Deloitte.

In collaboration with

bdc

2024

The state of corporate venture capital in Canada

Investing today to ignite tomorrow

Message from Deloitte Ventures

The time is now for corporate venturing in Canada

In 2022, Deloitte Canada unveiled its inaugural $150-million corporate venture capital (CVC) fund, Deloitte Ventures. We believe that more engagement by Canadian corporates in venture capital has the potential to drive a "triple win" for Canadians, benefiting corporates, startups, and the economy. For corporates, venture investments provide a variety of financial and strategic benefits, including exposure to new technologies, opening new markets, and developing customers. They can also build new and diversified profit streams from investing. Startups, meanwhile, get access to the go-to-market prowess, resources, and brand of a large corporate, while the economy benefits as tech clusters create jobs, drive economic productivity, and provide innovative solutions at competitive pricing.

Our experience since launching Deloitte Ventures has cemented our belief in the potential for CVC in Canada. It has also motivated us to put together this report, in collaboration with BDC Capital, to share the experiences of Canadian CVC firms, report on Canadian CVC activity, and inspire other Canadian corporates to consider launching CVC initiatives of their own.

We would encourage companies interested in launching funds to consider the following:

- **Building a CVC team has never been easier:** The number of CVC firms is growing, both domestically and internationally. Thus, there is greater availability of corporate executives with experience launching CVC funds and professionals operating within them. It's also facilitating the sharing of best practices and pitfalls.
- **There's a huge opportunity for Canadian corporates to invest in Canadian startups:** International CVC firms continue to monitor and invest in the Canadian market, but domestic CVC firms have a privileged position to access the next generation of Canadian tech champions. Funds can get first access to underserved Canadian companies due to their proximity, which fosters the growth of new tech anchor companies and helps them attract top talent and capital.
- **Artificial intelligence is driving a paradigm shift:** The broad adoption of AI is creating a once-in-a-generation opportunity to build companies that support or leverage a transformational new technology. CVC firms active at this critical stage get privileged access to a technological shift, allowing them to stay ahead of the disruption curve for the benefit of their customers, shareholders, and employees. At the same time, they can generate returns from their investments.

Despite recent declines in deal volume, we believe the time is right for corporate venturing in Canada. The industry is maturing, and the market conditions are conducive to achieving the triple win. We hope that by sharing what we have learned, both from our own experiences and from the data and insights provided herein, we can catalyze the next phase in the evolution of corporate venture capital in Canada.

Talia Abramowitz
Managing Partner
Deloitte Ventures

About Deloitte Ventures

Deloitte Ventures, Deloitte Canada's $150-million venture capital initiative, makes minority investments in emerging technology companies. We aim to catalyze the growth of important verticals, such as fintech and worktech, that will move Canadian businesses and citizens toward a thriving future. We support our founders by providing access to Deloitte's network and breadth of capabilities, and seek to foster innovation, create jobs, and nurture a technology ecosystem that empowers Canada to prosper domestically and globally.

deloitte.ca/ventures

Message from BDC Capital

Canadian corporates: A missing piece in Canada's innovation economy

Canada's ability to innovate and effectively use technology to drive growth will define our economic trajectory in the coming years. Among the tools at our disposal, venture capital stands out as a powerful means to nurture and accelerate innovation, leading to economic growth through productivity gains.

As Canada's most active VC investor, and with deep roots in the ecosystem, BDC Capital is encouraged by the progress made by the industry in recent years. More capital is now being injected into home-grown startups, while investment returns for the asset class continue to close the gap with US performance.

However, we stand to gain significantly by fostering closer collaboration between technology startups and Canada's corporate sector.

The years leading up to the market peak in 2022 saw promising growth, with new CVC initiatives launched by Canadian firms such as Deloitte Canada, Bell, Thomson Reuters, Canadian Tire, and others. While this progress must not go unnoticed, Canada's corporate sector continues to punch below its weight in VC.

When compared to countries like the United States, Canadian corporates exhibit lower activity in VC and tend to direct their investments primarily toward foreign companies. At the same time, the predominant share of CVC investments in Canadian startups comes from foreign entities.

By collaborating and co-authoring this report with Deloitte Ventures, we aim to provide the market with a dependable account of Canadian CVC activity and, more specifically, their activity in Canadian VC deals. Over time, we also hope to use this report as a platform for encouraging more Canadian corporates to consider the strategic benefits of venture investing. By following that path, they can unlock tremendous potential to enhance their competitiveness in an ever-evolving business landscape and foster critically important innovation-driven growth for our economy.

Jérôme Nycz
Executive Vice President
BDC Capital

About BDC Capital

BDC Capital is the investment arm of BDC, Canada's bank for entrepreneurs. With over $6 billion under management, BDC Capital serves as a strategic partner to the country's most innovative firms. It offers businesses a full spectrum of capital, from seed investments to growth equity, as well as fund investments, supporting Canadian entrepreneurs who have the ambition to stand out on the world stage.

Visit bdc.ca/capital

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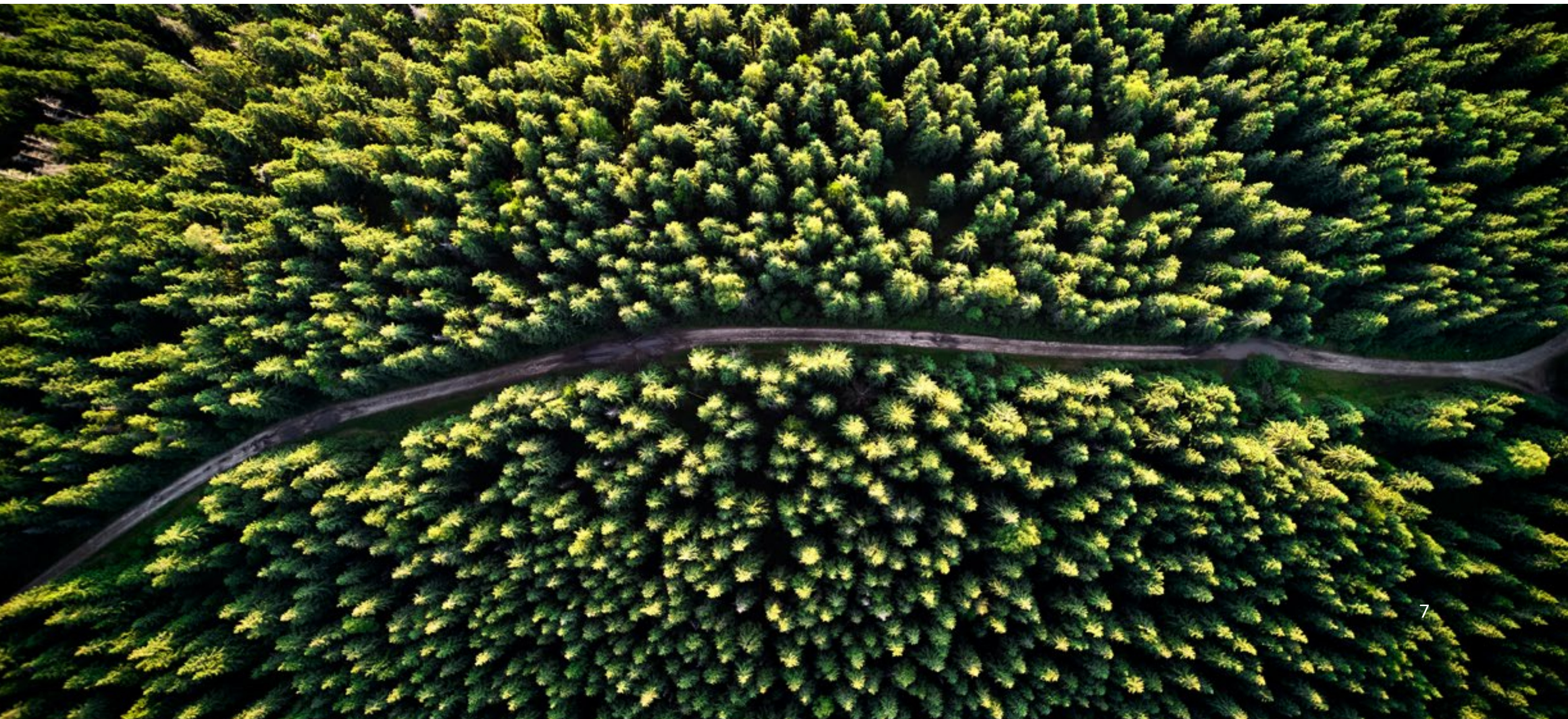
Executive summary

Corporate venture capital—minority venture investments by public or private companies into early or growth-stage startups—is on the rise. Unlike traditional VC investors, CVC funds (CVCs) are managed by and express the priorities of a single corporate parent. In Canada, the number of CVC initiatives has been growing steadily, as more organizations realize both the strategic and financial benefits such investments offer. This report, produced by Deloitte Ventures and BDC Capital, covers Canadian CVC activity over the last five years, through to the end of 2023.



Consistently generating strong interest from both domestic and foreign strategic investors, Canada is already on the right track.

