



# **Crown Corporation**

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

### FOR THE FISCAL YEAR 2005–2006

InNOVAcorp  
***Business Plan 2005–2006***

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## Mission

***To enable Nova Scotian companies to accelerate the commercialization of their technologies and increase competitiveness in export markets.***

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## Planning Context

InNOVAcorp's mandate of assisting early-stage technology companies has remained the same since it was established in 1994, yet the method of achieving it has evolved. In recent years, the corporation has developed a High Performance Incubation (HPi) model. While incubation has long been recognized around the world as a proven tool for assisting early-stage enterprises, InNOVAcorp's HPi model augments traditional business incubation facilities and services by offering an additional layer of venture advice and guidance. This model enables Nova Scotian technology companies to accelerate through the early stages of the commercialization process and compete in the global marketplace.

Focusing on companies with unique service offerings and/or proprietary technology, InNOVAcorp works closely with emerging entrepreneurs to provide flexible, imaginative, and cost-effective services to help them through the early growth phases.

Three critical resources are used to address clients' needs:

- InNOVAcorp is an active venture capitalist, managing the Nova Scotia First Fund (NSFF). As the lifeblood of entrepreneurs, venture capital is a vital component of the HPi model. The corporation remains committed to leveraging the NSFF to secure additional capital required to increase early-stage commercialization funds.
- The corporation takes a hands-on approach in assisting unique new business ventures by offering specific advisory services that encompass the knowledge base of InNOVAcorp, its partners, and the business community.
- Through its incubation facilities, InNOVAcorp provides the environment needed to help emerging technology companies mature. These facilities deliver more than office, lab, and industrial space; they also offer a comprehensive blend of business resources, opportunities, and synergies that result in entrepreneurial success.

In addition to working one on one with clients, InNOVAcorp collaborates with public and private partners to further develop the climate—whether it is through policies, programs, or infrastructure—necessary to foster innovation and entrepreneurship.



The Province of Nova Scotia recognizes that innovation drives individual and regional prosperity and therefore, has made stimulating innovation a province-wide priority. The province also understands that innovation means much more than research and development; it is also about increased commercialization—successfully taking products and services to market. By accelerating companies through the commercialization continuum and helping create a climate of entrepreneurship, InNOVAcorp is an integral part of Nova Scotia's innovation system.

## Strategic Goals

Three broad strategic goals drive InNOVAcorp's activities:

***1. Collaborate with public and private partners to champion and implement Nova Scotia's innovation strategy by providing leadership on matters related to technology commercialization.***

In the face of an ever-expanding and ever-changing world market, the Government of Nova Scotia understands that innovation drives wealth and is therefore vigorously trying to maximize the impact of innovation across the province. In its 2000 economic growth strategy, *Opportunities for Prosperity*, the provincial government named innovation as a fundamental pillar

of our overall economic framework. It also identified one of its key strategies as the growth of five promising sectors: the life sciences, information and communications technology, advanced manufacturing, learning, and energy.

In June 2003, the Premier reinforced the commitment to innovation by unveiling a new policy, *Innovative Nova Scotia: An Innovation Policy for the Nova Scotia Economy*. Concurrently, a 16-member council was formed to provide government with independent advice on how to stimulate the best conditions for innovation in Nova Scotia and how to implement the innovation policy.

InNOVAcorp continues to support the province's commitment to innovation in part by helping individual companies to commercialize their innovative products and services. Further, the corporation draws on its 10-year history of working with technology entrepreneurs to provide strategic advice to provincial policy and decision makers about how to cultivate innovation, entrepreneurship, and technology commercialization, whether it is through policies, physical infrastructure, or special programs. Also, as a longstanding active partner in activities and initiatives that boost technology sector growth, the corporation aims to improve collaboration among existing commercialization-focused programs and agencies.

***2. Enhance the growth of knowledge-based industry sectors by accelerating technology companies through the startup and early development stages of the commercialization process.***

Innovation extends beyond researching and developing new or improved products, services, and processes. Rather, the value of innovation comes from commercialization—successfully taking products and services to market.

InNOVAcorp's High Performance Incubation (HPI) model enables Nova Scotian technology companies to accelerate through the commercialization process. Serving the knowledge-based sectors, the corporation uses a network of critical business resources—incubation facilities, mentoring, and investment—to assist entrepreneurs.

Typically InNOVAcorp focuses its resources on helping entrepreneurial companies that are at Stage 2 or Stage 3 of the business growth continuum. These companies are in the process of setting up an operation (startup stage) and developing processes, products, and services (developmental stage). The goal is to move them through these early stages and enable them to compete successfully in export markets. In the context of an increasingly competitive global market, InNOVAcorp's role is more important and relevant than ever before.

