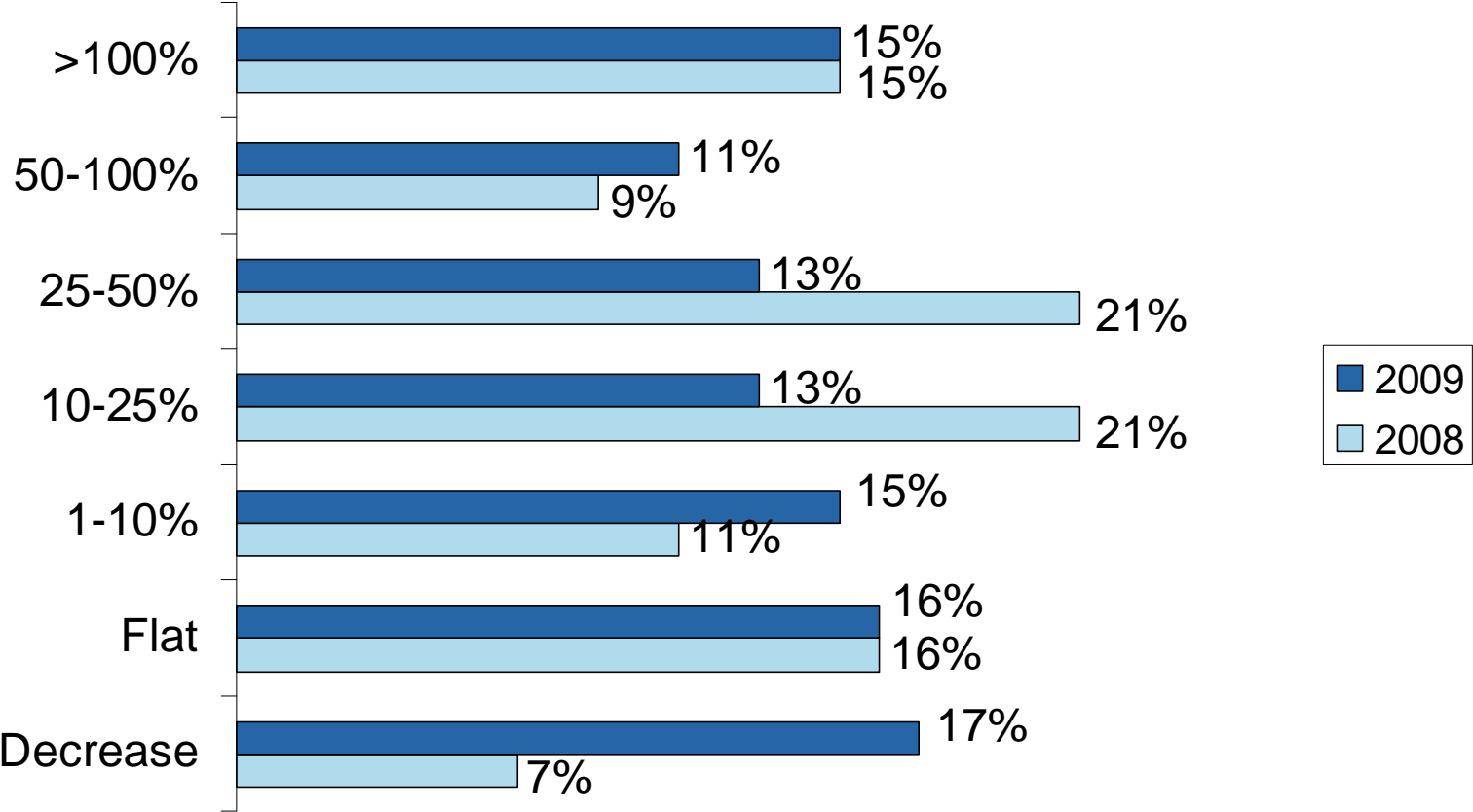
# Growing Revenues

## 2009 Revenue Growth vs. 2008



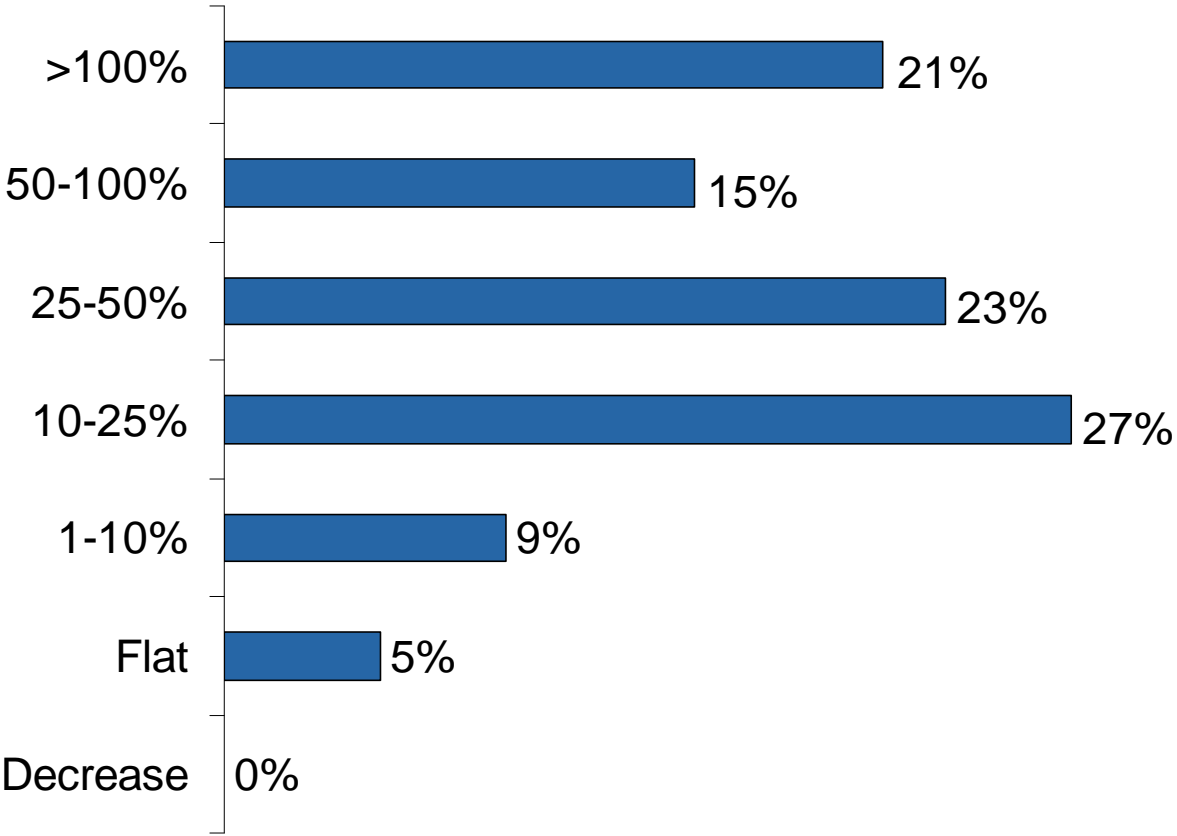
# Growing Revenues

## 2009 Revenue Growth vs. 2007



# Growing Revenues

## 2010 Revenue Growth Expectations



# Keeping Customers



# Keeping Customers



- 70% rely on 'one-on-one' feedback to measure customer satisfaction



# Keeping Customers

- 70% rely on 'one-on-one' feedback to measure customer satisfaction
- 60% are planning to invest in customer relationship management in the next 2 years

# Competition Comparison



Top Strengths vs. The Competition:

- Best in class features and functionality
- Breadth and depth of solution provided
- Superior customer service



# Competition Comparison



Top Strengths vs. The Competition:

- Best in class features and functionality
- Breadth and depth of solution provided
- Superior customer service
- Pricing



# Competition Comparison



Top Weaknesses vs.  
The Competition:

- Availability of funding sources
- Strategic partner relationships



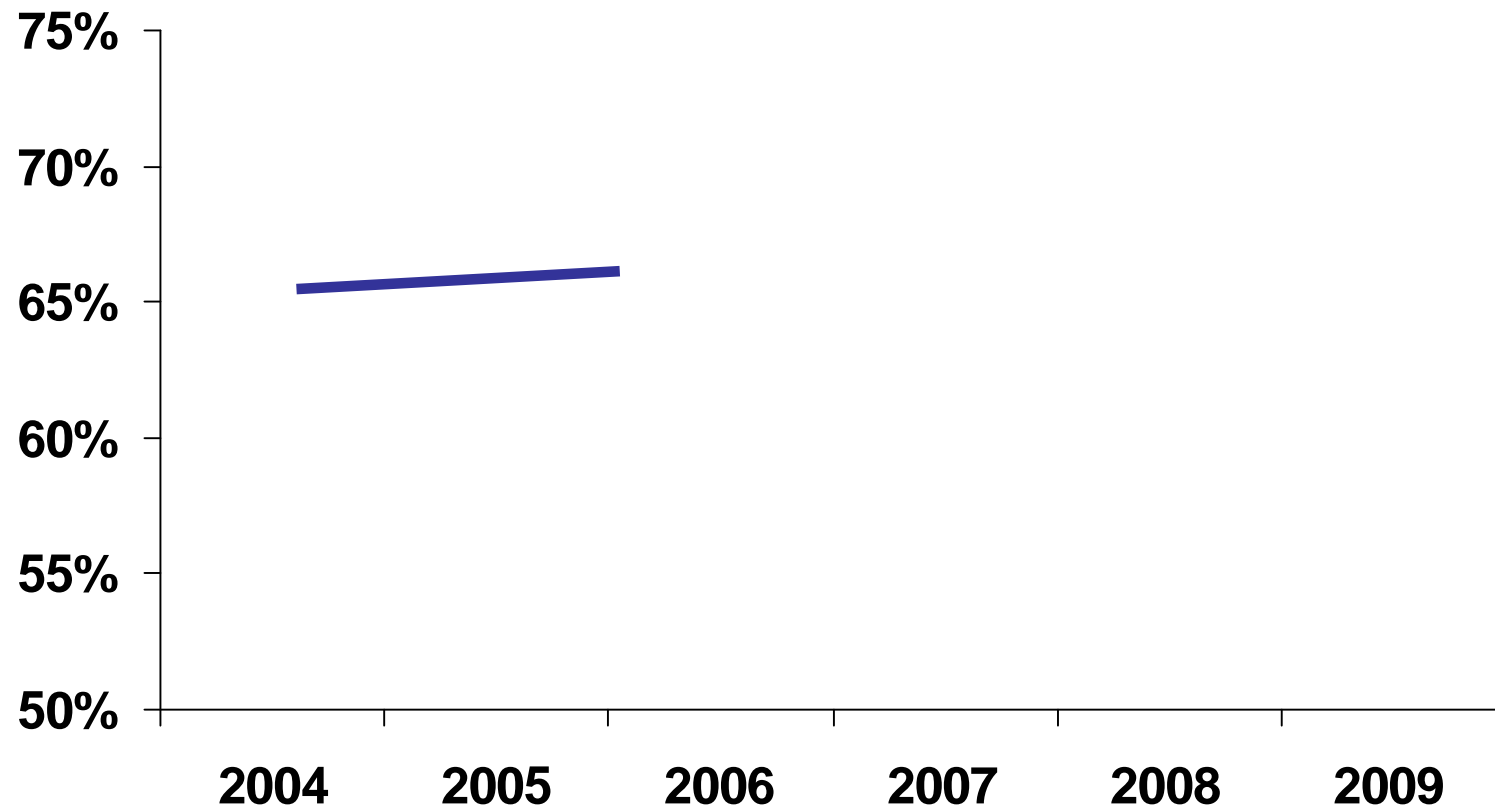


# Channel Partnerships

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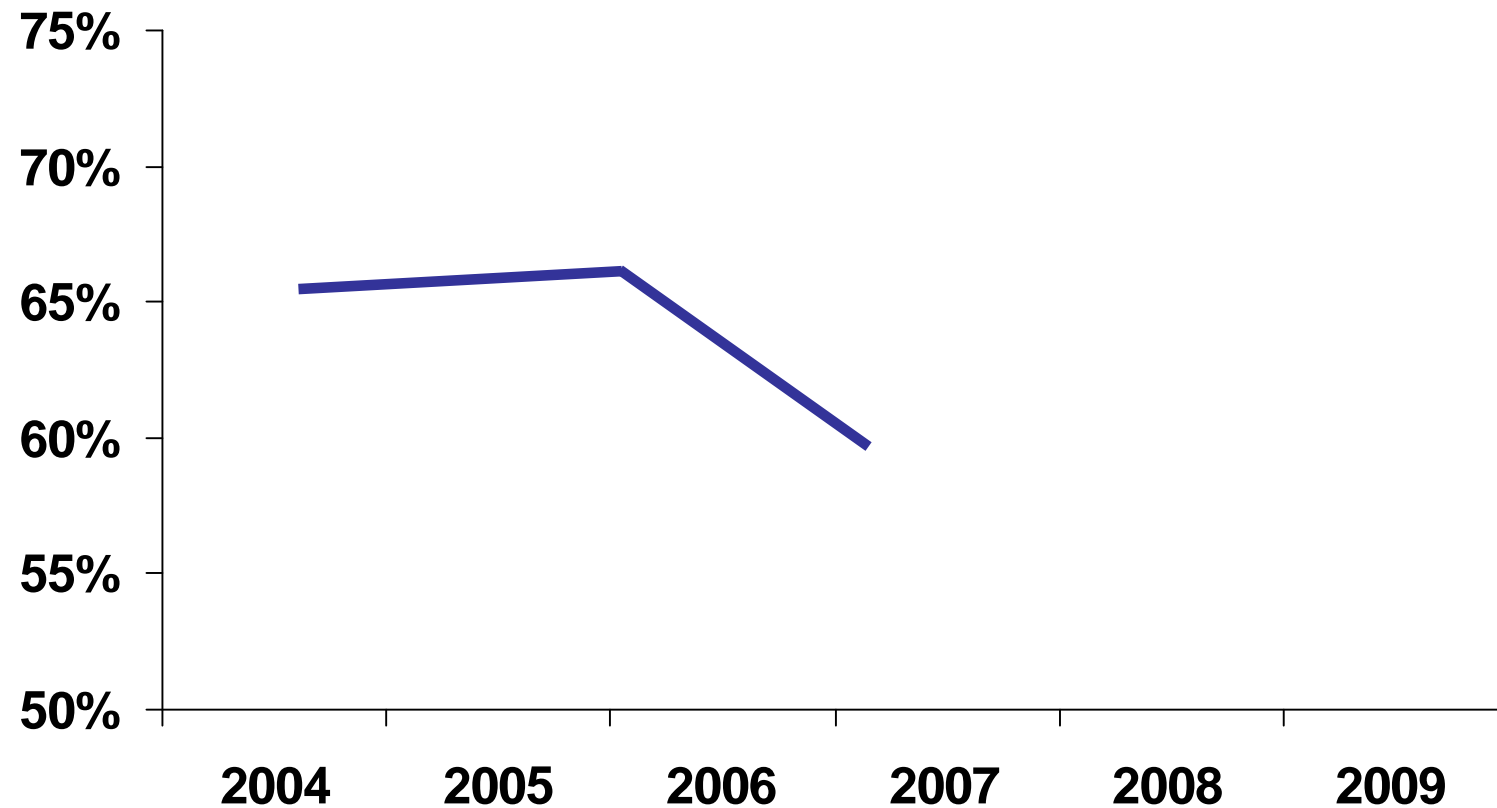
# Sales Channel Partnerships