Highlights

- **Too few Canadian corporates are capitalizing on the CVC opportunity.** Most Canadian CVCs are backed by a public company generating more than $1 billion* in annual revenue. However, only 6% of such companies actively take part in direct VC investment—compared to about 40% of comparable US public companies.
- **Canada's CVC sector is gaining momentum.** Canadian CVCs saw their deal activity grow at a much faster rate than institutional venture capital investment between 2019 and 2022. While the number of VC-backed deals in Canada and the United States grew by around 30% during this period, deal participation from Canadian corporates nearly tripled.
- **Canadian CVCs are staking their claim in the global VC market.** Canada is a small but active player in the global CVC ecosystem, with 19 funds actively participating in at least one VC deal worldwide in 2023. Further, 53% of all Canadian CVC fund deals in 2023 were in foreign investments. This reflects the smaller size of the Canadian market and the need for Canadian corporates to look globally to remain on the cutting edge of technology.
- **Canadian companies are attractive CVC investment targets.** Consistently generating strong interest from both domestic and foreign strategic investors, Canada is already on the right track, with global CVCs taking part in 12% to 18% of Canadian-headquartered VC financings over the past five years. This steady involvement, even amid the 2022 market downturn, is a positive indication that the CVC community worldwide sees opportunity among Canada's emerging startup businesses.

*All figures are in CAD and all data is as of December 31, 2023

Perspective ***Tamara Steffens***
Managing Director, Thomson Reuters Ventures

CVC AND BUSINESS GROWTH: A STRATEGIC IMPERATIVE

Corporate venture capital, when done well, can be a powerful driver of competitive advantage for the parent company. Leading organizations understand that CVC investments enable growth strategies and expand a corporation's ability to deploy capital without putting undue pressure on operations.

Strategic synergy

Aligning a CVC fund's investment strategy with a corporation's growth strategy increases the corporation's ability to invest strategically in areas critical for growth and market expansion. CVC funds can also help balance a corporation's investment profile, which is typically focused on the near term and on incremental investments in existing products and capabilities. CVC funds, which are usually investing off the balance sheet as opposed to the P&L, can afford to take a longer-term perspective on investment returns. Expanding a corporation's investment capacity and enabling investments over mid- to long-term time horizons supports a more concentrated, organic investment strategy. It also does so without forgoing investments in emerging technologies, newly forming markets, and adjacent expansion opportunities. Aligning CVC and corporate strategy ensures a unified approach to achieving core strategic objectives, minimizes the risk of investment drift, and encourages a focused approach involving all interested parties.

Informed decision-making

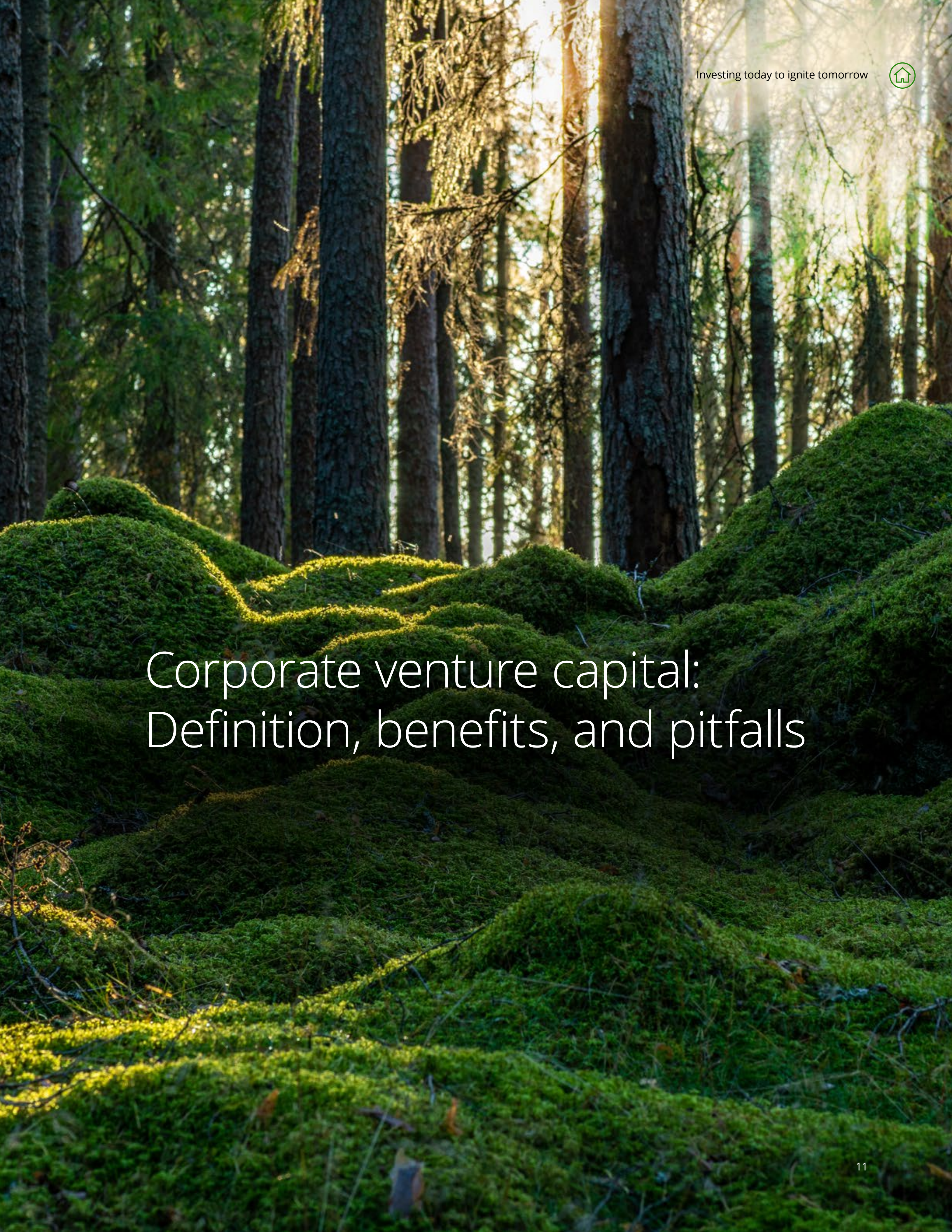
At Thomson Reuters Ventures, our corporate growth strategy informs our organic investment priorities, partnerships, M&A, and CVC strategy. That alignment means the insights gained through our market-scanning activities and investment-making process contribute significantly to our ability to support our businesses and help us in our position as a strategic vendor for our customers.

Talent development and entrepreneurial culture

Collaboration with high-quality startups fosters a dynamic corporate culture that values entrepreneurship, adaptability, and forward-thinking. It can nurture an environment where innovation thrives, propelling portfolio companies ahead of competitors.

In short, aligning your CVC strategy to the corporation's growth objectives is a strategic imperative for forward-thinking organizations. The resulting synergies empower companies to navigate disruption, drive innovation, and create lasting value. This holistic approach positions a CVC entity at the forefront of industry evolution, fostering sustainable growth and a formidable competitive advantage. Through strategic alignment, CVC funds can be more than mere financial return vehicles; they can contribute significantly to the corporation's growth and bottom line.

Thomson Reuters Ventures invests in the next frontier of enterprise technology. As long-term investors, we seek to accelerate the trajectory of forward-thinking founders and support breakthrough innovations. Thomson Reuters Ventures has a targeted market focus, making us a highly credible and valuable strategic partner for emerging startups. We take an active approach to investing, working alongside founders to accelerate growth. Whether that be through facilitating connections, working on proofs of concept to integrate with Thomson Reuters technology, or exploring partnership opportunities within the firm, we work across a variety of our teams to best support our portfolio companies.



Corporate venture capital: Definition, benefits, and pitfalls

What is corporate venture capital?

"Corporate venture capital" describes minority investments by institutions—including corporations, partnerships, and other public or private entities—in emerging, early, or growth-stage startups, or in institutional venture funds. CVC stands apart from more traditional forms of VC because it is ultimately managed by, governed by, and reflective of the interests of a single corporate parent. Traditional VC investors, in contrast, are professional investment managers, investing the capital of various limited partners who have contributed to the VC fund.

Depending on their parent corporation's investment objective, CVCs generally take one of three forms: financial, strategic, or hybrid.

Financial
Purely financial CVCs focus exclusively on maximizing the returns on invested capital.

