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Morgenthaler Ventures bullish on Ottawa scene

Date January 22, 2001

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Brief With recent investments in Ottawa-based start-ups, such as Catena Networks and Innovance Networks, Menlo Park-based venture firm Morgenthaler Ventures is turning heads. As one of the pioneers of Silicon Valley's investment community, Morgenthaler's presence in Ottawa has brought a new level of interest to the local technology establishment.

Do you consider to be "affordable"

- Yes
 Not unlikely
 Not in my lottery
 Only or relative

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venture firm **Morgenthaler** Ventures is turning heads. As one of the pioneers of Silicon Valley's investment community,

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The Ottawa Business Journal's Brian Salisbury sat down with **Morgenthaler** general partner Gary Little to discuss his

thoughts on the past, present and future of Ottawa's venture capital market.

OBJ: How are your investments here doing?

LITTLE: When we look at our portfolio on a quarterly basis we score our companies as being stars, on track, struggling or

sick bay. Catena was in the star category. The comment about Catena was that it was the finest technical team that we've

ever invested in. Catena has continually overdelivered and has done it on a lower budget than expected. We couldn't be

more delighted. As for Innovance, they weren't under management when we did our last review, but they have a complete

business and technical team. With such an experienced management team, they're able to hire high-calibre people and the

people below can them hire high-calibre people.

OBJ: Which sectors in Ottawa attract you most?

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LITTLE: The most obvious attraction is in the telecom space. With the foundation of Nortel and successes like Newbridge,

there have been major companies that have recognized this -like Cisco. They've set up here as well. I know many people

who think the best systems expertise for wireless and telecom applications resides here in terms of availability of talent. It's

difficult to build telecom companies in Silicon Valley just in terms of not being able to find the talent. I'd view Ottawa in the

same way that I might view Richardson, Texas a world-class telecom centre that has created and will continue to create

first-class companies.

OBJ: Where does Ottawa appear on your radar screen in terms of investing?

LITTLE: Every firm is a little bit different. Most venture investors invest in companies that they can drive to. There's a

saying: Why fly over a good deal to get to a good deal?' Having a local VC that's part of the fabric of who's who in the

community is a major benefit. More distant relationships take longer to develop and are less efficient. I'd say the bar is

higher for west coast VCs to invest in Ottawa. It's got to be a really good deal to counterbalance the productivity lost in

transit. I don't think it's really on the radar screen for most west coast VCs, primarily because of distance.

OBJ: What's it going to take to make it onto that radar screen?

LITTLE: I think the thing that will help most is what's happening here right now with the VC going up from \$275 million in

1999 to \$1.2 billion last year. The successes created out of that money are going to attract the attention. That's happening,

and that's self-reinforcing. It's the same thing that happened in Washington, D.C. They went from really not being on

anybody's map to just being a year behind the total amount invested in all of the northeast, including Boston and New York.

OBJ: Can you speculate on Ottawa's venture capital future for me?

LITTLE: On a macro basis, I think the amount of money invested in start-ups is going to go down this year. On a smaller

base, in a more greenfield area like Ottawa, which has strong competencies in some of the more investable sectors right

now, it's conceivable Ottawa could continue to grow in terms of attracting investment capital while the overall industry

remains flat or shrinks. Investment in Ottawa might actually grow because it's in hot areas.

OBJ: Can we expect more deals from **Morgenthaler** here?

LITTLE: Absolutely. Our experience with our first two investments have been terrific. Life is too short to work with people

you don't like, and everyone's been great here. It's too cold here to do anything but work and drink, so those who don't drink

are going to make investors very happy.

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