

The logo for Silicon Valley Bank, featuring the letters 'svb' in white on a blue square background.

svb



Silicon Valley Bank

State of the Markets

**Inside Views on the Health and Productivity
of the Innovation Economy**

Canada Special Edition 2019



State of the Markets: Canada 2019

Early Days for a Perfect First Market

To mark our official entrance into the Canadian market, Silicon Valley Bank is proud to present this special edition Canadian State of the Markets report. We publish these reports quarterly across the globe as a data-driven lens into the innovation economy, and this quarter, we're excited to do a deep dive on Canadian tech as well as share a comparison to what we've seen in the other tech hubs.

While making this report, we heard VCs call Canada “the perfect first market” for a startup. Canada is culturally diverse and multilingual, with a rich technical talent pool, as well as home to leading universities and a source of consistent government support for technology. It also boasts proximity and similarities to the world's largest economy just south of the border, which proves advantageous for international capital and expansion. For these reasons, it's easy to see why Canada has now stepped squarely into the global spotlight.

However, despite venture dollars hitting their highest point this year at \$3.8B, it is still an early ecosystem, and we're seeing a “valley of death” for companies as they scale beyond their first few rounds, forcing a historical “exit-early” mentality. With the availability of growth rounds spiking this year, I am hopeful that we're witnessing a mindset shift that could break the cycle. Increased capital, coupled with technical “dry-powder” in artificial intelligence (AI), could become the foundation for a flywheel of talent and capital to be recycled back into Canada for years to come.

Barbara Dirks
Head of Canada
Silicon Valley Bank

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On the Global Stage

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Climbing from All Sides

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Could Turn a New Leaf

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Venture in Canada: On the Global Stage

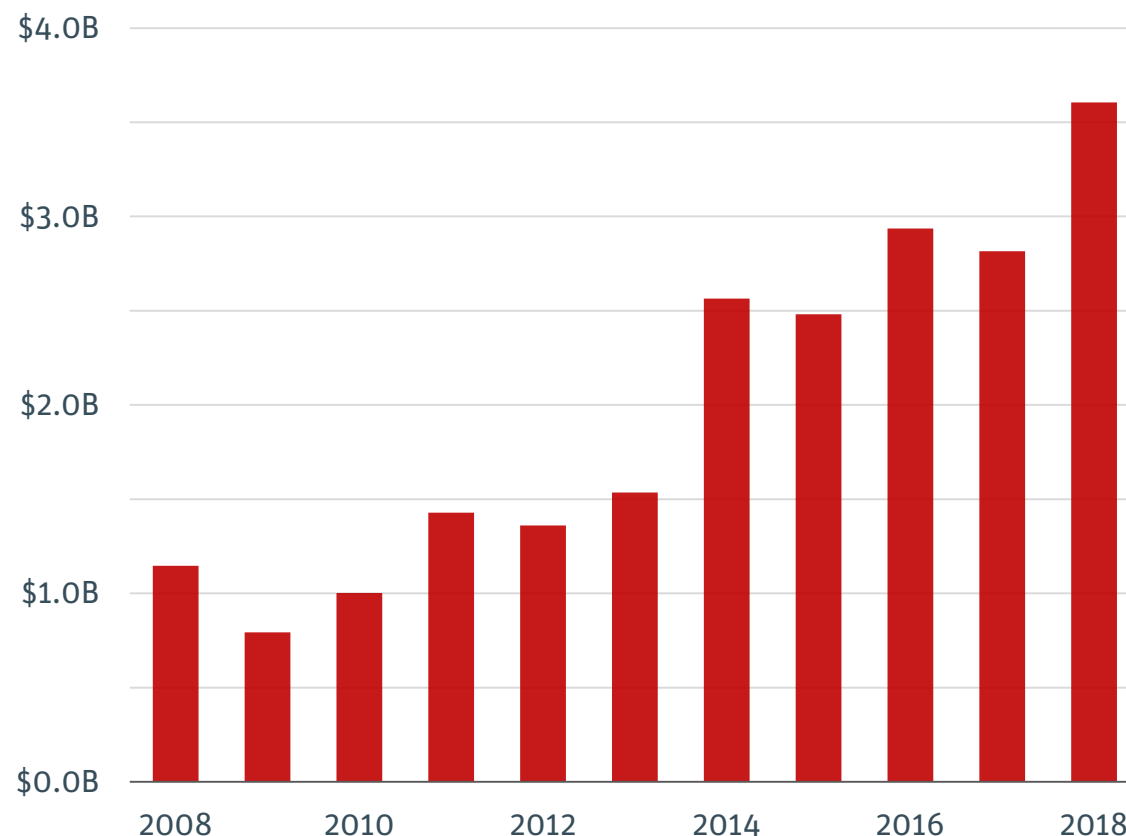
A Steady Climb: Building Venture in Canada

On the backs of strong universities and consistent government support for R&D, venture investment has thrived in Canada, rising nearly fourfold this decade. Programs remain aimed at continued flows of both capital and talent into the burgeoning ecosystem.