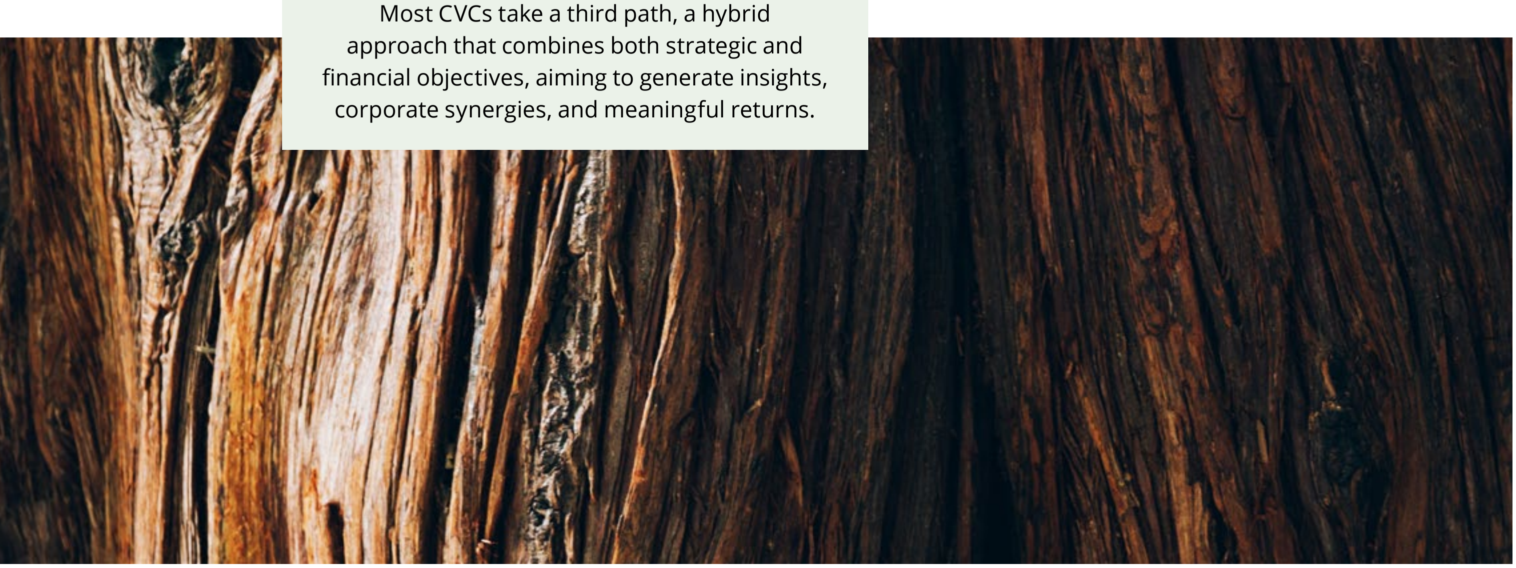
Strategic
Purely strategic CVCs are less concerned about the financial returns on the investments and instead invest primarily to advance the strategic objectives of their core business.

Hybrid
Most CVCs take a third path, a hybrid approach that combines both strategic and financial objectives, aiming to generate insights, corporate synergies, and meaningful returns.

Who benefits from CVC and how?

Done correctly, CVC investment has the potential to result in a triple win, with benefits accruing at the corporation, startup, and economy level. These include:

- Corporations get access to new technologies, insights into new markets, exposure to potential future partners, financial upside from their investments, and a "safe space" to take on risks.
- Startups get access to capital, commercial partnership, introductions to potential customers, mentoring, strategic support from industry experts, and credibility through association with a trusted brand.
- The economy benefits as employees, customers, shareholders, and citizens realize a collection of benefits such as career growth, access to innovative and less expensive products, higher profits, and a more dynamic economy.



What are common pitfalls for CVCs?

The triple win is not guaranteed. Many CVC funds or investments have failed to survive, and many more have struggled to deliver their desired strategic benefits. To maximize the odds of success, corporations should avoid the common pitfalls, including:

Failing to align on purpose and objectives
CVCs need to be clearly positioned on the strategic/financial/hybrid spectrum and ensure they deliver to their portfolio companies accordingly. Strategic CVCs that fail to deliver on promised commercial support and financial CVCs that fail to deliver the traditional support expected from institutional VCs will suffer reputational damage that may limit their ability to get into other deals.

Failing to manage cultural differences
The CVC team is likely to be more risk-tolerant and open to change than other teams within a large organization. If the CVC and the corporate leadership teams fail to unify around a common goal, or if the leadership team doesn't accept that the CVC will have more volatility than the core business, the CVC can end up alienated from leadership and at risk of losing support.

Failing to structure the CVC for success and longevity
To thrive, CVCs need the buy-in of senior leadership and a governance structure that enables deals to get approved and funded. CVCs with overly burdensome approval processes or that depend on a single key executive for their continued existence may find themselves unable to execute deals or lacking the resources and support needed to continue their investment program.

Failing to adopt market terms
Unrealistic views on the valuations and terms that top founders will accept—or the compensation packages that potential CVC leaders will accept—can lead to failure in getting into the right deals and hiring the right people. CVCs that are unable to build a team and get into the deals needed to execute their strategy will struggle to demonstrate their value.

Thankfully, as the CVC market matures and best practices are shared, there are signs that CVC firms are learning from past mistakes and that fund survival rates are improving. In 2013, the median CVC life span was about 12 months. *Global Corporate Venturing*, however, reports that as of 2023, 60% of CVCs are now making it beyond the critical three-year mark.[1] This suggests their leaders have learned from past challenges and are living up to their value promise. As corporate venturing matures as a trade, we hope that CVCs will continue the trend toward longevity, drive more value, and become permanent fixtures in corporations across a wide span of industries.

[1] Maija Palmer, "CVCs must show how they differ from VCs," *Global Corporate Venturing*, January 22, 2024.

VC activity by Canadian corporates

While Canadian funds represent a fraction of total CVCs worldwide, their involvement in domestic and foreign deals has been growing.

Canada's contribution to the global CVC ecosystem

The Canadian CVC landscape has been evolving and expanding for over two decades. Corporate interest in venture capital surged in 2021 and 2022, driven in particular by stronger software industry profits, lower interest rates, and strong public company valuations.

The number of CVCs has been growing steadily as more public corporations and other organizations come to appreciate the potential benefits—financial and otherwise—of investing in startups.

At the moment, Canada is a small but active player in the global CVC ecosystem. In 2023, 19 Canadian corporates actively participated in at least one VC deal worldwide, down from a five-year peak of 25 in 2022. The most active Canadian CVCs over the past five years were backed by parent companies in the financial services, technology, and media and telecom industries.

While Canadian funds represent a fraction of total CVCs worldwide, their involvement in domestic and foreign deals has been growing. In 2019, Canadian funds were involved in 1.5% of CVC-backed deals and 1.1% of CVC-backed funding worldwide. This rose to 2.6% of deals and 2.8% of funding in 2022 before falling to 1.7% and 1.6% respectively in 2023. It's important to note that these results reflect Canadian CVC activity that is highly concentrated among a few active funds. In 2023, more than 60% of Canadian CVC deal activity was attributable to the five most active corporates.

Figure 1 | **Canadian corporations with CVC funds, 2023**

This table includes all Canadian corporations that have completed and reported at least one VC deal since 2019 and identify themselves as a CVC fund.

Energy
Cenovus Energy
Enbridge
Suncor Energy

Financial services
Bank of Montreal
Colliers International
Conexus Credit Union
Co-operators
Deloitte Canada
Fairfax Financial Holdings
Intact
National Bank
Royal Bank of Canada
Tangentia

Industrial and manufacturing
Magna International

Media and telecom
Bell
Quebecor
Telus

Technology
Blackberry
Constellation Software
Dapper Labs
Index Exchange
Maropost
Shopify
Thomson Reuters
WELL Health Technologies

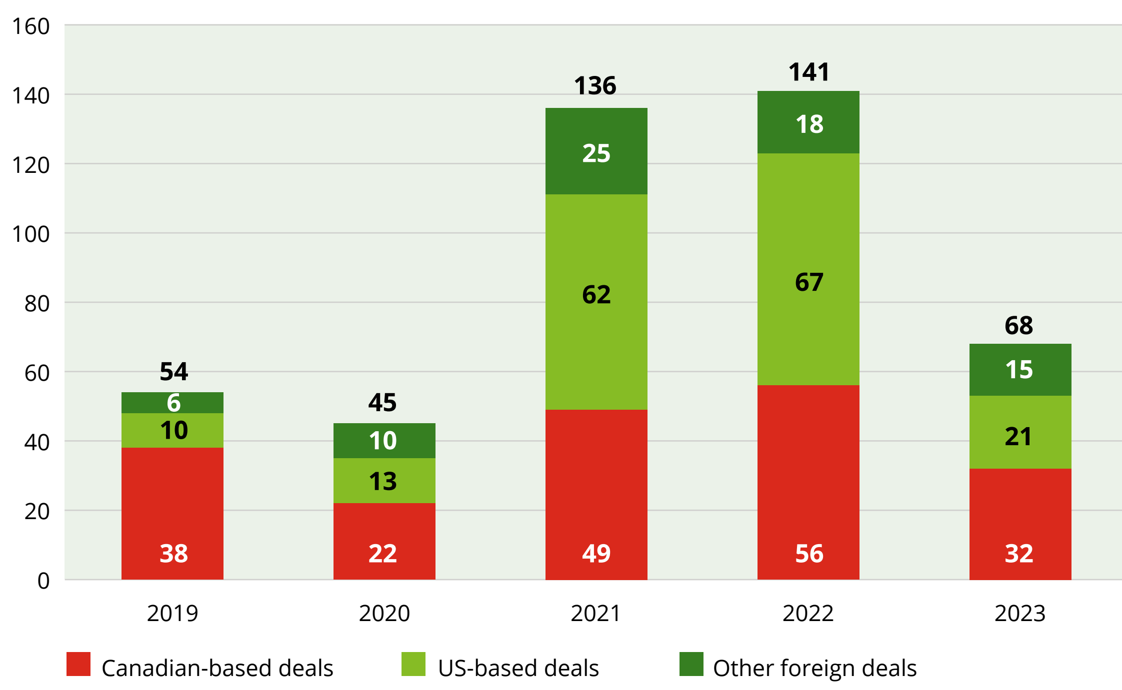
Other
BCF Business Law
Canadian Tire
Circle K
Maple Leaf Foods
Spin Master

Global deal volumes fall; Canadian CVCs steady

A variety of macroeconomic factors led to higher liquidity during the COVID-19 pandemic, while also pushing investors to seek riskier asset classes, such as venture capital. In turn, this drove up valuations as investor demand for VC deals rose.

