



# **Crown Corporation**

## **B U S I N E S S P L A N S**

### FOR THE FISCAL YEAR 2011–2012

#### Innovacorp *Business Plan 2011–2012*

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## Message from the Minister

Nova Scotia's prosperity depends in large part on our ability to develop and sell high value goods and services to others. Innovacorp is one vehicle through which we seek to enhance provincial competitiveness with high value goods and services in wider markets.

Innovacorp enables high potential Nova Scotia knowledge-based companies to accelerate the commercialization of their technologies and increase competitiveness in export markets. Its internationally recognized High Performance Incubation (HPI)<sup>™</sup> business model, which incorporates incubation infrastructure, business mentoring, and seed and venture capital investment, helps promising Nova Scotia knowledge-based companies overcome traditional hurdles to business growth.

Innovacorp's daily interactions with entrepreneurs, private industry, angel and institutional investors, academia, industry associations, and public-sector agencies help deliver on Nova Scotia's *jobsHere* strategy to create good jobs and grow the economy.

Working alongside its clients and partners, Innovacorp creates an environment in which high-potential early-stage companies become "fit for the fight," attract world-class employees, establish sophisticated go-to-market strategies, and take on global markets. In 2010–2011, Innovacorp played a key role in ensuring that Nova Scotia knowledge-based companies were positioned to seize opportunities as the global economy continued to recover from the worldwide recession.

Congratulations to Innovacorp on recently winning one of the highest international honours for its work in helping new businesses—the National Business Incubation Association's Randall M. Whaley Incubator of the Year Award and the Dinah Adkins Incubator of the Year Award. The organization's unique approach to helping early-stage companies, combined with its in-house expertise and solid network of partners and stakeholders around the globe, makes it more than worthy of this top honour.

The knowledge economy plays a critical role in the future prosperity of this province. Innovacorp's work to identify and support Nova Scotia companies from the high-growth sectors is an important part of the *jobsHere* strategy to grow our economy. Innovacorp's mission and daily efforts support the three *jobsHere* priorities: growing the economy through innovation, helping businesses compete, and learning the right skills for good jobs.

I look forward to Innovacorp's continued positive impact on Nova Scotia's economic development in 2011–2012 as it works to increase entrepreneurship, innovation, and commercialization throughout the province.

The Honourable Percy Paris  
Minister, Economic and Rural Development and Tourism



## Message from the President and CEO

Let me begin by stating how delighted I am to have joined the Innovacorp team and made Nova Scotia my home earlier this year. I am passionate about this province, its people, its natural beauty, and its potential. I am eager to be part of maximizing the enormous potential here and contributing to the growth of the Nova Scotia economy.

In 2010–2011, Innovacorp strengthened its role in driving the knowledge economy and innovation capital markets in Nova Scotia. More than ever before, Innovacorp's work is benefiting early-stage technology companies across the province. Last year, the companies that have benefited from our High Performance Incubation (HPI)<sup>™</sup> business model generated about \$280 million in export revenues and directly employed about 1,455 people, resulting in a payroll of over \$64 million, most of which was in the form of high-value jobs. The investment capital raised by leveraging our Nova Scotia First Fund surpassed \$106 million.

While our economic, client satisfaction, and leading indicator metrics demonstrate success, we also benchmark ourselves against “best in class” organizations around the world. After a competitive process last year, Innovacorp's HPI business model won the National Business Incubation Association (NBIA) 2010 Incubation Program of the Year award. Based in the United States, NBIA represents more than 1900 members across 60 nations. Past winners include business incubation programs from Silicon Valley, California (2008, 2009), and Paris, France (2007). Subsequently, Innovacorp was honoured with the 2010 Merit Award from the Canadian Association of Business Incubation (CABI).

In 2011–2012, Innovacorp will help Nova Scotia deliver on the *jobsHere* strategy to create good jobs and grow the economy. While all our work—helping early-stage companies commercialize their technologies for export—supports *jobsHere*, we are especially enthusiastic about our participation in creating a private-sector-managed regional venture capital fund, and in structuring and managing a new clean technology venture capital fund for Nova Scotia.

Innovacorp will focus on five strategic areas in 2011–2012:

1. **Access to High Quality Support:** Ensure quality-focused client pipeline management
2. **Access to Capital:** Maximize the impact of the Nova Scotia First Fund
3. **Access to Infrastructure:** Maximize the impact of the Innovacorp Enterprise Centre
4. **Access to Talent:** Ensure globally competitive skills, knowledge, and expertise
5. **Research Commercialization:** Maximize commercialization potential of applied research in Nova Scotia's post-secondary institutions

Every day, we help Nova Scotia's emerging high-potential companies navigate the challenges of expanding their businesses, with incubation facilities, tailored hands-on guidance, and capital. We look forward to 2011–2012 and our continued role in growing the Nova Scotia economy.

While our progress to date has been good, there is much more that needs to be done. Marcel Proust said “the real voyage of discovery consists not in seeking new landscapes, but in having new eyes.” At Innovacorp, we want to help Nova Scotia's new companies maximize their potential through seeing the value they can create by efficiently bringing their intellectual capital to the global marketplace.

Clifford M. Gross, PhD

President and CEO, Innovacorp

## Mission

**To fuel sustainable economic growth by enabling Nova Scotia knowledge-based companies to accelerate the commercialization of their technologies and increase competitiveness in export markets.**

Nova Scotia’s ability to compete—regionally and globally—is increasingly reliant on the success of its knowledge-based companies. These high-growth companies positively affect the province’s prosperity more than any other sector of the economy. Innovacorp’s focus is to create, develop, and grow globally competitive knowledge-based companies to maximize the following benefits:

Nova Scotia Knowledge-Based Companies	
<b>Positive Nova Scotia GDP Impact</b> <ul style="list-style-type: none"> <li>• 98% export oriented</li> <li>• Capital investment attraction</li> <li>• Local corporate purchasing</li> <li>• Local wealth creation</li> <li>• Sustainability of operations</li> </ul>	<b>Ability to Attract &amp; Retain Talent</b> <ul style="list-style-type: none"> <li>• High average per person payroll</li> <li>• Diversity of jobs and career growth opportunities</li> <li>• Employability of employees</li> <li>• Urban and rural relevancy and impact</li> </ul>
<b>Provincial Tax Contributors Clean &amp; Green</b>	<b>Potential to Spin-out New Nova Scotia Companies</b>

## Vision

**Innovacorp strives to deliver the most effective technology commercialization practice in North America as it moves towards a bold vision of the desired state of the Nova Scotia innovation capital markets by 2015.**

Innovacorp’s vision comes not from focusing on what is wrong. Rather, it comes from playing a key role in creating the winning conditions for a globally competitive Nova Scotia by focusing on what it will take to move our innovation and capital markets forward.

