



albertaenterprise

2012 Deal Flow Study

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Message from Alberta Enterprise

Thank you to all participants in Alberta Enterprise Corporation's 2012 Alberta Deal Flow Study. We invited over 200 organizations to participate in this year's study, and were pleased to see such a strong response. Participants included industry leaders from across the spectrum, including: Venture Capital funds, formal angel investor groups, Limited Partner investors, research and technology commercialization organizations, universities, business incubators, consultants and advisors, industry associations and forums, and selected individuals. The participation of such diverse organizations ensured this was a highly collaborative effort, providing as accurate and meaningful results as possible.

We hope that you find some interesting insights into Alberta's deal flow and that this information helps your organization to continue to serve, support, or fund promising companies in our technology industries.

Barry Heck
Vice Chairman & CEO
Alberta Enterprise



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Objective of Study

Provide stakeholders with a shared understanding on the strength and make-up of technology deal flow across sectors and regions in Alberta.

Strong deal flow is an indicator of a thriving ecosystem, strong economy and healthy capital markets. However, it is often difficult to track for several reasons: investors treat their deal flow as confidential and may be hesitant to share with others as it is seen as an important competitive advantage; deal flow knowledge is highly siloed within organizations; and organizations with consistent visibility into deal flow are typically limited to a particular sector or geographic region. This lack of a shared understanding around deal flow has a detrimental impact on businesses and communities, through duplication of efforts, inefficient use of resources and lost opportunities.

Alberta Enterprise is uniquely positioned to lead this study due to its strong ties to the best sources of deal flow information, including early-stage technology investors and partnerships with many of the organizations that support, serve and advise technology companies.

Definition of Deal Flow

The stream of business proposals, pitches and investment offers that venture capital, angel and private equity investors identify and engage with on a daily basis.

Methodology

Alberta Enterprise's 2012 Deal Flow Study is the second comprehensive study conducted on the topic. The first was undertaken in 2009 by the Ministry of Enterprise and Advanced Education (Advanced Education and Technology at the time). By maintaining as much consistency as possible in methodologies, we are aiming for comparative value now and into the future.

The latest study was conducted between March and October of 2012 and covered technology companies active since January 1, 2009. The diverse range of participation from organizations spanning numerous mandates, sectors and regions in Alberta has helped raise the quality and the value we can collectively extract.

The process began with each participating organization submitting the names of technology companies of which they were aware. Following this data collection phase was an extensive validation process on each submitted company to confirm it met the criteria, fill in any missing information and avoid duplicate entries.

Study Criteria

To be validated as part of the study, the following requirements needed to be met:

- **Seed, early or later stage company**
- **Active between January 1, 2009 and present**
- **Alberta based or started in Alberta**
- **A technology product company**

While it is not feasible to ensure the process was 100% error free, significant effort was made to ensure the resulting data was as accurate as possible, without bias to sector or region.

Results

Response Rate

Two hundred industry leaders from across the finance and technology communities in Alberta were invited to participate, including:

- Venture Capital funds
- Formal angel investor groups
- Limited partner investors
- Research and technology commercialization organizations
- Universities
- Business incubators
- Consultants and advisors
- Industry associations and forums
- Select individuals

Of those invited, we received responses from 50 organizations throughout the province. Despite the fact we had allowed more than five months to collect submissions, garnering participation from industry leaders proved challenging. Some declined to participate, others supported the study but had no data to offer and many others did not respond. A key lesson learned was the need for increased clarity in our objective and scope of information requested. The top reason for organizations declining to participate was the (often incorrect) view that participation would jeopardize confidentiality of data.

25% response rate:
200 invited,
50 participated

While more organizations participated in this study than previously (there were 38 participants in 2009), the participant rate of 25% was similar.

We are thankful for the organizations that did participate and will be seeking even greater engagement in future studies as we believe this information enables community members to make better strategic and operating decisions.