## Companies utilizing sales channel partnerships



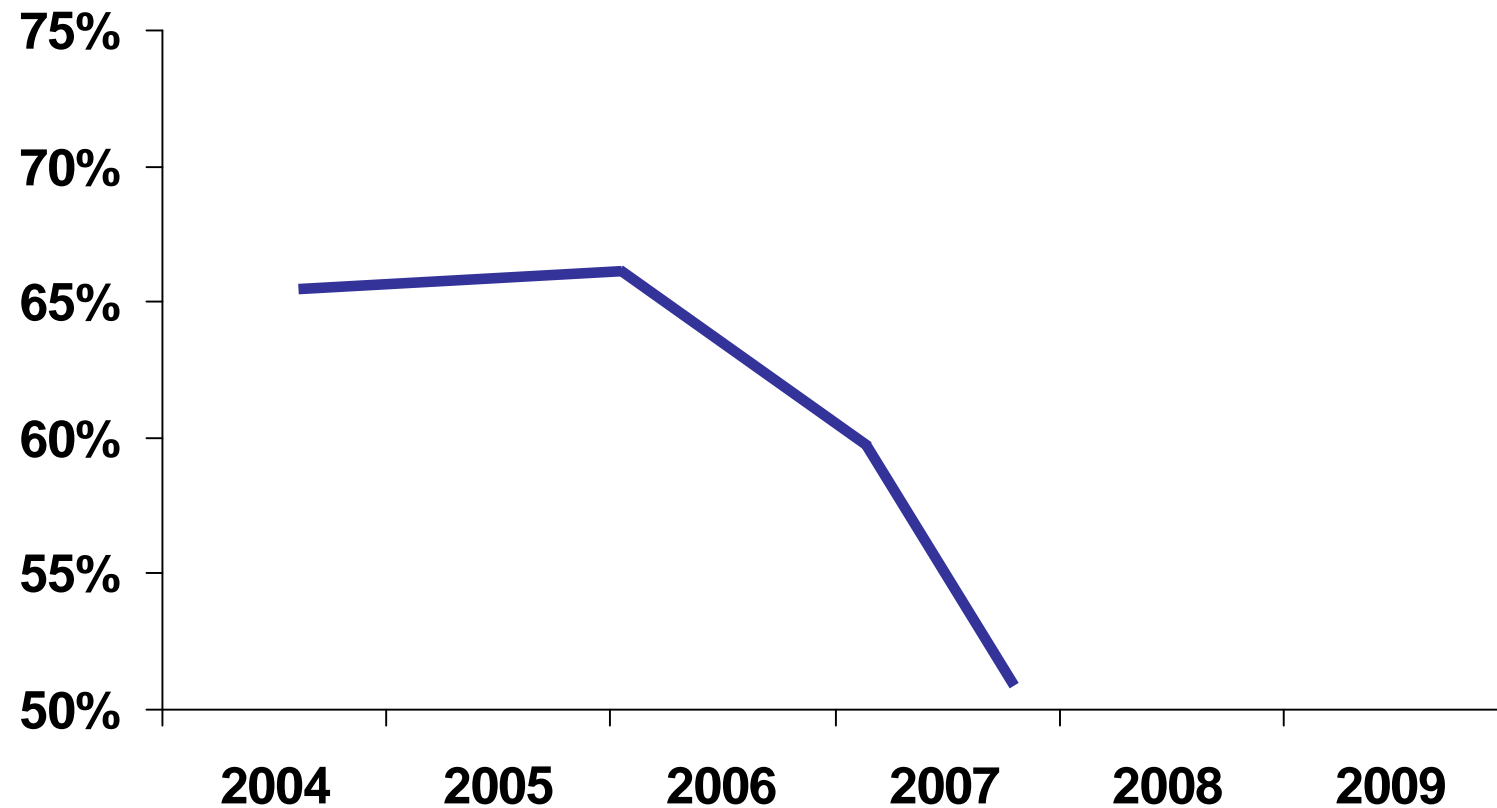
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