To this end, Innovacorp’s daily interactions with entrepreneurs, private industry, angel and institutional investors, academia, industry associations, and public-sector agencies help deliver on Nova Scotia’s *jobsHere* strategy to create good jobs and grow the economy.

In 2005, Innovacorp developed a road map that laid out some of the necessary conditions that would help define progress toward the desired state of a more established and supportive environment for entrepreneurs in Nova Scotia.

The framework below has helped guide the corporation’s board, management and employees in focussing Innovacorp’s operational plan and strategic initiatives, in order to make significant strides towards a more sustainable environment for the entrepreneurs of Nova Scotia and beyond.



Nova Scotia must build and maintain credibility with North American capital markets. This will be achieved only through successful return on investment, building strong businesses, and demonstrable wealth creation at both the company and sector levels.

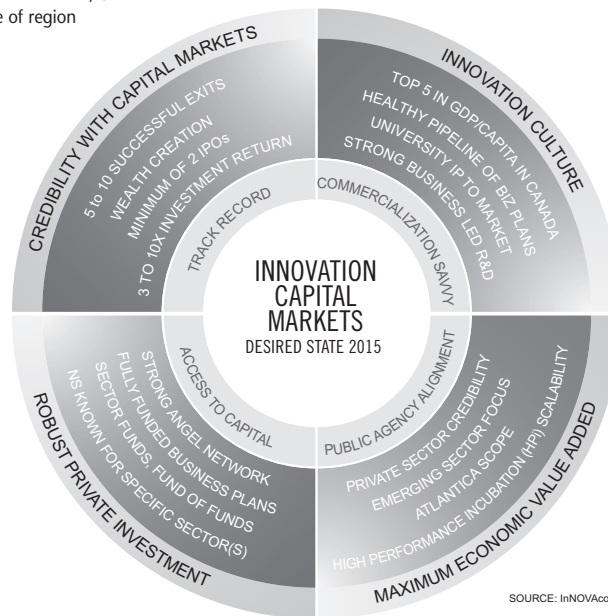
2010–2011 Progress:

- Credibility with capital market players continues to increase rapidly through relationship building and syndicate deal making
- Recent transactions helping to build track record: marine x 2, digital media x 1, clean technology x 3, life sciences x 2
- CVCA, National Angel Organization, Canadian IT Law Association conferences, Agricultural Investment Symposium in Halifax; plus, Nova Scotia is playing an active role in a number of regional and national venture conferences through Innovacorp's participation in company/investment selection committees
- Evidence of spin-out and serial entrepreneur activity
- \$8M Nova Scotia First Fund in 2003 enabled 39 transactions and \$35.1M in leveraged investment, \$13.7M of which came from outside of region

Nova Scotia must develop a strong innovative culture as well as significantly improve its ability to commercialize in order to build sustainable businesses.

2010–2011 Progress:

- Pipeline of knowledge-based company business plans increasing: 05: 85, 06: 106, 07: 158, 08: 198, 09: 184, 10: 185
- University/college case studies, ILO collaboration, Dalhousie CRMBA internships
- Identification of and collaboration with high-commercialization potential post-secondary researchers and staff/clinicians in university-affiliated hospitals
- Early Stage Commercialization Fund (ESCF) in 5th year; submissions: 05: 41, 06: 17, 08: 58, 09: 45, 10: 34; and approved projects 05: 17, 06: 14, 08: 14, 09: 20, 10: 17
- I-3 competition follow-up initiative, focusing on lean start-up concepts



SOURCE: InNOVAcorp 2005

Nova Scotia must create a welcoming environment for local and regional private sector investors, ranging from angel to institutional investors.

2010–2011 Progress:

- Constant interaction with venture capital and angel investment community across North America
- Momentum in venture capital investment in Nova Scotia companies: 05: \$18.7M, 06: \$24M, 07: \$18M, 08: \$17M, 09: \$24.8M, 10: \$10.4M
- Nova Scotia IT, clean technology and life sciences companies gaining ground, growing revenues, and attracting attention of industry and investment community, but financing remains a challenge
- Innovacorp leveraging its relationship as a limited partner in \$80M clean technology-focused fund
- Nova Scotia First Fund expertise and capacity is being further leveraged to enable the creation of a new regional venture fund and a clean technology venture fund in Nova Scotia

All Nova Scotia-focused (federal and provincial) economic development agencies must align their efforts and resources to maximize value-add and lasting impact.

2010–2011 Progress:

- The province's *jobsHere* economic development strategy lists innovation, competitiveness, and learning as key priorities
- Private sector engagement and collaboration is flourishing, including active partnerships with legal and accounting firms and I-3 partners
- I-3 competition follow-up initiative, focusing on lean start-up concepts
- IT, life sciences, clean technology focus
- HPi™ business model is continuously refined to ensure maximum value-add and scalability

## Planning Context

Nova Scotia has been affected by the recent recession, the strongest worldwide downturn since the Great Depression. As part of the business cycle, that is considered a short-term effect, but there also have been long-term trends affecting Nova Scotia. Globalization and the rate of technological change have impacted every aspect of life in Nova Scotia. The world around us has been changing at a faster pace than we have. Nova Scotia's economic growth has been the lowest of any province in Canada over the last 20 years. Our GDP growth has dropped consistently in the past three decades, shifting from 2.9 per cent in the 1980s to 1.7 per cent in the 2000s. Nova Scotia's labour productivity was third lowest in Canada in 2008. As well, we are entering a period when demographic changes mean the population of work force age will start to shrink. There is recognition that it is time to do things differently.

In November 2010, the Nova Scotia government released *jobsHere*, the plan to grow our economy. The strategy has three interrelated priorities: learning the right skills for good jobs; growing the economy through innovation; and helping businesses be more competitive globally.

Through the *jobsHere* plan, strategies have been and are being implemented which will improve innovation across all sectors, and focus on strategic investments in

innovation and productivity, increasing our competitiveness and creating higher-value jobs. High-value sectors will be identified, providing Nova Scotia opportunities to connect with partners abroad, and also attract new partners to our province. *jobsHere* outlines specific activities that will assist in developing a highly trained workforce, and creating secure jobs and a secure future for Nova Scotians. *jobsHere* is a clear commitment from the Nova Scotia government to doing things differently in order to make life better for Nova Scotians. The plan supports all areas of the province and all sectors of the economy, meaning we all have a part to play.

