

# Report on the Technology Fast

## THE TOP PERFORMERS

# Bellwether sector feels economic pinch

Along with impact of U.S. downturn, lack of venture capital is having a profound impact on Canadian tech sector

BY MATT HARTLEY  
TECHNOLOGY REPORTER

Normally, growth rates north of 2,400 per cent would be something to celebrate.

But John Ruffolo knows better.

Given the current state of the North American financial markets, it's not surprising that the average growth rate of Canada's 50 fastest-growing technology companies has slowed considerably.

What's more alarming is that for the first time in the 11 years he has been compiling the Deloitte Technology Fast 50, Mr. Ruffolo has never seen the average growth rates of the country's rising tech stars - a group that is often a bellwether of Canada's broader financial health - plummet so quickly.

"If this is the sector of the future, it's taken a pretty significant dip," says Mr. Ruffolo, head of Deloitte's technology, media and telecommunications

### The Deloitte Technology Fast 50

The 50 fastest-growing Canadian tech companies, based on overall revenue growth in the past five years.

RANK	COMPANY	LOCATION	FIVE-YEAR REVENUE GROWTH RATE (%)	SECTOR	PRODUCT/SERVICE
1	Nightingale Informatix Corp.	Markham, Ont.	23,078%	Software	Electronic medical records
2	PlateSpin Ltd.	Toronto	22,390%	Software	Data centre automation
3	Level Platforms Inc.	Ottawa	19,890%	Software	Remote monitoring, management software
4	MyThum Interactive Inc.	Toronto	6,840%	Software	Mobile interactive media
5	Vision Critical	Vancouver	5,298%	Software	Interactive research
6	Corinex Communications Corp.	Vancouver	3,598%	Telecom	Networking solutions
7	Sandvine Corp.	Waterloo, Ont.	3,510%	Telecom	Intelligent network management
8	OZ Communications Inc.	Montreal	2,815%	Telecom	Mobile messaging solutions
9	Brandimensions Inc.	Mississauga	2,621%	Software	Brand intelligence/protection software
10	Impact Mobile Inc.	Toronto	2,507%	Telecom	Mobile marketing solutions
11	BTI Systems Inc.	Ottawa	2,261%	Telecom	Optical metro edge networks
12	ViXS Systems Inc.	Toronto	2,213%	Hardware	Fabless semiconductors
13	Camillion Solutions Inc.	Markham, Ont.	1,897%	Software	Policy administration systems
14	RuggedCom Inc.	Woodbridge, Ont.	1,599%	Telecom	Rugged communications equipment
15	DragonWave Inc.	Kanata, Ont.	1,405%	Telecom	Broadband wireless access
16	Research In Motion Ltd.	Waterloo, Ont.	1,377%	Telecom	Wireless technologies
17	Strategic Connections Inc. (SCI)	Markham, Ont.	1,371%	Software	Auto retail Software-as-a-Service
18	Solium Capital Inc.	Calgary	1,338%	Software	Stock plan administration software

head of Deloitte's technology, media and telecommunications group.

"So there is some concern about where Canada is, from this perspective."

In 2007, the average five-year revenue growth rate of the Top 50 was 3,732 per cent; this year it dropped to just 2,457 per cent.

The culprits? A high Canadian dollar, reduced IT spending budgets at many U.S. companies, skyrocketing borrowing costs because of the credit crunch, and the evaporation of accessible domestic venture capital funding.

Macro-economic factors have hammered most areas of the North American economy over the past 12 months.

And because most Canadian technology companies are export-focused and depend on U.S. clients for significant chunks of their sales, when the U.S. economy derailed last year, it sent a particularly powerful shockwave through the tech sector as U.S. firms tightened their belts and slashed their IT budgets.

"The gloomy picture that is starting to come across the border, these companies are starting to feel that impact," Mr. Ruffolo says, adding that the credit crisis in the United States hit large organizations hardest, increasing their borrowing costs.

But it is the lack of venture capital funding in Canada that has had the most profound impact on this country's tech sector, he says.

The rankings show that beginning in 2002, shortly after the burst of the tech bubble, venture capitalists began tightening their purse strings, making it more difficult for companies to secure startup funding.