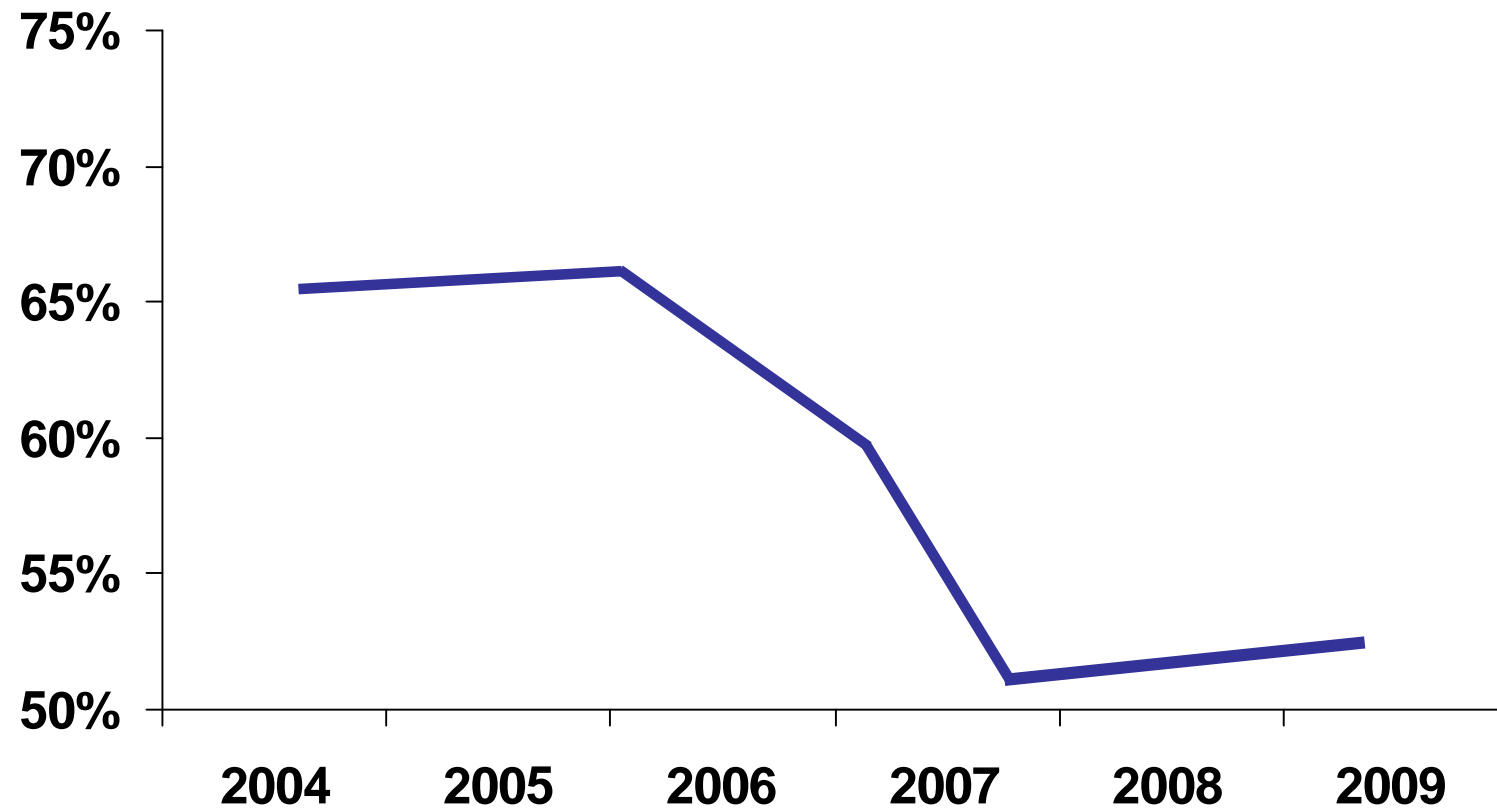
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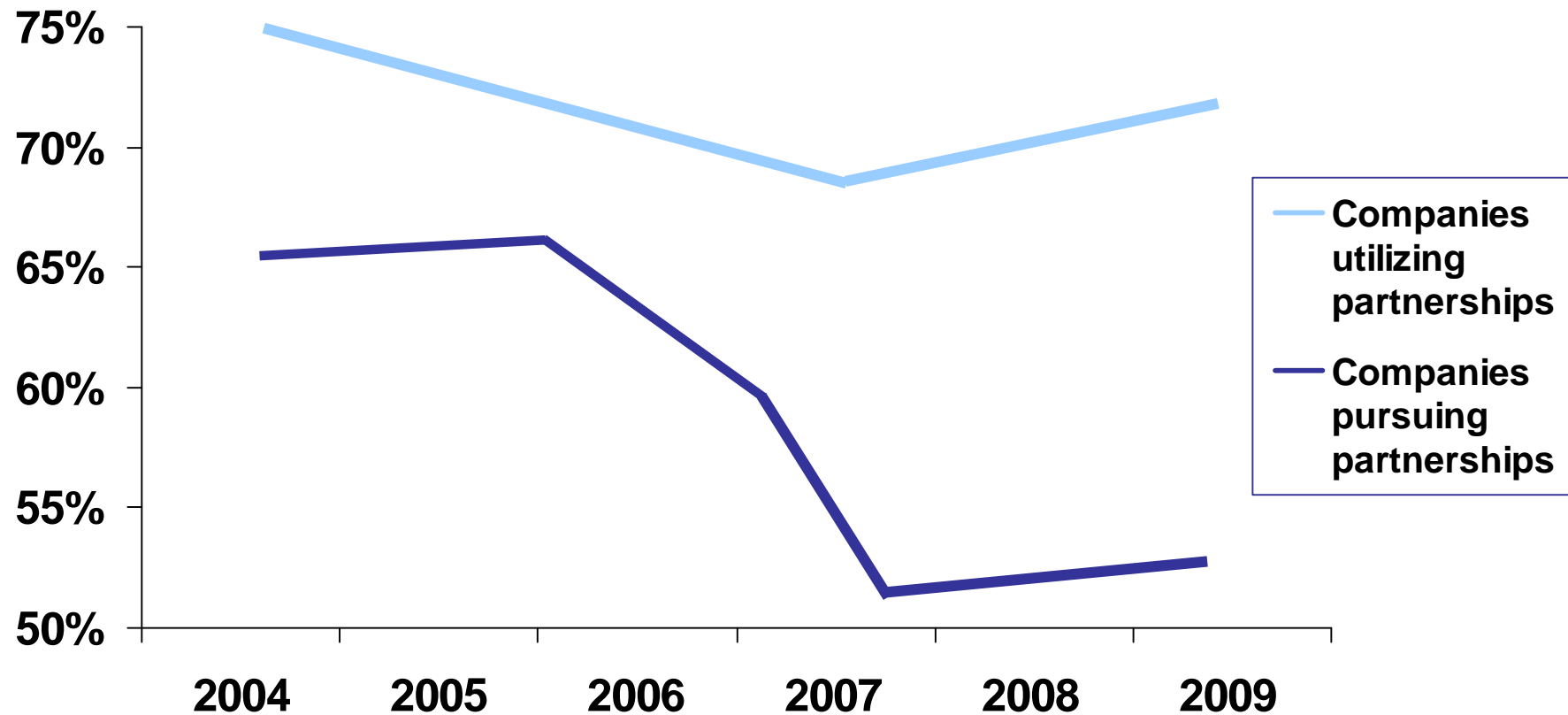
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