

Ontario's Exempt Market

*A review of capital raised in Ontario through
prospectus exemptions since 2017*

OSC Staff Notice 45-717

December 2020

Contents

- Executive Summary 2
- Market Composition and Annual Trends 3
- Investor Trends 7
- Issuer Trends 11



Executive Summary

In 2019, approximately 3,200 corporate (non-investment fund) issuers reported \$88.6 billion in capital raised, through prospectus exempt distributions, from approximately 35,200 Ontario investors. This report¹ highlights the key drivers of Ontario's private or "exempt market" activity since 2017², including the types of issuers that raised capital and the investors they raised it from.

Since 2017, there has been a marginal decline in the amount of capital raised each year. However, the number of issuers raising capital in Ontario's exempt market³ has remained relatively stable and investor participation, primarily among individuals⁴, has increased considerably over the same period.

Our findings in this report include:

Issuer and Investor Trends

- Institutional investors were the predominant source of capital in Ontario's exempt market.
- The accredited investor exemption accounted for the majority of capital raised by Canadian and foreign issuers.
- There has been notable year-over-year growth in the number of individual investors, with a large and increasing proportion investing in financial issuers⁵.

Newer Prospectus Exemptions

- From 2017 to 2019, the offering memorandum; family, friends and business associates; and existing securities holder exemptions have been used by over 1,300 issuers to raise just over \$1 billion.
- The offering memorandum exemption continues to be predominantly used by mortgage and real estate issuers to raise capital from individual investors.

Ontario Issuers

- Since 2017, exempt market activity by Ontario-based non-financial issuers has declined, whereas activity by financial issuers has increased.
- Ontario non-financial issuers with less than \$5 million in total assets accounted for over a third of all Ontario issuers that accessed Ontario's exempt market but less than 3% of the capital raised in 2019.

¹ This report is based on data obtained from the Form 45-106F1 Report of Exempt Distribution ("the F1 Report") filed with the OSC by corporate issuers that raised capital from Ontario investors under reportable prospectus exemptions. Only certain prospectus exemptions trigger a requirement to file an F1 Report and so the information gathered from the filings does not represent all exempt market activity. For more information on which exemptions require the filing of an F1 Report in Ontario, see Part 6: Reporting Requirements of National Instrument 45-106 *Prospectus Exemptions*. The data in this report was collected at a point in time and may not incorporate the latest filer amendments or late filings. In addition, "data cleaning" methods were applied to exclude erroneous or identifiable duplicate records that were filed.

² For more information on the OSC Exempt Market Report 2018, see OSC Staff Notice 45-716. Figures for 2017 cited in this report may differ slightly from those provided in the 2018 report as a result of amendments, re-filings and late filings.

³ For more information about the exempt market, please see: "The Exempt Market at" <<http://www.osc.gov.on.ca/en/exempt-market.htm>> and "The Exempt Market Explained" at <<https://www.getsmarteraboutmoney.ca>>.

⁴ For the purpose of this report, "individual investor" (or "individuals") refers to investors that were identified by their full legal name and not a corporation name or legal entity name. In some cases, individual investors may also include named individuals that were purchasing on behalf of a beneficial owner. "Institutional" refers to institutional investors and other non-individuals such as companies, trusts or managed accounts purchasing on behalf of a beneficiary or group of beneficiaries.

⁵ For the purpose of this report, "financial issuers" include issuers identified in the finance, real estate and mortgage sectors. Issuer sector categories were based on their reported NAICS (North American Industry Classification System) code with the exception of mortgage issuers, which were identified based on additional OSC staff research.

Market Composition and Annual Trends



Market Composition in 2019

The high-level breakdown of capital raising activity in 2019, below, demonstrates that while Ontario's exempt market is comprised of a diverse set of participants, a small number of institutional investors and foreign issuers account for a disproportionately larger share of capital raised. The exempt market also serves as an additional source of capital for both public (reporting) and private (non-reporting) issuers.