Technology Companies

Over 4,000 names of technology companies were submitted by participants. After duplicates were removed, a detailed validation process was conducted on each of the remaining 2,600 companies. The top reasons for excluding companies from the study were:

- References to the company could not be found online
- The company went out of business prior to January 1, 2009
- The company was not located or headquartered in Alberta
- The company provided consulting/services rather than technology products

Venture Capital funds submitted the greatest number of technology companies in the study

927

Technology companies identified in Alberta

In total, 927 technology companies were accepted for the study, a 25% increase over the previous study which saw 736. This demonstrates significant growth in the Alberta technology community when taking into account the time horizon for each study:

- The previous study covered a nine year span from 2000 to 2008 but saw fewer companies
- The current study only covered a three year span from 2009 to 2012 and saw more growth

Venture Capital funds identified more unique technology companies than any other participant group in this study (with Government Agencies and Forums ranking second and third respectively).

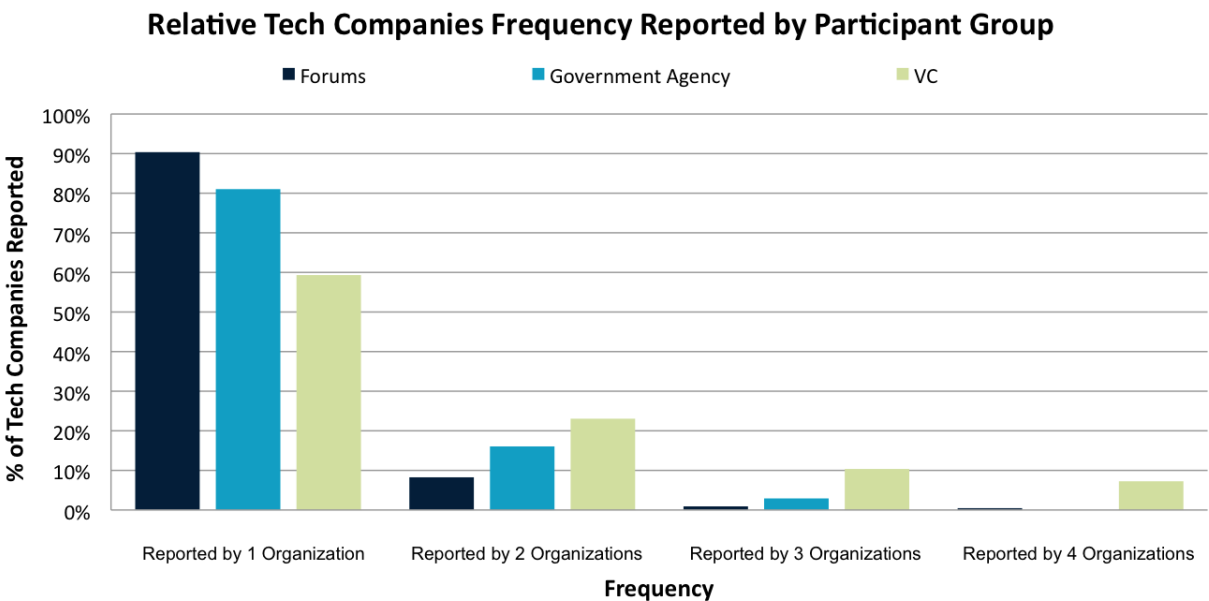
Community Efficiency

Greater shared knowledge around deal flow in Alberta will allow companies with the most potential to gain recognition and grow. The degree to which industry leaders share information and knowledge of technology companies within their region and sector is vital to the community.

This study demonstrates that a mere 40% of participants accounted for 86% of submitted companies. Venture Capital funds have the greatest shared knowledge of all participant groups with over 40% of submitted companies in this group being reported by more than one fund, compared

to just 20% for Government Agencies and 10% for Forums. This data indicates that deal flow knowledge is highly concentrated within a few select organizations and there is little sharing of that knowledge in the community as a whole.