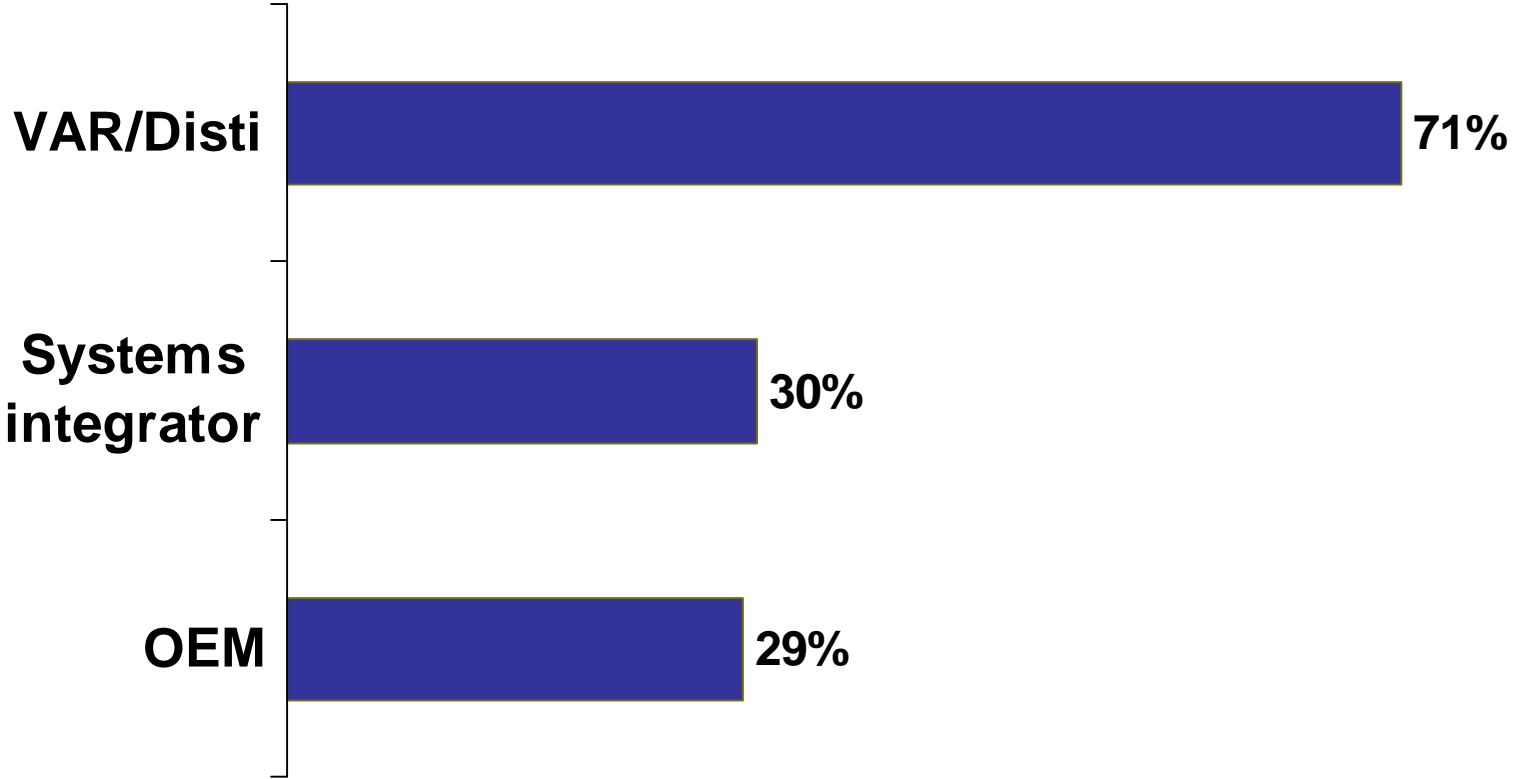
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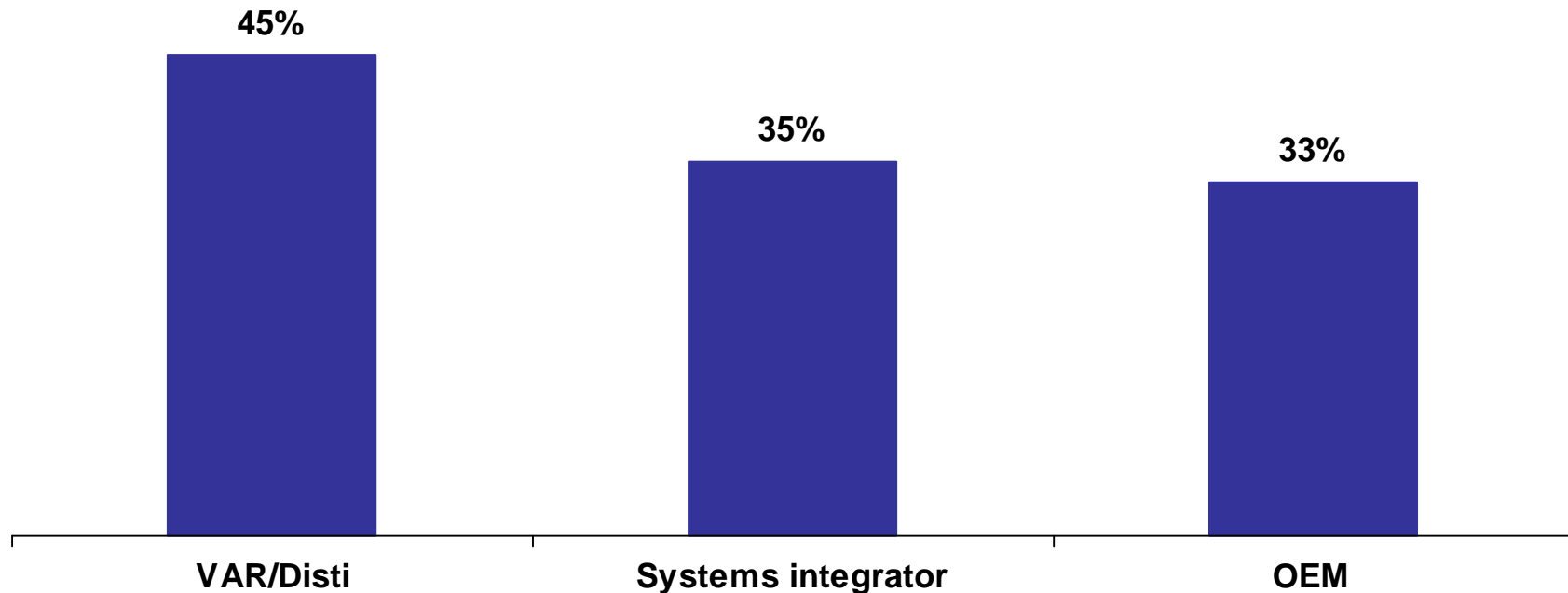
## Types in Use



