

INCUBATION

MENTORING

INVESTMENT

# Business Plan

2008/2009



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## Message from the President and CEO

During fiscal year 2007-2008, InNOVAcorp further intensified its role in driving the knowledge economy and innovation capital markets in Nova Scotia. The following examples provide a glimpse of the significant progress made through the efforts of InNOVAcorp, its clients and partners during this period:

- InNOVAcorp clients Coemergence Inc. and Diaphonics Inc. are among only five Canadian firms, and the first ever in Atlantic Canada, to be named to AlwaysOn's list of Top 100 private companies.
- The pipeline of new start-up Nova Scotia-based knowledge company opportunities reaches an all time high, including a marked increase in the number of rural Nova Scotia-based company start-ups.
- The Broadband for Rural Nova Scotia project, which promises to make Nova Scotia the most connected jurisdiction in North America by 2009, reaches the key milestone of awarding private sector service provider contracts.
- InNOVAcorp's High Performance Incubation (HPi)<sup>™</sup> business model is again recognized as a best practice by the National Business Incubation Association (NBIA) which represents over 1600 like organizations across 40 countries.
- The average venture capital deal size in Atlantic Canada increases more than 25 per cent since 2004, surpassing the growth of deal size nationally.
- InNOVAcorp successfully managed the Early Stage Commercialization Fund (ESCF), which identifies and supports the highest commercialization potential projects within Nova Scotia's 11 universities and college system.
- Mil-Aero Electronics Atlantic Inc. enters into a business agreement with a major player in the aerospace and defence industry.
- InNOVAcorp leads early stage investment dialogue at the Canadian Venture Capital Association's annual conference.
- ImmunoVaccine Technologies Inc. names Dr. Randal Chase as the company's new president and CEO.
- Medusa Medical Technologies Inc. to outfit 60 per cent of ambulances in England with its Siren ePCR<sup>™</sup> Suite.
- Prosolum Inc. finalizes a three-year, \$1.6 million agreement with Bell Aliant.
- InNOVAcorp's Dr. Lidija Marusic is appointed to the Canadian Institutes of Health Research Proof of Principle program peer review committee.
- Welaptega Marine Ltd. secures contracts in the U.K., Australia, South-East Asia, Canada and Norway.
- InNOVAcorp receives 121 submissions to its province-wide I-3 technology start-up business competition.
- EastMed Inc. launches its first product, the uresta<sup>™</sup> Continence Care Kit.
- WINSTORM presents inc. secures contract with New York-based Colgate-Palmolive.
- Ocean Nutrition Canada nears completion of a new 42,000 sq ft microencapsulation facility.
- InNOVAcorp hosts Crossing the Chasm, a seminar featuring an internationally-acclaimed expert in go-to-market strategy development.
- InNOVAcorp and NRC-IRAP collaborate to seamlessly support mutual clients.

InNOVAcorp's internationally recognized High Performance Incubation (HPi)<sup>™</sup> business model comprises three interwoven resources – incubation infrastructure, business mentoring and seed/venture capital investment – designed to move at the speed of business to help high potential Nova Scotia-based knowledge companies overcome traditional hurdles to business growth. The numbers show the HPi business model is effective. InNOVAcorp's economic, client satisfaction, and leading indicator metrics continue to show strong growth.

While we are proud of our achievements, which we believe clearly illustrate the high value our clients obtain from our services, InNOVAcorp strives to continuously strengthen the value it adds to client companies and to the economy of Nova Scotia.

In 2008-2009, InNOVAcorp will further strengthen its products and services to fuel sustainable economic growth. We will achieve this in part by: enhancing the scalability of the HPI business model, operationalizing our clean technology practice, maximizing the sustainability and economic impact of the Nova Scotia First Fund (NSFF), completing the planning for development of a new BioScience Enterprise Centre, and monetizing university/college research and entrepreneurial activities.

Dan MacDonald  
President and CEO

# Mission and Vision

## MISSION

*To fuel sustainable economic growth by enabling Nova Scotia-based knowledge 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 Nova Scotia-based knowledge companies. These high growth companies positively affect the province's prosperity more than any other sector of the economy.