Other Key Components

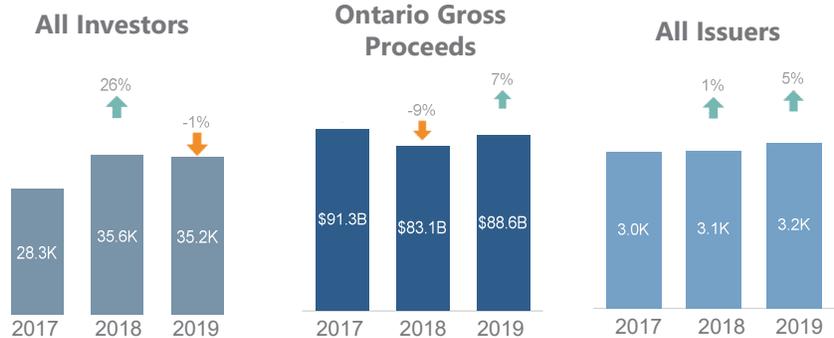


⁶ Non-debt securities includes all classes of shares, preferred shares, flow-through shares, partnership units, depository receipts, subscription receipts and other securities that are not convertibles, rights, bundled units or debt related securities.

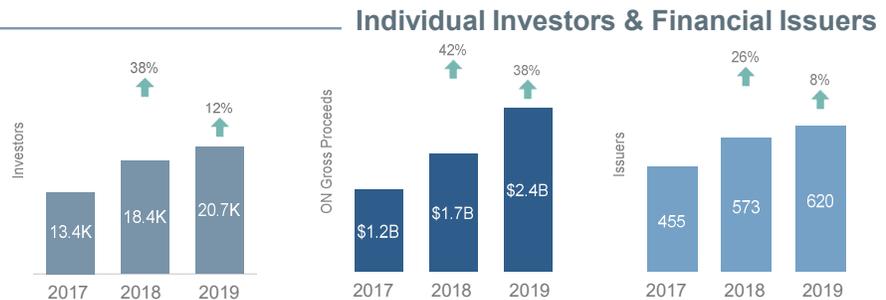
⁷ See definition of "accredited investor" in Part 1: Definitions and Interpretation of National Instrument 45-106 *Prospectus Exemptions*.

Annual Trends

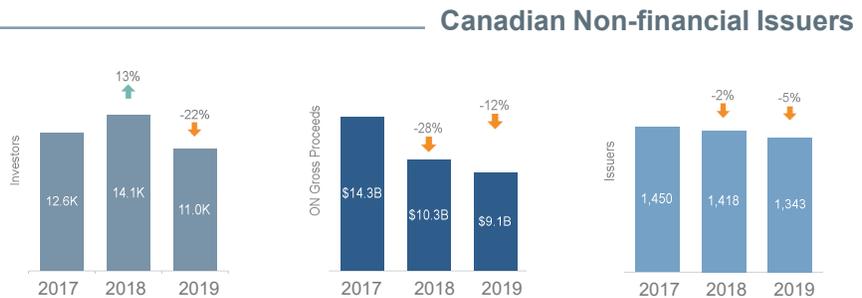
While annual gross proceeds raised from Ontario investors declined slightly from their 2017 levels, investor participation, primarily by individual investors, has increased over the last two years. This growth is mainly concentrated in financial issuers as shown below.



Investments by individual investors in all financial issuers continues to grow.



Aggregate capital raised by Canadian non-financial issuers from Ontario investors has declined since 2017.



Ontario investors (mostly institutional) continue to allocate a large amount of capital to foreign, especially U.S. based, issuers.



Annual Trends – Capital Raising Exemptions

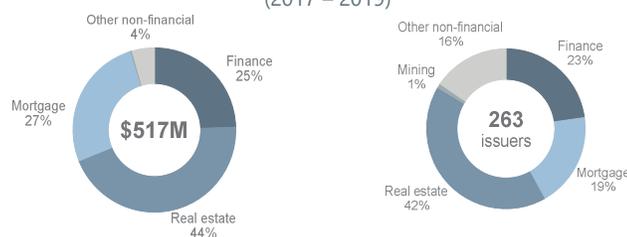
From 2017 to 2019, the offering memorandum (**OM**), family, friends and business associates (**FFBA**) exemption and existing securities holder (**ESH**) exemptions have been used by over 1,300 issuers to raise just over \$1 billion in aggregate.⁸

Among these exemptions, the OM exemption was used to raise the most capital and from a greater number of investors, while the FFBA exemption was used by the most number of issuers. The ESH has been used by a very limited number of issuers to raise a small amount of capital over the last three years. There has been no reported use of the crowdfunding exemption to raise capital from Ontario investors since it came into effect.⁹