***3. Build a dynamic and stable entrepreneurial culture by providing the environment where entrepreneurs can grow and prosper through shared experience and strategic relationships.***

InNOVAcorp manages two technology incubators. The Technology Innovation Centre in Dartmouth targets companies in the information and communications technology and engineering industries. The BioScience Enterprise Centre in downtown Halifax focuses on companies in the life sciences industry. Both facilities offer a comprehensive mix of products and services that includes flexible leasing of lab, industrial and office space, and shared administrative support.

A third site, the former Nova Scotia Research Foundation at 101 Research Drive in Dartmouth, was recently transformed into a grow-out facility for companies that have progressed beyond early-stage incubation but are still progressing towards commercial sustainability. In late 2004, the facility welcomed its first major tenant.

The value of InNOVAcorp's incubation facilities goes far beyond the space and other tangible infrastructure they provide. The sites help entrepreneurs avoid the failure that sometimes results from being isolated from other entrepreneurs and professionals who could provide valuable advice to the management team. The



facilities offer an atmosphere where entrepreneurs can share experiences, knowledge, concerns, successes, and contacts with others who face similar challenges. It is also an environment that encourages collaboration and partnerships among entrepreneurs and with universities, public institutions, and prominent firms.

In addition to supporting specific initiatives of the provincial innovation agenda, InNOVAcorp's strategic goals align with the government priority of "Building Greater Prosperity," as outlined in the *Blueprint for Building a Better Nova Scotia*.

## Priorities for 2005–2006

InNOVAcorp's 2005–2006 priorities include the following:

- Support the implementation of Nova Scotia's innovation strategy.

In 2005–2006, InNOVAcorp will continue to prioritize supporting the province's commitment to maximizing the impact of innovation in Nova Scotia. Our support of this vital strategic direction will take place through assisting individual companies as they strive to transform their innovations into commercial successes and through providing advice to provincial policy makers and the Premier's Advisory Council on Innovation on how to build a

culture of innovation in the province. Also, we will continue to collaborate with private and public sector partners on activities and initiatives that create a focused innovation system that builds on the region's strengths and capabilities in research, education, incubation, commercialization, and industry.

InNOVAcorp's support of the provincial innovation climate in general and our assistance to individual companies in particular will also help fortify Nova Scotia's new Brand Nova Scotia program. The program's goal is to position the province and its products so that we are putting our best foot forward when marketing ourselves abroad and talking about ourselves in Nova Scotia. By enabling commercialization success stories, by partnering with other investors to increase access to venture capital funds, and by helping create an environment where companies and individuals want to come do business, InNOVAcorp will help strengthen the Nova Scotia brand.

- Identify new opportunities for equity investment in Nova Scotia knowledge-based companies in the early stages of commercialization, and make follow-on investments in existing portfolio companies.

InNOVAcorp manages the Nova Scotia First Fund (NSFF), an early-stage source

of capital for promising Nova Scotia companies. When possible, we leverage our investments through alliances with other organizations, financial institutions, and other venture capital investors. These alliances result in extra capital and augmented intellectual resources required during the due diligence process. As we make new and follow-on investments in 2005–2006, we remain committed to finding innovative ways to leverage the NSFF and secure additional investment capital necessary to increase the region's early-stage commercialization funds.

In August 2004, we launched a new venture capital fund, the HPI Micro-Fund, to better address the funding gap that impedes progress of today's promising early-stage technology companies. Micro-Fund investments are smaller than NSFF investments and are intended to support the companies with which our venture advisors work more closely. These features make the Micro-Fund relatively flexible, allowing our investment team to spot growth early and act quickly, investing where it believes growth is going to happen. The investments are tied to a company's achievement of specific performance milestones, so in effect, the investment becomes the first step in the due diligence process for the investee companies as they look for additional investment dollars in the future.

The Micro-Fund positions InNOVAcorp as a natural co-investor with other existing seed and early-stage funds. It also helps supplement funds from private sector investors, who have become increasingly risk-averse in recent years, moving their investments further downstream in a company's continuum of development. For 2005–2006, we predict our Micro-Fund investments, along with our new and follow-on NSFF investments, will encourage new early-stage investors to come to the table and co-invest alongside InNOVAcorp, potentially weaving a stronger network of angel and institutional investors in the region.

- Optimize occupancy within the incubators and grow-out facility.

Incubation facility clients pay market rates for the services we provide and the space they lease from us. The more space leased in the incubation facilities, the higher our revenues, resulting in a larger return on the Province of Nova Scotia's allocation of resources to InNOVAcorp. Securing an anchor tenant for our corporate headquarters at 101 Research Drive is a significant example of garnering a return on provincial physical infrastructure. In that situation, InNOVAcorp turned about 3700 m<sup>2</sup>



(40,000 sq. ft.) of out-of-date and under-utilized space, in essence a liability for the province, into an asset for the life sciences industry. Further, given that the new resident at 101 was formerly a major tenant at the BioScience Enterprise Centre, the company's departure from that facility presents us with a considerable amount of unoccupied space we can now fill with other life sciences companies.