This study clearly indicates the need for improved sharing of deal flow within the Alberta technology community. We hope this awareness is the first step towards increasing community efficiency amongst the organizations that serve and support our technology companies.

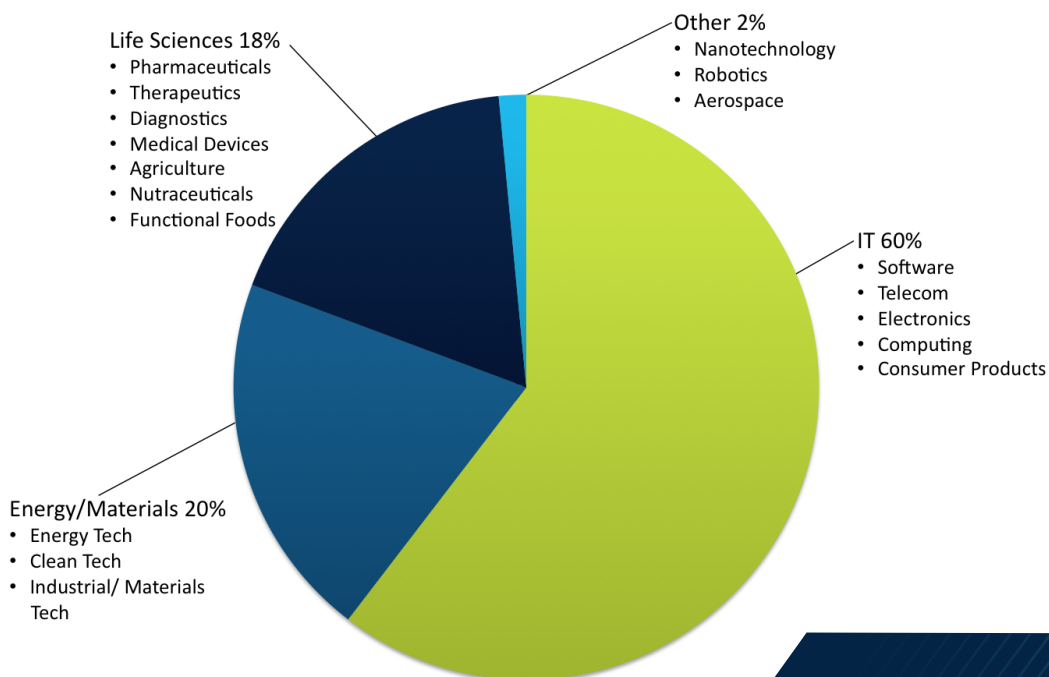


*Forums include non-government network organizations, industry associations, conferences and events, investment forums and databases of venture capital activity by professional tracking agencies.

Sector Breakdown

The technology ecosystem in Alberta is quite diverse, though ICT and Software in particular accounted for the majority of companies (60% of the total). Proportionally, the breakdown of technology companies was similar to the 2009 study, except the number of companies was greater this time around. The Energy/Materials sector came in second at 20%, reflecting the province's energy roots. The Life Sciences sector followed closely behind at 18%, with most of the companies in that sector being reported by a few key participants.

Of particular interest was the significant difference between deal flow as reported by Venture Capital funds, compared to Government Agencies. Of the deal flow submitted by Venture Capital funds only 18% was categorized as Life Sciences with 56% as IT, whereas Government Agencies reported 32% and 47% respectively. This difference represents an area for future investigation. Refer to the Appendix for a more detailed sub-sector breakdown.