## 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.*

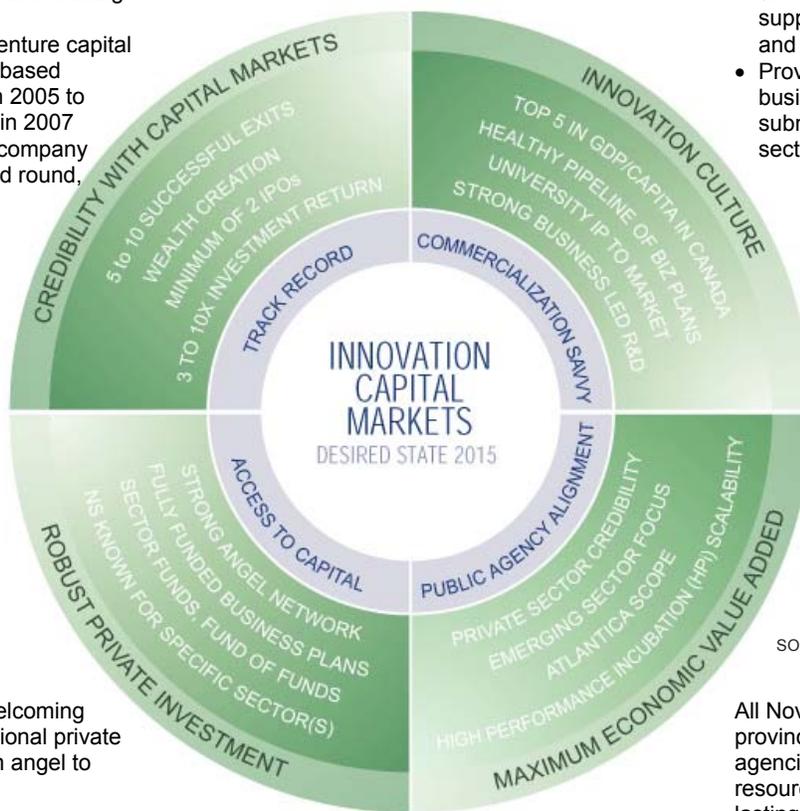
InNOVAcorp's vision comes not from focusing on what is wrong. Rather, it comes from playing a key role in creating "the winning conditions" by focusing on "what it will take" to move Nova Scotia's innovation and capital markets forward.

To this end, InNOVAcorp has used its daily interactions with entrepreneurs, private industry, angel investors and venture capitalists, academia, industry associations and public sector agencies to fuel sustainable economic growth.

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.

2007-2008 Progress:

- Larger venture capital rounds occurring in region
- Significant momentum in venture capital investment in Nova Scotia-based companies, from \$18.7M in 2005 to \$24M in 2006 and \$17.3M in 2007
- Nova Scotia-based media company conducts successful second round, raising \$17.5M



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

2007-2008 Progress:

- Pipeline of credible knowledge-based business plans is increasing
- Increased collaboration with universities/colleges is identifying and supporting the highest potential research and entrepreneurial initiatives
- Province-wide I-3 technology start-up business competition attracts 121 submissions and engages 28 private sector partners

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

2007-2008 Progress:

- First Angel Network is formalized and actively investing
- "Fully-funded (fundable) business plan" thinking is becoming pervasive
- New Atlantic Canada-based investment fund opportunity is emerging
- Average venture capital deal size in Atlantic Canada has increased more than 25% since 2004, surpassing the growth of deal size nationally, while the average deal size in Atlantic Canada is still half the national average

SOURCE: InNOVAcorp 2005

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

2007-2008 Progress:

- The Province's Opportunities for Sustainable Prosperity 2006 (OSP11) economic development strategy lists innovation and financial capital as key priorities
- Private sector engagement and collaboration is flourishing, including active partnerships with chartered banks, and legal and accounting firms
- I-3 initiative engages 28 private firms from across the province
- HPI™ business model is continuously refined to ensure maximum value add and scalability
- InNOVAcorp and NRC-IRAP collaborate to seamlessly support mutual clients

## Planning Context

The rapid pace of globalization is both an opportunity for and a threat to Nova Scotia. Nova Scotia-based companies have every opportunity to compete for and serve global markets. At the same time, companies from literally around the world have that same opportunity.