Top Canadian Universities by World Rank in Computer Science¹



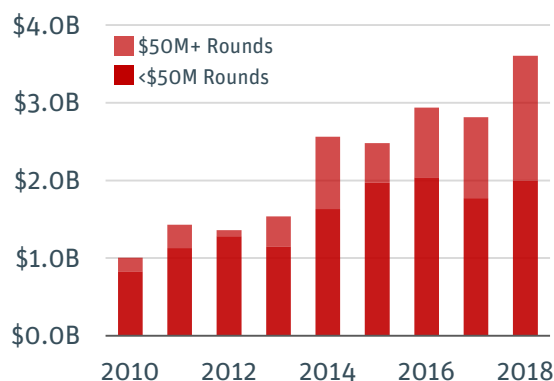
Venture Capital Investment in Canada



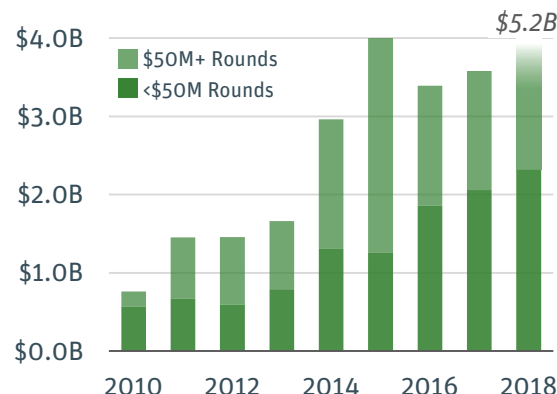
Canadian Venture Powers On, Matching Other Hotbeds

Venture investment in Canada crossed the billion-dollar mark in 2011 and has shown no signs of slowing, now matching innovation powerhouses like Israel and the fourth best-funded state, Texas.