Innovacorp was pleased to be part of the development of Nova Scotia's *jobsHere* strategy. We understand we now have an important role to play in helping deliver on the plan, and we are well positioned to do so. While all our work—helping early-stage companies commercialize their technologies for export—supports *jobsHere*, in 2011–2012, we are especially enthusiastic about the role we will play in creating a for-return, private-sector-managed regional venture capital fund, and in structuring and managing a new clean technology venture capital fund for Nova Scotia.



# Innovacorp SWOT Analysis

In keeping with its culture of continuous improvement, Innovacorp performs an objective SWOT (strengths, weaknesses, opportunities, threats) analysis as part of its fiscal year business planning. The 2011–2012 SWOT analysis follows.

## ***Strengths***

### **Resources and/or capabilities that can be used as a basis to create value and/or competitive advantage**

- Best Practice: High Performance Incubation (HPI)<sup>TM</sup> business model internationally recognized best practice (2010 Business Incubation Program of the Year from the National Business Incubation Association; 2010 Merit Award from the Canadian Association of Business Incubation)
- Brand: Steadily increasing visibility and credibility with the private sector
- Brand: Strong brand awareness and “go to” organization credibility with Nova Scotia early-stage technology entrepreneurs
- Brand: Strong brand awareness with entrepreneurs under 40 years old through active participation and value-add in related organizations and ECC, JCI, Hub Halifax, 21inc, and social networking and new media
- Brand: Strong client referral network
- Brand: Strong relationships and reputation with federal government, including NRC, BDC, EDC, Industry Canada, CFI, NSERC, CIHR-POP, ACOA, and ECBC
- Brand: Supportive network of professional service providers, including legal, accounting, marketing, and human resources companies
- Capital: Active seed and venture capital investment fund with a 10-year funding commitment
- Capital: Venture and seed capital investment expertise; credibility with national and, increasingly, international institutional investment community
- Client Satisfaction: High level of client satisfaction
- Expertise: Opinion leaders in the areas of innovation, commercialization, early-stage investment, entrepreneurship, and knowledge economy
- Expertise: Highly relevant private sector information technology, life sciences, and clean technology business and sector expertise
- Expertise: Human resources expertise
- Governance: Engaged, diversified, and balanced board of directors
- Governance: Robust corporate governance, including a formal risk management system

- Infrastructure: New Innovacorp Enterprise Centre on the Dalhousie campus will be LEED-certified, highly efficient incubation infrastructure, replacing the successful existing BioScience Enterprise Centre
- Infrastructure: “Go to” expert for state-of-the-art incubation infrastructure
- Infrastructure: Specialized incubation infrastructure assets (configurable laboratory and office premises, business services, and support, including a state-of-the-art integrated voice and data network)
- Leadership: Key role in driving the province’s innovation and productivity agenda
- Metrics: Solid performance measures system and a track record of results, with metrics baselined in 2005
- Organization: Client criteria focuses on high potential, export orientated Nova Scotia companies that can help grow the economy through innovation, international commerce, and high-value jobs
- Organization: Relevancy through organization adaptability and continuous improvement culture
- Organization: Collaborative culture, leveraged to maximize synergies between private and public sectors; constant interaction with private sector
- Organization: Significantly increased productivity of organization over eight years, with fewer full-time employees
- University: Strong multilevel relationships with universities and community colleges
- University: Early Stage Commercialization Fund five-year track record, 82 projects funded

### **Weaknesses**

#### **Absence of specific required strengths**

- Capital: Lack of regional institutional investors affects ability to secure follow-on investment capacity
- Culture: Commitment to “green” may not live up to expectations of existing and prospective employees
- Infrastructure: Ability to attract clients to our IT services platform
- Infrastructure: Lack of funding to fit up space in the new Innovacorp Enterprise Centre
- Organization: Succession planning/retention of senior management team
- Pipeline Management: Capacity to deliver high-quality services to highest-potential clients, while balancing steady flow of prospective clients
- Pipeline Management: Proactive client pipeline management as it relates to incubation facility tenancy



- Visibility: Relatively low number of large awareness-building announcements

## ***Opportunities***

### **New opportunities to add value, grow, become more efficient, etc.**

- Capital: Champion improved tax mechanisms to drive increased industry research and development, innovation and commercialization, and access to seed capital
- Capital: Clean technology opportunities and funds
- Capital: Create a new private-sector-managed regional venture fund
- Infrastructure: Develop a strategy for securing Canadian Centre of Excellence designation
- Infrastructure: Drive adoption of advanced information technology infrastructure and services among clients
- Investment Attraction: Partner with the private sector and regional and federal agencies to target investment attraction in key emerging sectors
- Leadership: Collaborate on implementing the province's *jobsHere* strategy
- Metrics: Refine Innovacorp metrics to align with province's new metrics initiative
- Pipeline Management: Continue to leverage online marketing techniques to attract new high-potential clients and strengthen relationships with existing clients
- Pipeline Management: Implement recruitment strategy to ensure new Innovacorp Enterprise Centre is operated in a financially sustainable manner
- Pipeline Management: Leverage new *jobsHere* initiatives (including the international commerce strategy) to assist clients
- Risk Management: Implement risk management best practices
- Talent: Optimize talent recruitment opportunities, including those from outside the region, that arise from the changing landscape of today's economic climate
- Talent: Map existing and medium-term skill gaps and assist in securing talent
- University: Increase collaboration with universities to strengthen entrepreneurial curriculum
- University: Increase the effectiveness and synergies between Innovacorp and industry liaison office teams at universities and colleges across the province
- University: Use the new Innovacorp Enterprise Centre to strengthen relationships with Dalhousie University and the life sciences community

## **Threats**

**Potential threats to the organization's ability to deliver on its charter that weaken core strengths or pre-empt the successful pursuit of opportunities**

