

A photograph of a modern building with a glass and metal facade, featuring a prominent hexagonal grid pattern on the right side. The building is set against a bright, overcast sky.

Waterloo Tech Report

Q2 2020

In-depth coverage of the Waterloo Region tech ecosystem.

Waterloo Region tech ecosystem has strong quarter with \$148.6M in venture funding in Q2.

The Waterloo Region tech ecosystem's strong quarterly result of \$148.6M was driven by two large deals. ApplyBoard raised \$100M to further expand its university application platform for international students, while Clearpath Robotics raised \$39.3M in the robotics space, a strength of this region's ecosystem.

In addition to the large deals, another characteristic of this ecosystem is the availability of seed funding and resources (office space, mentorships, access to labs) that is created by a concentration of large scale incubators and accelerators. In Q3 of 2019, the Velocity Innovation Fund seeded 4 promising Waterloo Region startups, while the Autonomous Vehicle Innovation Network's (AVIN) Waterloo Ventures Fund launched a cohort of 8 tech companies. AVIN's Q2 2020 cohort supports an additional 10 startups, for an aggregate of 8 startups receiving a total of \$400,000.

This network is accompanied by the presence of a highly talented workforce, fueled by leading Engineering and Technology programs at the University of Waterloo. ApplyBoard is a shining example of this, Founded by ex University of Waterloo and Conestoga College students and grown into a unicorn.

From a national perspective, the Waterloo Region is a small population base with tremendous deal activity and value. With a population of approximately 617K, its quarterly deal value of \$148.6M is entering the same range as ecosystems in much larger population bases, i.e. GTA, Montreal, and BC.