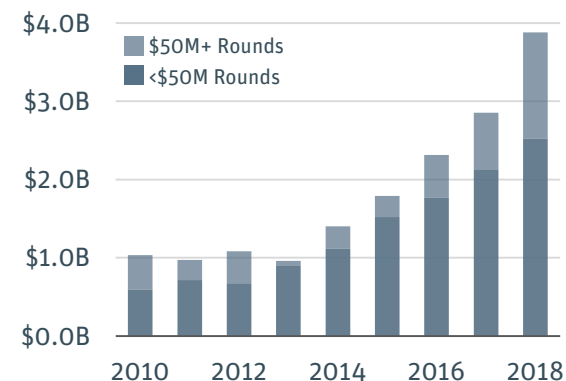
Canada: Venture Investment



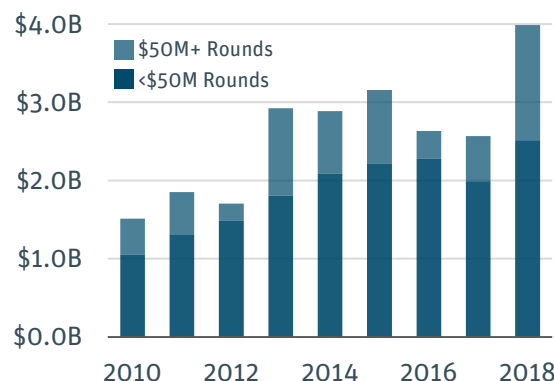
Germany: Venture Investment



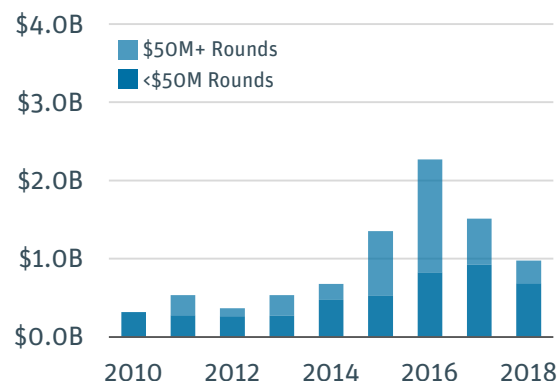
Israel: Venture Investment



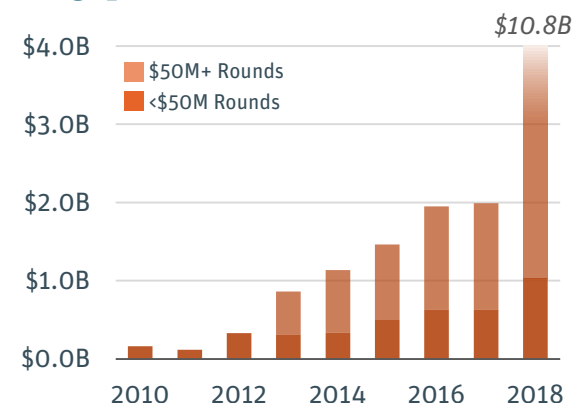
Texas: Venture Investment



Sweden: Venture Investment



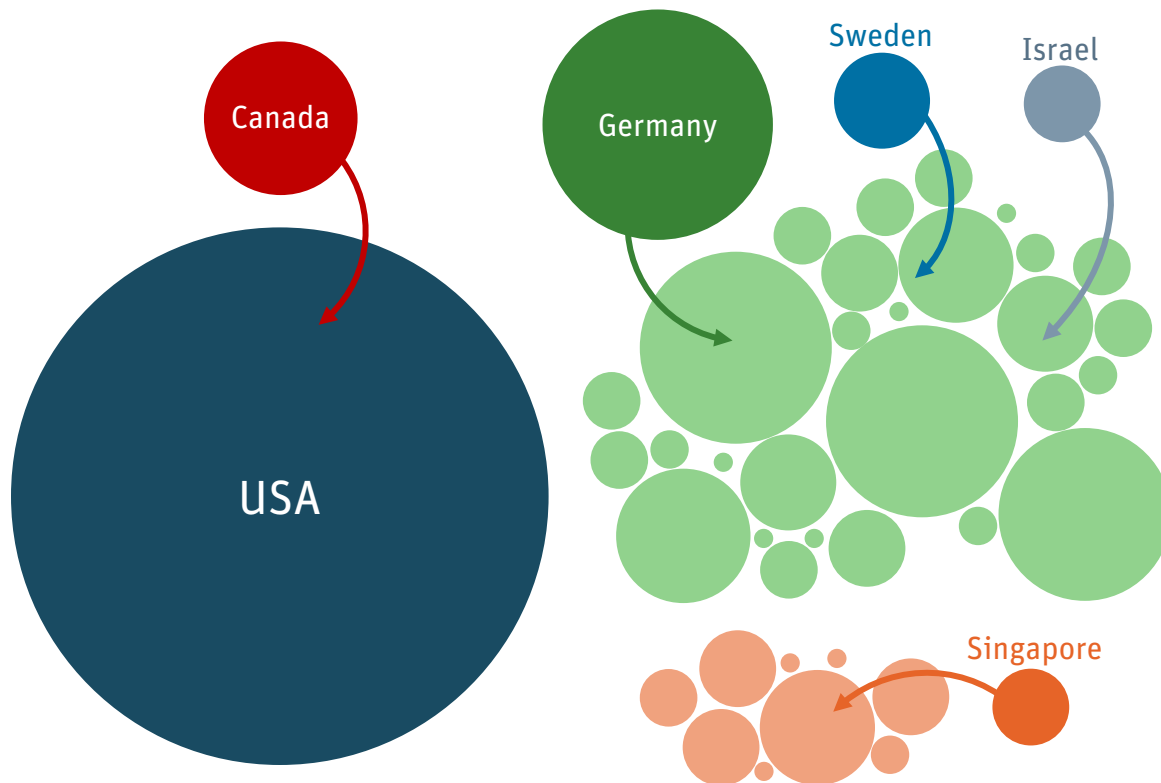
Singapore: Venture Investment



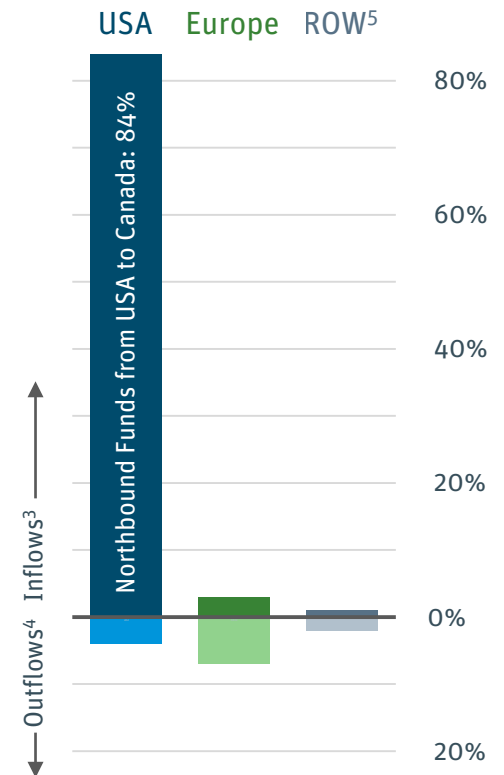
Market Size Pushes Startups to Think Globally

Despite covering six time zones (and two languages), Canada's limited market size makes it difficult to scale a venture domestically. But having the world's largest economy just south of the border provides an advantage over others where international expansion means overcoming fragmentation.

Countries Scaled by GDP: North America, Europe¹ & SE Asia²



Canadian SVB Clients' Fund Flows by Region and Direction: 2018



Notes: 1) Europe includes EU plus Switzerland and Norway. 2) Southeast Asia includes ASEAN countries. 3) Inflows primarily include revenue and fundraising. 4) Outflows primarily include payments to foreign suppliers and cost centers. 5) Rest of World.
Sources: The World Bank, SVB proprietary data and SVB analysis.