		ON Gross Proceeds	Median Issuer Gross Proceeds	Issuers	Investors
Offering memorandum	2017	\$136M	\$200K	157	5.8K
	2018	\$180M	\$203K	150	8.6K
	2019	\$202M	\$327K	127	9.3K
Family, friends & business assoc.	2017	\$170M	\$50K	464	2.3K
	2018	\$163M	\$60K	482	3.3K
	2019	\$156M	\$50K	456	2.6K
Existing security holder	2017	\$2M	\$20K	31	0.1K
	2018	\$1M	\$15K	24	0.1K
	2019	\$1M	\$20K	31	0.1K

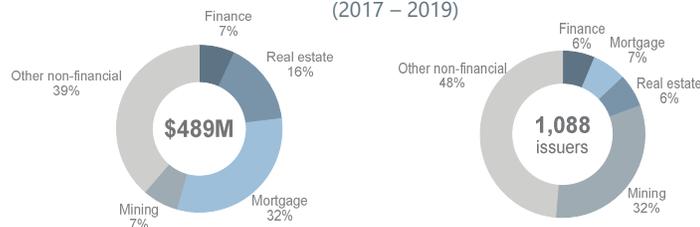
The OM exemption has been predominantly used by mortgage and real estate issuers.

Offering Memorandum Exemption (2017 – 2019)



The FFBA exemption has been predominantly used by non-financial issuers, especially mining issuers. However, mortgage and real estate issuers raised more capital under the exemption than issuers in other sectors.

Family, Friends and Business Associates Exemption (2017 – 2019)



⁸ Most issuers relying on the OM and FFBA exemptions raised larger sums of capital under other prospectus-exemptions, most notably the AI exemption.

⁹ On February 27, 2020 the CSA published Proposed National Instrument 45-110 Start-up Crowdfunding Registration and Prospectus Exemptions to improve the harmonization of the regulatory framework for securities crowdfunding by start-ups and early stage issuers and create a streamlined system to allow start-ups and other small businesses to raise money. The OSC also made an interim local order on July 30, 2020, in light of COVID-19 and related challenges to small businesses seeking to raise capital, which provides prospectus and registration exemptions for start-up crowdfunding that are substantially similar to the local exemptions in British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick and Nova Scotia. The interim local order will remain in effect until the Proposed National Instrument is adopted or 18 months from the effective date of the order. The crowdfunding regime in Multilateral Instrument 45-108 Crowdfunding continues to apply in Ontario.

Investor Trends

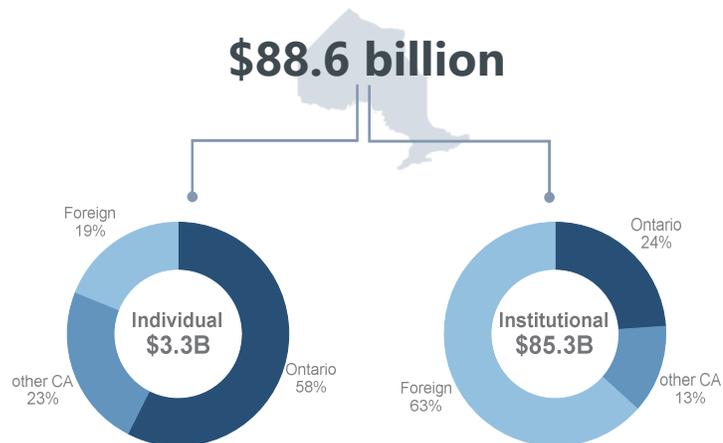


Investor Trends

Where did investors allocate capital in 2019?

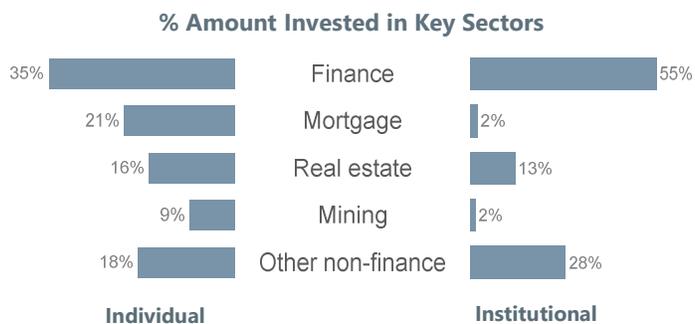
Issuer HQ

Individual investors allocated capital primarily to Ontario-based and other Canadian issuers, whereas institutional investors allocated more capital to foreign-based entities, predominantly based in the U.S.



