

# Venture capital under pressure

## Industry seeks to cut costs of deals

BY KATHRYN LEGER, THE GAZETTE    OCTOBER 30, 2009

Venture capital funding is in the pipeline again both for promising startups like Montreal's StatusNet Inc. and Quebec investment companies that specialize in providing financial backing to emerging technology firms.

This week, lawyers acting for StatusNet and local venture capital firms Montreal Start Up and iNovia Capital along with European angel investor Oleg Tscheltzoff of Fotolia.com, the photo-sharing website, sealed an \$875,000 seed financing deal.

The money will be pumped into StatusNet's efforts to soon fully launch its Identica open software platform so that more people and companies can take advantage of micro-blogging, the fast-growing form of Internet communication first pioneered by Twitter, by which people text followers tiny bursts of information about their immediate whereabouts and activities.

Also imminent is the rollout of Teralys Capital, the new \$700-million Quebec fund ([www.teralyscapital.com](http://www.teralyscapital.com)) created to fund venture investment firms that provide financial backing to developing companies in the information technology, life sciences and clean-tech sectors.

The fund is supported by a \$200-million investment from the Quebec government through Investissement Québec and \$250 million each from the Caisse de dépôt et placement du Québec and the Quebec Federation of Labour's Solidarity Fund.

"We are seeing a resurgence in the venture capital community," said Shahir Guindi, the Osler, Hoskin & Harcourt LLP lawyer who, along with associate Aidan McNeil, worked on setting up the structure for Teralys and, separately, on behalf of the latest round of seed investors for StatusNet.

"(Teralys) money will start coming onstream very soon," Guindi said. "The fund is now looking to invest in other funds and those funds are now more aggressively looking at deals."

Indeed, the move to create Teralys is a bold one designed to stimulate investment for future economic growth and counter the lack of venture capital financing in a market that has not been able to count on public stock offerings to raise working capital or help original seed investors cash out part of their investments.

That point was driven home last week at the Quebec City Conference, an annual meeting that attracts leading venture capital industry players - almost 400 this year from 21 countries ([www.quebeccityconference.com](http://www.quebeccityconference.com)).

"The (venture capital) system has been almost put on hold with all that has happened with the financial crisis," said Christian Racicot, the BCF LLP lawyer who co-founded the Quebec City conference along

with lawyer Stephen Hurwitz of Boston's Choate Hall & Stewart LLP.

For example, of the 178 venture capital firms in Canada that are part of the Canadian Venture Capital and Private Equity Association, only 61 were active with any investment this year. The situation has been equally bleak south of the border and elsewhere.

"The industry is going through a transformation and it is very difficult to be precise on how it is going to change, but everyone understands they have to adapt," Racicot said.

Everyone agrees that technology innovation must be financed, Racicot said, noting the idea for the Teralys fund was incubated through the public policy forum for government decision-makers at the Quebec City conference.

What remains less certain for the short and medium term is how to reconcile current low rates of return and the continuing lack of a public market in an industry that counts on more than one round of financing to help startups grow.

Some institutional investors also are backing away from the model that saw them invest in venture capital firms that would then directly oversee management of the startups and say they may consider investing in firms directly.

What is clear is that lawyers' work for the venture capital industry also is undergoing a reckoning, Osler's Guindi said.

"Like in the U.S., there will, at least in the medium term, be less opportunity for large venture capital practices at law firms," he said. "In the ... earlier days of venture capital ... investors were accustomed to higher legal fees. There is less reason and patience for that now and lawyers will have to close these deals more economically."

In the latest StatusNet financing, one law firm (Osler) represented all investors, said Ben Jeske of Ravinsky Ryan Lemoine LLP, the business law firm and Montreal tax specialty boutique that represented the interests of StatusNet and founder Evan Prodromou.

If you have information to share with the legal community, send it to: kathryn.

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