

Learning to thrive in fertile niches

Tech firms find success by capitalizing on emerging sectors and spending more on R&D, even as venture capital funds dry up

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Canada's fastest growing technology companies have established themselves at a rapid pace and are laying the groundwork for a successful future by significantly boosting their research and development spending in the last year.

They are capitalizing on niche segments in such emerging fields as digital media software, wireless communications and green technology. And they are enjoying the best environment for going public since before the great tech bust of 2001.

Younger companies still in startup mode, however, will be challenged to duplicate the successes of today's newest tech stars because of a dearth of venture capital funding available to them.

These are some of the observations made by the consultants behind Deloitte & Touche's 10th annual Technology Fast 50 ranking, where the average growth rate for a firm was 3,732 per cent over the past five years.



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Dave Caputo is president and CEO of Sandvine Corp., which was named the No. 1 fastest-growing Canadian Tech company in this year's Deloitte Technology Fast 50 (*GEOFF ROBINS/FOR THE GLOBE AND MAIL*)

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"The growth rate of these companies has been absolutely spectacular, even at a time when people consider the tech industry is slowing down," says John Ruffolo, leader of Deloitte's technology, media and telecommunications practice. "They are going into hyper-growth rate right out of the chute."

For example, Sandvine Corp., the network management operation that tops this year's rankings, was founded in 2001 and most recently posted quarterly sales of \$20-million, up from \$7.4-million in the year-earlier period.

The companies on the list, more than two-thirds of which are less than 10 years old, represent the start of the second generation of Canada's technology players and have benefited from both the boom of the late 1990s and the bust of 2001.

More than half the businesses in the list were born between 1997 and 2001, coinciding with the peak of venture capital financing in Canada, and 70 per cent of the companies received money from VCs, Mr. Ruffolo said.

After the market for technology crashed in 2001, many managers and engineers moved to start or join new businesses, providing today's success stories with seasoned talent, he said.

The fertile VC environment for tech has not been matched since the bust, however, with today's investors favouring other opportunities, such as hedge funds, and many venture capitalists still wary of repeating mistakes made during the boom.

"The amount of VC funding going to these companies is dropping like a stone, especially in Ontario," Mr. Ruffolo said. This is forcing young operations to rely on internal cash and slow their investments. He warns that the impact five years from now will be slower growth in the sector.

Nevertheless, there is one rapidly expanding segment within Canada's technology industry that is suddenly attracting hundreds of millions of dollars from both Bay Street and venture capitalists: green technology.

6N Silicon Inc., for example, raised \$6-million in July in its first round of venture capital financing. The company, founded last year, makes specialized silicon for the solar power industry.

6N Silicon tops a new list that Deloitte has added to its annual survey of the industry, ranking 15 promising green-tech firms.

The rapid emergence and growth of green-tech companies is one of the biggest stories in the tech sector and has all the signs of a dot-com boom in the making, Mr. Ruffolo said.

Promising green-tech companies range from publicly traded Xantrex Technology Inc., which has been around since 1983 and makes equipment for converting alternative energy into electrical power, to four-year-old Sempa Power Systems Ltd., a privately held firm that sells hybrid heating systems to businesses.

Among the more traditional tech companies, the last year has proved extremely lucrative in the capital markets. Six firms in the Fast 50 have gone public in the past year, including Sandvine, RuggedCom Inc., Redline Communications, DragonWave Inc. and March Networks Corp. "It was a great year for exits," Mr. Ruffolo said, noting that at least another half-dozen companies have IPOs in the pipeline.

On average, the ranked companies spent 21 per cent of their sales on research and development, or \$7.3-million, nearly 50 per cent more than a year earlier. The average head count was 150, with most firms allocating at least 20 positions to R&D, Deloitte said.

The top two areas of concentration among the companies were software (53 per cent) and telecommunications (30 per cent), with four of the top 10 specializing in software to deliver new-media content to wireless handsets.

Slightly more than half the firms are based in Ontario's Toronto-Waterloo-Ottawa triangle. Quebec and Vancouver were each home to nine of the ranked firms. Last year's strong showing on the survey by several new companies servicing the oil-and-gas industry proved to be a blip and Alberta produced only four of the listed companies this year.

Regardless of their location in Canada, most of the ranked companies are focused on foreign markets. Sixty-five per cent have operations in the United States, and many are looking far beyond the North American market to Germany, Britain and other parts of western Europe, Deloitte said.

The Technology Fast 50 list is compiled from both public and private companies that apply to be included. Those not willing to share financial data with Deloitte are removed. Businesses must be in the software, hardware, telecom or emerging technology industries; they must have created their own [intellectual property](#) and have their head office in Canada.

This year's list names 51 companies, reflecting a tie for third place between Ottawa's BTI Photonic Systems Inc. and Tira Wireless Inc. of Toronto.