Key Sectors

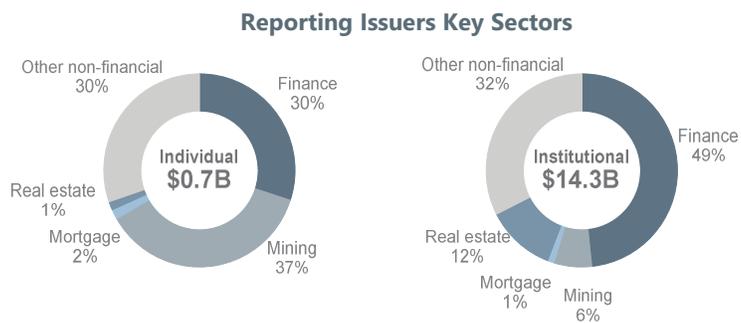
Individual investors allocated a larger portion of their capital (37%) to mortgage and real estate sectors than institutional investors (15%).



Reporting Issuers

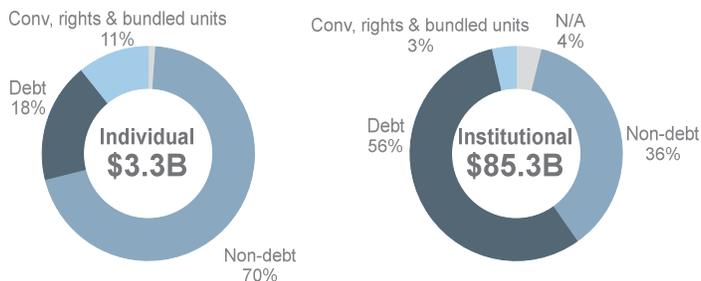
Reporting issuers received 22% of the total invested in the exempt market by individual investors (\$0.7B) and 17% of the total invested by institutional investors (\$14.3B).

For individual investors, investments in reporting issuers were concentrated in the mining (37%) and finance (30%) sectors.



Security Types

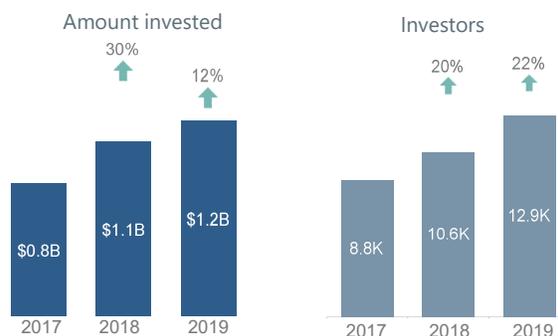
Individuals allocated a greater proportion of their investments to non-debt securities whereas institutional investors allocated the majority of their investments to debt securities.



Mortgage and Real Estate Investments

Since 2017, there has been a steady increase in mortgage and real estate investments by individual investors.

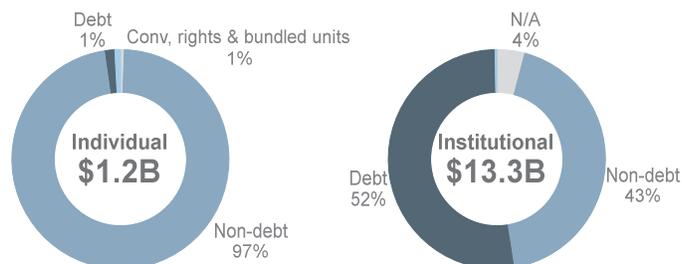
Individual Investor Growth



Similar to past years, individuals made investments in these issuers predominantly through non-debt/equity securities.

In contrast, over half of institutional investments in these issuers have been through debt securities.

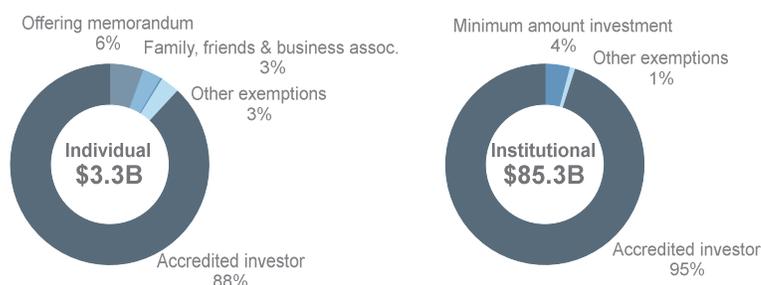
Security Types



Prospectus Exemptions

Amount invested by prospectus exemption

Similar to previous years, the majority of capital raised from both individual (88%) and institutional (95%) investors was through the AI exemption.