"Post-2002, you started seeing a massive decrease in Ca-

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21	Nstein Technologies Inc.	Montreal	923%	Software	Software solutions for publishers
22	Creaform	Lévis, Que.	923%	Software	3-D imaging
23	Desire2Learn Inc.	Kitchener, Ont.	920%	Software	Enterprise learning systems
24	Genefec Technology Corp.	Saint-Laurent, Que.	799%	Software	Video surveillance, security solutions
25	TeraXion Inc.	Quebec City	791%	Telecom	Photonics components, subsystems
26	Grey Island Systems Inc.	Toronto	776%	Telecom	Wireless fleet, transit management
27	VendTek Systems Inc.	Port Coquitlam, B.C.	698%	Software	Software for financial products
28	WellPoint Systems Inc.	Calgary	695%	Software	Broadcast workflow solutions
29	Talenf Technology Corp.	Richmond, B.C.	679%	Software	Recruitment and hiring software
30	Distech Controls Inc.	Brossard, Que.	664%	Software	Building automation solutions
31	Serehic Corp.	Edmonton	521%	Software	Financial management software
32	Truition Inc.	Toronto	499%	Software	On-demand e-commerce
33	BlueCat Networks Inc.	Toronto	467%	Hardware	IP address management
34	Dundas Data Visualization Inc.	Toronto	429%	Software	Data visualization components
35	PointClickCare (Wescom Solutions Inc.)	Mississauga	397%	Software	Integrated long-term care solutions
36	Imaging Dynamics Company Ltd. (IDC)	Calgary	382%	Hardware	Digital radiography systems
37	Evertz Technologies Ltd.	Burlington, Ont.	382%	Hardware	HDTV, IPTV equipment
38	Navtech, Inc.	Waterloo, Ont.	371%	Software	Flight operations software
39	NRT Technology Corp.	Toronto	352%	Software	Cash handling solutions
40	WebTech Wireless Inc.	Burnaby, B.C.	348%	Telecom	Wireless fleet security
41	Averna	Montreal	319%	Software	Test solutions and services
42	Bridgewater Systems	Ottawa	310%	Software	Subscriber-centric policy management
43	Masstech Group Inc.	Richmond Hill, Ont.	298%	Software	Software and embedded hardware
44	Icron Technologies Corp.	Burnaby, B.C.	296%	Hardware	Bridging USB devices over any media
45	Ruffer Inc.	St. John's	291%	Hardware	Marine technology, engineering
46	Artificial Mind & Movement	Montreal	279%	Software	Video game developer
47	Redline Communications Inc.	Markham, Ont.	274%	Telecom	Broadband wireless access
48	SDP Components Inc.	Dorval, Que.	246%	Telecom	RF isolators
49	Intelerad Medical Systems Inc.	Montreal	245%	Software	Medical imaging software
50	Versatile Systems Inc.	Vancouver	241%	Software	Software and programming

DOUGLAS COULL/THE GLOBE AND MAIL ■ SOURCE: DELOITTE & TOUCHE LLP

nadian VC financing of these companies," Mr. Ruffolo says. "It takes around five years before you really start to see the signs of actions that occurred in the past, and now we're starting to see it.

"We're seeing their top-line growth slow, largely because with a lack of financing they

can't necessarily make the big bets they would have liked to have made in the past."

Although growth isn't as dramatic as in years past — last year Waterloo, Ont.-based Sandvine Inc. led the way with a 42,120-per-cent growth rate — this year's top spot went to Nightingale Informatix Corp.,

a health-care service and software company based in Markham, Ont., which posted a 23,708-per-cent revenue growth rate over five years.

Sandvine dropped to No. 7 this year, with a growth rate of 3,510 per cent.

Its slump is due, in part, to the way its deep-packet in-

spection technology was cast in a negative light after it was revealed that U.S. cable giant Comcast Corp. was using the software to identify peer-to-peer traffic on its network and then slow it down. ("The whole net-neutrality supporters found that as an 'evil company' but a cool technology,"

Mr. Ruffolo says. "I think they've been unfairly vilified. Which is a shame, it's a great technology."

Canada's software industry is well represented on the list. Thirty-one companies, including six of the top 10 firms and all of the top five, are software companies.

Canadians have always produced top-quality business software, but the country's engineers and developers are now earning a new reputation for being among the best at creating software for cell-phones and other mobile devices, Mr. Ruffolo notes. Indeed, telecom companies account for 13 of the remaining 19 spaces on the list, with hardware manufacturers rounding out the 50.

Mr. Ruffolo pegged a few up-and-comers as bright stars on the list, including RuggedCom Inc. (No. 14), a Toronto-area firm that specializes in building servers designed to stand up to rough environments and compete against the likes of Cisco. Another rising star is Burlington-based HDIV and IPTV equipment manufacturer Evertz Technologies Ltd. (No. 37).

Although many of the companies on the list are in early stages of development - which helps to explain four- and five-digit growth rates - Mr. Ruffolo says that many companies that made the list in years past have gone on to become major successes.

"There is a very strong correlation between the hyper growth of these companies and their eventual success," Mr. Ruffolo said of the rankings.

"The good news that this should be telling people is that if you look at Canada's economic landscape over the next five or 10 years, where is Canada going to play in the world economy?" he said.

"When you look through all the various sectors, the tech sector is one where we have a tremendous labour force, great education, it doesn't require vast amounts of capital and we have the biggest market in the world right next door to us that we can sell into ... all those factors indicate this should be the sector of the future."

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