

# BUSINESS IN VANCOUVER

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## Tech fund raises \$30m

Yaletown Venture Partners lauded for finding cash in a chilly market for technology deals

Glenn Drexhage

**A** local venture capital firm is getting ready to make its first investments following the initial closing of its debut fund.

Two-year-old **Yaletown Venture Partners** announced last week that it has raised \$30 million for the Yaletown Ventures I Limited Partnership. The fund will focus on early-stage investments in energy and information technology companies in B.C. and Alberta.

More money could be on the way. The fund will remain open to new institutional investors until the end of this year, but be capped at \$50 million.

Yaletown began the fundraising process in November 2001 and secured its \$30-million target by February 2003. It's a notable outcome, given the grim state of both private and public capital markets during that time. "I would say that the successful raising of a first fund for a new team in any market is extremely challenging, and in the current market environment is almost unheard of," said **Steven Hnatiuk**, a Yaletown partner and co-founder.

Others had similar reactions.

"I think anybody who raises money in this environment shows perseverance," said **Richard Osborn**, a partner at Vancouver's **Greenstone Venture Partners**.



**In the bag: Yaletown Venture Partners Steven Hnatiuk, Hans Knapp, Kirk Washington and Mike Satterfield will now use the \$30 million they raised to shop for technology investments in B.C.**

"It's an outstanding accomplishment," added **Bob de Wit**, principal of **Robert de Wit IP Management Consultants** and board member of the **Fraser Valley Technology Network**. "It took them a while to do it but I was really pleased to see them enter the marketplace."

The fund is also noteworthy for the involvement of eastern investors, including Toronto's **EdgeStone Capital Partners**, the private equity division of **Export Development Canada** in Ottawa, and an Ontario pension fund. It's the first time these parties have invested in a venture fund focused on the tech market in west-

ern Canada, Hnatiuk said.

Other participants include the **British Columbia Investment Management Corp.**, one of the largest institutional investors in Canada, along with Yaletown's founders and other individuals.

**Kirk Falconer**, director of research at **Macdonald & Associates Ltd.**, which tracks the Canadian venture capital industry, said the outcome represented a vote of confidence in Yaletown's sectoral and regional focus, and in its management.

"That impressed the hell out of everybody,"

# Deal flow: Yaletown Venture expects to fund company by end of year

he said from Ottawa.

Along with Hnatiuk, the firm's four founding partners include **Hans Knapp, Mike Satterfield and Kirk Washington.**

"[The team] is the thing that is selling them, and that's major," Falconer added.

Now that money's been raised, the next step begins. "I would expect that you will see deals completed by our fund prior to the end of this year," Hnatiuk said.

Yaletown's main areas of interest in energy include fuel cells and emerging technologies targeting the electricity market. On the information technology side, its focus includes enterprise software and wireless applications.

Hnatiuk said Yaletown plans to be the lead or co-lead investor in deals ranging from \$1 million to \$3 million. The firm will also participate in follow-on rounds.

It plans to add three to four new investments to its portfolio each year, for a total of 12 to 15 investee companies.

"Things have to pick up for them to be able to sustain that model over time," de Wit said, adding that improved capital markets would help shorten gestation periods for young companies.

However, he added that he foresaw a tech-market turnaround, noting that he has heard of a long-overdue increase in information technology spending.

Although Yaletown's fundraising provides some much-needed good news, Hnatiuk also pointed out that broader problems remain.

"The entrance of one additional venture capital fund is not going to solve the early-stage venture capital gap," he said.

Others, however, hold a different view. "I think that the early-stage funding gap is kind of a bit of a misnomer," Osborn said. He noted that other local venture firms are involved in early-stage investing, and added that recent government policy changes will free up more capital.

Yet he doesn't think the field is too crowded for a newcomer. "The venture industry's very collegial," he said. "We're all pleased to have another group in town and we're looking forward to seeing how they do."

Certainly, the overall industry remains in a funk. As first-quarter figures for 2003 from Macdonald & Associates reveal, Canadian venture capital disbursements totalled \$305 million. That represents a nasty drop of more than 60 per cent compared to the same period last year.

B.C. was no exception to the glum news, accounting for just six per cent of national disbursements.

Nonetheless, Hnatiuk remains optimistic. "The more money that we have to work with...the better it is for our investors, for us and for entrepreneurs here in the region," he said, adding that U.S. firms have expressed interest in joining Yaletown's fund.

Hnatiuk said there has been a "dramatic" increase in interest in B.C. technology companies from leading venture capital firms in Seattle during the past 18 months.

In addition, a group of established firms from Silicon Valley that manage hundreds of millions of dollars recently organized a trip to B.C. to explore opportunities.

"We are actively building relationships with other venture funds from outside of the region that bring complementary skills and connections to the companies that we'll be backing," Hnatiuk said.

Yaletown also boasts an impressive roster of special limited partners. They include **Don Rix**, local tech luminary and co-founder of **MDS Metro Laboratory Services**; **Haig Farris**, co-founder of local venture capital firm **Ventures West Capital Ltd.**; and **Ken Spencer**, co-founder of **Creo Inc.** ♦

■ [gdrexhage@biv.com](mailto:gdrexhage@biv.com)

**I think  
anybody who  
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**Richard Osborn,  
Greenstone  
Venture Partners**