Canadian CVCs mirrored this trend, taking part in a sharply higher number of domestic and foreign VC deals in 2021 and 2022. They participated in 136 deals in 2021 and 141 deals in 2022, nearly triple the number of deals in either 2019 or 2020 *(see Figure 2)*. This compares to a mere 32% rise in the number of VC-backed deals in Canada overall between 2019 and 2022. Although the total number of deals with Canadian CVC participation fell to 68 in 2023, this still exceeds pre-pandemic totals and reflects the emergence of new CVC initiatives launched in 2021 and 2022. This is a very positive development, suggesting that Canada's CVC sector is gaining momentum.

Figure 2 | Number of domestic and foreign deals made by Canadian CVCs

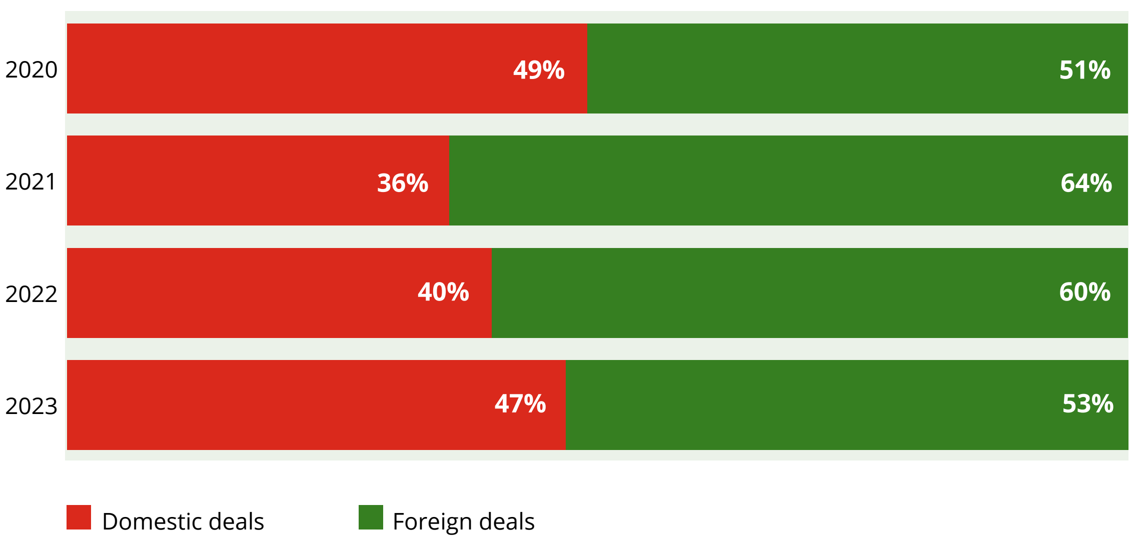


Sources: *Pitchbook; Deloitte Ventures and BDC team analysis.*

Since 2020, the majority of Canadian CVC investments were into companies headquartered outside Canada *(see Figure 3)*. This is not surprising. Canada represents a relatively small proportion of VC deals worldwide, so Canadian CVCs must necessarily be active internationally. The high volume of US investments by Canadian funds is also unsurprising, given the proximity and size of the market.

Between 2020 and 2023, Canadian CVC investments into US-headquartered companies represented from one-quarter to nearly one-half of total volume *(see Figure 2)*. Despite the value of participating in foreign deals, there's still room for Canadian CVCs to be more active in the domestic market. Their participation in Canadian-headquartered company deals actually increased in 2023 relative to international deals, rising to 47% of all global investments from 40% in 2022 *(see Figure 3)*. This may reflect a risk-off investment approach among CVC investors, which typically leads to smaller cheques, higher investment thresholds, and an increasing focus on deals closer to home.

Figure 3 | Percentage of domestic vs. foreign deal participation by Canadian CVCs



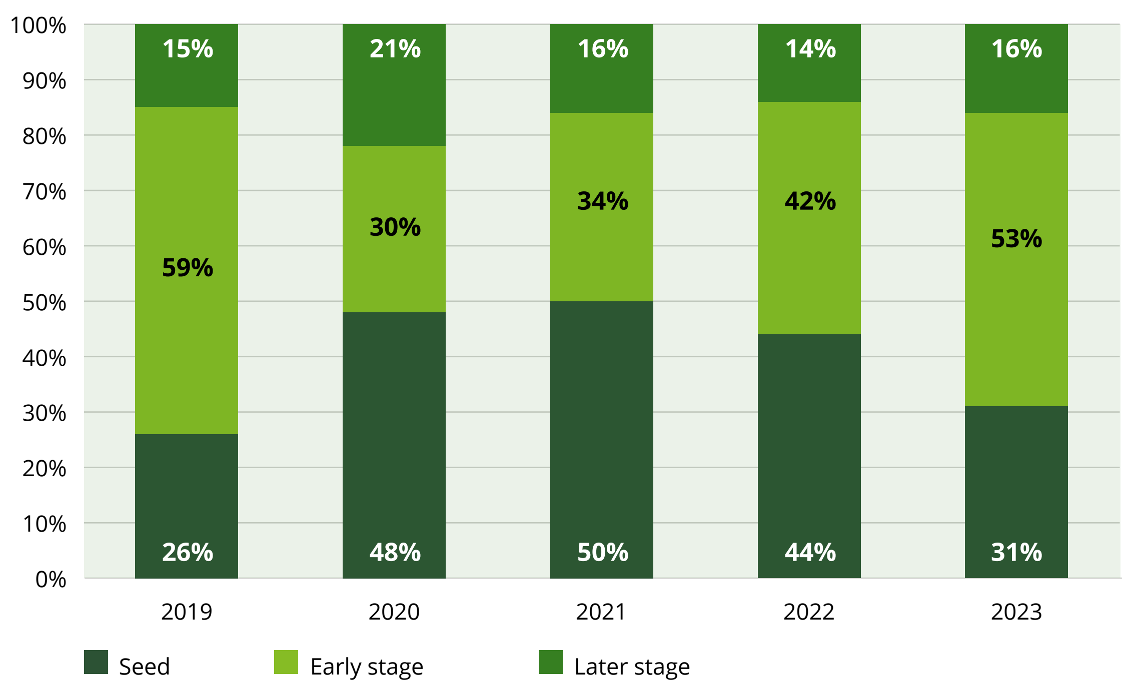
Sources: *Pitchbook; Deloitte Ventures and BDC team analysis.*

Increased focus on earlier-stage deals

Recent years have seen the VC market in Canada increase its focus on earlier-stage deals (pre-seed, seed, and Series A). Valuations have risen the least in this part of the VC market, and smaller cheques mean smaller bets and less capital at risk.

Canadian CVC fund activity has largely mirrored this shift in the wider domestic VC market *(see Figure 4)*. Between 2019 and 2023, seed and early-stage deals represented 79% to 86% of deals. On a dollar-invested basis, Canadian CVC firms' later-stage investments would undoubtedly represent a much larger percentage of total capital deployed. Limited data, however, prevented a complete analysis on this basis.