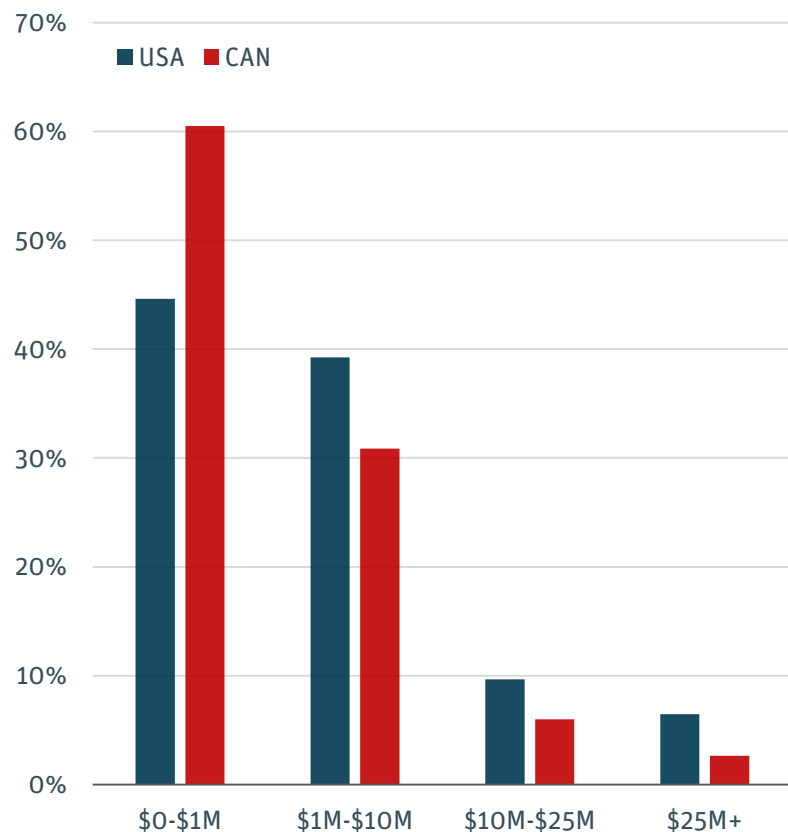


Tech Investment: Climbing from All Sides

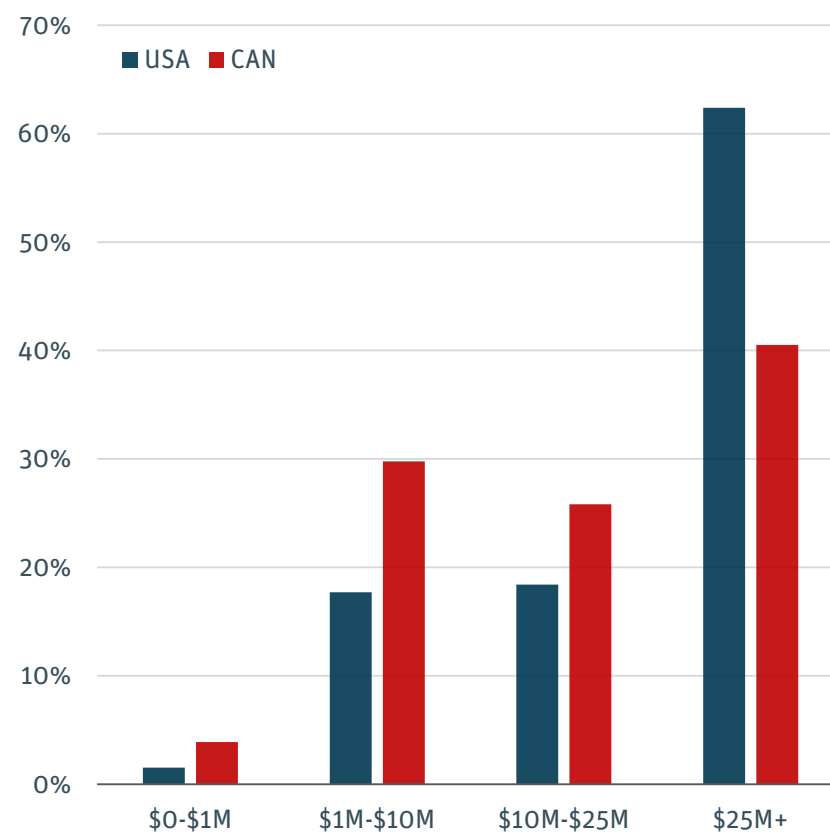
Start-up to Scale-up: Canadians Face “Valley of Death”

Investment continues to climb for startups, but funding gaps remain. Early stage activity remains abundant: almost two-thirds of deals were for less than \$1M. While their US counterparts raised more than 60% of capital through \$25M+ growth rounds, Canadian firms raised just 40% since 2016.

Tech Venture Deal Count (% of Total): 2016–2018



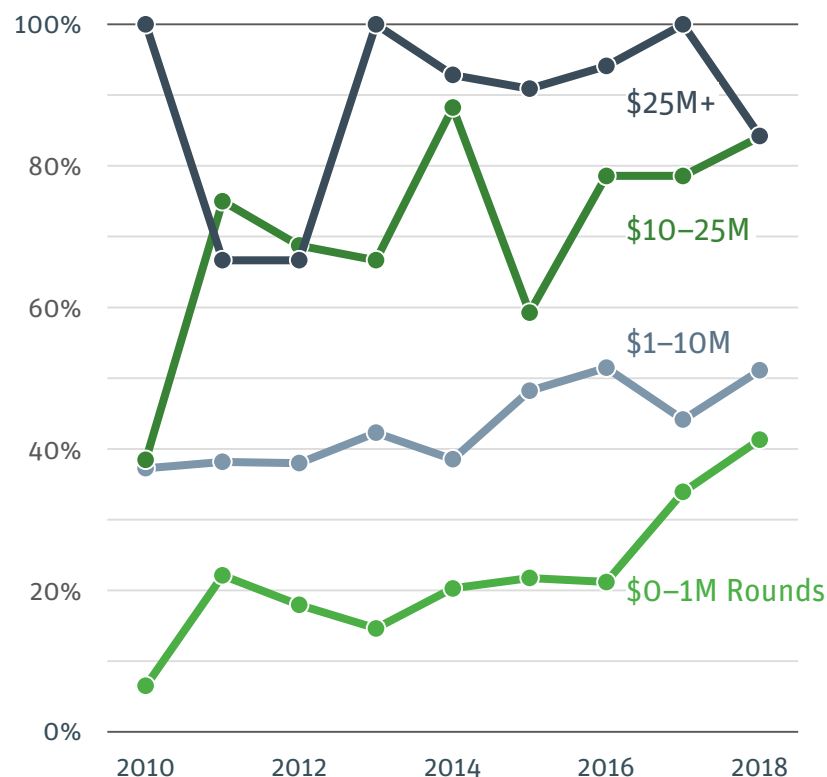
Tech Venture Capital Inv. (% of Total): 2016–2018