# Sales Channel Partnerships



## Moderately or Highly Successful Partnerships





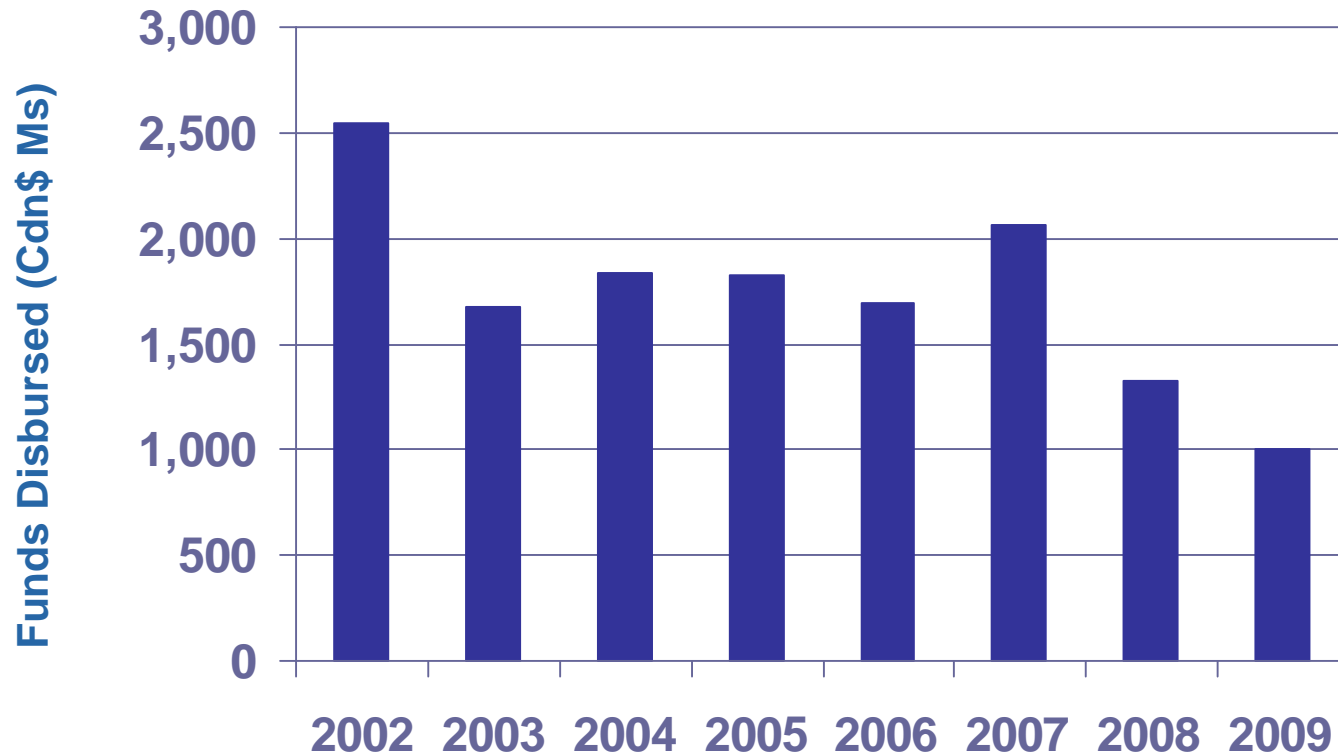
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# Raising Capital