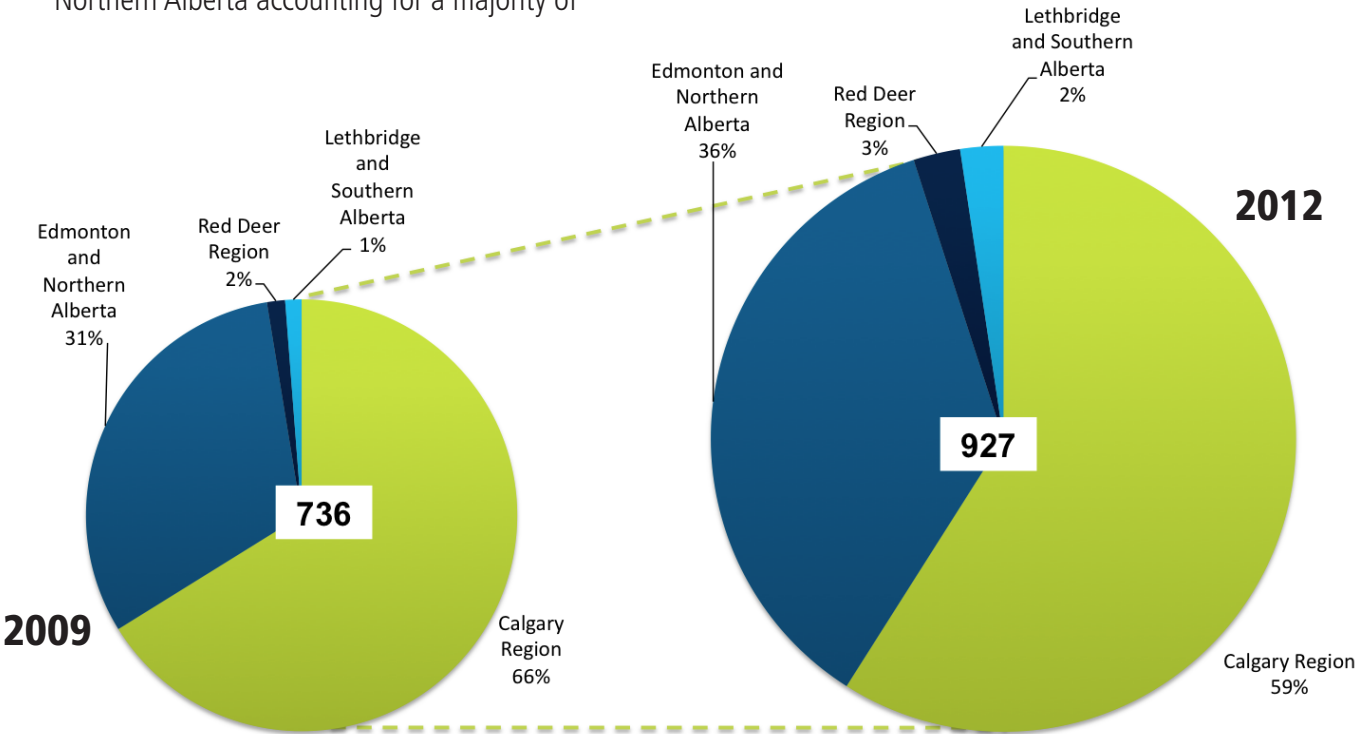
ICT

The strongest technology sector, making up 60% of the ecosystem

Region Breakdown

The Calgary Region accounted for a strong majority of reported technology companies, followed by Edmonton and Northern Alberta. While Edmonton and Northern Alberta had fewer technology companies, this region experienced the most growth. Since the 2009 study, Edmonton and Northern Alberta grew more than 45% whereas the Calgary Region grew 12%. With Edmonton and Northern Alberta accounting for a majority of