\$148.6M

Total Funding Raised in Q2

↑ Up 7.8%

12

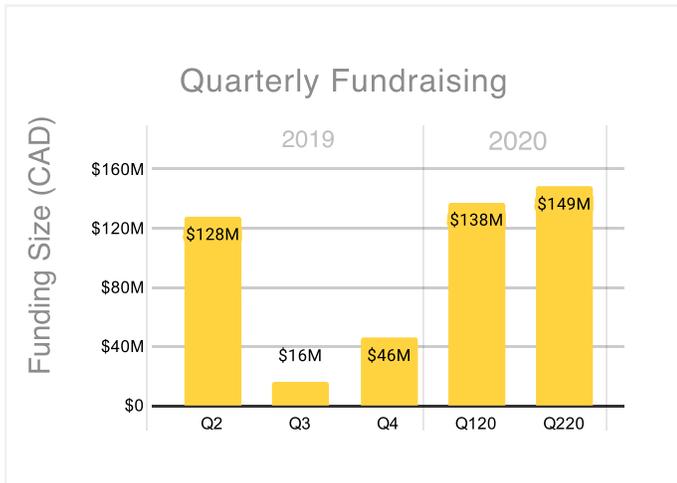
Funding Rounds

↓ Down 52%

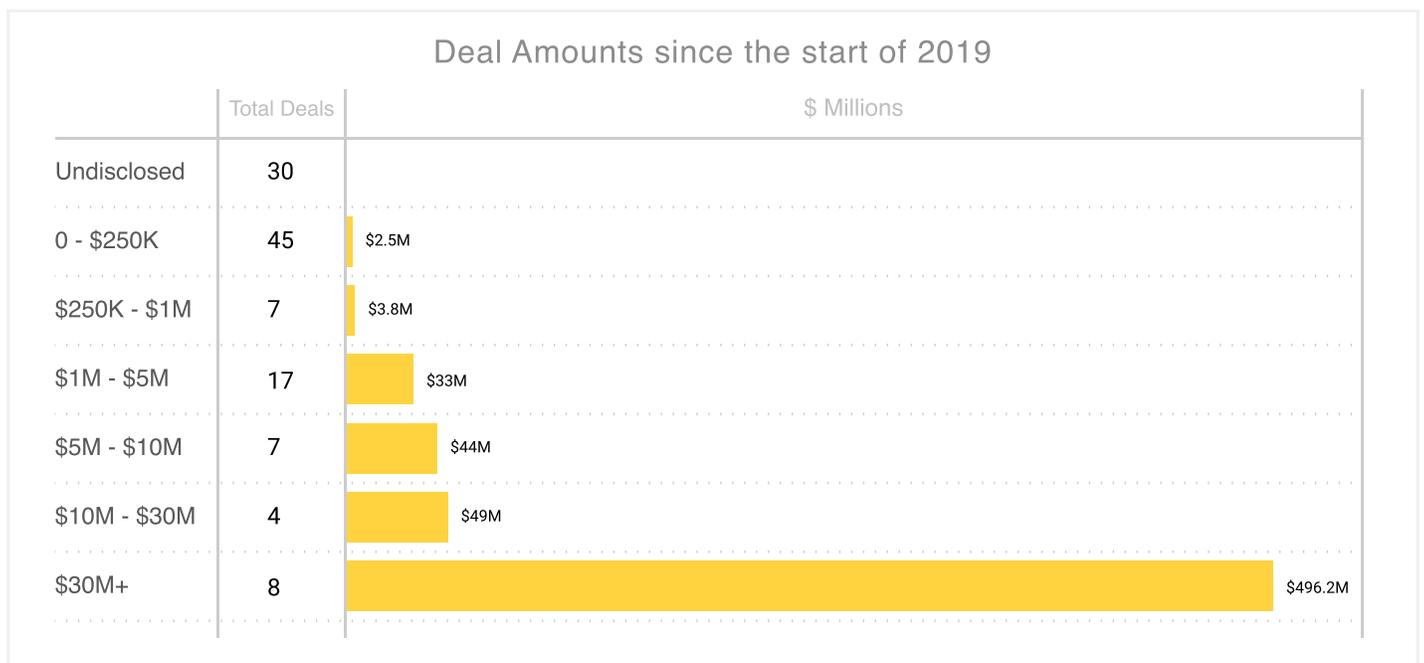
23

Investors

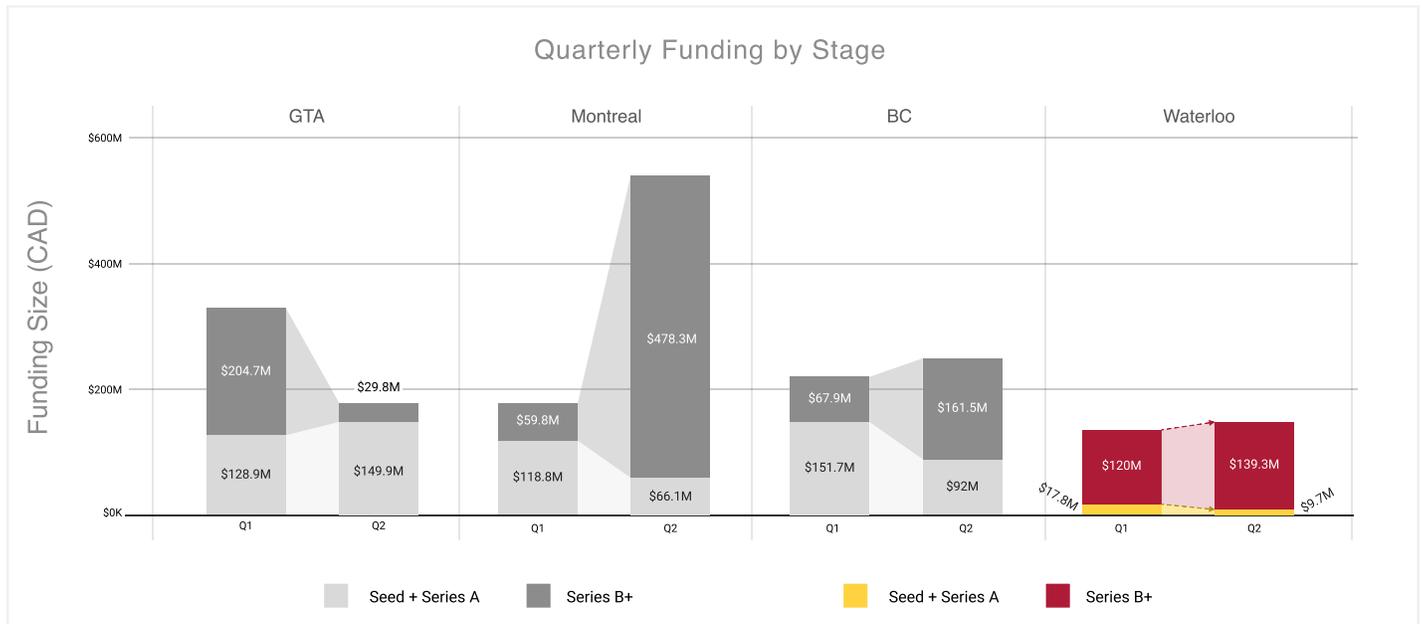
Deal volume, at 12, is down from Q1 and lower than the rolling average since Q2 2019. However, deal value at \$148.6M is strong, up slightly from Q1, and higher than the rolling average since Q2 2019. Quarterly funding is healthy largely due to a high amount of capital being injected into later stage companies.