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	Sandvine Corp.	Waterloo, Ont.	42120%	Telecom	Intelligent network management
2	PlateSpin	Toronto	21519%	Software	Data centre automation
3	BTI Photonic Systems Inc.	Ottawa	16610%	Telecom	Optical metro edge networks
3	Tira Wireless Inc.	Toronto	16610%	Software	Wireless programs
	MyThum Interactive				

4	Inc.	Toronto	13900%	Software	Mobile interactive media
5	Impact Mobile Inc.	Toronto	10455%	Telecom	Mobile marketing solutions
6	Vizable Corp.	Toronto	9879%	Software	Digital media experience network
7	Camilion Solutions Inc.	Markham, Ont.	9162%	Software	Policy administration systems
8	ViXS Systems Inc.	Toronto	6462%	Hardware	Advanced video processing
9	Airborne Entertainment Inc.	Montreal	5279%	Telecom	Entertainment for mobile devices
10	Imaging Dynamics	Calgary	4946%	Hardware	Digital radiography systems
11	Rutter Inc.	St. John's	2478%	Hardware	Marine technology, engineering
12	Desire2Learn Inc.	Kitchener, Ont.	1929%	Software	Enterprise learning systems
13	WebTech Wireless	Burnaby, B.C.	1888%	Telecom	Wireless fleet security
14	RuggedCom Inc.	Woodbridge, Ont.	1601%	Telecom	Rugged communications equipment
15	Vision Critical	Vancouver	1587%	Software	Interactive research
16	Redline Communications	Markham, Ont.	1417%	Telecom	Broadband wireless access
17	Solium Capital Inc.	Calgary	1249%	Software	Savings plans
18	BlueCat Networks Inc.	Toronto	1219%	Hardware	IP address management
19	Dyaptive Systems Inc.	Vancouver	1196%	Telecom	Wireless network testing
20	Cogsdale Corp.	Charlottetown	1112%	Software	Solutions for governments, utilities
21	Corinex Communications Corp.	Vancouver	1099%	Telecom	Networking solutions
22	Tranzeo Wireless Technologies Inc.	Pitt Meadows, B.C.	1072%	Telecom	Advanced wireless broadband
23	Radialpoint	Montreal	911%	Software	Managed Internet services
24	Genetec	Saint-Laurent, Que.	897%	Software	Video surveillance, security solutions
25	CityXpress Corp.	Vancouver	829%	Software	Products, programs for newspapers
26	QuestAir Technologies Inc.	Burnaby, B.C.	762%	Hardware	Gas purification systems
27	Eloqua Corp.	Toronto	747%	Software	Sales cycle acceleration
28	Grey Island Systems	Toronto	715%	Telecom	Wireless fleet, transit

	International Inc.				management
29	March Networks Corp.	Kanata, Ont.	712%	Hardware	Digital video surveillance
30	Nstein Technologies Inc.	Montreal	693%	Software	Text mining
31	N-able Technologies	Ottawa	686%	Software	Performance management
32	DragonWave Inc.	Kanata, Ont.	683%	Telecom	Broadband wireless access
33	AirIQ Inc.	Pickering, Ont.	586%	Telecom	Wireless fleet security
34	Truition Inc.	Toronto	565%	Software	On-demand e-commerce
35	Exposoft Solutions Inc.	Mississauga, Ont.	532%	Software	Custom event solutions
36	PointClickCare (Wescom Solutions Inc.)	Mississauga, Ont.	509%	Software	Integrated long-term care solutions
37	Ascalade Communications Inc.	Richmond, B.C.	503%	Telecom	Wireless solutions
38	DTI Software	Montreal	476%	Software	In-flight software
39	Evertz Technologies Ltd.	Burlington, Ont.	444%	Hardware	HDTV, IPTV equipment
40	Digital Payment Technologies Corp.	Burnaby, B.C.	443%	Software	Automated payment technology
41	Research In Motion	Waterloo, Ont.	436%	Telecom	Wireless technologies
42	Distech Controls Inc.	Brossard, Que.	427%	Software	Green building automation systems
43	Lyrtech	Quebec City	424%	Hardware	Digital signal processing solutions
44	Zedi Inc.	Calgary	417%	Hardware	Production automation management
45	Artificial Mind & Movement	Montreal	385%	Software	Video game developer
46	Oceanwide Inc.	Montreal	370%	Software	Trade, cargo insurance
47	Chartwell Technology Inc.	Calgary	366%	Software	Gaming systems
48	Enghouse Systems Ltd.	Markham, Ont.	351%	Software	Enterprise application software
49	Activplant Corp.	London, Ont.	347%	Software	Management intelligence
50	Bridgewater Systems	Ottawa	321%	Software	Subscriber-centric policy management

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