- Access to Capital: Canada's venture capital track record and its impact on future investments
- Access to Capital: High number of undercapitalized venture-grade opportunities and their related inability to attract high-quality people and meet operational objectives result in a poor investment track record for the region
- Capital: Very few active local/regional private venture capital investors
- Financial: Level of reserves and writedowns relating to high-risk investments and inability to recognize unrealized gains
- Financial: Depressed commercial real estate rates combined with excess building inventory affects Innovacorp incubation infrastructure occupancy and therefore financial sustainability
- Financial: Risk that the Innovacorp Enterprise Centre fails to attract an anchor tenant or attract funding for building fit
- Financial: Unplanned requirement for significant capital investment (e.g., to repair incubation infrastructure) causes Innovacorp to use operational funding
- Financial: Budgetary challenges
- Market: Speed of the global economic recovery affects both access to capital and access to market
- Pipeline Management: Inability to sustain a level of quality support for clients due to the significant increase in the potential client pipeline and decrease in employee head count
- Pipeline Management: I-3 Technology Start-Up Competition three-year track record, capacity building, 270 submissions; two individuals who led the competition no longer with the organization
- R&D: Low level of regional industry-led R&D continues to impede momentum of commercialization progress
- Talent: Ability of the organization to recruit and retain the required key staff and management expertise

## **Strategic Goals**

Two broad strategic goals drive Innovacorp's activities:

- To fuel sustainable economic growth by enabling Nova Scotia knowledge-based companies to accelerate the commercialization of their technologies and increase competitiveness in export markets.
- To collaborate with private and public partners to build a dynamic high-growth entrepreneurial culture in Nova Scotia.

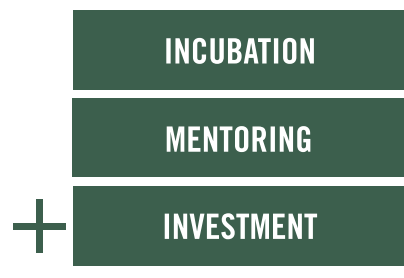


More specifically, Innovacorp’s focus is to create, develop, and grow globally competitive knowledge-based companies to maximize the following benefits:

Nova Scotia Knowledge-Based Companies	
<b>Positive Nova Scotia GDP Impact</b> <ul style="list-style-type: none"> <li>• 98% export oriented</li> <li>• Capital investment attraction</li> <li>• Local corporate purchasing</li> <li>• Local wealth creation</li> <li>• Sustainability of operations</li> </ul>	<b>Ability to Attract &amp; Retain Talent</b> <ul style="list-style-type: none"> <li>• High average per person payroll</li> <li>• Diversity of jobs and career growth opportunities</li> <li>• Employability of employees</li> <li>• Urban and rural relevancy and impact</li> </ul>
<b>Provincial Tax Contributors Clean &amp; Green</b>	<b>Potential to Spin-out New Nova Scotia Companies</b>

## Core Business Areas

The High Performance Incubation (HPI)<sup>TM</sup> business model represents Innovacorp’s core business offering. Recognized internationally as a best-practice approach to technology commercialization, the model comprises three interwoven resources—incubation infrastructure, business mentoring, and seed/venture capital investment—to help entrepreneurs overcome traditional hurdles to business growth.

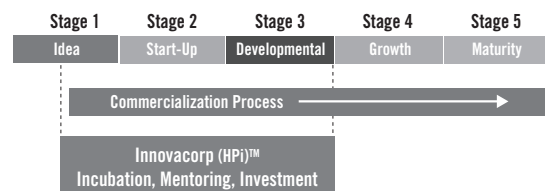


innovacorp HPI<sup>TM</sup>

Innovacorp focuses on high-potential opportunities that most closely meet the following criteria:

- 1. Stage:** Nova Scotia early-stage company
- 2. People:** Business plan credibility, management experience, and entrepreneurial track record
- 3. Barrier:** Unique proprietary technology (product, system, and/or service), with defensible intellectual property and/or a high barrier to competitive entry
- 4. Market:** Large national/international addressable market
- 5. Fundability:** High probability of obtaining a fully funded business plan

### Stages of Growth



**Commercialization:**  
A sequence of strategic and tactical actions intended to achieve market entry and sustained competitiveness of new innovative technologies, products, and/or services.

## ***Incubation***

As an active member of the Canadian Association of Business Incubation (CABI) and the National Business Incubation Association (NBIA), Innovacorp manages three incubation facilities:

- The Technology Innovation Centre in Dartmouth targets companies in the information technology and engineering industries.
- The BioScience Enterprise Centre in downtown Halifax focuses on companies in the life sciences industry.
- The grow-out facility at 101 Research Drive in Dartmouth is currently occupied by Ocean Nutrition Canada and Composites Atlantic.

Innovacorp has partnered with the Province of Nova Scotia and Dalhousie University to build a world-class incubation facility on the Dalhousie campus, with a target completion date of April 2011. This infrastructure will replace, and build on the strong track record of, Innovacorp's BioScience Enterprise Centre.

With an ideal blend of business services, professional development and networking opportunities, and relevant resources, Innovacorp's incubation facilities offer the infrastructure and environment that emerging technology companies need to grow.

Innovacorp's clients from across Nova Scotia, while not all physically located in our incubation facilities, can benefit from our business services and be candidates for our mentoring and investment opportunities.

At the end of 2010–2011, Innovacorp's incubation facilities stood at 81 per cent occupancy. Tenants typically "graduate" from the incubation facility as they progress through the later stages of the business development cycle. In 2011–2012, Innovacorp will strive to maintain occupancy of its incubation facilities at approximately 85 per cent, enabling the corporation to offer incubation services to new clients and allowing for the tactical expansion of existing clients.

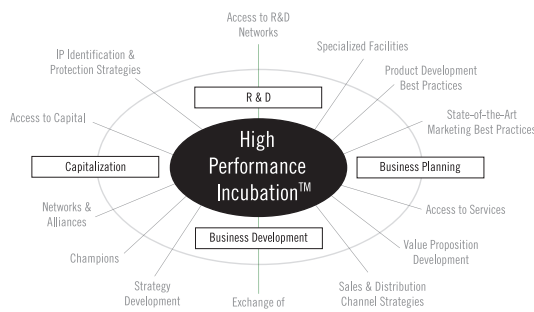
Innovacorp will pursue new recruitment, partnership, and other opportunities that the proximity and world-class infrastructure of the new Innovacorp Enterprise Centre on the Dalhousie campus will present.

In 2006–2007, Innovacorp completed Phase 1 of the Woodside Knowledge Park by accommodating the Ocean Nutrition Canada micro-encapsulation facility. During 2010–2011, Innovacorp concluded cost-sharing agreements with the Government of Canada, HRM, and Halifax Water Commission, and construction of the Highway 111 Mount Hope connector road began. In 2011–2012, road construction will be complete. With this important piece of infrastructure in place, Innovacorp will develop an implementation plan for the next phase of the Knowledge Park.



