

Investors shuffle back to technology sector

Alcatel SA stake in Tropic Networks latest of growing number of deals to bolster Ottawa startups

Bert Hill

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Alcatel SA, the French communication equipment giant, is making an investment in Tropic Networks, one of the last big survivors of Ottawa's optical networking bust.

In a sign of the slow, but promising, recovery in investment confidence in Ottawa technology startups, Alcatel said it will take a seat on the seven-person Tropic board of directors and sell Tropic equipment to other customers.

Tropic is expected to disclose the new round of funding today. It has raised \$132 million U.S. over four years, but the last round of financing came 17 months ago and the company has slashed its workforce in order to survive.

The Ottawa Centre for Research and Innovation said yesterday that 12 companies received \$62.4 million Cdn in venture capital in the quarter that ended in June, more than three times the money invested in the first quarter of this year.

Six deals worth \$53.6 million have been publicly disclosed; -- the balance are likely seed-round deals to tiny companies still in stealth mode -- and span biotechnology, software, hardware and wireless companies.

"Diversity of the investment bodes well for a strong and balanced environment for Ottawa's business," OCRI president Jeffrey Dale said.

Fresh funding for Tropic is good news for the badly depressed optical sector. While Tropic has some revenues from metropolitan optical gear, it has run the risk of failing as have long-haul startups Innovance and Ceyba.

Tropic chopped more than 60 per cent of its workforce in 2002 and 2003 to stretch cash and now has 67 employees.

Now, with the new Alcatel investment and expected additional funding from long-term investors, Tropic's prospects have improved.

Alcatel has been working with Tropic on a potential major sale of equipment to SBC Communications, one of the biggest U.S. regional phone companies. Neither company would say yesterday whether the investment could lead to a takeover. In the past year, Alcatel has started buying startups with interesting technology, and an investment stake in Tropic could be the sign of greater interest.

"Alcatel is continuously looking for the best ways to meet the demands of our customers," said Romano Valussi, president of Alcatel's optical networks division.

"By partnering with Tropic Networks, Alcatel will be able to immediately satisfy (specialized optical) market requirements, while continuing to develop advanced solutions."

Tropic chief executive Kevin Rankin said, "We feel that this relationship will allow both Tropic Networks and Alcatel to leverage our combined strengths to successfully address new opportunities."

The announced venture capital deals in the June quarter were led by S2io Technologies with \$20.48 million, IceFyre with \$13.11 million and Seaway with \$11.01 million.

Smaller deal include Adherex Technologies with \$4 million, Mobile Knowledge with \$4 million and ObjectWorld with \$1 million.

More recently Taral Networks got \$15 million and PointShot supplemented an earlier \$1 million round.

In a report yesterday, Deloitte said venture capital investment declined across Canada in the first quarter but should pick up in the next six months.

The investment consulting company said that a survey of venture capital companies shows that 52 per cent are looking a growth deals and 21 per cent at buyout opportunities.

The report said there likely will be a flurry of new investment as venture capitalists search for promising deals now that the stock market is developing a taste for initial public offerings of stock.