Nova Scotia-based export-oriented companies must embrace new and emerging business models to compete globally. These new business models will continue to challenge companies to maximize their value add, diversify, take advantage of global supply chains, and look for opportunities to clearly differentiate their offering from the inevitable commoditization of virtually every product and service.

Nova Scotia's unemployment rate is the lowest it has been in decades. In certain high growth areas such as information technology, life sciences, and more recently, financial services, recruiting experienced technical and commercialization savvy talent is becoming a significant business challenge. To reverse this trend, Nova Scotia must do more to create an environment of challenging opportunities and welcoming communities to retain graduates and employees, repatriate those who would return to join established companies or build their own start-up opportunities in the province, and as important, recruit talent through more effective immigration policies. To this end, through daily interaction with early stage entrepreneurs and high growth potential companies, InNOVAcorp will use its High Performance Incubation (HPI)<sup>™</sup> business model to continue to play a leadership role in sourcing the right talent with domain or management expertise, to build and grow innovative business models in the knowledge-based sector of the economy.

The level of R&D performed by industry in Nova Scotia is the second lowest in the country, just ahead of PEI. 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 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 intends to play a key role in moving this agenda forward.

The population and economic prosperity of rural Nova Scotia continues to decline as younger citizens migrate to urban centres within Nova Scotia and beyond. While this phenomenon has been occurring for generations, many feel that the pace of outward migration from Nova Scotia is at an all time high. While many parts of Nova Scotia offer an excellent quality of life and relatively low cost real estate, the lack of infrastructure, including access to broadband connectivity, professional services and sustainable challenging career opportunities, fuels the pace of outward migration. During the 2007-2008 fiscal year, InNOVAcorp extended its reach into rural Nova Scotia in general, and more specifically through two key initiatives: the Broadband for Rural Nova Scotia project and the I-3 Technology Start-Up Competition. Both of these projects enabled InNOVAcorp to add immediate value to rural Nova Scotia and at the same time engage private and public sector organizations across the province.

Among our most cherished assets are our universities and colleges. Nova Scotia is home to 11 universities and a strong community college system with 13 campuses across the province. Approximately \$120 million in research is conducted at these institutions each year. While the local economy certainly benefits from the education of our young people, 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 are relatively low. Both the provincial and federal governments have invested in infrastructure designed to increase the commercialization of university research. The "business building" component of university and college curriculum in most cases is lacking, and there are few formal ties between university research and the innovation capital markets. In this context, InNOVAcorp must continue to increase its efforts by effectively partnering further with entrepreneurs who are active in these post-secondary institutions.

The declining state of the world's environment is driving innovation across virtually every industry. Every organization must do its part to reduce greenhouse gases, both operationally as well as in the products and services it delivers. Consumers will no longer tolerate/purchase products and services offered by companies that do not demonstrate efforts to establish green best practices. Related to the focus and momentum of all things green, a new sector has emerged. Clean technology has quickly become the leading venture investment category globally, with billions of venture capital already invested into clean technology companies.

InNOVAcorp, through its HPI™ business model, has observed significant growth in the number of Nova Scotia-based knowledge companies whose core value proposition is based on a clean technology angle. Innovations that look to decrease the amount of energy required, improve sources for renewable energies, and produce more environmentally-friendly materials are examples of types of Nova Scotia clean technology opportunities. InNOVAcorp, while working in the clean technology sector at a modest level for more than three years, will formally operationalize its clean technology HPI™ practice in the coming fiscal year, enabling start-up companies in this field to tap InNOVAcorp's business building services and expertise.

InNOVAcorp's role will be critical in enabling innovative early stage Nova Scotia companies to attract private investment and successfully enter global markets.

## **InNOVAcorp SWOT Analysis**

In keeping with its culture of continuous improvement, InNOVAcorp first performed an objective SWOT analysis as part of its 2005-2006 fiscal year business plan. That analysis has been updated for fiscal year 2007-2008, and again for fiscal year 2008-2009.

