



# **Crown Corporation**

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

### FOR THE FISCAL YEAR 2004–2005

InNOVAcorp  
***Business Plan 2004–2005***

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## Mission

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

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## Planning Context

It is a fact that productivity accounts for the real gap between the Canadian and US economies today. Both the provincial and federal economic growth strategies highlight the important role innovation needs to play in both driving the economy and accelerating the closing of this productivity gap. There is a continuing need to provide targeted and leveraged investments in infrastructure to enhance the ability of the private sector to adopt and commercially develop new technologies that improve productivity and competitiveness. InNOVAcorp, a provincial Crown corporation, is Nova Scotia's investment in catalysing the growth of this segment of the economy and is very proud of its role.

InNOVAcorp provides an important component of the innovation and commercialization function of the public sector. It operates two technology incubators, provides a mentoring and relationship management network for growing entrepreneurs, and is an active venture

capitalist. It is a respected partner in a growing number of strategic areas of life sciences and information technology.

Since its inception InNOVAcorp has realized that small businesses (SMEs) are a key segment of the economy, fuelling new jobs, sales, and exports, and can play a significant role in closing the productivity gap. However, without assistance, roughly 65 per cent of these businesses fail at the early stages of development due to the lack of resources to assemble a well-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. Another contributor to failure is isolation from other entrepreneurs and professionals who could provide valuable advice to the management team. Experience indicates that business owners with access to focused management skills and business and technical intelligence dramatically increase their chances for success. InNOVAcorp has created a high-performance incubation system using both face-to-face and online tools that give entrepreneurs access to critical business advisory resources to overcome these challenges.

Since the inception of the corporation's first incubator in 1987, more than 70 businesses have graduated from our facilities. Further, more than 84 per cent of our clients remain operational in Nova Scotia after graduating



from our high-performance incubation process, resulting in an ongoing positive economic impact on the region.

InNOVAcorp's key growth opportunities for incubation include developing a grow-out business incubator at 101 Research Drive for companies that have progressed beyond early stage incubation, allowing InNOVAcorp to optimize occupancy at the Technology Innovation Centre and the BioScience Enterprise Centre and increasing promotion of services to resident and affiliate clients.

The past few years have been challenging in the venture capital industry in Atlantic Canada and throughout North America. We are pleased the NSFF's portfolio performance and investment activity have been similar to the experience of other venture capital investment managers in Canada and the United States.

During the 2003–2004 fiscal year, the Province of Nova Scotia invested a further \$8 million in the NSFF to support the investment activities of InNOVAcorp's high-performance incubation strategy. This investment makes available the capital required to invest in companies at or near the commercialization stage, in information technology, life sciences, and knowledge-related sectors of the province's economy. With additional investment funds, InNOVAcorp has the experience and relationships to substantially increase its venture investment activities in the

commercialization process. The corporation is also examining ways to raise more capital for investment and for expansion of its partnering activities with other venture capitalists and financial institutions.

The 2004–2005 Business Plan continues to focus the corporation's strategic direction on providing access to a grow-out incubator and specialty incubation space, evolving InNOVAcorp's network of mentors and business advisors and online mentoring platform, and increasing venture investment activities through leveraging and new funds.

InNOVAcorp will continue to make a significant difference in the technology sectors and the broader economic growth of Nova Scotia by accelerating technology-based companies through the commercialization process.

## Performance in 2003–2004

InNOVAcorp achieved many significant objectives and milestones in the 2003–2004 business year.

- We hosted the announcement of the Premier's Advisory Council on Innovation, a council of independent experts advising government on how to stimulate the best conditions for innovation in Nova Scotia. The event included a mini trade show highlighting

some of the province's existing innovative companies and the public launch of Innovative Nova Scotia, a policy to increase the use of knowledge-based innovation to levels that match or exceed those found in the nation's leading regions.

