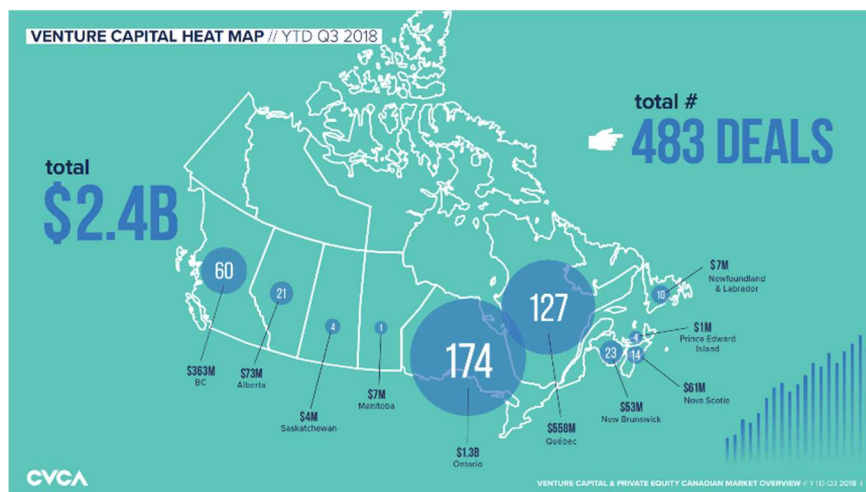


Canada's Growing Tech Sector Canadian Seed Stage Private Equity Opportunity

While most of the venture capital in the United States continues to be focused in major cities such as New York and Silicon Valley, in recent years, Canada has begun to draw the attention of investors and VC firms. With an entire universe of untapped potential, the huge surge of Canadian startups offer unique opportunities for diversification outside of the United States. To gain insight, we spoke with Panache Ventures, Canada's most active seed stage venture capital fund, to learn more about what we believe is the next market to experience extreme growth.

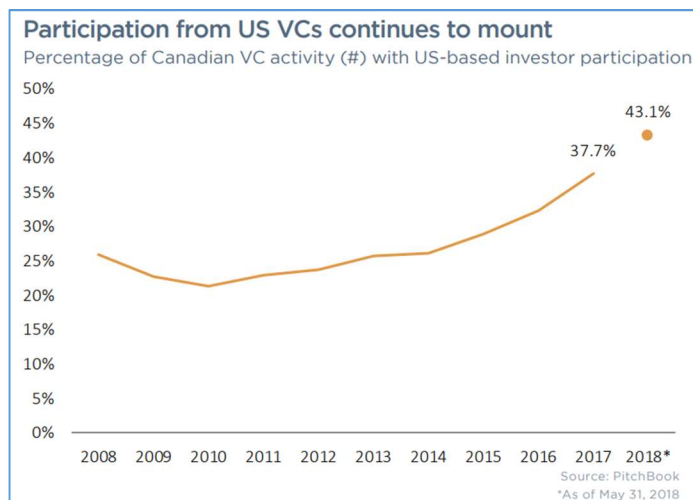
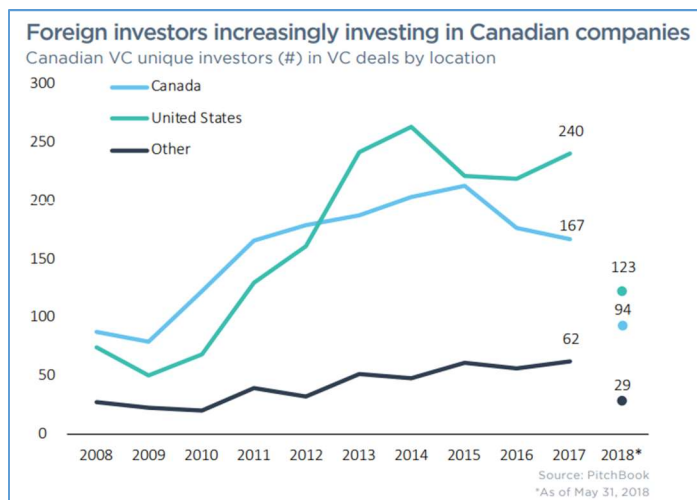


Why Canada? The Opportunity

The US' friendly neighbor from the North has a population of 37 million, which, if it was a US state, would make it the second largest just behind California's 39 million, and its GDP of \$1.8 trillion makes it the 10th largest economy in the World (2017 IMF estimate).