Investor counts by prospectus exemption

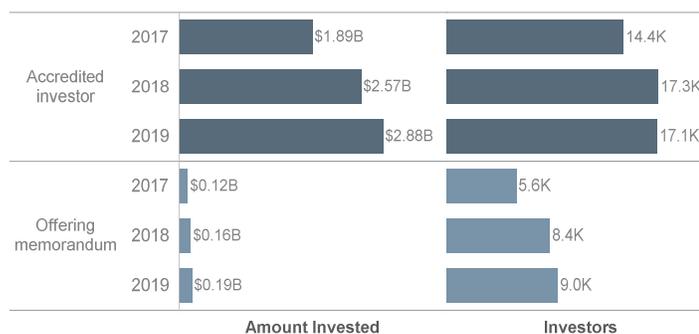
After the AI exemption, the OM exemption was the second most relied on prospectus exemption for individual investors.



Individual Investors

Annual AI and OM activity by individual investors only

Over the last three years, there has been an increase in the number of individual investors using the AI and OM exemptions.



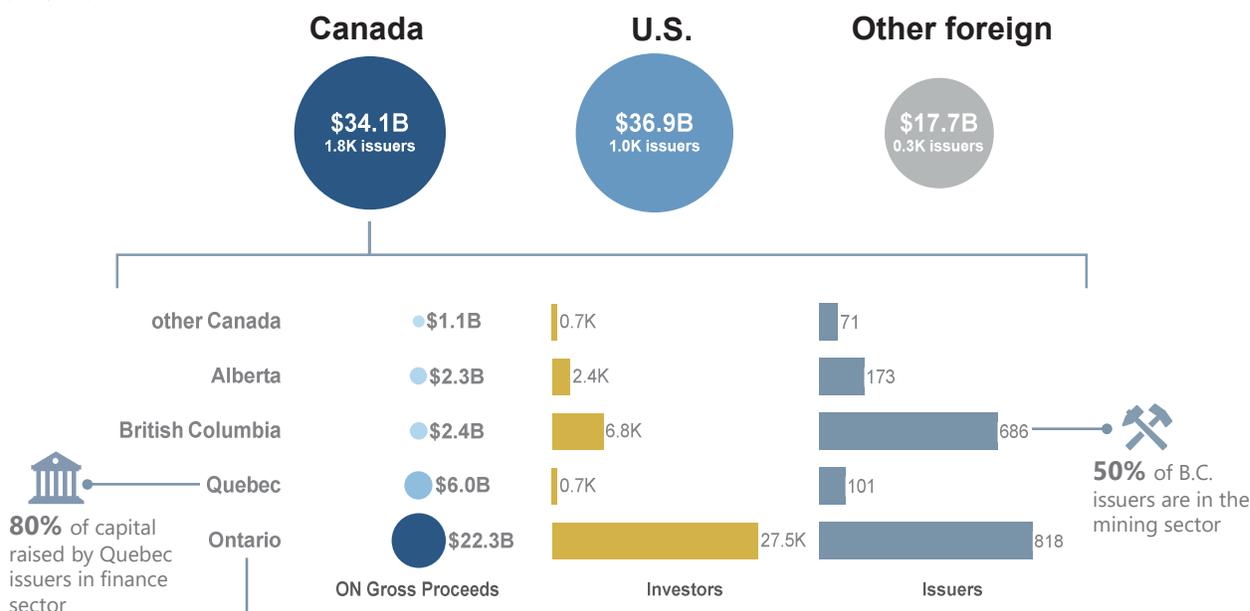
Issuer Trends



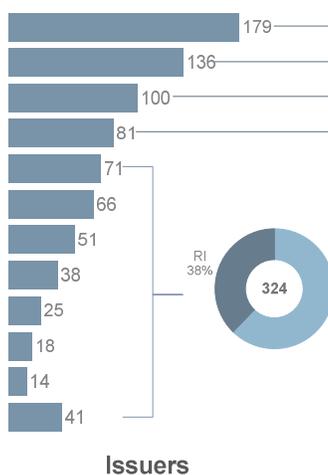
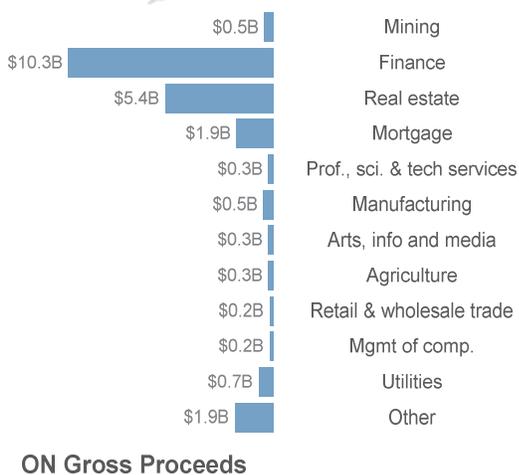
Ontario Issuers in 2019