- We participated in policy development activities affecting the province's knowledge sectors, ensuring that Nova Scotia companies remain competitive globally.
- We chaired a Voluntary Planning Sector Committee, a community-based task force to examine and assess Nova Scotia's economic performance, productivity, and competitiveness and to identify opportunities for improvement. The task force has created a system to monitor and track economic performance in urban and rural communities.
- We were one of four recipients of Canada's prestigious Manning Innovation Awards for our work on an automated processing machine that removes meat from crab legs. The Air Chamber Crab Processor replaces traditional machines that required workers to hold the crab legs while a burst of compressed air forced out the meat and often led to a respiratory condition called "crab asthma."
- We played a lead role in the development of several major initiatives in the life sciences industry, including working with the province's biosciences industry association, BioNova, on an industry conference, BioPort 2003. We also worked with the Nova Scotia Bio Industries Team to ensure a strong presence at BIO 2003 in Washington, DC, the world's largest biotechnology conference and exhibition. Further, we led the creation of Atlantic Innovation Day, an event honouring and encouraging innovation in Atlantic Canada, focusing on the 2003 Manning Award winners.
- We represented Nova Scotia's innovation agenda at the 28th Annual Conference of New England Governors and Eastern Canadian Premiers in Connecticut, the first APEC Incubator Forum in Taipei, and the UK Business Incubator Conference.
- We partnered with a number of private and public organizations to develop Nova Scotia's knowledge sectors, creating an environment where local companies can thrive and be more competitive. Some of the organizations include Greater Halifax Partnership, BioNova, Information Technology Industry Association Nova Scotia (ITANS), Telecom Applications Research Alliance (TARA), NovaKnowledge, Business Development Bank of Canada (BDC), Nova Scotia Business Inc.(NSBI), Life Science Development Association (LSDA), Atlantic Canada Opportunities Agency



(ACOA), Industry Canada, Waterfront Development Corporation, World Trade Centre, Nova Scotia Film Development Corp., Nova Scotia BioIndustries Team, ACBA, Dalhousie University, Acadia University, University College of Cape Breton (UCCB), National Research Council, and Canarie.

- We continued to progress in our plan to convert our facility at 101 Research Drive into a grow-out business incubation facility for companies that have progressed beyond early stage incubation. We secured an anchor tenant for 101 Research Drive. A local nutritional product company is relocating its research and development laboratories from the BioScience Enterprise Centre and its management and administrative team, currently based in Bedford, NS, to the facility.
- We incubated 75 companies, both resident and affiliate, at our three sites in Dartmouth and Halifax; 75 new employees were hired by these firms.
- We maintained an average occupancy rate of 80 per cent at the Technology Innovation Centre and the BioScience Enterprise Centre.
- Four clients graduated from our resident incubation program, which means they reached business development milestones that made them ready to move from our premises into commercial real estate. From their new locations, these graduates continue to fuel the creation of new jobs, innovative products and services, sales, and exports.
- We maintained our partnership with a local commercial training company, to offer specially structured and priced professional development sessions to our clients. With sessions happening on site at our incubators, clients benefited from expertise in areas such as prospecting for new clients, high-performance leadership, negotiation selling, and effective communications skills.
- We extended our partnership with Entrepreneurs' Forum, a local organization that fosters the growth and development of knowledge-based companies by providing ongoing support, educational opportunities, and mentoring.
- We held more than 70 additional information sessions, training seminars and networking events for our clients. Ranging from formal opportunities to meet with visiting trade delegations to casual, fun social gatherings, these initiatives were rich with important business information. The gatherings also allowed client entrepreneurs to avoid the isolation that often accompanies early stage business development and to connect with people who could help them grow their companies.

- We continue to play a leading role in the Canadian Association of Business Incubators (CABI), serving on the association's Board of Directors, chairing the international relations committee, and managing the CABI newsletter.
- We attracted two technology patent agents as InNOVAcorp affiliate clients to serve Atlantic Canadian innovators.
- We continue to proactively engage the outside business community to assist clients in strategic planning and execution. We also played an active role in helping to secure potential lead sales and industry partnerships for several organizations.
- We provided online business guidance to over 50 companies from across the province.
- Fifty-five information inquiries were handled through the Industrial Research Assistance Program (IRAP) supported information specialist through the partnership between InNOVAcorp and the National Research Council (NRC).
- We continue to operate an active venture capital fund, the Nova Scotia First Fund (NSFF), a provincially based venture capital fund. This year our efforts have been directed toward growing our existing portfolio. We currently manage 11 investments, consisting primarily of investments in information technology and software and life sciences sectors.
- We continue to expand our strong network of venture capital companies to provide multi-investor deals. This approach has enabled the Nova Scotia First Fund (NSFF) to leverage its investment in excess of 10 times, when other venture capitalists, investors, and government funds are included, and to participate in larger and later-stage transactions. The result is a more diversified approach to investment risk.