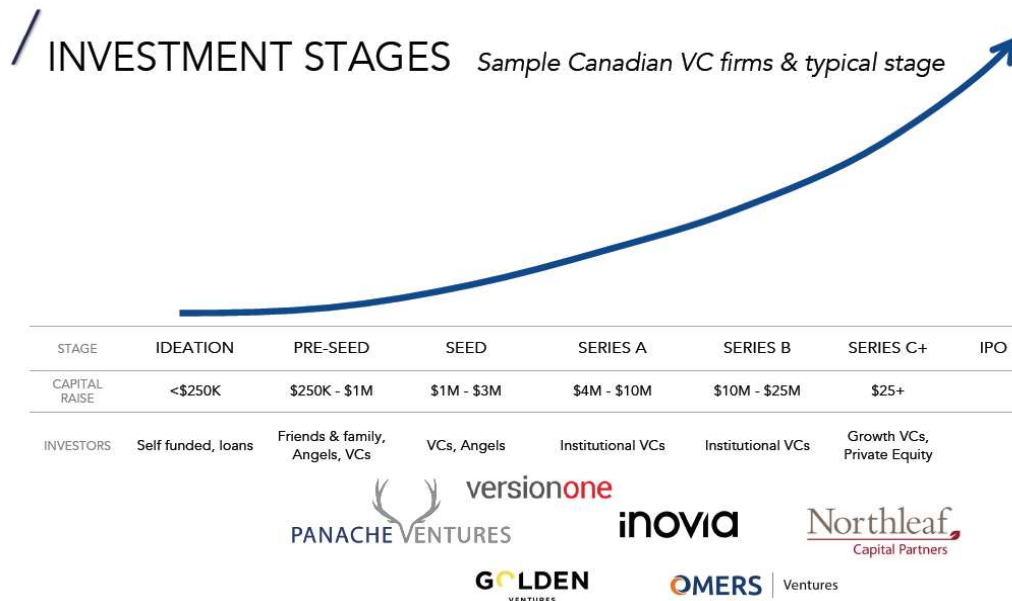
However, when it comes to venture capital, Canada has historically lagged behind the U.S. In 2016, while U.S. GDP was 11.6x larger than Canada's, the total venture capital invested in U.S. tech companies was a whopping 35.8x more than in Canada (\$49 billion vs. \$1.4 billion. Source: <https://www.sampfordadvisors.com/blog/canadian-vc-vs-usa>).

We are seeing many signs that this is in the process of changing, that the gap will narrow significantly in the next years, and that Canadian VC is *emerging* and maturing quickly. For patient investors, this could lead to years and maybe decades of growth and exceptional returns. Many US-based firms have started to pay attention and Canadian startups have been attracting a record amount of US investments in recent years (according to Pitchbook's 1H 2018 Canadian PE & VC Factbook. Source: <https://pitchbook.com/news/articles/is-canada-techs-next-frontier-vcs-think-so>)



Late Stage vs. Early Stage Private Equity

We noticed that most of this US-based VC activity in Canada happens in larger rounds, post Series-A. This makes sense, pre-Series-A, rounds are often too small, companies and founder teams are unproven for US firms to cross the border. Historically pre-seed and seed investment has been very local and driven by small firms and angel investor groups. At Panache Ventures we have identified an opportunity to build a large portfolio of the best pre-seed and seed startups in Canada. This makes for a unique vehicle allowing US-based and foreign limited partners to get exposure to a unique asset class and **invest early in a group of high potential tech companies, while reducing the volatility associated to very early stage venture capital investment.**



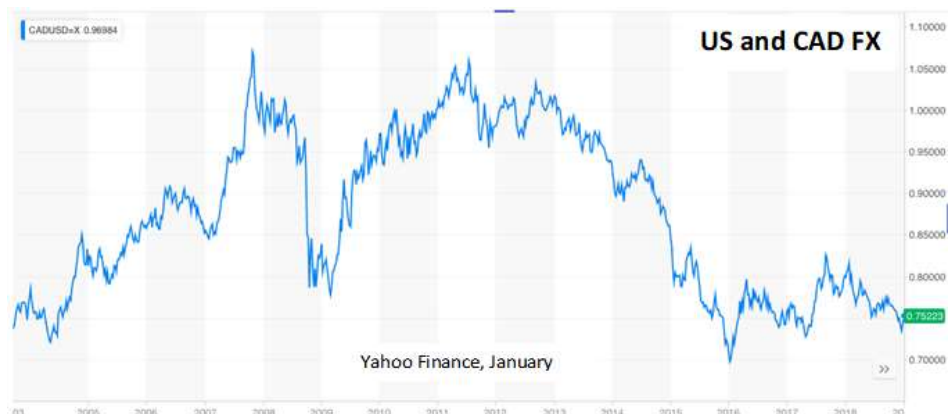
Business Environment and Valuations; Opportunity for Arbitrage

Favorable Government Treatment

Add to that a multitude of government incentives at the federal and provincial levels. All Canadian startups have access to a long list of grants, tax credits, and flexible loans, depending on geography, sector and stage. This gives them a unique advantage over their competitors, and allows their capital raised to go further. The well-known Scientific Research and Experimental Development (SR&ED) Tax Incentive Program, for example, provides refundable tax credit of up to 35% R&D expenditures and is one of the most generous in the World.

Favorable FX

The Canadian dollar has been hovering between USD \$0.70 and \$0.80 in recent years, which means that Canadian startups, who usually target the US market, have a cost base in CAD and a revenue base heavy in USD, which frequently gives them an advantage on pricing over their American competitors, as well as a longer runway for each dollar of investment raised.