### **Strengths**

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

- Collaborative culture, leveraged to maximize synergies between private and public sectors
- Global commercialization expertise and industry contacts
- High level of client satisfaction
- Highly relevant private sector ICT and life sciences business and technical expertise
- Specialized incubation infrastructure assets, such as configurable laboratory and office premises, with supporting infrastructure, including a state-of-the-art integrated voice and data network
- Internationally recognized best practice High Performance Incubation (HPi)<sup>™</sup> business model
- Active seed and venture capital investment fund
- Organizational adaptability and continuous improvement culture
- Strong client referral network
- Supportive network of professional services suppliers
- Supportive, diversified and balanced board of directors
- Venture and seed capital investment expertise, and credibility with national investment community
- Steadily increasing province-wide visibility and credibility with the private sector

### **Weaknesses**

*Absence of specific required strengths*

- Increased effectiveness of HPi<sup>™</sup> pipeline management is required so 80% of support is applied to the highest potential clients
- Depth of clean technology sector business and technical expertise
- The longer-term sustainability of InNOVAcorp HPi<sup>™</sup> tool set, specifically the Nova Scotia First Fund and its related ability to keep pace with global innovation capital markets

### **Opportunities**

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

- Continually strengthen and renew the InNOVAcorp brand to increase the quality pipeline
- Continue to collaborate with private sector financial and professional services firms to more effectively support our clients
- Deliver advanced information technology infrastructure and services to resident and remote clients
- Expand network of subject matter experts and mentors who can be called upon to support our clients
- Further leverage online marketing to attract and pre-qualify new clients, as well as strengthen relationships with existing clients
- Increase InNOVAcorp's role as a national/international advocate for sustainable innovation and capital investment in Canada
- Restructure the Nova Scotia First Fund to maximize its leverage impact and ensure its long-term sustainability
- Collaborate with universities to deliver/strengthen entrepreneurial curriculum
- Partner with universities to establish an enhanced targeted commercialization fund
- Operationalize InNOVAcorp's clean technology HPi<sup>™</sup> practice

### **Threats**

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

- Ability of client companies to recruit and retain the required world-class experience and expertise
- High number of undercapitalized venture-grade opportunities and their related inability to meet operational objectives result in a poor investment track record for the region
- Low level of regional industry-led R&D continues to impede momentum of commercialization progress
- Inability to sustain a level of quality support to clients, due to the significant increase in the potential client pipeline
- Unplanned requirement for significant capital investment (eg. to repair incubation infrastructure) causes InNOVAcorp to use operational funding
- Continuation of a U.S. economic downturn into a full recession affects both access to capital and access to market

## Link to Corporate Path

As a Crown corporation, InNOVAcorp's objectives and initiatives are designed within the context of fiscal responsibility and align with the following Government of Nova Scotia priorities:

### Creating Winning Conditions

InNOVAcorp is all about "creating winning conditions." Hand in hand with our clients and partners, we set out to create an environment in which high potential early stage companies become "fit for the fight," attract world-class employees, establish state-of-the-art go-to-market strategies, and take on global markets. We leverage our international network of advisors and investors to assist in raising seed and venture capital. InNOVAcorp's highly successful I-3 Technology Start-Up Competition engaged prospective entrepreneurs, community leaders, and professional firms from across Nova Scotia, and in doing so, helped strengthen the "winning conditions" for building a knowledge economy.