## Strategic Goals

In 2000 the Province of Nova Scotia released its economic growth strategy, Opportunities for Prosperity (OfP), recognizing innovation as one of the fundamental pillars of our overall economic framework. It also identified the growth of emerging industries such as life sciences, energy, advanced manufacturing, and the learning and digital economies as one of its key strategies.

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, and announced the formation of a 16-member council to provide government with independent advice on how to stimulate the best conditions for innovation in Nova Scotia and implement the innovation policy.



InNOVAcorp is committed to support the Province of Nova Scotia's economic growth strategy and its innovation agenda and is focused on the following strategic goals:

- Work collaboratively with public and private partners to champion and implement Nova Scotia's innovation strategy by providing leadership on matters related to technology commercialization.
- Enhance the growth of knowledge-based industry sectors by accelerating technology-based companies through the start-up and development stages of the commercialization process.
- Build and foster a dynamic and stable entrepreneurial culture by providing the environment where entrepreneurs can grow and prosper through shared experience and strategic relationships.

InNOVAcorp's strategic goals align with the government priorities of building greater prosperity and fiscal responsibility and accountability as outlined in the government blueprint.

## Core Business Areas

### ***High-Performance Incubation***

InNOVAcorp is building an environment that provides entrepreneurs with access to crucial intellectual and physical infrastructure that in most ways affords small companies with support systems comparable to those of much larger organizations. InNOVAcorp's core business function is high-performance incubation, and we do this by offering a network of critical business resources, including business incubation, mentoring, and investment.

### ***Business Incubation***

InNOVAcorp manages two technology incubators, which currently host over 50 high-technology companies. The Technology Innovation Centre in Dartmouth targets companies in the information and telecommunications technology and the engineering industries. The BioScience Enterprise Centre in downtown Halifax focuses on companies in the life sciences industry. Both facilities offer a comprehensive mix of business incubation services that include flexible leasing of lab, industrial, and office space and shared administrative support.

A third facility, the former Nova Scotia Research Foundation at 101 Research Drive in Dartmouth, is being transformed into another business incubator, focusing on companies that have progressed beyond early-stage incubation but are still progressing towards commercial sustainability.

InNOVAcorp is also actively involved in the growth of other incubators in the province.

### ***Mentoring***

The mentoring program helps entrepreneurs find a faster and less expensive path to success by leveraging the corporate knowledge base developed by InNOVAcorp and the experiences of others within the business community. It helps identify and remove business obstacles and bottlenecks, keeping the entrepreneur focused on the business and moving in the right direction towards success.

Every company and entrepreneur has unique requirements for assistance. InNOVAcorp delivers a suite of services that can be tailored to meet the unique characteristics of each company as it progresses through the stages of growth. A key component of the mentoring program is the provision of a fluid, collaborative, and open environment where entrepreneurs can also benefit from the experiences of one another.

### ***Investment***

Investment, in concert with business incubation and mentoring, support promising entrepreneurs from start-up to first-stage expansion through innovative financing. InNOVAcorp manages the Nova Scotia First Fund (NSFF), which is an early-stage source of capital for Nova Scotia businesses. The NSFF was formed by the Government of Nova Scotia in 1989, and InNOVAcorp was mandated to manage the portfolio in 1997. InNOVAcorp currently manages 11 investments, which consist primarily of investments in the information, technology, and life sciences sectors. The NSFF provides venture investment in the range of approximately \$500,000 in early-stage, fast-growing companies that meet the following criteria:

- an operational base in Nova Scotia
- a viable financial and business model
- a fully developed business plan
- a commercially viable product or process
- capable management with a proven track record

InNOVAcorp's uses the same investment criteria as traditional venture capital firms. It targets early-stage companies from start-up to the development stage.