The presence of large deals is not unique to this quarter. So far this year, \$438.1M or 81% of the total funding was invested into deals of \$35M or more with 5/51 deals (10%) over \$35M. Historically, these large deals are also accompanied by a number of smaller value deals. The chart below shows this distribution of activity with a large amount of the deal volume coming in the form of deals under \$250K, and a large amount of the total funding coming in deals over \$30M. One hypothesis for this distribution of activity is that the characteristics of the ecosystem, including strong access to accelerators and incubators, combined with a relatively low population base, leads to many early stage deals. From these early stage deals, a small number of companies proceed to later stage funding. This can be exemplified by the ApplyBoard deal this quarter.



The large ApplyBoard and Clearpath deals also exemplify the domination of late stage (Series B+) funding value in Q2, and are consistent with the breakdowns in Q1. In Q2, 93% of deal value was from late-stage deals. This shares characteristics with Montreal and BC where late stage deals also contributed to most of the deal value within the region. However, this is unlike what was most recently seen in the GTA where a high proportion of the total funding was into early stage deals.



In comparison to the other large ecosystems we track across Canada, the Waterloo Region is on the same stage as the GTA, Montreal, and BC when it comes to deal value. This is for an ecosystem with a population base far smaller than its peer ecosystems. Our tracking has already shown large deal values in the pipeline for Q3, showing the region is continuing to impress.

Q2 Activity Levels

This quarter showed a dip in deal volume from the previous quarter. This is in part due to a very active January, which drove deal volume higher than the rolling average. The difference is less pronounced when comparing Q2 deal value to Q2-Q4 in 2019.