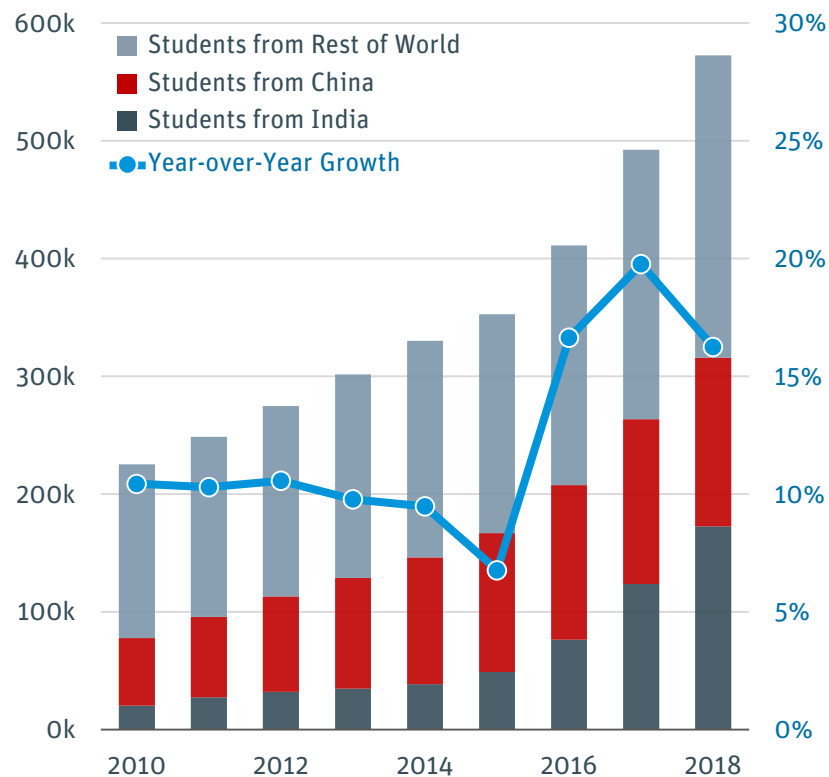
Attracting the Right Foreign Capital and Talent

Overseas capital and talent fills some of the gap remaining in domestic sources. Growth rounds have historically relied on foreign participation (more than 80% of which is from the US). And even with few homegrown unicorns recycling talent back, universities are providing strong international talent.

Canada Tech Venture: Participation by Foreign Investors by Round Size: 2010–2018



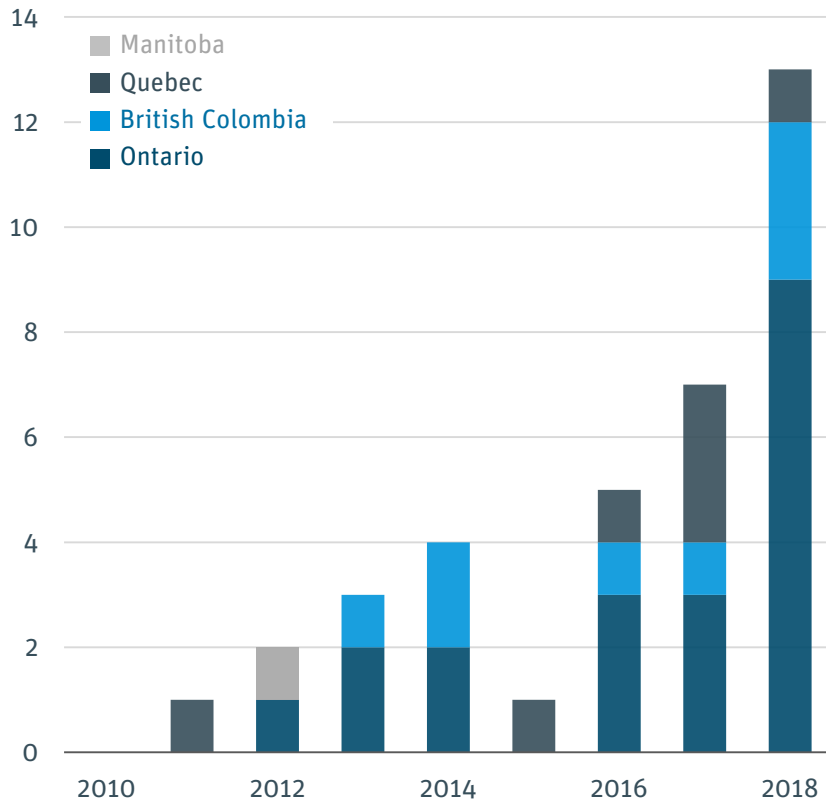
International Students at Canadian Universities on Study Permits: 2010–2018



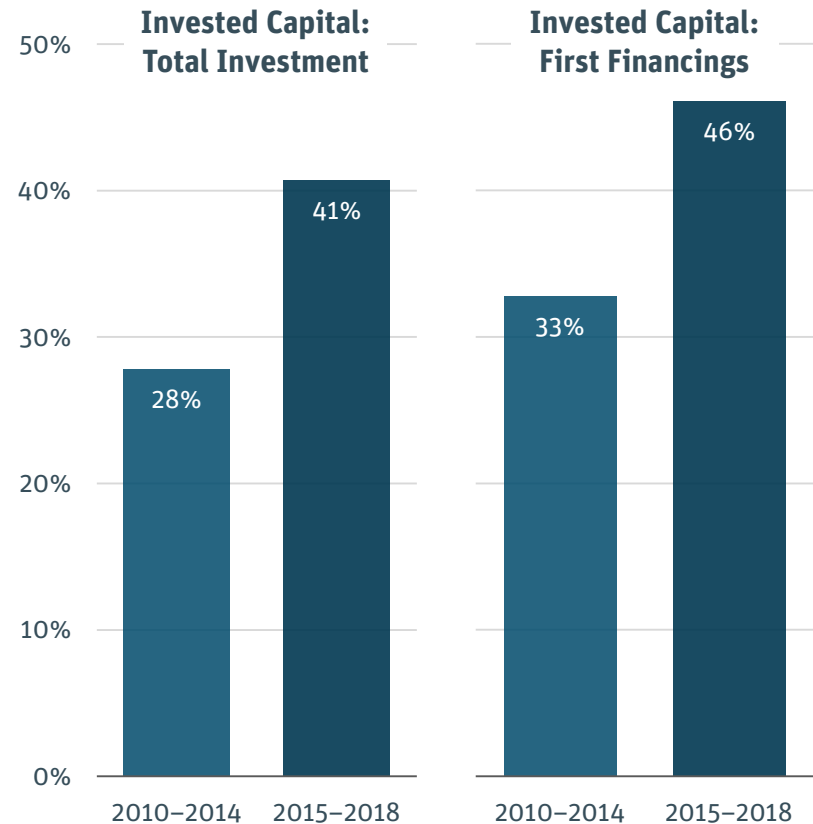
As Growth Capital Arrives, Toronto Cements Its Place