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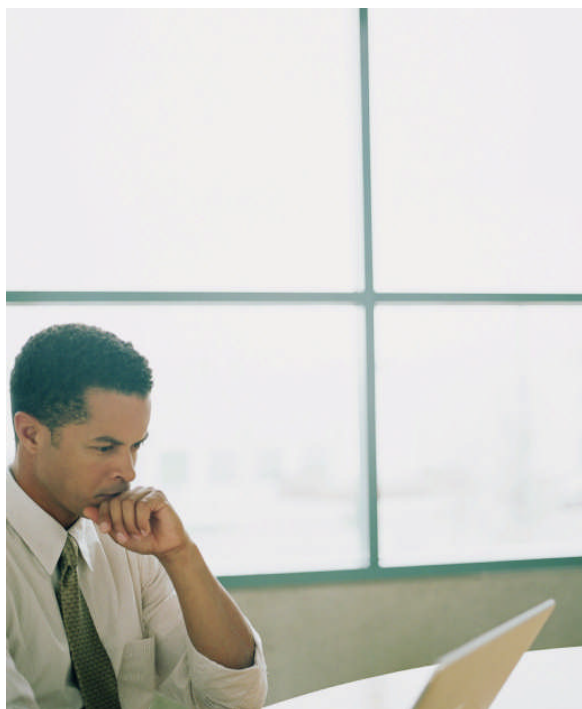


## Cdn Venture Capital Investment Drops to \$1.0 Billion in 2009



Source: Thomson Reuters

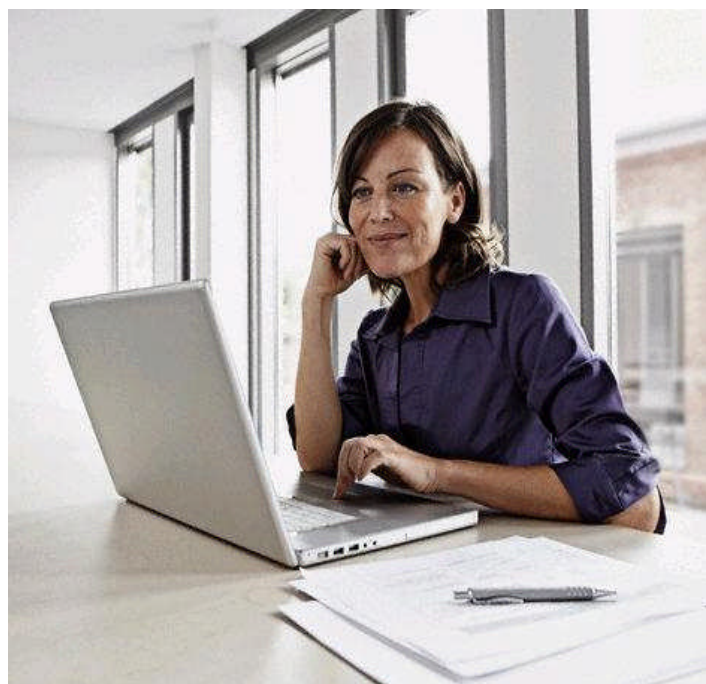
# Raising Capital



## Investment by province (millions):

	2009	2008
Quebec	\$431	\$393
Ontario	\$288	\$575
B.C.	\$141	\$260
Rest of Canada	\$140	\$172

# Raising Capital



## Investment by Sector (millions):

	2009
IT	\$489
Life Sciences	\$215
'Traditional'	\$189
Clean Tech	\$116

# Raising Capital



Investment by Sector (millions):

2009

IT

\$489

\$194 of the IT investment for software and internet

# Raising Capital

## Total Canadian Funds Raised



Source: Thomson Reuters

# Raising Capital



Canadian market characterized by:

- Smaller VC funds with limited specialization
- Limitations on ability to finance larger late stage deals

# Raising Capital



Canadian market characterized by:

- Smaller VC funds with limited specialization
- Limitations on ability to finance larger late stage deals
- Historically poor returns

# Raising Capital



Rate of returns through June 2009 of a survey Canadian Venture Capital Funds by Thomson Reuters and the CVCA:

# Raising Capital



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1 year rate of return      -7%



# Raising Capital

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3 year rate of return	-2%
5 year rate of return	-2%
10 year rate of return	-3%



# Raising Capital

## Decline of Labour Sponsored Income Funds

### Disbursements by LSIF's:

2007	\$406 million
2008	\$310 million
2009	\$246 million

# Raising Capital



The Result?

- Few Funds with money to Invest

# Raising Capital



## Canadian investment outside of Canada

- approx. \$200 million

# Raising Capital



## Canadian investment outside of Canada

- approx. \$200 million

## US investment in Canada

- approx. \$306 million (2008 - \$371 million)

# Raising Capital



## U.S. Investing in Canada Declined, but is still critical

- 30% of all VC funding in 2009 was from the U.S., same as 2008
- Traditionally, U.S. VCs have invested in a small number of later stage, high growth companies

# Raising Capital



## US Total VC Investment in 2009

- \$17.7 billion (2008 - \$28.3 billion)
- < 2% invested in Canadian companies

# Raising Capital



## US Total VC Investment in 2009

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- < 2% invested in Canadian companies
- Q1 2010 -- \$4.7 billion

