

REPORT ON BUSINESS

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Venture Firms set for banner year

Sector still eager to bet on startups despite meltdown in tech stocks

BY PETER KENNEDY, VANCOUVER

If the \$1.21-billion invested in fledgling high-tech companies during the second quarter is any indication, Canada's venture capital industry is set for another record-breaking year.

In spite of the meltdown in technology stocks that occurred in March and April, the amount invested in startup companies during the quarter almost doubled from the year-earlier level, while the number of deals soared 40 per cent to 314.

"The only question now is whether there are enough quality investments to match the money that is looking for a home," said Hillar Kalmar, senior vice-president at Vancouver-based **GrowthWorks Capital Ltd.**, which manages the \$450-million Working Opportunity Fund.

After a hectic first quarter when investments soared by 88 per cent to \$1.1-billion industry officials expected activity in the sector to cool off. But according to figures compiled by Toronto-based Macdonald & Assoc. Ltd., investments in the second quarter brought the amount deployed in 683 transactions to \$2.3-billion during the first half of 2000.

Because the amount of venture capital invested so far this year is just \$400-million below the record setting total of \$2.7-billion in 1989. Industry officials are confident that 2000 will be another blockbuster year. That means entrepreneurs in hot technology will not have to go knocking on doors seeking money for their fledgling companies. Fund managers will come looking for them.

GrowthWorks' Mr. Kalmar attributes the booming activity to the large number of new players that have entered the venture capital arena with no money to invest. They include **Itemus Inc.** of Vancouver, **LaunchWorks Inc.** of Calgary and e-commerce incubator **divine InterVentures Inc.** of Chicago. He said areas likely to attract funding include anything to do with wireless technology, last-mile broadband Internet connectivity and biotechnology.

After raising more than \$1-million in June, Vancouver-based Kinexus Bioinformatics Corp is preparing to raise another \$800,000 this month. Kinexus is a Vancouver-based biotech company headed by Steven Pelech, a University of British Columbia biochemistry professor.

A product of UBC's medical department, Kinexus has been created to identify markers and therapeutic targets in cell communication systems that can be used for the development of drugs designed to treat cancer and aging.

Using this information, Kinexus aims to create an information data base than can be offered to the pharmaceutical industry for a fee.

Mr. Pelech said raising money for Kinexus has been easy so far.

He said that the first approach came from Vancouver-based venture capital firm **Birc Corp.**, which has invested \$250,000 in his company. Toronto-based **Milestone Medica Corp.**, an affiliate of Royal Bank Ventures Inc., also contributed \$250,000 to the \$1-million raised by Kinexus in June.

"Our plan is to do another financing round in the spring that will raise \$10-million," Mr. Pelech said.

Meanwhile, industry officials say they aren't surprised to see the level of investments activity increase in spite of the April meltdown in the dot-com sector.

Macdonald & Assoc. president Mary Macdonald said the market correction has actually increased the tendency of companies such as Kinexus to obtain venture capital funding by delaying any plans they may have had to go public.