Rounds of \$50M+ doubled in Canada in 2018. Toronto firms led the charge, with eight of the 13 mega-rounds. In fact, more than 40% of all Canadian venture dollars now flow to the city. And with a climbing share of company formation capital as well, Toronto has finally reached critical mass.

Canada Tech Venture: \$50M+ Rounds by Province



Toronto's Share of Canada Tech Venture Capital



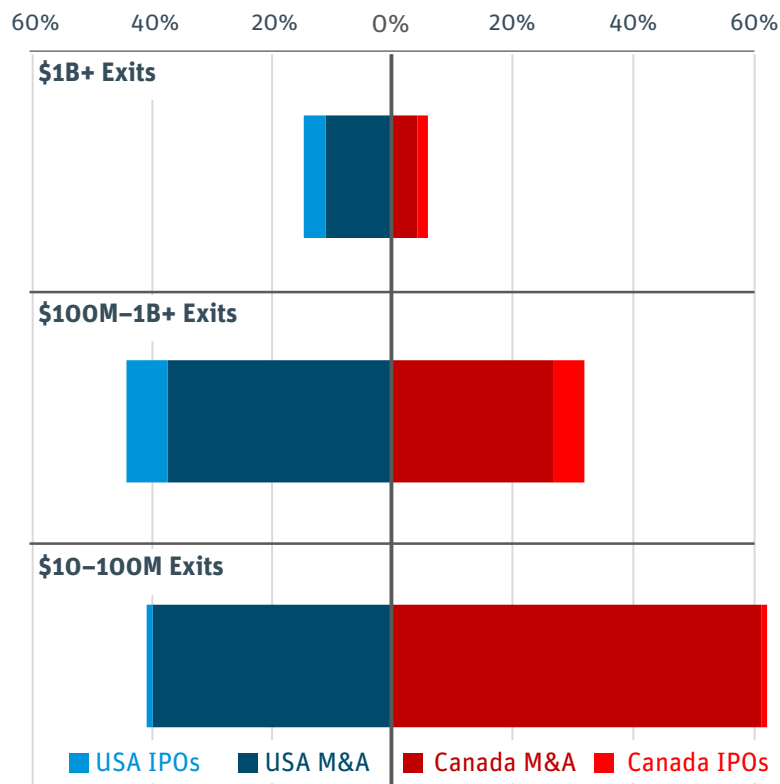


Exits: Aiming Higher Could Turn a New Leaf

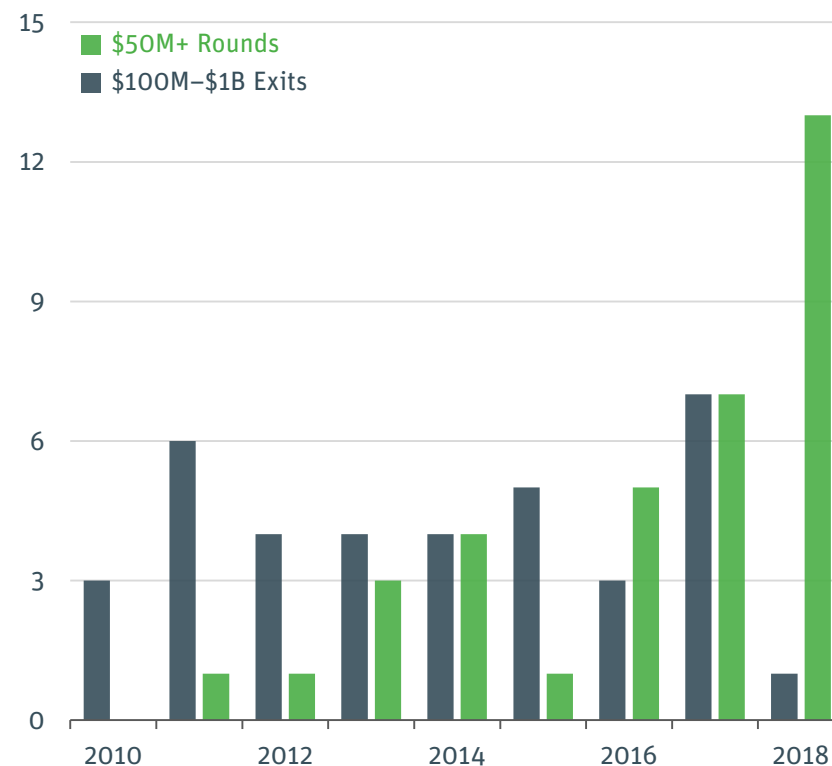
Overcoming the “Exit Early” Mentality

Canada has suffered from a lack of big exits, limiting the pool of talent and capital ready for hyper-scaling. But companies chose further growth capital over early exits in 2018. Perhaps those rounds (and their potential secondary transactions) can propel entrepreneurs to world-scale outcomes.