# Raising Capital

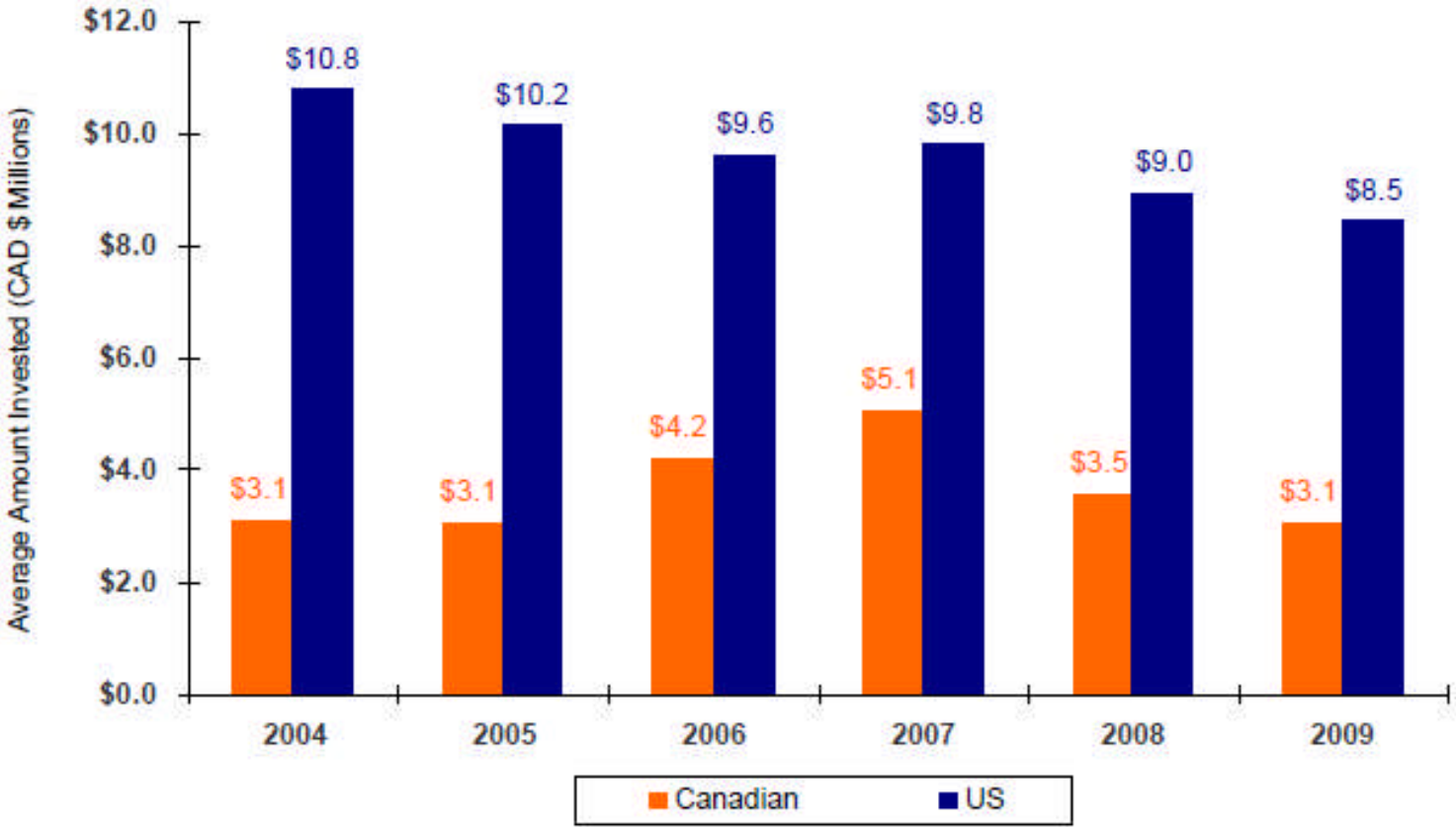


Rate of returns through September 30, 2009 based on the US Venture Capital Index and the NVCA:

1 year rate of return	-12%
3 year rate of return	1%
5 year rate of return	5%
10 year rate of return	8%

# Raising Capital

## Amounts invested per Company - Canada vs. US



Source: Thomson Reuters

# Raising Capital



How did our respondents do?

- 75% success rate in raising capital
- 45% of funding came from Angel Investors
- 16% - Canadian VCs
- 5% - US VCs
- The average amount raised was \$2.5 million, a decline from \$3 million last year and \$5 million two years ago



# Raising Capital



How did our respondents do?

- 50% of respondents did not try to raise capital in the past two years
- 54% stated current revenues are sufficient



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# Exits



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In 2010 - 7% of respondents believe an IPO is a likely exit

# Exits



80% of respondents expect to be acquired

# Exits



80% of respondents expect to be acquired

13% no plan to exit

# Exits - Global Technology M&A Activity



Source: The 451 M&A Knowledge Base

# Exits - Software M&A Activity



Source: The 451 M&A KnowledgeBase



## M&A Looking Forward

- Greater optimism for 2010
- Revisions to estimates for IT spending
  - IDC now expects worldwide IT spend to sharply increase upwards late this year from a virtual standstill to 4.4% in 2010 and 5.9% in 2011
- Public IT firms have substantial cash reserves
- PE's are back
- Multiples have been steadily increasing



# M&A Looking Forward

## Balances of Cash and Short-Term Investments

Microsoft	\$40 billion
Cisco	40 billion
Google	24 billion
Apple	23 billion
IBM	14 billion



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# M & A



Over 50% are actively pursuing or interested in M&A



# M & A



Over 50% are actively pursuing or interested in M&A

40% expect to buy a competitor



# M & A Tips



Proper fit

Due diligence, due diligence, due diligence

Don't underestimate integration requirements

Need the right team of advisors

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# Talent Management



# Talent Management

- Turnover is low
- 60% had less than 5% turnover (50% in 2008)



# Talent Management

- Turnover is low
- 60% had less than 5% turnover (50% in 2008)
- Staff retention is not a major challenge



# Talent Management

- **30% - Significant cost containment not required**
- **25% - Hiring freeze**
- **19% - Layoffs**



# Is Canada a Good Place to Build a Software Company?

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# Canada – The Challenges

**Access to capital**

**Size of local market**

**Risk taking culture**

**Exchange rate fluctuations**



## Canada – The Good

**Government incentives**

**SRED**

**Infrastructure**

**Proximity to US**

**Improving ecosystem**

**Talent pool**

Thank you

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