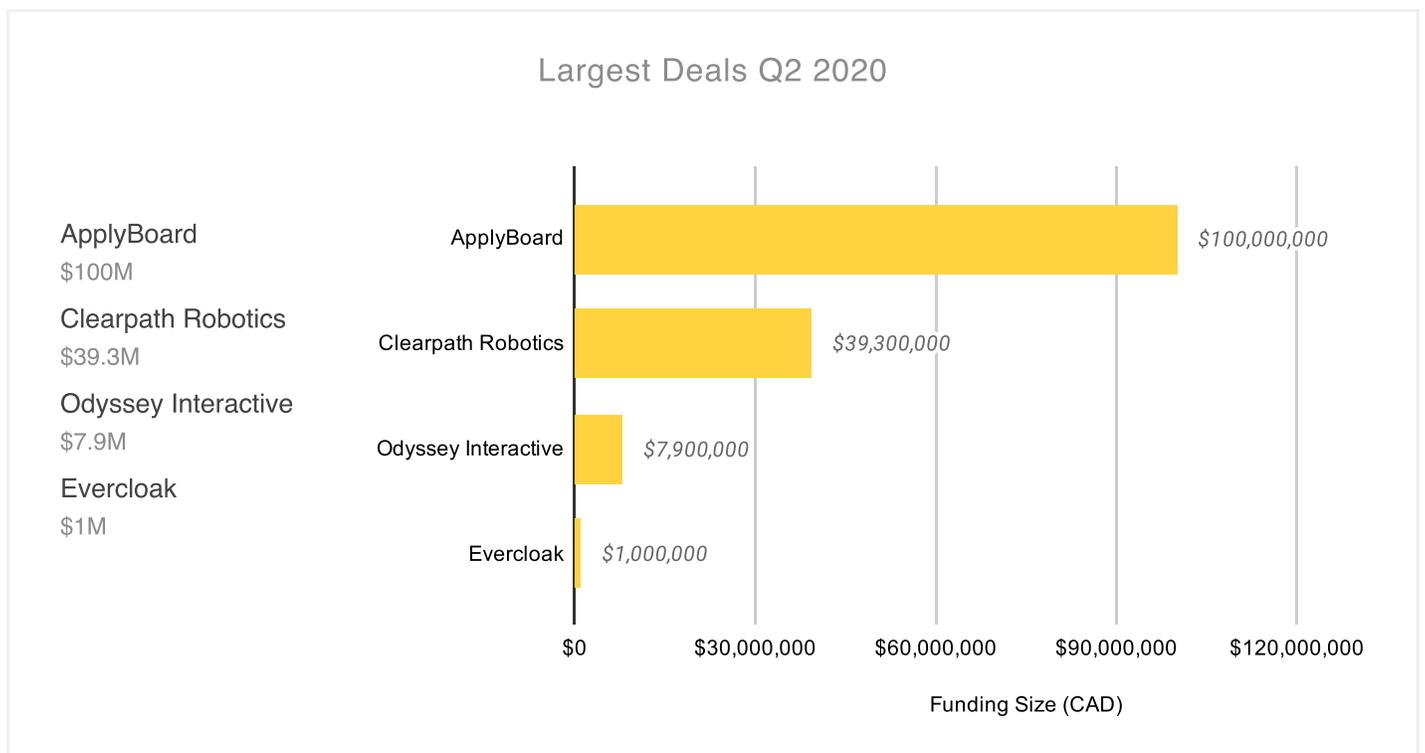


Highlighted Funding Rounds

COVID-19 impact can be seen in the largest Q2 deal. ApplyBoard has stated they have seen significant positive impact to revenue during COVID-19 with paperless, virtual application processes resonating due to the times.

Nanotechnology and Robotics companies are a highlight of the ecosystem, with Clearpath Robotics largely fueling its expansion of manufacturing and agricultural robotics. Evercloak followed a similar path raising \$1M using funding to further its nanotechnology efforts in mining.

Odyssey Interactive was a different story than ApplyBoard and Clearpath as their funding came as an early stage (seed) round. The company's founding team consists of Richard Henkel, Dax Andrus, and David Capurro (each of whom has led development teams at industry leading companies like Netflix and League of Legends creator Riot Games). The \$7.9M seed round also included investment by multiple leaders in the gaming industry, including Twitch co-founder Kevin Lin and former Blizzard Interactive VP Paul Della Bitta.

