Boom – Bust – B?...
Ottawa Outlook 2005

Pat DiPietro
Managing General Partner
VenGrowth Capital
Dec 7th, 2004
Ottawa ’05: What’s on our collective minds?

- Is High Tech over as a local growth engine?
- Why so little action in the past few years?
- What’s Hot in Tech?
- What’s Gonna happen the next few years?
The Semi Industry: the proxy for high tech

Worldwide Semiconductor Revenues (1975-2007)

Extremely healthy long term growth
The Semi Industry

Worldwide Semiconductor Revenues (1975-2007)

Extremely healthy long term growth

Year

$ Billions


0 50 100 150 200 250 300

2005
The Semi Industry

Worldwide Semiconductor Revenues (1975-2007)

- $220B Chips
- $250B Computers
- $275B Telecom
- $200B Software

"the bubble"
Is High Tech over for Ottawa?

I Hope Not - actually, I’m betting not

- VC backed companies help drive economy
- Venture investing is cyclical
  - Venture has long history of high returns
  - 2-6-2 statistics
- Lots of $$ invested over last 5 years
- Things are beginning to open up for exits
Ventures drive economy

- $1.1 Trillion Contribution to US GDP
  (that’s about 10% of US economy)
  – 12.5 Million Employed

- $14.2 Billion Contribution in Canada
  (that’s about 1.5% of CDN economy)
  – 23,000 Employed

Venture backed companies help create value in an economy
Venture Capital relatively young in Canada vs US…
Canada Lags US in Venture $/capita

Investment by US VCs and Canadian VCs over time, annualized from 1997 to 2004.

Source: Mary McDonald & Associates ‘05

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Venture Capital Cycle

5-year Rolling Returns* for Later Stage Venture Capital in the US

*Returns presented are gross returns.

Source: VentureEconomics
Ottawa Region
Post bubble reality sets in

But…
Ottawa gets 25% of all $VC Invested in CDN IT

1/30 population
1/4 of the capital!

Source: Mary McDonald & Associates
Ottawa gets 70% of US $VC Foreign $ Invested in Ontario by City

Source: Mary McDonald & Associates

* Annualized
M&A and IPO Activity is Improving in the U.S.

$ Value and # of Transactions – IPO and M&A Activity

Exits avg 4.4 - 5.3 Years from Inv

Source: VentureSource
Is High Tech over for Ottawa? Don’t Think So!

• At the bottom of market issues
• Not at bottom of investment cycle
• $$ invested at a good clip (less “$bubble”)
• Many product and market leaders emerging
• Focused biz culture starting to emerge
• Patience and perseverance required!
VenGrowth:
We strongly believe in Ottawa Tech

- $1.1B under management
- $261M in Ottawa
- Leveraged additional $810M into local companies
- 26 companies
Why so little action in the past few years?

- Ignoring the bubble, Ottawa just started a new cycle in ‘01/’02
- 4-5 years to a reasonable maturity level
- = “graduating class of 2005”
- 1st exit opportunities should be coming up next year
- 1-2 yr delay in overall biz performance due to “commercialization” issues
What’s Hot in 2004+

- Chips: -10% to +25%, $220B
- Computing + 13%: $250B
- Enterprise software: +20%, $200B
- Telecom + 5-10%, $275B
- Mobile +15%, 600M cell phones per year!
- Wireless Lan +13% (35% CAGR), $3B
- Voice-Over-IP +50%, $1.5B
Semiconductors, Communications and Software Are Inv Focus
Dollars Invested in IT by Sub-Sector

Source: Mary McDonald & Associates
Looking Forward:
What’s gonna happen in the next few years?

- Capital
- Markets
- Entrepreneurs
- Commercialization

2-6-2

Asia Factor
(China, India…)

Invested ($Mn) vs. # of Co.

VenGrowth
Let’s Examine Venture Backed Startups in Ottawa

GROWTH IN ADVANCED TECHNOLOGY EMPLOYMENT

Source: OCRI

Venture Backed Class Of ’01-04
2550 -80 Co’s

Non-Venture Class ’01-04
14,000-500 Co’s

Baseline HT Approx. 50,000
The Overall Process

Idea /Opportunity

Definition

Prototype ‘Alpha’

Product ‘Beta’

Volume ‘Ship’

Ah-Ha!!

Got What It Takes

Customer’s Like it

Customer Trials

Shipping Volume

Entrepreneur

Founders

10-30 Employees

Beta Product

Big Customers

Idea

Full Biz Plan

Customer Traction

Successful trials

Revenues

Buzz

Early Biz Plan

Spec/ early proto

Mgmt team

Complete Team

Liquidity Zone

M&A

IPO

Angel $

F&F

Self

Capital

Seed

Series A

Series B

Debt

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CATA-OCRI Business Drivers ‘05

Dec 7, 2004
The Startup Pipeline: Classes of ’01-'04

Idea /Opportunity  Definition  Prototype ‘Alpha’  Product ‘Beta’  Volume ‘Ship’

Class of 2001  Class of 2002  Class of 2003  Class of 2004

Year 1  Year 2  Year 3  Year 4  Year 5

15  20  20  30

Shipping Volume
Big Customers
Revenues
Complete Team

Liquidity Zone
M&A
IPO
**Venture Backed Startup Sales**

The 500 “other companies” should be upside on this projection.

Classes ‘01-04

The $Million sales for each year from 2001 to 2010 are shown, with a sharp increase starting in 2005.
Venture Backed Startup Employment

The 500 “other companies” should be upside on this projection
Venture Backed Startup Exits

Classes ‘01-04

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CATA-OCRI Business Drivers ‘05
Dec 7, 2004
The Down Side Issues

- Ottawa hard to reach and do biz with
  - Turbo Prop from Boston!!!
  - No flight from St Jose. Very bad.
- Engineers in China/India/Russia/Romania
  - Very good
  - Average loaded labour rate $US 25-55K
  - Canada $80-120K
- We can compete with anyone in the world… but
  - Many Ottawa companies have best in class products, but do not have as good customer relationships as US startups do
- Ottawa/Canada has poor reputation in commercializing tech
  - Ramping is an issue, sales, marketing, biz strategy
  - Taking companies public vs selling
- Canada less friendly to doing biz than most other jurisdictions
  - Can’t get goods in and out of Canada too easily – need an autopact for electronics
Conclusions:
Despite the issues…

• Ottawa on the “startup” map
  – Favorite destination for $US capital
• Significant capital continues to flow into town
  – Forget the bubble!
• “Forced entrepreneurship” has diversified tech
  – 600 new companies since the bubble -many NOT telecom
• We can compete with anyone in the world and WIN
  – Many Ottawa companies have best in class products
• Will likely fully recapture bubble height in 2010/11
  – If we push hard and succeed in the “commercialization” step
  – It will be an economic engine, not a speculative burst
• It is and will be a rough, tough, intense ride and I believe that we are up for it!