## Mentoring

Through its business advisory services, Innovacorp offers high-potential early-stage technology businesses the hands-on support they need to grow. By leveraging Innovacorp’s corporate knowledge base and our expanding network of private sector advisors, our mentoring activities help clients find more direct and cost-effective paths to success.

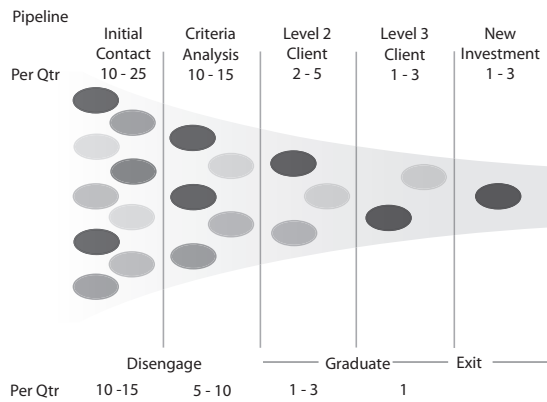


Innovacorp uses a tailored approach to assisting entrepreneurs, meeting the unique requirements of each client during each stage of the business growth cycle. Our comprehensive suite of services includes fundamental business planning, intellectual property identification and protection strategies, access to specialized infrastructure, implementing product development best practices, financial and accounting management, cash flow management, value proposition development, pricing strategies, competitive analysis, state-of-the-art marketing techniques, website optimization, sales and distribution channel strategies, obtaining seed and venture capital, and human resource management strategies.

## HPi Pipeline

In 2010–2011, Innovacorp provided advisory services and relationship management support to more than 185 Nova Scotia early stage companies, and reviewed and advised 68 university research-level projects.

The illustration below depicts Innovacorp’s typical client pipeline flow. During 2010–2011, Innovacorp further refined its approach to engaging new clients to achieve higher scalability. With this refined approach came the full operationalization of a client classification analysis, which was designed to efficiently identify high-potential clients and pinpoint business areas where clients need assistance.



To meet the needs of clients, in 2011–2012 Innovacorp will continue to strengthen its go-to-market expertise in key sectors, including information technology, life sciences, and clean technology.

Innovacorp will work to build international capacity in client companies, increase international activity, and strengthen access to international markets and networks.

Innovacorp will continue to leverage our refined internal processes and tools to maximize efficiencies and strategically expand the in-house team, based on our clients' support requirements. Business expertise in the community and abroad will continue to be accessed to efficiently and effectively build a robust external mentoring network.

### **University and College Commercialization**

In conjunction with Nova Scotia Economic and Rural Development and Tourism, Innovacorp will continue to manage the Early Stage Commercialization Fund (ESCF) to review, advise, and support the early-stage technology commercialization of post-secondary institution research with a high probability of commercialization. Working closely with university industry-liaison offices, the purpose of ESCF is to provide funding and go-to-market support for projects demonstrating readiness to advance a technology that has achieved, or is close to achieving, a prototype/proof-of-concept stage and is approaching market readiness with a possibility of attracting industrial partners and/or investment. The prospect of generating a new revenue stream must also be apparent.

ESCF Objectives:

- Promote and accelerate technology-transfer activities in Nova Scotia's post-secondary academic institutions.

- Provide the opportunity to assess the commercial potential of intellectual property.
- Narrow the gap that exists at the very beginning of the commercialization process, and enable projects to move closer to industry collaboration and/or technology spinoff.

In the fall 2010 round of ESCF, Innovacorp, in partnership with the Medical Technologies Development Initiative (MTDI) of the Capital District Health Authority and the Atlantic Canada Opportunities Agency, offered additional funding specifically for the commercialization support of medical technologies. Medical technologies include medical devices, imaging, and diagnostics but exclude e-health innovations and drugs or vaccines.

Innovacorp will also use its experience and expertise to positively influence post-secondary curriculum development in the areas of business planning and commercialization strategies. The corporation will continue to further post-secondary innovation programs by forging and maintaining mutually beneficial relationships with Nova Scotia's universities and colleges.

Innovacorp will continue to broaden and deepen its level of assistance in the promotion of business-building curriculum through further interaction with the educators themselves. Over the past year, we have had overwhelmingly positive feedback



in our direct engagement in the classroom setting. We will build on those experiences by increasing our level of engagement in the classroom through guest lecturing and entrepreneurial business case presentations and discussions.

### **I-3: Idea, Innovation, Implementation**

Created and managed by Innovacorp, the first pilot I-3 Technology Start-Up Competition, which targeted Cape Breton innovators, was launched in March 2006. This initiative was designed to encourage and support Nova Scotia entrepreneurs. The competition generated more than 75 inquiries and 18 formal submissions. Entries came from across Cape Breton and ranged from medical devices to information and communications technologies and to industrial and energy innovations.

In 2007–2008 and then again in 2009–2010, Innovacorp held a provincial I-3 competition to identify and support high-potential early-stage Nova Scotia companies and help fuel entrepreneurial activity across the province. Both provincial competitions took place simultaneously in five geographic zones and attracted 121 and 133 formal submissions, respectively.

During the planning stages of both provincial competitions, Innovacorp developed partnerships with more than 25 professional service firms from across Nova Scotia to deliver in-kind business building services to I-3 first- and second-place zone winners. These firms are located in the communities in

which the entrepreneurs reside and operate and have provided hands-on business building guidance and assistance to the winners in their region in the form of legal, accounting, marketing, human resource, and other consulting services.

In 2010–2011, Innovacorp worked to categorize and provide relevant support via its HPI business model to the highest potential I-3 submissions from the recent competition, giving them access to our commercialization expertise. All I-3 submissions were provided value-added guidance that will allow them to take the next positive steps for their initiatives.

It is Innovacorp's intention to conduct another I-3 competition in 2011–2012.

### **R&D and Commercialization**

Innovacorp will continue to play a key role in moving the industry-led R&D agenda forward. The level of R&D performed by industry in Nova Scotia is the second lowest in the country. The Canadian industry-led R&D level average is 1.12 per cent of GDP, while Nova Scotia sits at 0.30 per cent. For Nova Scotia's future prosperity, it is critical to ensure that industry innovates and commercializes products and services for export markets. Key stakeholders must understand why industry conducts R&D—especially the “D”—at this low level. Further, these stakeholders must work to exploit strengths and minimize weaknesses in this area.