Of course, revenue generation is not the sole motivation for maintaining a high occupancy rate at our facilities. A high occupancy rate also means we are assisting as many clients as possible, providing them with the environment, services, and other opportunities necessary to accelerate them through the commercialization process.

The priority of optimizing occupancy at our facilities encompasses more than filling space and serving clients, however. The vision is to fill the space with the "right" calibre of clients—"high-growth" companies. "High growth" is difficult to calibrate or define in brief, but examples of criteria that might be used to evaluate prospective clients include: potential for export, ability for patenting, product innovation and uniqueness, qualification for InNOVAcorp's HPi Micro-Fund, management team or entrepreneurial strengths, receptiveness to receiving help

from experts, ability to attract outside investment dollars, and having a focus on technology. Some of our existing incubation clients meet the high-growth criteria; we plan to increase the proportion of such companies in our client mix as we recruit new companies in 2005–2006 and beyond.

- Enhance our delivery of tailored business advisory services to entrepreneurs.

Many businesses fail in the early stages of development due to lack of resources to assemble a seasoned and diverse management team. Consequently, the business struggles with developing and implementing strategies to access finance, secure a market position, and manage financial and human resources.

InNOVAcorp's mentoring activities enable entrepreneurs to find a faster and less expensive path to success by leveraging the corporate knowledge base developed by InNOVAcorp and the expertise and experiences of others in the business community.

Every company has its own distinct needs for business assistance. These needs change as the company grows. InNOVAcorp's business advisory services help identify and remove obstacles and bottlenecks and allow

entrepreneurs to maintain their focus and move forward.

The help provided is often hands-on, addressing specific facets of the business. From helping an entrepreneur better position his company for potential investors and lenders, to aiding in the development of a business plan and targeted marketing and sales strategy, to assisting with patent searches and filing and licensing technology, to helping with beta trials of a new product or service, the guidance we offer is diverse and unique to each client's individual requirements.

In 2005–2006, we will provide more targeted advice and guidance to an increased number of clients. To do so, we will need to increase the size of our pool of venture advisors, consultants, and mentors, as well as ensure that this group has the expertise in particular science and technology fields relevant to our clients. We will also continue to expand our geographic reach throughout the province. With the 2004 addition of a senior advisor of business ventures at InNOVAcorp's satellite office within the National Research Council facility on the University College of Cape Breton campus in Sydney, we can improve the assistance we provide companies in that region. We will further extend our

reach into other areas, particularly rural communities, in part through partnerships with universities and colleges, with private sector groups such as the Nova Scotia Co-Operative Council, and with federal agencies such as the National Research Council and ACOA.

- Assess Nova Scotia's incubation capacity.

InNOVAcorp is the long-time leader of business incubation activities in the province and, in fact, is seen by incubators across the country and beyond as advancing the field. For years, we have been sharing our commercialization and business development expertise with other entities across the province. We will continue these efforts in 2005–2006. This work not only improves the cost-effectiveness of other initiatives and leads them to adopt industry best practices, it also positions us well to help evaluate the provincial incubation capacity, identifying existing gaps and future opportunities.

Our examination of the provincial capacity also implies a thorough assessment of InNOVAcorp's own incubation capacity. As we have done in past years, in 2005–2006 we will answer the questions of how we can



better align our business functions, physical and IT infrastructure, and operations so we can work more efficiently, assist our clients better, and increase the province's return on its investment in InNOVAcorp.

## Budget Context

	Estimate 2004–2005 (\$)	Forecast 2004–2005 (\$)	Estimate 2005–2006 (\$)
<b>Revenues and Grants</b>			
Operating and Capital Funding	2,195,000	2,195,000	2,295,000
Valuation Allowance Funding			300,000
NS Funding Recognized (deferred) re capital assets acquired	225,000	159,000	411,000
Mentoring	298,400	360,000	300,000
Incubation	1,361,100	1,258,000	1,415,000
Corporate Development	32,400		
Technical Services and Other	359,500	371,000	422,000
	4,471,400	4,342,000	5,143,000
<b>Expenses</b>			
Mentoring	440,000	587,000	578,000
Incubation	1,631,100	1,539,000	1,470,000
Investment	350,000	347,000	408,000
Corporate Development	327,400	177,000	
Technical Services and Other	354,600	345,000	414,000
Corporate Services	1,243,000	1,224,000	1,334,000
	4,346,100	4,220,000	4,204,000
<b>Earnings before undernoted items</b>	125,300	123,000	639,000
<b>Non Operating items</b>			
NSFF Total Return	155,100	41,000	(295,000)
Post Retirement Benefits & Long Service Award		(349,000)	(100,000)
Amortization	(731,100)	(600,000)	(752,000)
Interest income (expense) dividends & capital gains (losses)	(55,200)	88,000	(67,000)
Discontinued Operations		46,000	
	(631,200)	(773,000)	(1,214,000)
<b>Excess of Expenses over Revenues</b>	(506,000)	(650,000)	(275,000)