\$10M+ Tech Exits by Size (% of Total): 2010–2018



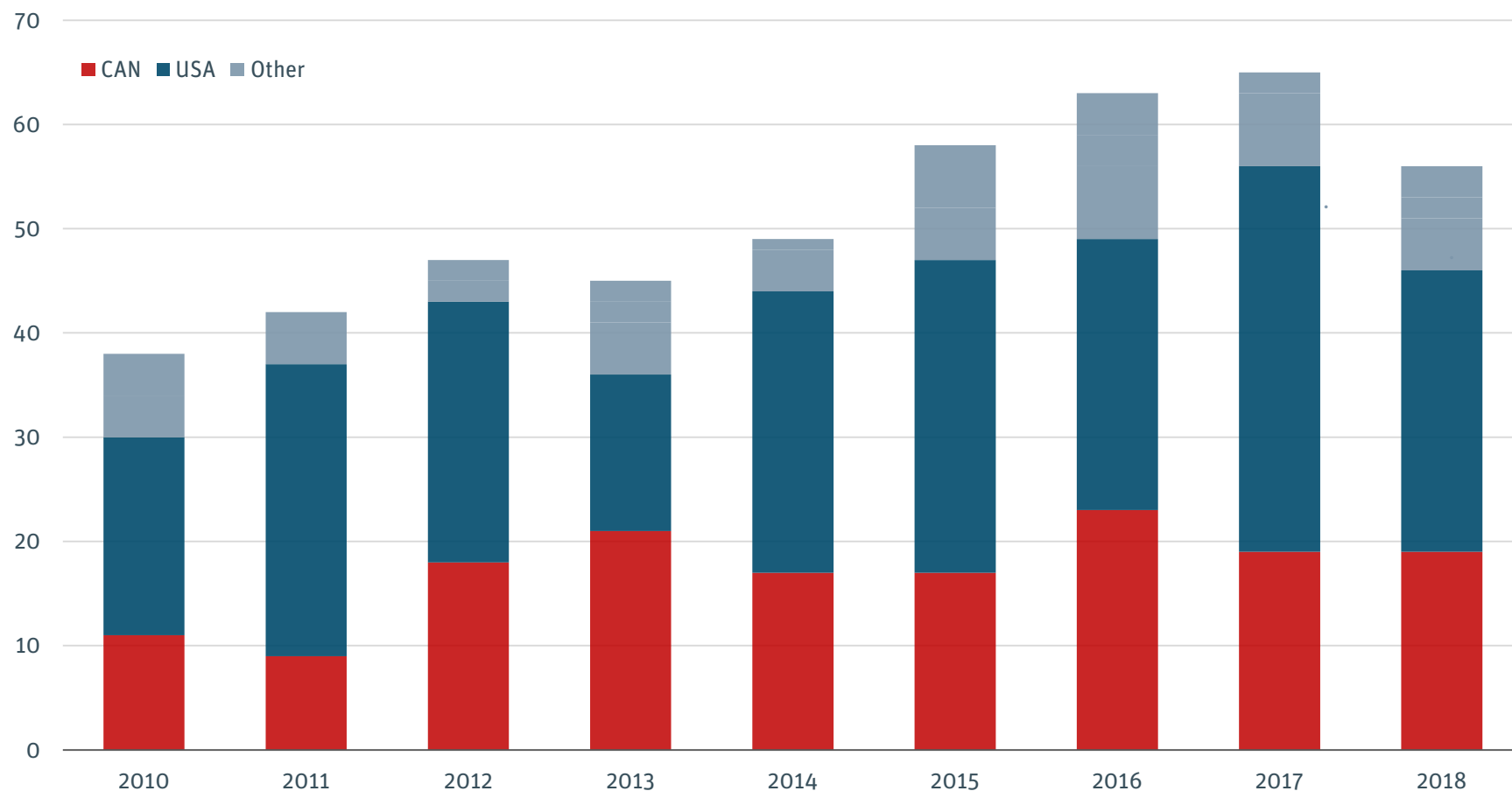
Canada Tech Venture Capital: \$50M+ Growth Rounds vs. “Early” Exits



Venture Relies on International Acquirers

As M&A activity climbed this past decade, the acquirer base remained consistent: Only one-third of acquisitions of Canadian startups are by fellow Canadians, while US firms account for half.

Acquisitions and Buyouts of Venture-backed Canadian Tech Companies by Home Country of Acquirer

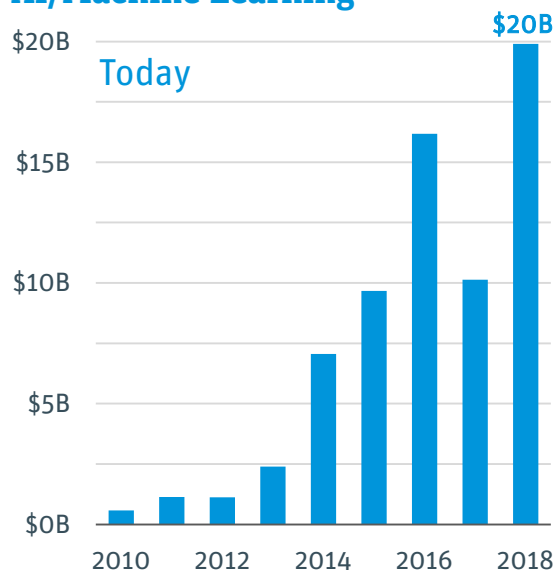


AI: An Opportunity for Canada to Lead the World

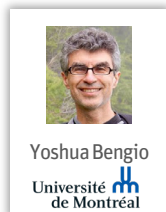
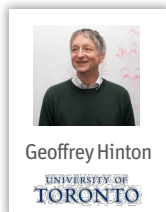
The now worldwide phenomenon started in large part in the halls of Canadian universities. As artificial intelligence provides the platform of tomorrow, new industries are opening where Canadian startups could find an edge and achieve the global-scale exits to drive the next chapter of innovation.