Innovacorp is an ongoing member of the review panel for the Springboard

Fund Atlantic awards, providing input and recommendations on applications. Each year, the Springboard Fund awards provide up to \$30,000 in funding for early-stage inventions and investment-ready technologies, to provide researchers and primary investigators with the needed seed money to commercialize their research.

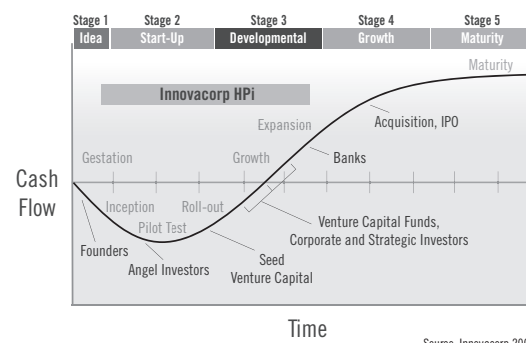
The organization is also a selection committee member for the Innovation and Commercialization of New Opportunities for Agri-Based Products, an initiative created by the Nova Scotia Department of Agriculture.

In 2011–2012, Innovacorp will continue to provide Scientific Research and Experimental Development (SR&ED) technical assistance in partnership with expert third-party financial advisors to ensure our client companies are maximizing the benefits of this important tax credit. The organization will also work to ensure that other barriers to conducting R&D are understood and ultimately eliminated.

**Investment**

The Nova Scotia First Fund (NSFF) provides early-stage high-growth-potential companies with timely venture investments that range from \$100,000 up to \$3 million over the life cycle of the investment. Its objective is to maximize return on investment for Nova Scotia while contributing to the growth of the province’s economy. Managed by Innovacorp, the fund has leveraged more than \$106 million in risk and venture capital. Since its

**ACCESS TO CAPITAL**



recapitalization in 2003–2004, the fund has leveraged \$35.1 million of investment (\$13.7 million from outside Atlantic Canada) from financial institutions, strategic and angel investors, and other seed and venture capital funds for early-stage high-growth companies.

The NSFF’s positive impact on Nova Scotia’s innovation capital markets is significant. As an active seed and venture capital player, Innovacorp has played an important part in significantly increasing the amount of capital invested in Nova Scotia high-growth companies. Nova Scotia companies raised \$24 million in venture capital financing in 2006. While the amount raised by Nova Scotia companies leveled off in 2007 to \$18 million and in 2008 to \$17 million, the amount increased to close to \$25 million in 2009. Unfortunately, the amount of venture capital invested in Nova Scotia companies has significantly decreased to only \$10 million in 2010.<sup>1</sup> It is clear that Atlantic Canada-based venture-grade companies continue to be undercapitalized compared to competing US-based and Canadian companies.

<sup>1</sup> Source: Thomson Financial, 2011



Innovacorp will continue to actively seek investment opportunities that offer the best potential for commercial success and financial sustainability. To this end, the corporation will strive to align Nova Scotia's risk capital environment and expectations with those of other jurisdictions, leading the way in capitalizing fully funded business plans, encouraging investment in stellar seed and growth-stage venture-grade opportunities, securing private-sector capital, and fostering conditions that position entrepreneurs for financing in future stages of company growth.

Innovacorp will foster an environment that will enable Nova Scotia to further gain and maintain private-sector credibility in global early-stage and venture capital markets, and will help create the necessary conditions for efficient private-sector risk-capital markets in Nova Scotia and Atlantic Canada.

## Priorities for 2011–2012

In 2010–2011, Innovacorp strengthened its role as the “go to” organization for technology commercialization.

Through scaling our services and increasing the value we bring to collaborations with academic institutions and the private and public sectors, in 2011–2012 Innovacorp will increase its overall capacity and quality of services to create, develop, and grow globally competitive knowledge-based companies through five priorities:

1. Access to High Quality Support: Ensure Quality-Focused Client Pipeline Management
2. Access to Capital: Maximize the Impact of the Nova Scotia First Fund
3. Access to Infrastructure: Maximize the Impact of the Innovacorp Enterprise Centre
4. Access to Talent: Ensure Globally Competitive Skills, Knowledge and Expertise
5. Research Commercialization: Maximize Commercialization Potential of Applied Research in Nova Scotia's Post-Secondary Institutions

### ***Ensure Quality-Focused Client Pipeline Management***

**Current State:** The Innovacorp HPI™ business model continues to be recognized internationally as a best-practice technology commercialization approach. Innovacorp's brand reputation with key stakeholders is positive. Innovacorp's proactive pipeline-building activities, including the 2011–2012 I-3 Technology Start-Up Competition, will attract a significant number of prospective clients. Given the organization's current level of human resources, it continues to be difficult to properly assess these prospects, engage or disengage them, and offer them value-added guidance, all while providing high-quality mentoring to our highest-potential existing clients.

**In 2011–2012, Innovacorp will**

1. launch and successfully run the third provincial I-3 competition.
2. operationalize and improve the “Top 25 Clients” plans that were developed in the previous year. Track milestone completion and quality level, senior management engagement, and decision making governance.
3. effectively leverage the Client Relationship Management system as a way of mitigating human resource constraints.
4. appoint a new vice president of High Performance Incubation.
5. implement Innovacorp mandate-relevant portions of the province’s *jobHere* strategy, including the new international commerce strategy.
6. ensure optimum incubation facility occupancy levels and secure an anchor tenant for the Innovacorp Enterprise Centre.
7. maximize the positive impact of the Innovacorp Enterprise Centre opening.
8. develop an implementation plan for the next phase of the Knowledge Park.

**Desired State:** A minimum of 75 per cent of mentoring and investment human resources is applied to Innovacorp’s top 25 clients. Prospective clients are assessed in a timely, professional manner.

Innovacorp plays a key role in building and strengthening Nova Scotia’s knowledge economy, measured in export revenues, direct high-value employment, and client satisfaction. The Innovacorp HPI business model is the most effective technology commercialization practice in North America.