Figure 4 | Breakdown of Canadian CVC deals by funding stage

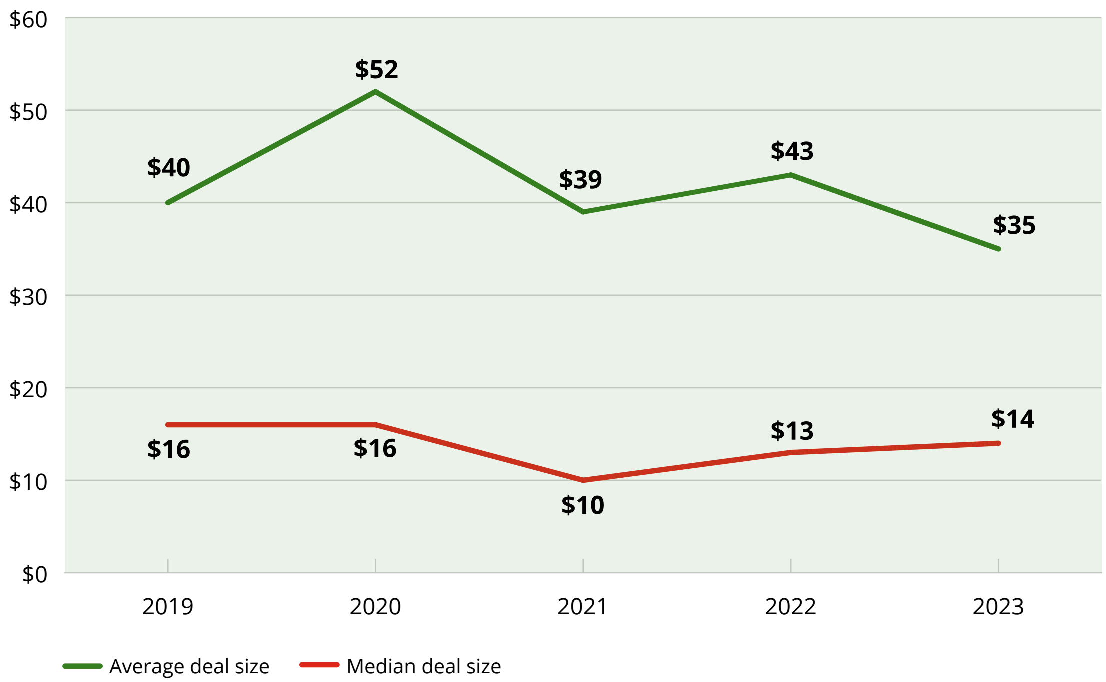


Sources: *Pitchbook; Deloitte Ventures and BDC team analysis.*

Average Canadian CVC deal size declining

The average size of the deals involving Canadian CVC participation has been trending downward since 2020 *(see Figure 5)*. After peaking at $52 million in 2020, average deal size had dipped to $43 million by 2022 before dropping to $35 million in 2023. This decline is likely a reflection of larger proportional declines in the round sizes and valuations at the later stages due to lower public market trading multiples and the closing of the IPO window. Median deal size, on the other hand, has remained relatively steady over the past five years, fluctuating between $10 million and $16 million between 2019 and 2023.

Figure 5 | Average and median Canadian deal size by year (millions CAD)



Sources: *Pitchbook; Deloitte Ventures and BDC team analysis.*
Note: *Based on underlying deals with a reported deal size in Pitchbook.*

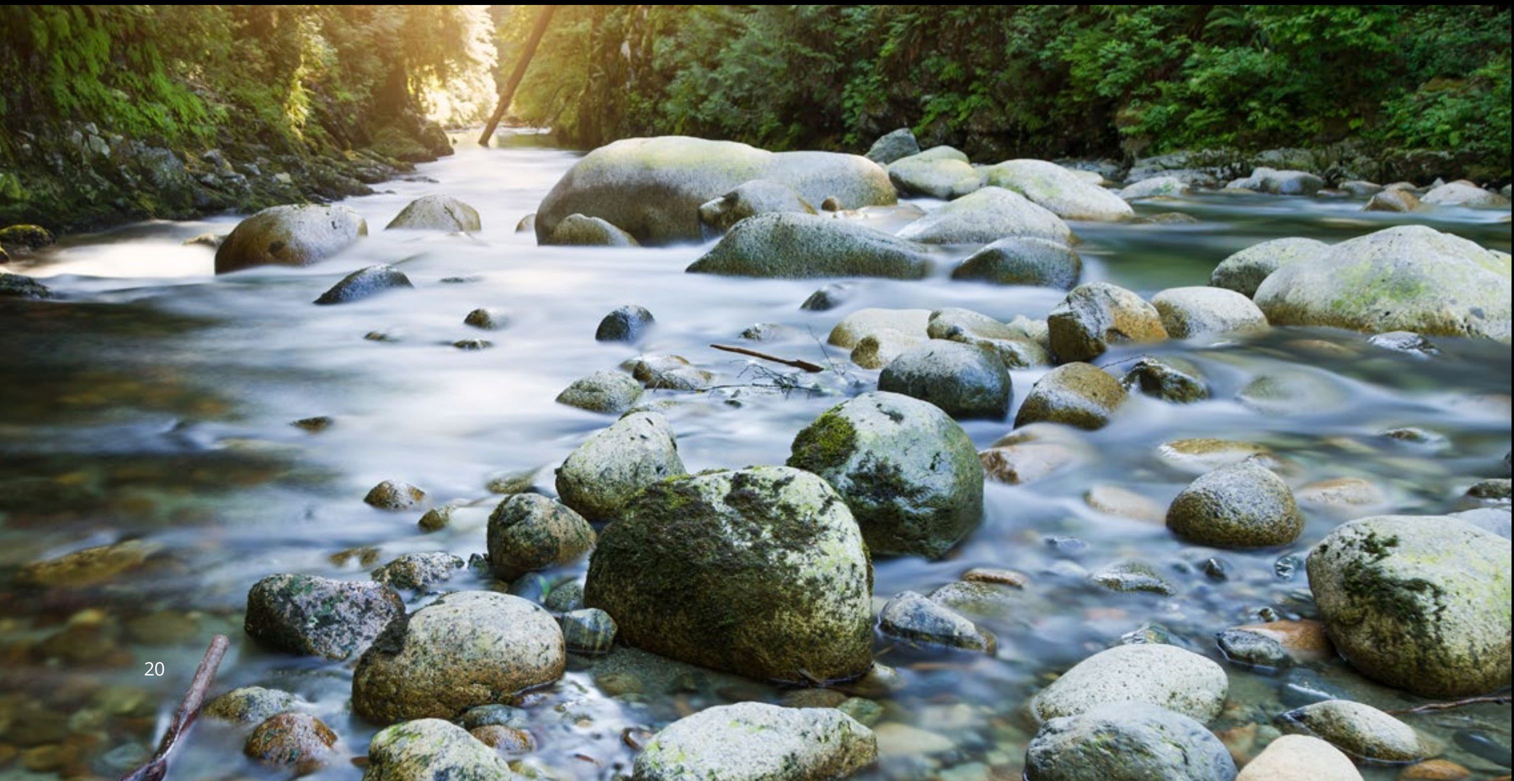
Perspective

Martin Cheski
Investment Director and Partner, TELUS Ventures

SYNERGY: CVC EMPOWERS CORPORATES AND FUELS STARTUP SUCCESS

In today's rapidly evolving business landscape, CVCs have emerged as a powerful force, reshaping the dynamics of entrepreneurship and corporate innovation. These unique investment vehicles, backed by established corporations, not only provide financial support to early-stage startups but also bring a wealth of strategic advantages to the table.

For corporations, CVCs provide an opportunity to gain access to innovative technologies, tap into new markets, and stay ahead of the competition. CVCs also allow corporations to diversify their investment portfolio and potentially generate significant financial returns. On the other hand, startups benefit by gaining access to the resources, expertise, and networks of the corporate investors. This can help startups accelerate their growth, scale their operations, and navigate the challenges of the market.



Let's unpack a few of these synergies

1. **Access to expanded product offerings, customers, and markets**
   The strategic benefits of corporate venture capital extend beyond financial investment. By adding a strategic corporate investor to the cap table, startups gain access to commercial channels and mature relationships that can greatly benefit their growth and market reach. The ready access and scale of mature relationships provided by the corporate investor can open doors to new customers, distribution channels, and partnerships. This can significantly accelerate the startup's go-to-market strategy and help them scale their operations more efficiently.

2. **Innovation, insights, and winning in the marketplace**
   Go-to-market validation is another area of synergy. CVCs not only provide financial support but also act as incubators, helping startups develop novel approaches to product development. Startups benefit from the expertise, advice, and market insights provided by the CVC fund and its parent. The corporation, meanwhile, leverages the investment to de-risk product development efforts.

3. **Accelerated scale and reduced risk of failure**
   A further benefit of CVC involvement is the speed at which startups can scale by leveraging the unique value and network of the CVC fund and its parent company. For corporations, this provides a way to complement their core business activities or diversify beyond them while reducing the risk of failure.

The growth in corporate venture capital is driven by the symbiotic relationship between the CVC fund and the startup. Corporate venture capital is not just a financial tool, but a strategic asset that fosters innovation, provides market insights, and helps both corporations and founders stay competitive in rapidly changing industries.

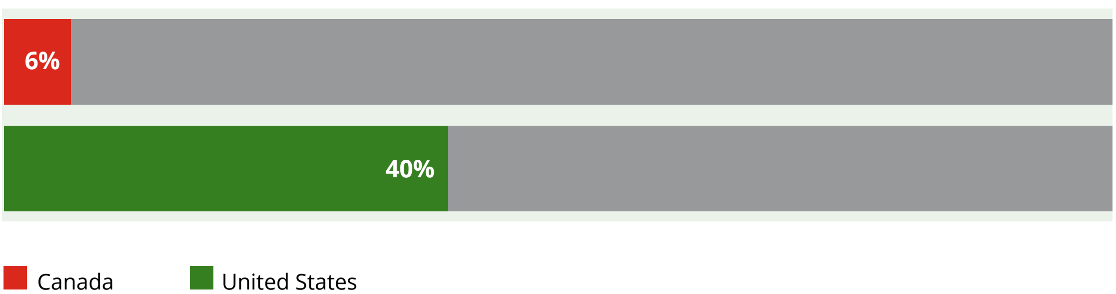
TELUS Ventures and the social impact-focused Pollinator Fund for Good have made investments in over 150 global, market-transforming companies. TELUS Ventures invests in growth-focused technology companies supporting the transformation of TELUS into a global digital services company. The Pollinator Fund for Good is one of the world's largest social impact funds. It invests in for-profit companies that have the potential to change the world for the better.

Could more Canadian corporates get involved in VC?