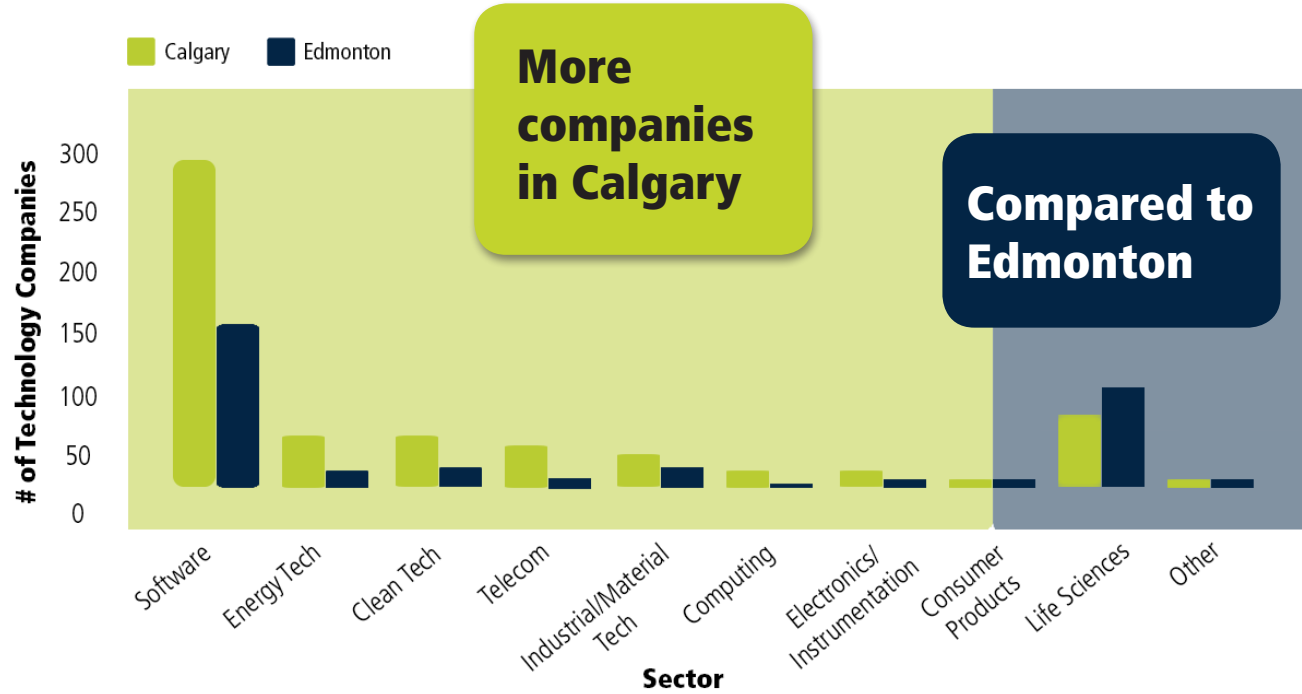
the total growth (54%) between the studies, there is obviously a strengthening innovation trend in the province's capital. As well, while innovation in the Red Deer Region and Lethbridge and Southern Alberta have more than doubled since the previous study, together they make up just 5% of the total deal flow in the province. Finally, there was also negligible deal flow identified north of Edmonton.



Calgary and Edmonton

The figure below is a detailed sector breakdown of Alberta’s two largest cities. While Calgary reports higher levels of deal flow than Edmonton in most sectors (especially in Software, Energy Tech and

Clean Tech), Edmonton is stronger in Life Sciences and Other sectors that includes Nanotechnology and Robotics.



Summary

This study's objective was to provide stakeholders with a shared understanding of the strength and make-up of technology deal flow across sectors and regions in Alberta.

Two hundred industry leaders from across the province, ranging from Venture Capital funds and angel groups to consultants and individuals, were invited to participate in the study. Of those, 50 responded and the following key findings emerged:

- The number of technology companies in the province grew 25% – to 927 – from the 2009 study
- Shared deal flow knowledge was identified as inefficient between organizations
- ICT was the strongest sector, making up 60% of all technology companies. Energy/Materials was the runner-up, accounting for 20% of all technology companies
- Calgary accounted for a strong majority of the reported technology companies in both the 2009 and 2012 study, but Edmonton and Northern Alberta showed the most growth.