# Outcomes and Performance Measures

## Core Business Area 1

*Collaborate with public and private partners to champion and implement Nova Scotia's innovation strategy by providing leadership on matters related to technology commercialization.*

Outcome	Measure	Data	Target 2005-06	Strategies to Achieve Target
<ul style="list-style-type: none"> <li>Improved collaboration among existing commercialization-focused programs and between the agencies that provide these programs</li> <li>Enhanced innovation infrastructure to support companies in the startup stage and developmental stages of growth</li> </ul>	TBD	No baseline available		<ul style="list-style-type: none"> <li>Provide input, advice, and recommendations via participation in federal/provincial working groups.</li> <li>Provide advice to the Premier's Advisory Council on Innovation.</li> <li>Continue to develop strategic partnerships to create focused innovative systems that link the strengths and capabilities in research, teaching, incubation, commercialization, and industry (e.g., Canadian Commercialization Network, Entrepreneur's Forum, ILO, NRC/ACOA).</li> <li>Target new growth opportunities (e.g., Acadia incubator, COGS, Research Village).</li> </ul>

## Core Business Area 2

*Enhance the growth of knowledge-based industry sectors by accelerating technology companies through the startup and early development stages of the commercialization process.*

Outcome	Measure	Data	Target 2005–06	Strategies to Achieve Target
Increased number of technology-based companies accelerated through the 2nd/3rd stages of growth of the commercialization process	Client companies that exhibit growth	Dec 31/02: 226 jobs in incubated companies, 159 jobs in investment companies  Dec 31/03: 85 new employees in incubated companies, 172 jobs in investment companies	Maintain or exceed baseline year	<ul style="list-style-type: none"> <li>Provide an integrated approach to clients in growing their businesses.</li> </ul>
	Revenue growth of client companies	TBD	Maintain or exceed double-digit revenue growth	<ul style="list-style-type: none"> <li>Provide an integrated approach to clients in growing their businesses.</li> </ul>
	Number of follow-on investments	2003–2004: 3	Maintain or exceed baseline year	<ul style="list-style-type: none"> <li>Continue to fund as opportunity warrants.</li> <li>Make follow-on capital injections in HPI Micro-Fund/NSFF existing investments.</li> </ul>
	Number of new investments	Dec 31/02:19 total Dec 31/03:19 total	Exceed baseline year	<ul style="list-style-type: none"> <li>Continue to fund as opportunity warrants.</li> <li>Maximize the value of investments under management.</li> <li>Lead and/or participate in syndication of new early-stage and venture capital investments with institutional and angel investors.</li> </ul>
	Number of patents filed and/or issued	TBD	Maintain or exceed baseline year	
	Number of licensed Intellectual Property agreements	TBD	Maintain or exceed baseline year	
	Average leverage ratio	2002–2003: 12.9 2003–2004: 13.7	Maintain or exceed baseline year	<ul style="list-style-type: none"> <li>Optimize financial leverage.</li> </ul>



**Core Business Area 3**

*Build a dynamic and stable entrepreneurial culture by providing the environment where entrepreneurs can grow and prosper through shared experience and strategic relationships.*

Outcome	Measure	Data	Target 2005-06	Strategies to Achieve Target
Increased number of technology based companies accelerated through the 2nd/3rd stages of growth of the commercialization process	Number of active HPI client companies	TBD	Exceed baseline year	<ul style="list-style-type: none"> <li>• Create an environment/network where local companies can thrive and be more competitive.</li> <li>• Position our clients/investments with strategic partners and investors across the province and other jurisdictions in support of Brand Nova Scotia.</li> <li>• Enhance and broaden our pool of advisors, consultants and mentors.</li> <li>• Enhance the physical infrastructure to attract new HPI client companies.</li> </ul>
	Number of companies served outside Halifax Metro	TBD	Maintain or exceed baseline year	<ul style="list-style-type: none"> <li>• Continue to expand geographic reach throughout the province through strategic partnerships.</li> </ul>
	Incubation capacity	TBD		<ul style="list-style-type: none"> <li>• Evaluate incubation capacity and requirements.</li> <li>• Complete the conceptual design phase for the Knowledge Park.</li> </ul>
	% leased space	2002-2003: 58.5% 2003-2004: 60%	Increase above baseline	<ul style="list-style-type: none"> <li>• Maximize occupancy with appropriate client companies.</li> </ul>