Less Competition

At the same time, and especially at the seed stage, there is less capital available and less VC firms in Canada, which means it remains a “buyer’s market”, so deal flow for our firm is fantastic and valuations of rounds in high potential startups are usually lower in Canada than the US. Our thesis at Panache Ventures is to invest early and at a good price in those best startups, and then help them brace up for growth in a maturing ecosystem and on a global scale, expecting that eventually many will achieve large liquidity events and great outcomes for the fund and its investors.

Capital and Liquidity

One of the reasons why Canadian VC has been flying under the radar has been the relative scarcity of large M&A and exits. Because growth capital was hard to come by, and perhaps because the overall ambition of founders and funders wasn’t as high as you’d encounter in Silicon Valley, Canadian companies have often sold (too) early to bigger competitors, or just remained smaller than needed for them to bring outsized returns to their investors. However now both the **availability of growth capital and the increase in the overall ambition of founders are leading us to predict that the next decade will be fertile for Canadian companies to grow into those elusive unicorns and lead to large M&A transactions and IPOs.**

Shopify has been a clear driver of this newfound ambition. Founded in Ottawa, Shopify priced its IPO at \$17 per share in 2015, garnering a reported \$1.3 billion valuation at its stock market debut. The ecommerce company had raised more than \$120 million in VC backing—a notable feat. As of January 8th 2019, its market cap stands at \$15.7 billion.

According to CVCA numbers, Q3 2018 saw two large deals (\$50M+), bringing the YTD tally to nine mega-deals totaling \$0.7 billion. One of those involved Montreal-based travel app Hopper, which closed a \$129M Series D round led by OMERS Ventures. The other mega-deal involved Toronto-based Kira Systems, with a \$70M minority foreign investment. These large deals for Canadian based companies are an important step in growing the Canadian ecosystem. However, **growth was not limited to mega-deals. Canadian VC activity also saw growth in deals between \$5M-\$20M, which captured 36% of total dollars invested and represented a 7% gain over last year.**

Canada’s Tech Industry

Some key investment themes build on Canada’s strengths:

- **Artificial Intelligence:** Enable automation and optimization in all industries, using ML and deep learning, computer vision, natural language processing, etc. (current portfolio examples: MarketMuse, CTO.ai, FleetOps, Harbr, reDock, Vyrill, Green-eye Technology, etc.)
- **Fintech:** Shape the future of finance with open/API banking and new digital experiences (Flinks, Evree, Fi.Span, etc.)
- **Digital Healthcare:** Empower people and organizations to live better lives (Invivo.ai, Medstack)
- **Enterprise Software:** Focus on industry verticals at the edge of software driven transformation (Lane, MasterpieceVR, Lexop, Certn, Wisk, CoLab, HumanFirst, etc.)
- **Blockchain:** Disrupt centralized platforms

Attracting Key Talent

Driving Artificial Intelligence

The reasons why Canada has been dominant in the artificial intelligence space and has become a hotbed of talent are multiple. 2 of the 3 leading researchers that have been driving the deep learning and neural networks progress of recent years are based in Montreal and Toronto (Yoshua Bengio and Geoff Hinton, respectively) and their research groups have been a fantastic source of otherwise scarce resources. Bengio is a co-founder of Montreal-based Element AI, which raised a record-breaking \$102M Series A in 2017 and now boasts more than 300 employees. DeepMind, a Google acquired intelligence company, opened an office in Edmonton, Alberta. Facebook, IBM, Microsoft, Thales, are also among a list of companies that have launched AI labs in the last 2 years, often in collaboration with academia, which helps spawn more talent.

Immigration

It also helps that Canada has become famous for its liberal immigration policy. While the US has become more stringent on immigration, a fast-track visa program offers up Canadian permanent residency and is designed to woo talented innovators from around the world. The Canadian government has also committed about \$125 million, specifically to A.I. funding.

Lower Living Costs

Other factors such as a lowest cost of living in Canadian cities (vs. the Bay Area and NYC, notably), public healthcare, high quality of life (the World Economic Forum ranks Canadians as the 6th happiest people in the world, while Americans lag behind at 13th), and the maturation of the tech sector are attracting talent at all levels of scientific, engineering and business roles. This is also preventing brain drain, which has been a historical hindrance on the ecosystem, and convincing many expats to move back home and work for Canadian startups and scale-ups.

Special Thanks to our Contributor:

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Panache Ventures is Canada's most active seed stage venture capital fund. Panache is led by a team of experienced operators, with a strong angel investor track record, years of institutional VC experience and a strong network in Canada, in Silicon Valley and worldwide. The fund has a founders-first philosophy, a commitment to diversity and strategically co-invests with smart angel investors and seed stage funds.

We invest in the Future of Work, in technologies that will shape the way we work and live by leveraging AI, blockchain, robotics and eventually quantum computing. We invest in the next generation of world changing entrepreneurs – the dreamers, thinkers, creatives, and mad scientists with massive ideas that reject the status quo. They are building new technologies and unique data capabilities to deliver superior software solutions and applications that open or create large markets.

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