Alberta Enterprise plans to conduct a follow-up study every one to two years. The goal of this approach is to establish a greater understanding of changes in deal flow over a period of time, accounting for growth, decline, sector focus and other emerging trends. This body of knowledge will provide insights to better serve, support and fund promising technology companies.

A final thank-you to all participating organizations that collaborated to make this study possible. Your efforts ensured our results were both representative and meaningful.

Appendix

About the Researchers

Alberta Enterprise

Initiator of the 2012 Deal Flow Study, Alberta Enterprise identified a critical knowledge gap in the technology sector and took the first steps to change that. Together, with Uncommon Innovation, Alberta Enterprise was able to contribute valuable insight to technology deal flow knowledge in the province.

Alberta Enterprise promotes the development of Alberta's venture capital industry by investing in Venture Capital funds that finance early stage technology companies. Launched with a \$100 million investment from the Government of Alberta, Alberta Enterprise focuses on funds that have a strong commitment to Alberta – including a full-time presence in the province. The organization also supports Alberta's VC ecosystem by connecting investors, entrepreneurs, and experienced technology executives who share our passion for building a bright, innovative Alberta.

More information can be found at www.alberta-enterprise.ca

Uncommon Innovation

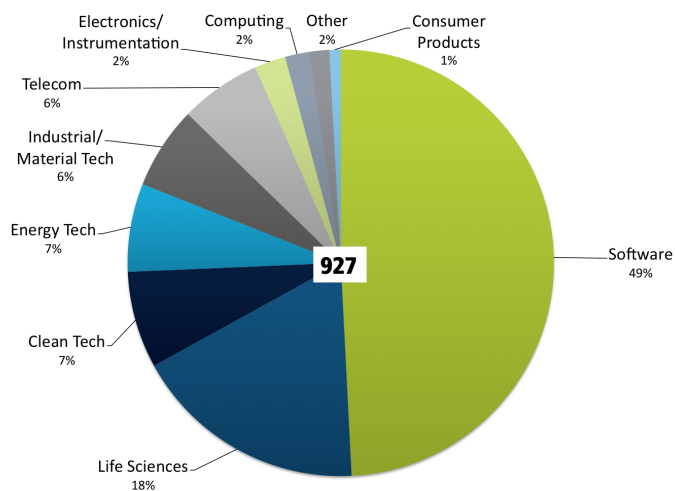
Uncommon Innovation advises on product marketing and product management strategies for technology-focused and knowledge-driven organizations. Uncommon Innovation believes success requires creating the right product and delivering an outstanding experience to the right market. With years of new product development, management and marketing experience, our team offers insights that result from real, hands-on experience with technical issues and business challenges. Past and current clients include CoolIT, eThor, Trusted Positioning, Chaordix, Osprey Informatics and Darkhorse Analytics.

More information can be found at www.unco.ca

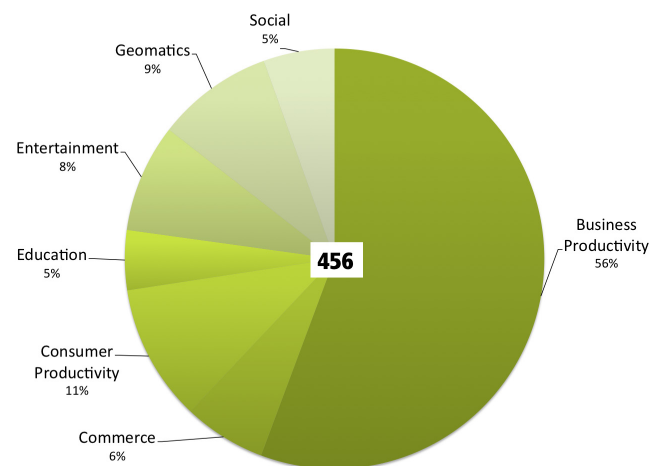
Sub-Sector Breakdown

The following charts break down the five largest sub-sectors as indicated by the Overall Sector Breakdown. This gives you a better understanding of the specific sector make up.