Since 2017, the amount of capital raised from Ontario investors by Canadian issuers has remained relatively unchanged and Ontario-based issuers still account for the bulk of the gross proceeds raised by Canadian issuers.

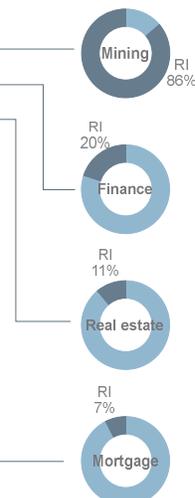
Issuer HQ



Ontario Issuer Sectors

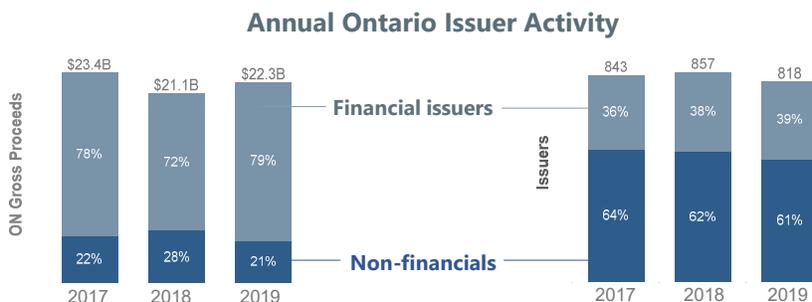


Reporting issuers



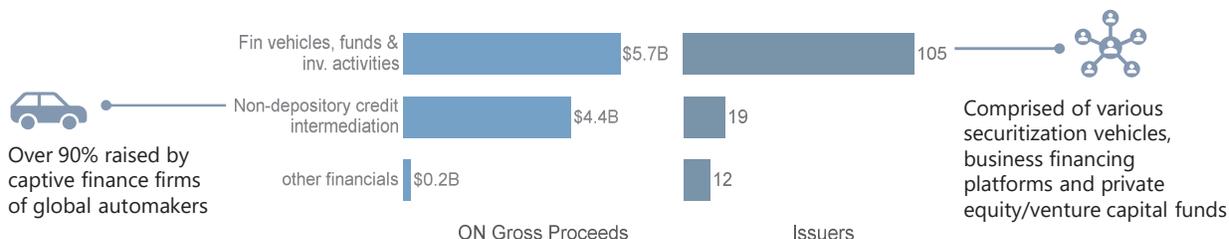
Key Ontario Sectors – Financial Issuers

Financial issuers continue to comprise a large portion of capital raised among Ontario-based issuers.