North American Venture Investment: 2010–2018

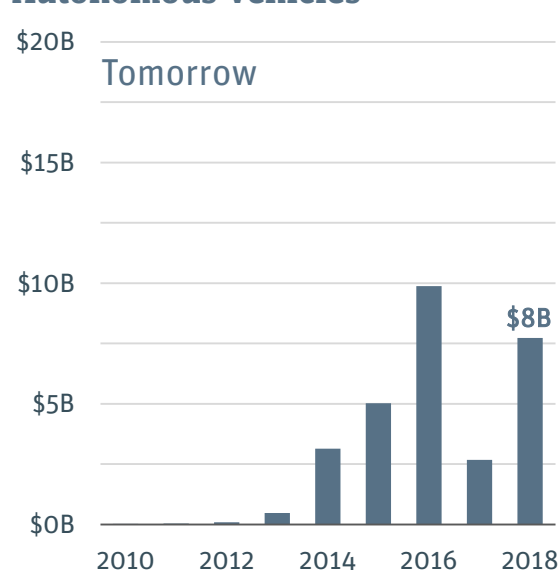
AI/Machine Learning



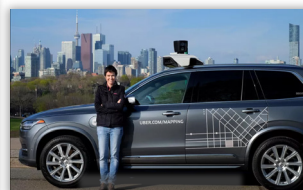
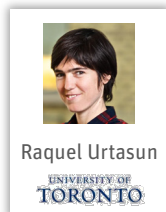
World-Leading AI Researchers



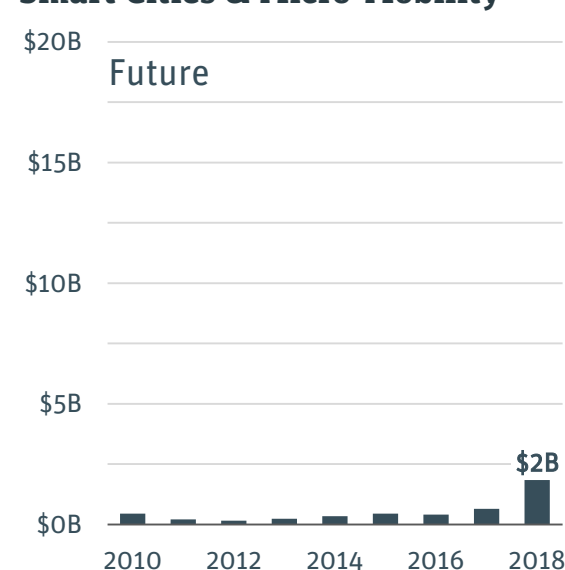
Autonomous Vehicles



U of Toronto + Uber: Self-Driving Car Group



Smart Cities & Micro-Mobility



Toronto + Alphabet: Sidewalk Labs





Appendix

Authors

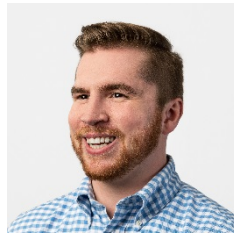


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Barbara Dirks is the head of Silicon Valley Bank (SVB) in Canada, serving the growing innovation economy of entrepreneurs, startups, and their investors. Based in Toronto, Barbara leads and oversees all of Silicon Valley Bank's activities in Canada. She chairs the supervisory committee for SVB in Canada.

Barbara joined Silicon Valley Bank in 2018, having previously served in roles at the Royal Bank of Canada where she was Senior Vice President of Network and Advisor Strategy in personal and commercial banking.

Barbara holds a bachelor's degree in political economy and economics from the University of Toronto. She also earned a bachelor of laws degree and a master's degree in business administration from the University of Western Ontario, London. In 2018, Barbara was featured as one of the most influential Torontonians in Toronto Life magazine.



Steven Pipp, CFA
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Steven Pipp is a Vice President based in San Francisco responsible for capital markets research and data-driven analysis of the innovation economies that SVB serves globally. In this role, he has led research efforts exploring investment, fundraising and exit dynamics between the venture ecosystems of the US, Canada, Europe, China and SE Asia.

Prior to his research role, Steven managed strategic advisory and valuation engagements for venture-backed technology companies as part of SVB Analytics. Before joining SVB, Steven worked in Minneapolis as a consultant and entrepreneur with a focus on clean energy technology.

Steven earned a Master of Science in Finance from Boston College and a Bachelor of Science in Business from the University of Minnesota. In addition, he holds the Chartered Financial Analyst (CFA) designation.



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Andrew Pardo is a Senior Research Associate based in San Francisco responsible for the capital markets research and data-driven analysis of the innovation economies that SVB serves globally. In this role, he supports research efforts exploring investment, fundraising and exit dynamics in the global venture ecosystem.

Prior to this role, Andrew was a Buy-Side Equity Research Analyst for a \$100B+ asset manager based in the Bay Area. His area of coverage spanned the domestic and international Financials sector. Andrew earned a Bachelor of Science in accounting from Loyola Marymount University.

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About Silicon Valley Bank

For more than 35 years, Silicon Valley Bank has helped innovative companies and their investors move bold ideas forward, fast. SVB provides targeted financial services and expertise through its offices in innovation centers around the world. With commercial, international and private banking services, SVB helps address the unique needs of innovators.



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