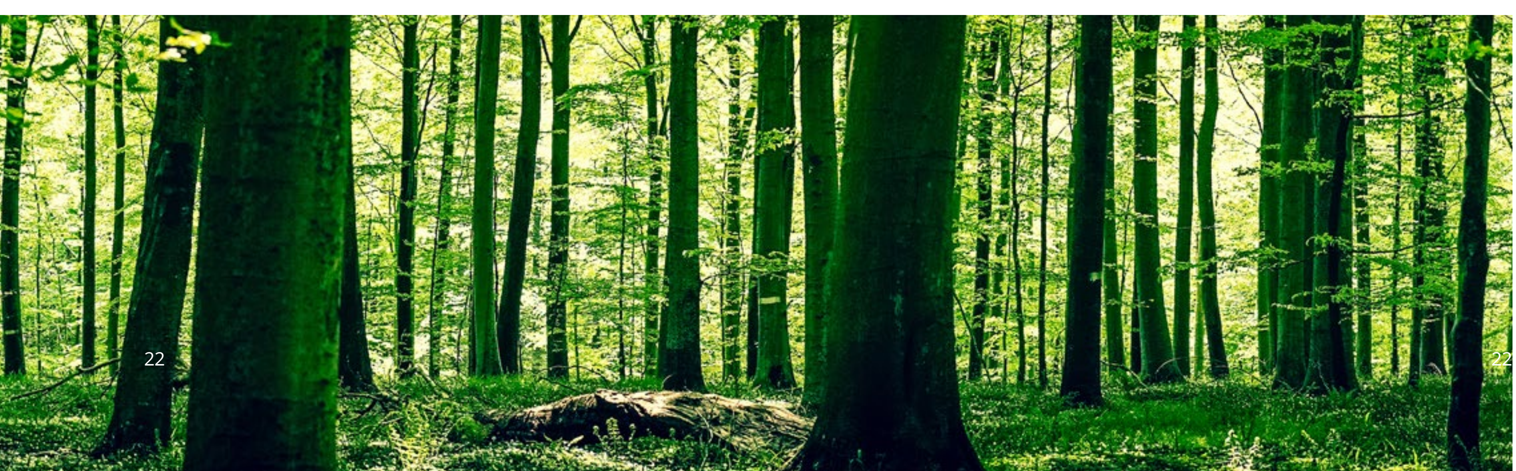
Canada lags United States in direct CVC participation

While there are some exceptions, most current Canadian CVCs are backed by a public company generating more than $1 billion in annual revenue. Using this revenue figure as a benchmark, we found that very few Canadian public companies take part in direct VC investment. Of the 214 public companies in Canada earning over $1 billion annually, only 6% participated in a direct VC deal in 2023. By comparison, 40% of US public companies generating equivalent annual revenues participated in a direct VC deal in 2023.

Figure 6 | CVC participation rate by Canadian and US public companies earning over $1 billion annually, 2023



Sources: *Pitchbook; Global Corporate Venturing; Deloitte Ventures and BDC team analysis.*
Note: *United States 40% is an estimate based on information provided by Global Corporate Venturing.*



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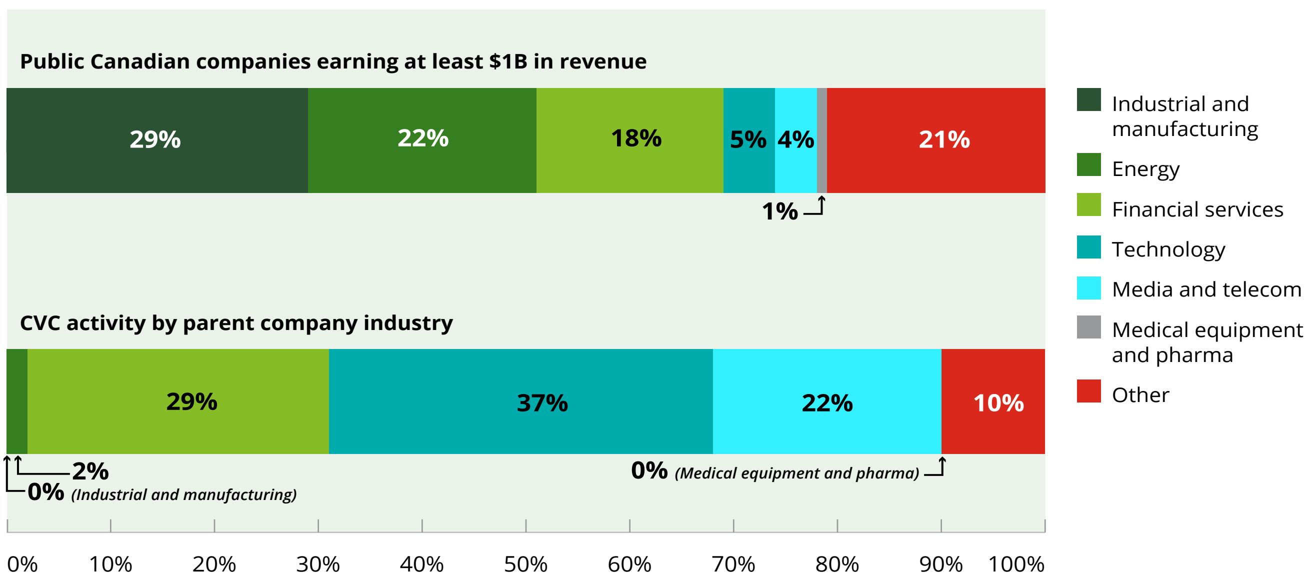
Key industries are missing opportunities

The majority of active Canadian CVCs over the past five years have a parent company in the financial services, media and telecom, or technology industry. Other industries—notably energy, and industrial and manufacturing—have been largely absent from the CVC space. From 2019 to 2023, for example, energy-backed Canadian CVCs represented only 2% of total CVC deals *(see Figure 7)*.

Those companies and industries opting to stay on the sidelines should consider what they're potentially missing: accessing innovative technologies, creating a pipeline of potential partnerships with future category leaders, and building a portfolio of future M&A targets, among other advantages. Ultimately, the data shows that Canada is home to many large public corporations that could be active in the CVC space.

Figure 7 | Industry breakdown of Canadian public companies and CVC activity, 2019 to 2023



Sources: *Pitchbook; Deloitte Ventures and BDC team analysis.*
Note: *CVC activity by parent company industry is based on deal count.*

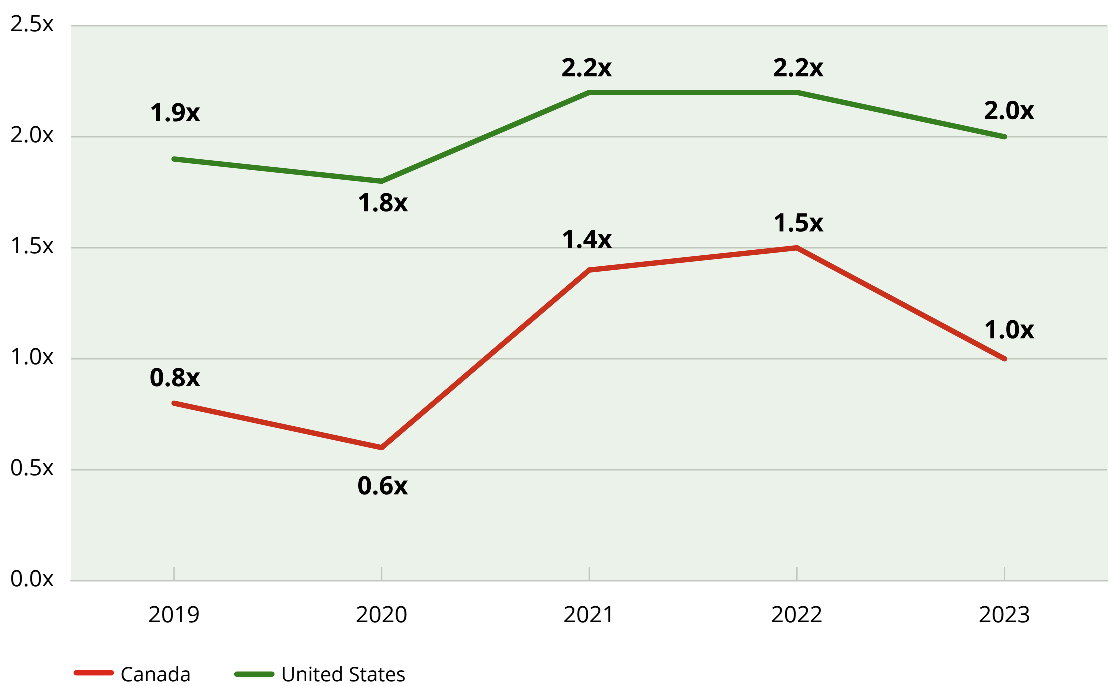
Canada's CVC activity low compared to its contribution

When viewed through the lens of share of CVC funding compared to share of global GDP, Canada underperforms relative to the United States and other industrialized countries. Multiples for both countries were calculated by taking each country's share of global CVC deal count (number of deals as a percentage of total deals) and dividing it by their share of global GDP (dollar value of GDP as a percentage of global GDP). This enables us to compare CVC activity between countries on a relative basis; we would expect more technologically advanced, industrialized countries to score above 1.0x.