## Priorities for 2004–2005

For 2004–2005 InNOVAcorp's priorities include the following:

- Support the implementation of Nova Scotia's innovation strategy by providing advice to the Premier's Advisory Council on Innovation and other federal and provincial initiatives.
- Maintain current occupancy rates at the Technology Innovation Centre and the BioScience Enterprise Centre.
- Complete the transformation of 101 Research Drive into a grow-out business incubation facility.
- Provide tailored advice that will help promising entrepreneurs meet their specific business goals.
- Continue to develop a pool of mentors and business advisors to support InNOVAcorp's high-performance incubation activities.
- Identify new opportunities for equity investments in life sciences and knowledge-based companies in Nova Scotia and make follow-on investments in existing venture portfolio companies to preserve and grow the value of our investments.

## Budget Context

	Estimate 2003-04	Forecast 2003-04	Estimate 2004-05
Revenue			
Provincial Funding	2,195,000	2,151,000	2,195,000
Program Revenue and Recoveries	2,664,400	1,343,100	2,276,400
	4,859,400	3,494,100	4,471,400
Expenses			
Total Operating Expenses	4,854,900	4,265,900	4,346,000
Income before Other Items	4,500	(771,800)	125,400
Other Items			
NSFF Gains (Losses)	202,000	78,300	154,900
Amortization	(595,000)	(369,300)	(731,100)
Interest Income(Expense), Dividends, & Capital Gains (Losses)	1,000	(31,700)	(55,200)
<b>Income (Loss)</b>	<b>(387,500)</b>	<b>(1,094,500)</b>	<b>(506,000)</b>



# Outcomes and Performance Measures

## Core Business Area

### High Performane Incubation

Outcome (benefit/impact)	Indicator	Measures	Base Year Measure 2002-2003	2003-2004 (as of Feb 25, 2004)	Target 2004-2005	Strategies to Achieve Target
Technology-based companies accelerated through the 2nd/3rd stages of growth of the commercialization process	Clients, companies, in incubators, who exhibit growth	Economic impact (jobs)	226 jobs in incubated companies (at Dec 31, 2002)	85 new employees	Maintain or exceed baseline year	<ul style="list-style-type: none"> <li>Provide an integrated approach to clients in growing their businesses</li> <li>Track number of jobs created in incubation companies</li> </ul>
		Number of graduated companies	2-4/year	4	Maintain or exceed baseline year	<ul style="list-style-type: none"> <li>Provide an integrated approach to clients in growing their businesses</li> </ul>
	Access to business advice	Number of business advisors and mentors serving on boards	No baseline available	No baseline available	50% increase	<ul style="list-style-type: none"> <li>Continue to develop a pool of mentors</li> </ul>
		Number of companies served outside Halifax Metro	No baseline available	No baseline available	Maintain or exceed baseline year	<ul style="list-style-type: none"> <li>Incorporate the online mentoring platform into InNOVAcorp offering</li> </ul>
	Smart incubation	Specialty incubation space	No baseline available	No baseline available	Maintain or exceed baseline year.	<ul style="list-style-type: none"> <li>Expand 101 Research Drive into a grow-out business incubation facility for companies that have progressed beyond early-stage incubation</li> </ul>

**Core Business Area**

*High Performane Incubation*

Outcome (benefit/impact)	Indicator	Measures	Base Year Measure 2002-2003	2003-2004 (as of Feb 25, 2004)	Target 2004-2005	Strategies to Achieve Target
Maximize shareholder value	Financial return to InNOVAcorp	% of leased space	58.5%	60%	Space increase above baseline	<ul style="list-style-type: none"> <li>• Increase occupancy within 3 incubators</li> </ul>
		Follow-on investments	2/year average	3 follow-on	Maintain or exceed baseline year	<ul style="list-style-type: none"> <li>• New investment/follow-on investment</li> </ul>
		Total investments	19 total (at Dec 31, 2002)	19 total (at Dec 31, 2003)	Increase above baseline	<ul style="list-style-type: none"> <li>• Maximize the value of investments under management</li> </ul>
		Average leverage ratio	12.9	13.7	Maintain or exceed baseline year	<ul style="list-style-type: none"> <li>• Maintain or increase the leverage ratio</li> <li>• Invest in partnerships with existing and new venture capitalists</li> </ul>
		Economic impact (jobs)	159 jobs in the investment companies (at Dec 31, 2002)	172 jobs in the investment companies (at Dec 31, 2003)		<ul style="list-style-type: none"> <li>• Track the number of jobs created in existing and new investments.</li> </ul>