***Maximize the Impact of the Nova Scotia First Fund***

**Current State:** According to the CVCA (Canada’s Venture Capital & Private Equity Association), the amount of capital invested in Canadian knowledge-based companies is less than half of that invested in those based in the United States, and Atlantic Canadian investment rounds are half the size of the Canadian average. Yet, Atlantic Canadian companies must compete globally against more appropriately funded ones. The current state of the market with respect to venture capital in Nova Scotia and the rest of Atlantic Canada creates a situation where the risk profile of even the highest-potential knowledge-based companies is such that they will find it extremely difficult to access capital. In addition, there are very few “for-return” funds active in Nova Scotia and the rest of the Atlantic region, putting emphasis on the need to further scale the HPI business model.

Innovacorp’s role as a seed and early-stage investor is more critical now than ever. Syndication on deals has been and is expected to continue to be difficult, as



will be achieving the 1:3 leverage ratio (for every dollar invested by Innovacorp an additional three dollars would be invested by syndicate partners).

In 2009–2010, the Province of Nova Scotia made a long-term commitment to the Nova Scotia First Fund (NSFF). With the goal to further leverage the impact and capitalize on the performance of the fund, the province committed an additional \$30 million to the NSFF. Also in 2009–2010, the NSFF approved and committed to invest \$2 million in Cycle Capital—an \$80 million clean-technology venture fund. The investment has formalized a strong relationship with the managers of Cycle Capital and the other limited partners in the fund.

As set out in its *jobsHere* economic growth plan, in 2010–2011 the Province of Nova Scotia reached out to the other Atlantic Canada Provinces to explore the possibility of working together to create a for-return regional venture capital fund. In November 2010, the province announced it would seed such a fund using a portion of the \$30 million commitment it made in 2009–2010 in the Innovacorp-managed Nova Scotia First Fund. Over the last 12 months, Innovacorp has been instrumental in mobilizing the resources, capital, and private sector support to deliver on this strategic priority.

Also in the *jobsHere* strategy, the province committed to establishing a clean technology fund, a fund dedicated to growing clean technology companies by helping them

secure early-stage financing and improving their ability to leverage other financing and take advantage of increasing demand for clean technologies. Innovacorp will manage this new fund.

#### **In 2011–2012, Innovacorp will**

1. co-develop, with other fund limited partners, the investment thesis for a regional venture capital fund based in Atlantic Canada.
2. structure and operationalize the regional venture capital fund, with the objective of doing a first closing of \$25 million or more in committed capital.
3. structure and manage a clean-technology venture capital fund.
4. continue to invest in early-stage companies as part of Innovacorp's High Performance Incubation business model.

**Desired State:** The NSFF is managed in a manner that provides maximum benefit to the Nova Scotia economy and fully capitalizes on available operational expert advice. Innovacorp plays a key role in improving access to capital for entrepreneurs in Nova Scotia's knowledge-based sectors. The NSFF is engaged with partner funds to increase the venture capital pool necessary to build and monetize competitively capitalized venture-grade opportunities in Nova Scotia and beyond.

### ***Maximize the Impact of the Innovacorp Enterprise Centre***

**Current State:** In April 2011, Innovacorp will be relocating the existing BioScience Enterprise Centre staff and clients to the newly constructed Innovacorp Enterprise Centre on the Dalhousie campus. Funding to support the operational lease costs was secured for a 20-year period from the province through an order-in-council.

#### **In 2011–2012, Innovacorp will**

1. over the next three years, secure funding from partner organizations to cover the additional fit-up costs for the remainder of the facility.
2. continue to aggressively implement the existing client/tenant recruitment marketing plan that will be used to ensure an optimal client mix and occupancy level.
3. collaborate with other partner organizations to identify, recruit, and secure specific R&D-oriented companies from key sectors.
4. collaborate with other partner organizations to identify, recruit, and secure an anchor tenant in 2011–2012.
5. maximize the building's location to increase synergies with Dalhousie and Capital District Health Authority.

**Desired State:** Innovacorp ensures that the new facility reaches its full potential in the shortest amount of time, while ensuring both operational and financial sustainability.

### ***Ensure Globally Competitive Skills, Knowledge, and Expertise***

**Current State:** Knowledge-based companies seeking to compete globally require globally competitive business-building expertise. The required expertise ranges from finance to product management and business development to sales and marketing. While Atlantic Canada is home to several globally competitive companies, there is a shortage of relevant, proven business-building skills available for early-stage knowledge-based companies. The majority of these companies possess relevant technical expertise, and most have a high level of industry expertise, but few have the required relevant business-building capabilities. The result is that start-up companies are unable to successfully commercialize their products and services.

Innovacorp requires globally competitive business-building expertise and is dealing with a change of key personnel. Innovacorp needs to ensure that the right people, with the right skills and experience, are hired at the right time. The required expertise ranges from seasoned executive management, to investment experience and deal flow, and to business advisory support.

The *jobsHere* strategy to grow the economy includes objectives to create more opportunities for people to learn valued skills and improve productivity. Nova Scotia's new Productivity Investment Program will support those objectives by providing incentives



for businesses to become more productive, innovative, and globally competitive through supporting investments in employee skills as well as capital investments. Innovacorp's clients can benefit from such initiatives.

**In 2010–2011, Innovacorp will**

1. position itself as a willing broker and matchmaker for business building talent.
2. develop and execute a talent-building initiative to increase experience and knowledge in the start-up community.
3. strengthen and leverage educational strategic partnerships that can address gaps in required skills and knowledge.
4. prioritize skills-gap requirements needs for clients and Innovacorp and assist with the acquisition of talent.
5. refresh the succession plan for Innovacorp's senior management team and identified key personnel.

**Desired State:** Nova Scotia companies have access to world-class go-to-market talent and are able to leverage this talent to build and capitalize their ventures. People with such talent see Nova Scotia as a place where they can fulfill their careers. Innovacorp ensures a stable internal environment, with an evolving team that can keep pace with the evolving needs of Nova Scotia early-stage technology companies.

***Maximize Commercialization Potential of Applied Research in Nova Scotia's Post-Secondary Institutions***

**Current State:** Nova Scotia is home to 11 universities and a strong community college system with 13 campuses across the province. More than \$130 million in research is conducted at these institutions each year. While the local economy certainly benefits from the education of students, the attraction of world-class researchers, and the direct and indirect employment generated by post-secondary institutions, the economic benefits derived specifically from applied research continue to be relatively low. Innovacorp has systematically intensified its engagement with post-secondary institutions over the past five years and is now supporting and tracking 68 active projects with high commercialization potential.