In 2019 and 2020, the deals/GDP multiple for Canadian funds came in well under 1.0x, implying deal volumes were lower than expected given the size of Canada's GDP. This has, however, improved over time. A sharp rise in 2021 and 2022 brought Canada into the punching-above-its-weight category, although the multiple declined to 1.0x in 2023 as the number of Canadian CVC deals declined.

In comparison, the United States' share of domestic and foreign CVC deals and funding were both substantially higher than its share of global GDP between 2019 and 2022, hovering between 1.8x and 2.2x. For Canadian CVCs to play a larger role on the global stage, more large Canadian corporations will need to spin up corporate venture funds of their own.

Figure 8 | Share of global CVC deal activity as a share of contribution to global GDP

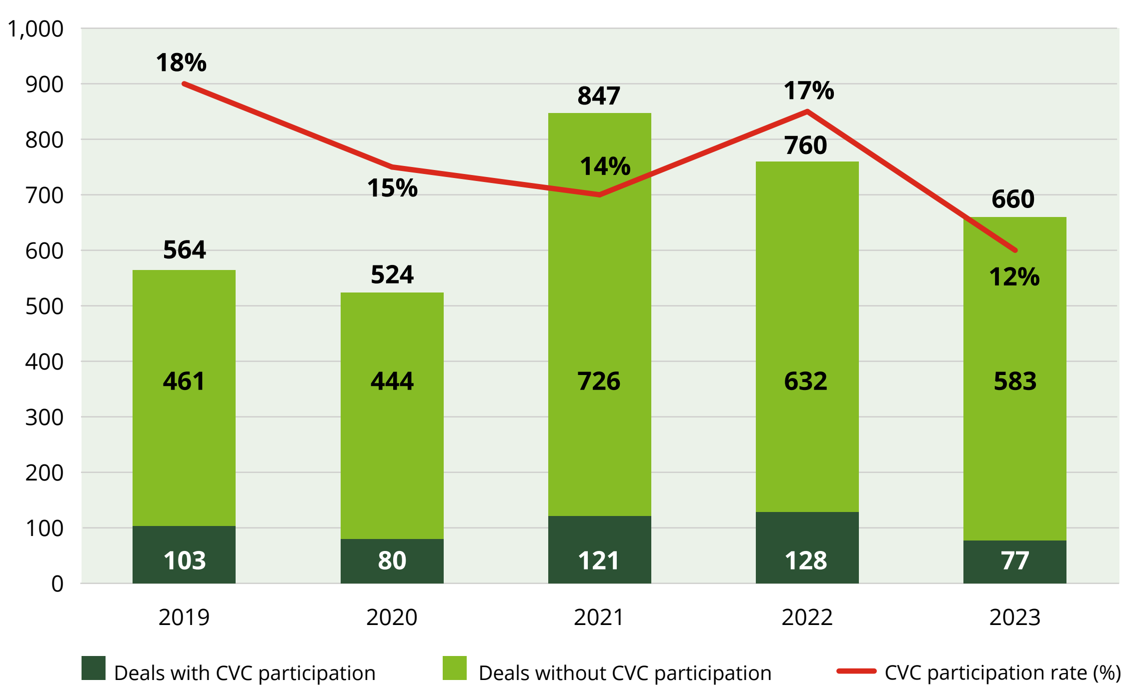


Sources: *Pitchbook; Organisation for Economic Co-operation and Development (OECD); International Monetary Fund (IMF); World Bank; Deloitte Ventures and BDC team analysis.*

Worldwide CVC activity in Canadian deals

CVCs around the world have consistently participated in 12% to 18% of Canadian-headquartered VC rounds over the past five years, even as the number of Canadian deals rose in 2021 and 2022 *(see Figure 9)*. However, in 2023, Canadian-headquartered startups experienced the lowest level of corporate deal participation in five years. Between 2022 and 2023, the number of Canadian-headquartered VC deals fell approximately 13%, from 760 to 660. CVC participation in Canadian-headquartered VC deals also fell by approximately 40% during the same period, from 128 to 77. This suggests that foreign investors, who have traditionally been responsible for most CVC participation in Canadian VC deals, have been reducing their investment activities or focusing their attention on other markets.

Figure 9 | Worldwide CVC participation in Canadian-headquartered VC deals



Source: *Pitchbook; Canadian Venture Capital & Private Equity Association (CVCA); Deloitte Ventures and BDC team analysis.*

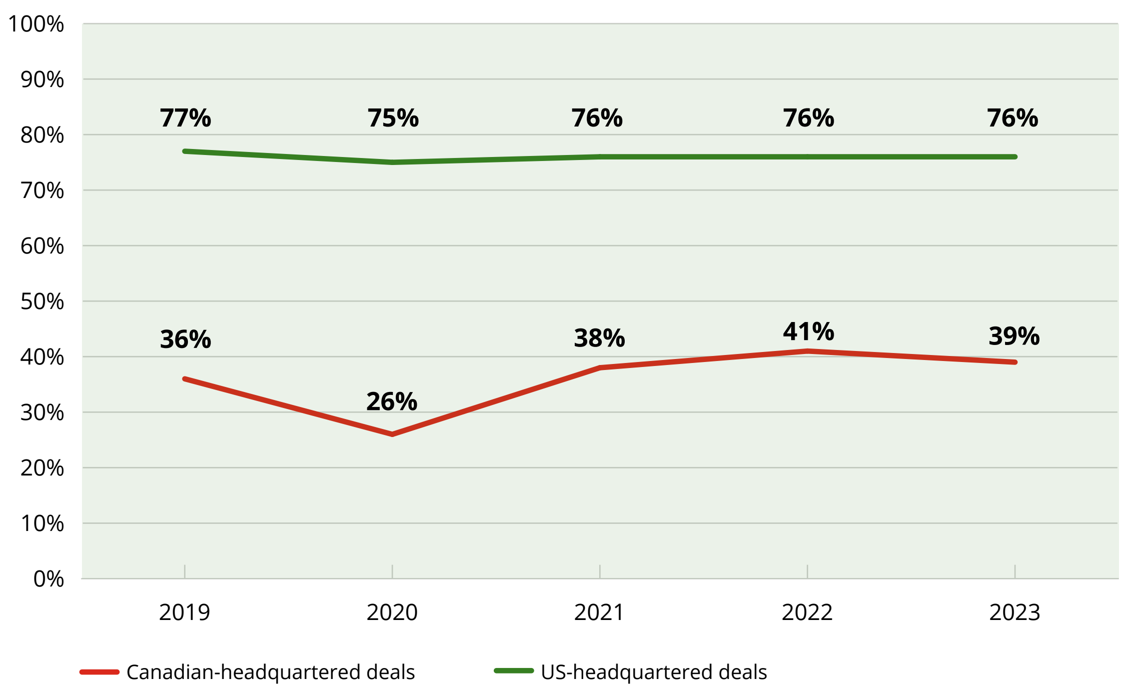
Canadian startups draw more foreign than domestic attention

Both Canadian and US-headquartered startups receive significant deal participation from global CVC investors. However, the geographical location of the CVC firms that participate in these deals differs between the two countries.

Canadian-headquartered deals have historically seen a low proportion of their CVC activity come from Canadian corporates, with only 26% to 41% of Canadian startups receiving any investment from Canadian funds *(see Figure 10)*. This trend is reversed in the United States. Between 2019 and 2023, US-based CVC firms took part in 75% or more of VC deals with US-headquartered startups. Non-US CVC firms played a smaller role.

The most obvious explanation for the difference is that the US economy—and its VC ecosystem—are so much larger than Canada's. Thus, the United States is home to many more investment opportunities by virtue of its sheer size. While it may be difficult to envision Canadian funds reaching US levels of domestic deal-making, it's clear that Canadian CVC firms have enormous room to fund innovative, fast-growing, early-stage companies much closer to home.