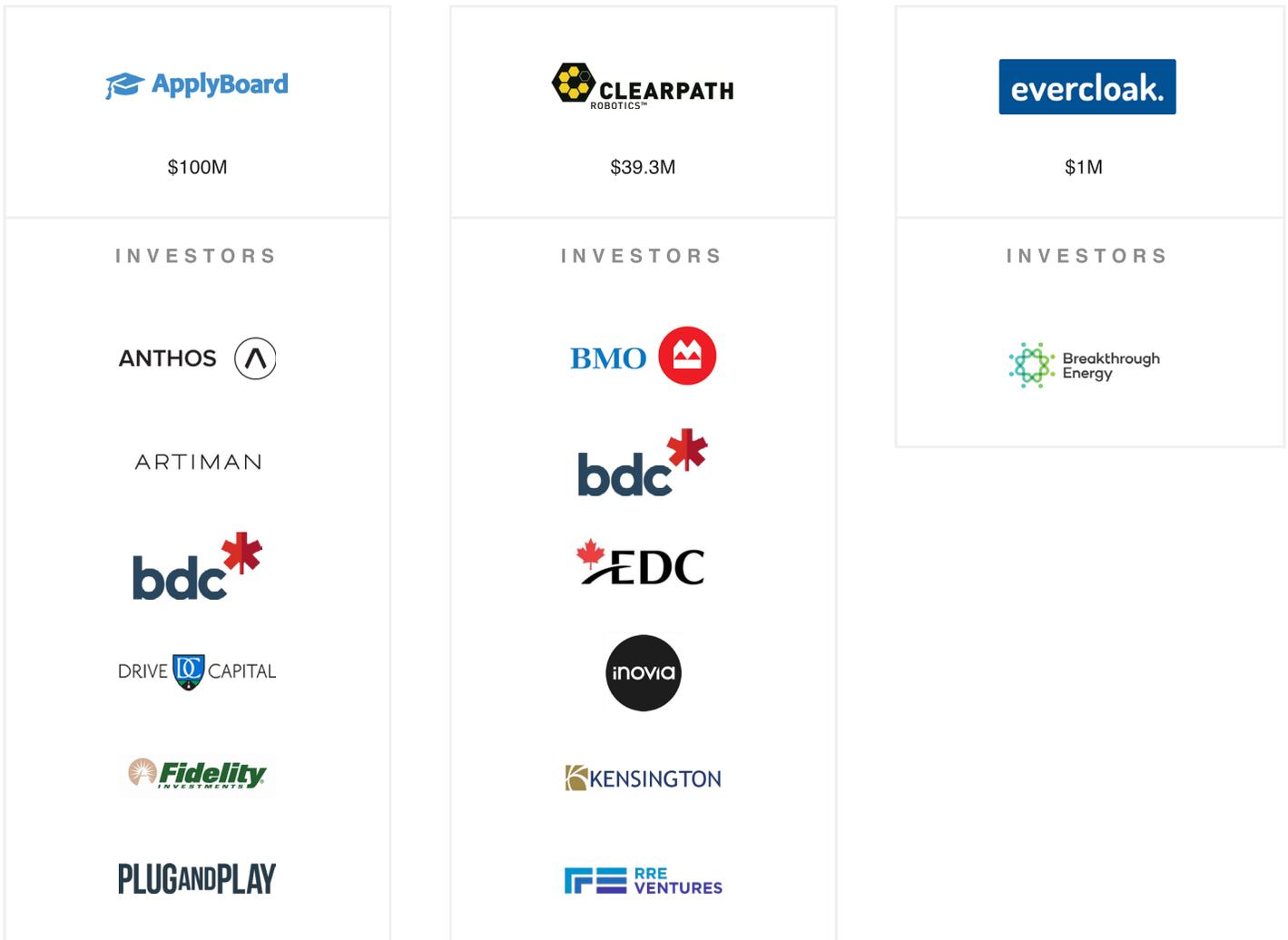


B2B Highlights in Robotics and Health Technology

With the exception of the largest deals, the most active verticals appear in the B2B space as highlighted by:

- Robotics and AI, accounting for \$84M of 2019-2020 activity
- Health technology - Our tracking indicates a community around healthtech in Waterloo with health care professionals investing. There are 4 separate companies in Waterloo working on Optics-tech, 2 in quantum, 3 in neurotech, and 4 in materials. Historically, we would expect high activity in AI/software/engineering techs stemming from University of Waterloo, but recent years have seen increase in early science startups
- Analytics companies also saw strong activity, led by Miovision in Q1 with \$120M.

The Health technology activity is part of a broader growth in Life Sciences in the region. This activity is stemming from a community of health care professionals that began forming in the last few years. Velocity, the University of Waterloo’s successful startup incubator, currently supports 27 Health technology startups. Other major contributions of the centre include the announcement of a Q2 2020 COVID-19 cohort. This cohort is focused on the use of technology to solve this global problem. Our tracking with Life Sciences nationally is in line with this growth in activity and deal volume in the Waterloo Region. Across Canada, \$2.4B was raised in the 3 year period between 2017-2019.



Notable in Q2 was US based funding as part of the largest deals. ApplyBoard's raise was led by a US Based firm (Drive Capital). This was consistent with activity in BC which saw late stage mega deals be driven primarily by US investors.

In terms of Canadian based investment, there is a large amount of activity in the early stages, with local accelerators and incubators continuing to be most active in the ecosystem. The Waterloo Accelerator Centre and Velocity led the way in early stage investment. Later stage funding is quite dispersed with many investors only having 1 deal in the past 12 months. Aside from those listed in the table, there are 11 others with 1 deal.

Early Stage



BDC Capital
MaRS IAF
Angel One Network
Golden Venture Partners



Panache Ventures
York Angels Investors
Techstars
Real Ventures

Later Stage



Ace & Company
Anthios Management, LLC
Artiman Ventures
BlackRock Inc.
BMO Capital Partners



Drive Capital
EDC Equity
iNovia Capital
Kensington Capital Partners
McRock Capital Corporation



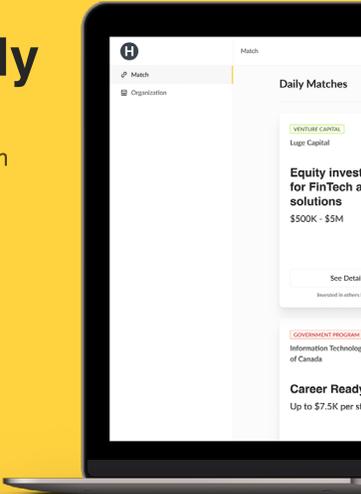
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