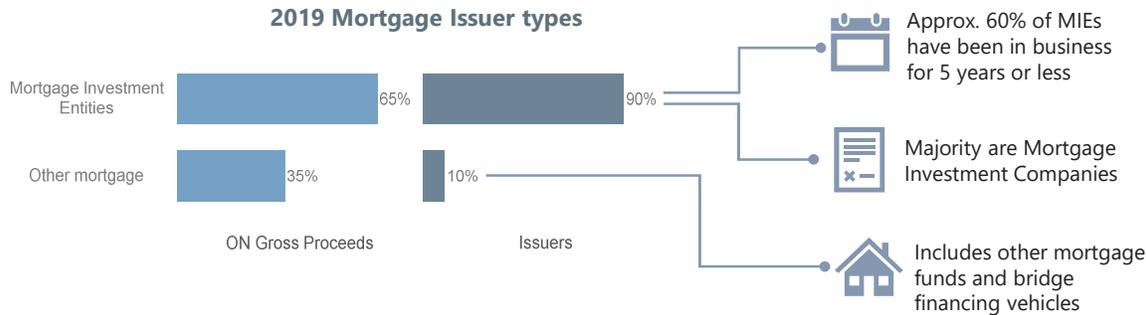
Finance

2019 Finance Subsector/Industry

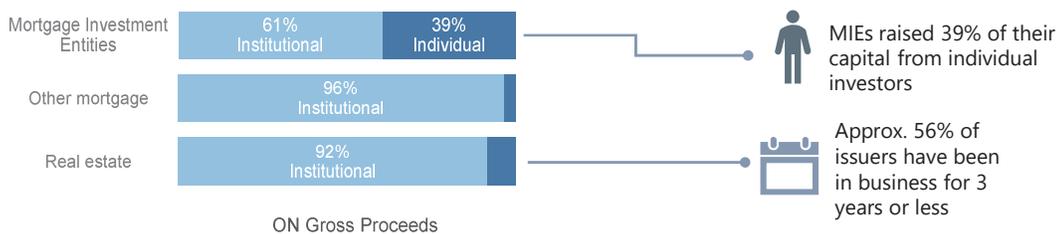


Mortgage and Real Estate

2019 Mortgage Issuer types

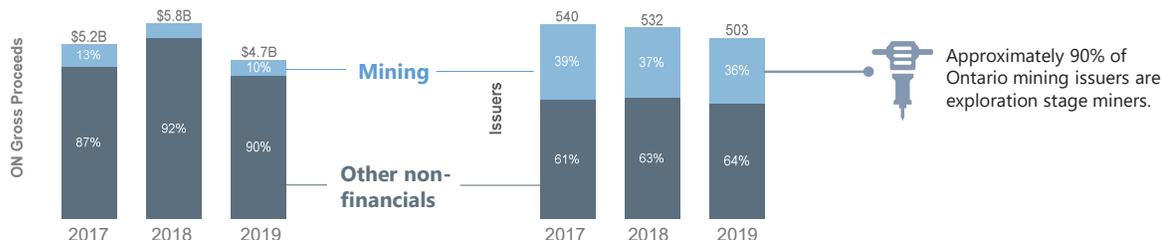


2019 Investor composition



Key Ontario Sectors – Non-financial Issuers

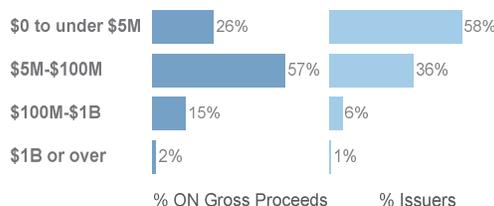
Ontario Non-financial Issuer Activity



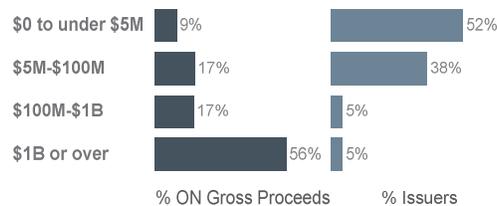
Total Asset Size

Over half of all mining and other non-financial issuers reported less than \$5 million in total assets in 2019.

Mining Issuer Size



Other non-financial Issuer Size



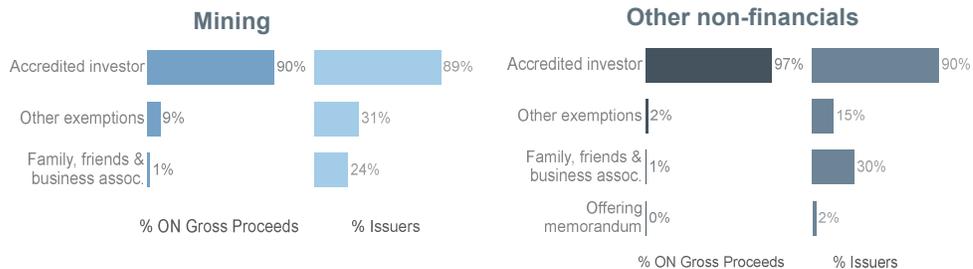
Financing size

Approximately 64% of mining issuers and 40% of other non-financial issuers raised \$1 million or less in 2019.



Prospectus Exemption

Ontario non-financial issuers predominantly relied on the AI exemption to raise capital.



Percent of issuers by exemption will exceed 100% since some issuers rely on multiple prospectus exemptions to raise capital. For example, 90% (or 9 in 10) non-financial issuers relied on the AI exemption and 30% (or 3 in 10) non-financial issuers relied on the FFBA exemption.

Contacts

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