Figure 10 | CVC activity attributable to domestic firms

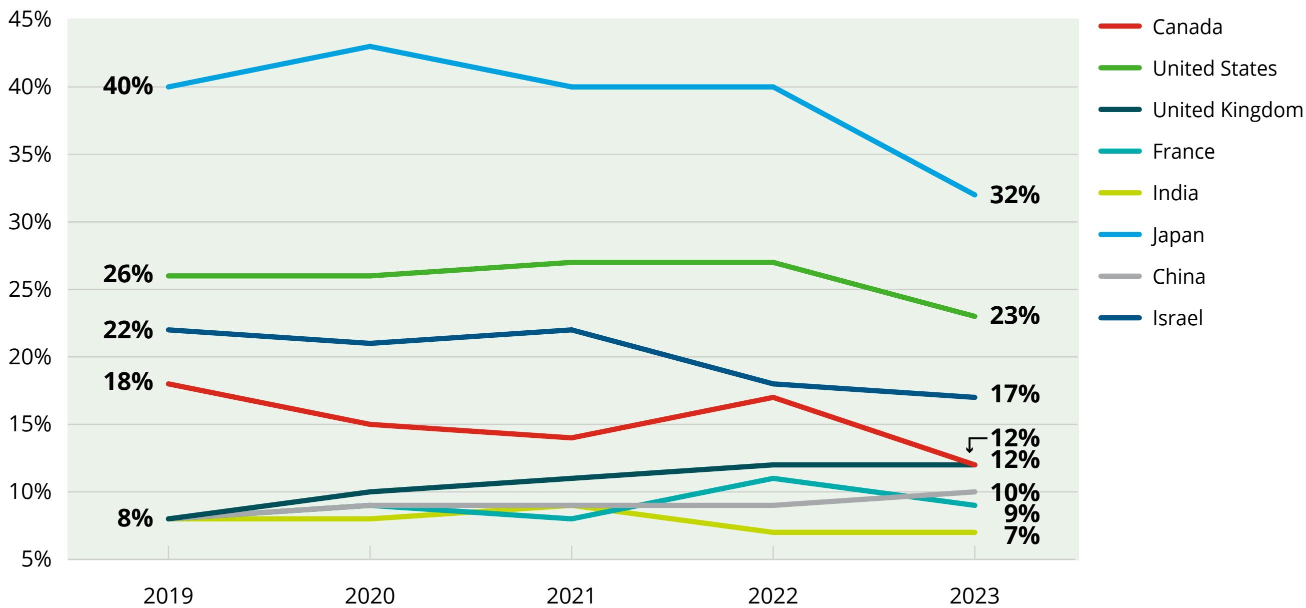


Source: *Pitchbook; Deloitte Ventures and BDC team analysis.*

Where Canada stands in CVC participation

With CVC participation rates in Canadian VC deals ranging between 12% to 18% over the last five years, Canada compares favourably with the CVC participation rates in VC deals in China, India, France, and the United Kingdom. However, it lags rates in the United States, Israel, and Japan (*see Figure 11*), countries that have globally recognized high-tech sectors. Even though the correlation may not be clear in the chart, we believe striving for a higher CVC participation rate in Canada would benefit the domestic tech ecosystem.

Figure 11 | CVC participation rates in select countries



Source: *Pitchbook; CB Insights; Deloitte Ventures and BDC team analysis.*

Perspective *Justin Smith-Lorenzetti, Head of Investments, Intact Ventures*
Elissa Kong, Analyst, Intact Ventures

HOW DO CVCs BENEFIT THE OVERALL ECONOMY?

Venture capital funds invest in high-risk companies looking to solve some of the world's most complex problems. This kind of capital is crucial to promoting innovation in the economy and overall global competitiveness. Corporate venture capital funds have an important and unique role to play in the VC ecosystem.

Corporate venture capital funds have the advantage of straddling the line between corporates and startups, which creates a bi-directional flow of value. We believe this unique position is especially important in a relatively young venture ecosystem, such as the one in Canada, which is in the early innings of recycling entrepreneurial talent and capital back into the ecosystem. There have been recent notable exits by venture-backed businesses, but it is too early for the economy to have benefited from the compounding effects of resources recycled over generations. To supplement this, we believe a young venture ecosystem must instead leverage the experience of corporates that have operated in multiple market cycles.

Additionally, corporate venture capital funds can provide startups with access to established brands and facilitate potential partnerships with them. This can build reputational trust and become a catalyst for growth at young companies. For example, startups may find an easier path to securing initial contracts, a goal that might have been more challenging without the aligned incentives of a corporate venture capital investment. Although it is not included in Intact Ventures' mandate, a handful of our portfolio companies have established partnerships with our core business.

The sharing of knowledge and access to the parent company are unique competitive advantages for corporate venture capital funds in the venture ecosystem. And investing in the ecosystem as a whole plays a substantial role in the overall growth of the economy by contributing to industry impact, driving job creation, and promoting innovation. At Intact Ventures, we have made various investments that have contributed to this growth in Canada.

Intact Ventures is the corporate venture capital fund of Intact Financial Corporation (IFC). Intact Ventures has made 37 direct investments and 14 fund investments, and we are about to launch our third fund, bringing us up to $600 million under management. We invest in companies at the Series A/B stages that fall within our thematic areas, which are defined as areas tangentially related to our businesses' core functions with high potential for disruption to our industry. We invest in the best founders solving complex problems in those areas and provide support as their businesses grow, including providing access to industry experts and facilitating conversations with IFC.

Seize the enormous potential of CVC

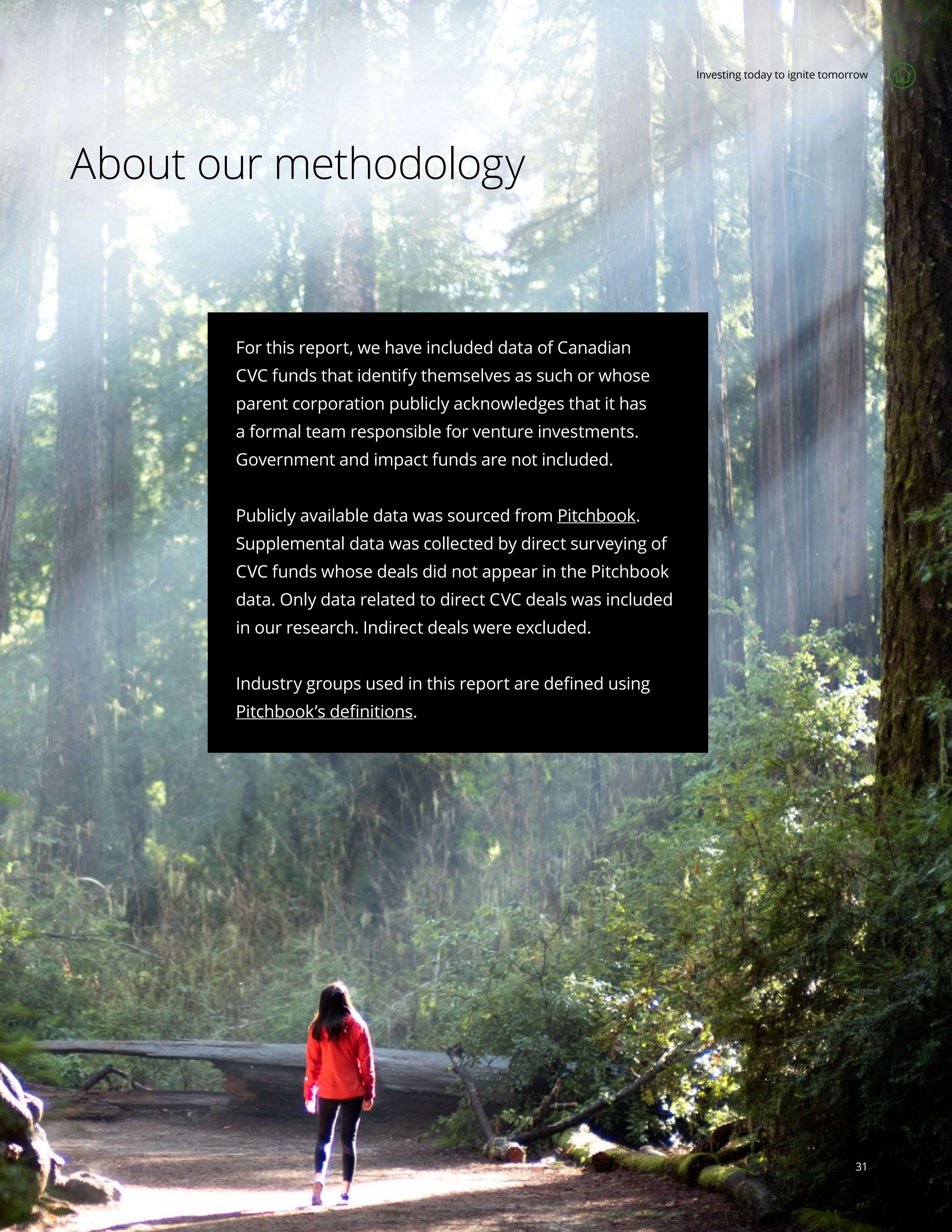
Corporate venture capital is an integral part of the vibrant, maturing VC ecosystem that provides crucial funding for inventors and entrepreneurs.

If executed correctly, CVC investments can offer a triple win for parent corporations, startups, and the economy. While VC investing adds risk, particularly when investing in early-stage companies, it can also create significant strategic and financial wins.

Yet as we've shown in this report, very few Canadian corporations are actively involved in the CVC ecosystem today. This needs to change—and quickly. It's important that more Canadian corporations get involved in corporate venturing. It's time for more of our country's large private and public companies, in every industry, to harness their financial resources, take strategic risks, and establish their own CVCs.

The more Canadian corporates engage with the startup ecosystem, the better they can ensure their continued competitiveness on the global stage. At the same time, they'll help lay the foundation for an entirely new generation of thriving global enterprises that call Canada home, thus catalyzing the growth of the Canadian economy.

About our methodology



For this report, we have included data of Canadian CVC funds that identify themselves as such or whose parent corporation publicly acknowledges that it has a formal team responsible for venture investments. Government and impact funds are not included.

Publicly available data was sourced from Pitchbook. Supplemental data was collected by direct surveying of CVC funds whose deals did not appear in the Pitchbook data. Only data related to direct CVC deals was included in our research. Indirect deals were excluded.

Industry groups used in this report are defined using Pitchbook's definitions.

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