Overall Sector Breakdown

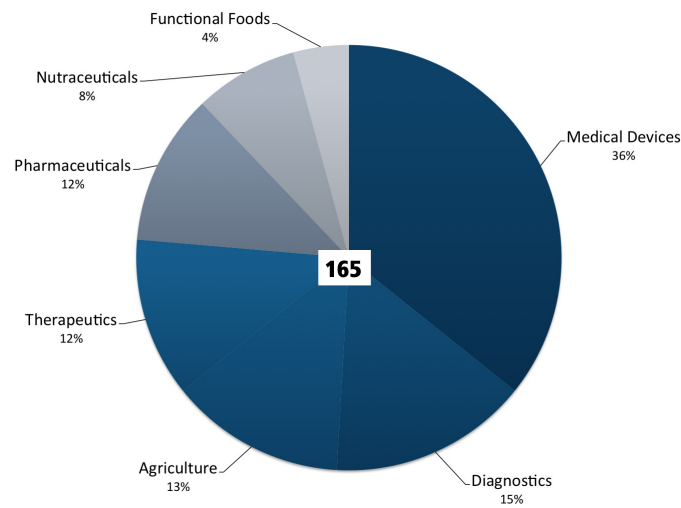


Software Breakdown

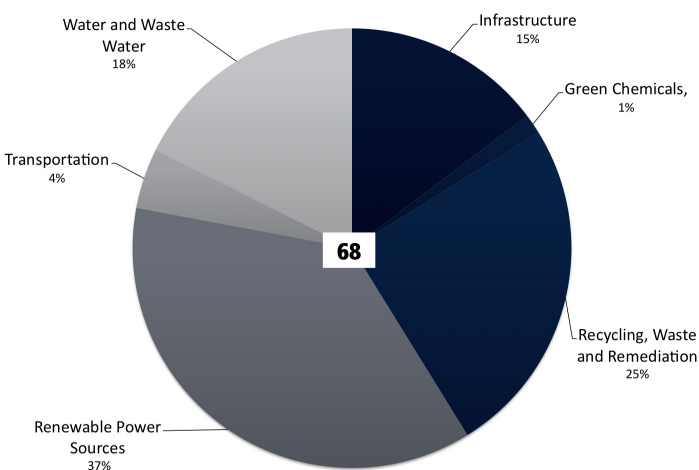


Sub-Sector Breakdown Continued

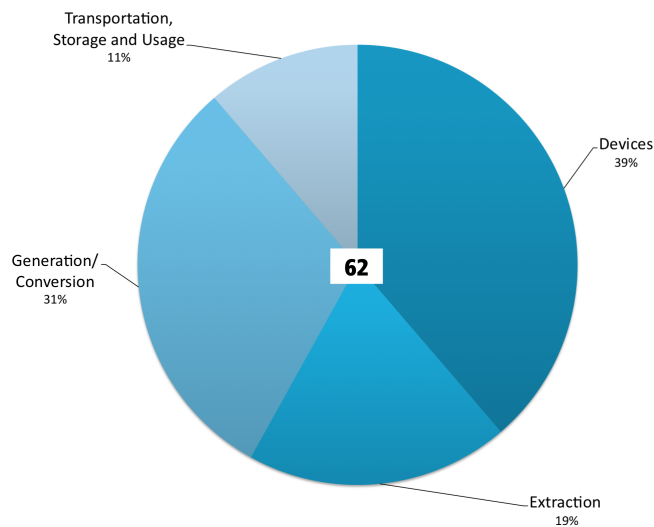
Life Sciences Breakdown



Clean Tech Breakdown



Energy Tech Breakdown



Industrial/Material Tech Breakdown