**In 2011–2012, Innovacorp will**

1. continue to refine the Early Stage Commercialization Fund (ESCF), including pursuing the 2010–2011 highly successful program to attract hospital-based medical applied research.
2. secure guest speaker opportunities to educate students about the innovative knowledge-based companies and support infrastructure in Nova Scotia.
3. increase collaboration with universities to deliver and strengthen the entrepreneurial curriculum.

4. leverage the database of research projects in post-secondary institutions and reach out to those involved in highly commercializable projects.
5. leverage the database of research projects in post-secondary institutions to assist them in building links with the private sector.
6. collaborate with co-op program managers to place students in client company environments.
7. leverage the relationship with Dalhousie to help implement elements of the *jobsHere* strategy.

**Desired State:** Nova Scotia universities and colleges are known nationally for their innovative engagement of the business community, their business-building curriculum, and the flow of applied research towards commercial products.



# Budget Context

## *Financial Management*

Innovacorp is strongly committed to achieving its financial targets. To this end, the organization works with the Province of Nova Scotia and partner agencies to strategically leverage its assets in support of economic development initiatives.

	Estimate 2010–11 (\$)	Forecast 2010–11 (\$)	Estimate 2011–12 (\$)
<b>Revenues</b>			
Provincial funding	4,592,000	4,592,000	6,557,000
NS funding recognized re capital assets acquired	125,000	46,000	152,000
Incubation	1,522,000	1,522,000	1,622,000
Mentoring	175,000	175,000	125,000
Investment	12,000	44,000	42,000
	<b>6,426,000</b>	<b>6,379,000</b>	<b>8,498,000</b>
<b>Expenses</b>			
Incubation	1,572,000	1,617,000	3,273,000
Mentoring	1,383,000	900,000	1,379,000
Investment	506,000	623,500	1,010,000
Corporate services	2,015,000	2,015,000	1,868,000
	<b>5,476,000</b>	<b>5,155,500</b>	<b>7,530,000</b>
<b>EBITDA</b>			
Provincial funding	4,592,000	4,592,000	6,557,000
NS funding recognized (deferred) re: capital assets acquired	125,000	46,000	152,000
Incubation	(50,000)	(95,000)	(1,651,000)
Mentoring	(1,208,000)	(725,000)	(1,254,000)
Investment	(506,000)	(579,500)	(968,000)
Corporate services	(2,015,000)	(2,015,000)	(1,868,000)
	<b>950,000</b>	<b>1,223,500</b>	<b>968,000</b>

	<b>Estimate 2010-11 (\$)</b>	<b>Forecast 2010-11 (\$)</b>	<b>Estimate 2011-12 (\$)</b>
<b>Non-operating items</b>			
NSFF total return	(128,000)	(208,000)	(194,000)
Post-retirement benefits and long service award	(235,000)	(215,000)	(212,000)
Amortization	(479,000)	(485,000)	(442,000)
NS funding deferred re capital assets acquired	—	—	(300,000)
Interest income (expense), dividends and capital gains (losses)	(383,000)	(590,000)	(39,000)
	<u>(1,225,000)</u>	<u>(1,498,000)</u>	<u>(1,109,000)</u>
<b>Surplus (Deficit)</b>	<b>(275,000)</b>	<b>(274,500)</b>	<b>(141,000)</b>



# Outcomes and Performance Measures

This section outlines the performance measures Innovacorp will track in 2011–2012. Using 2005–2006 as a baseline, these economic impact, client satisfaction, and leading indicator metrics will provide an indication of how well the strategic goals are being met. The priorities and the operational plan to achieve them are presented in this document under the section Priorities for 2011–2012.

Measure	Base Year 2005–06	Actual 2006–07	Actual 2007–08	Actual 2008–09	Actual 2009–10	Estimate 2010–11	Target 2011–12
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### Economic Impact Metrics (M = million)

#### Revenue generated by client companies:

While most of Innovacorp’s clients are early-stage companies, this measure tracks the annual revenue, measured in millions of Canadian dollars, generated by current and graduate client companies.

\$120 M	\$174 M	\$225 M	\$278 M	\$279 M	\$280 M	310 M
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#### Employment generated by client companies:

This measure tracks the annual employment generated by current and graduate client companies.

860	1183	1500	1447	1467	1455	1611
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Total employment payroll of current and graduate client companies

\$40 M	\$52 M	\$62 M	\$62 M	\$64 M	\$64 M	\$72 M
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#### Amount of Nova Scotia First Fund (NSFF) leveraged investments:

From February 1996, the cumulative amount of investment made in client companies in which investments were made by the NSFF, measured both in ratio and in millions of Canadian dollars. Innovacorp’s stated goal is to achieve a ratio of 1:3, meaning that for every \$1 invested by the NSFF, \$3 would be invested by syndicated investors.

\$83.8 M	\$93.0 M	\$96.3 M	\$101.3 M	\$105 M	\$106 M	\$110 M
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### Client Satisfaction Metrics

#### Percentage of clients satisfied with Innovacorp services overall:

Measured annually through a survey conducted by an objective third party, clients are asked for their feedback on Innovacorp’s performance and value-add. At the end of the survey, clients are asked to rate their overall satisfaction with the services provided by Innovacorp. This metric is considered a key indicator of Innovacorp’s value-add.

89%	92%	92%	96%	96%	84%	90%
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Measure	Base Year 2005-06	Actual 2006-07	Actual 2007-08	Actual 2008-09	Actual 2009-10	Estimate 2010-11	Target 2011-12
<i>Percentage of clients that would recommend Innovacorp to a business colleague:</i>							
Measured annually through a survey conducted by an objective third party, clients are asked for their feedback on Innovacorp's performance and value-add. At the end of the survey, clients are asked whether they would recommend the services of Innovacorp to a friend or colleague. This metric is considered a key indicator of Innovacorp's value-add.	90%	93%	88%	96%	89%	97%	90%
<b>Leading Indicator Metrics</b>							
<i>Number of early-stage Nova Scotia-based companies Innovacorp engaged during the fiscal year.</i>	85	106	158	198	184	185	190
In addition to the companies referenced above, Innovacorp provided value-added guidance to a number of companies that made submissions to the provincial I-3 competition.			121		133		120
<i>Number of new clients</i>	12	15	11	9	11	8	10
<i>Number of active HPI™ clients</i>	30	38	43	45	48	51	55
<i>Incubation occupancy levels</i>	85%	91%	87%	90%	88%	81%	85%
<i>Number of clients exporting products/services internationally</i>	42	47	46	51	51	47	51

Note: The metrics provided are based on information and estimates gathered from Innovacorp client companies.