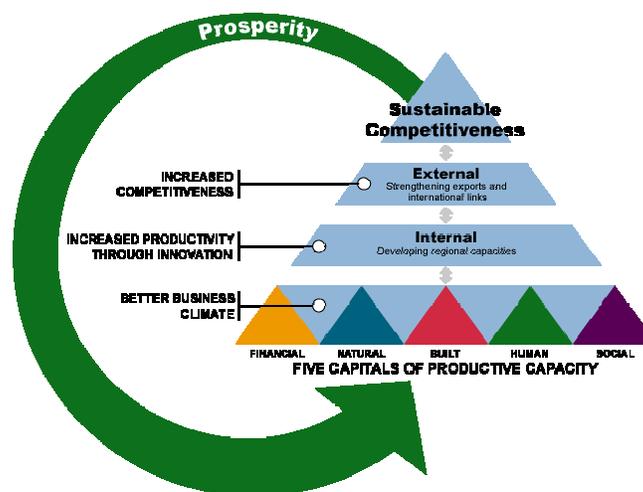
### Seizing New Economic Opportunities

InNOVAcorp has built a strong information technology and life sciences practice. Both these critical sectors leverage information technology to reduce time to market and increase competitiveness. Information technology is key to building high growth Nova Scotia-based companies. InNOVAcorp clients conduct R&D to both enter and remain competitive in their chosen markets.

### Building for Individuals, Families and Communities

InNOVAcorp continues to work diligently to extend its reach across Nova Scotia. We are stimulating innovation in rural Nova Scotia and sparking the development of Nova Scotia-based companies.

InNOVAcorp continues to co-lead the "Broadband for Rural Nova Scotia" initiative, which will deliver both social and economic benefits. Further, broadband is an essential utility for any early stage company to be able to grow and prosper. InNOVAcorp also continues to play a key role in the implementation of the province's economic strategy "Opportunities for Sustainable Prosperity 2006," which is designed to create "sustainable economic growth."



Source: Opportunities for Sustainable Prosperity 2006

Over the last five years, InNOVAcorp helped attract \$22.7 million from angel and strategic investors, financial institutions, and other seed and venture capital funds. Ten million dollars of this investment capital originated outside Atlantic Canada. In May 2007, Nova Scotia hosted the annual Canadian Venture Capital Association (CVCA) conference. InNOVAcorp led an international panel of venture capital firms exploring the challenges and best practices in early stage venture capital investment. The conference was a huge success and left a lasting positive impression on the international audience.

Built capital, more specifically "broadband and wireless connectivity" resulting from the Broadband for Rural Nova Scotia initiative co-led by InNOVAcorp, promises to make Nova Scotia the most connected jurisdiction in North America by 2009. In 2007-2008, after approximately 15 months of work that included a complex competitive request for proposal (RFP) process, the project reached the key milestone of awarding private sector service provider contracts.

Further, InNOVAcorp has continued to leverage its fully-integrated voice and data IP network at its four facilities. This network enables early stage companies to access high-end IT infrastructure, speed up time to market, and facilitate integrated communications/transactions with customers and suppliers.

Human capital, and more specifically building specific skill sets in the areas of global go-to-market strategies and knowledge among client companies' senior management, is critical to helping Nova Scotia-based companies prosper. Further, InNOVAcorp continues to be deeply involved in initiatives designed to retain and retrain human resources in Nova Scotia, and repatriate and recruit talent from outside the province.

Social capital – regional capacity, and more specifically "entrepreneurship and increased productivity through innovation," is in fact InNOVAcorp's mission: To fuel sustainable economic growth by enabling Nova Scotia-based knowledge companies to accelerate the commercialization of their technologies and increase competitiveness in export markets.

Financial capital, and more specifically "access to capital-capacity building," is a key element of InNOVAcorp's charter. Nova Scotia-based companies raised \$7 million in venture capital financing in 2004. In 2005, they raised \$18.7 million. In 2006, that number increased by more than 40 per cent to reach \$24 million, and it leveled off in 2007 with \$17.3 million (Source: Thomson Financial, 2008). InNOVAcorp continues to play a key role in this "access to capital" turnaround. Through the management of the Nova Scotia First Fund (NSFF), InNOVAcorp operates as an active and effective venture capitalist. Since the fund was recapitalized in 2003-2004, InNOVAcorp has approved and invested \$6.2 million in promising early stage companies based in Nova Scotia.

# Strategic Goals

## 2008-2009 Strategic Goals

Two broad strategic goals drive InNOVAcorp's activities:

**To fuel sustainable economic growth by enabling Nova Scotia-based knowledge 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.**



## Core Business

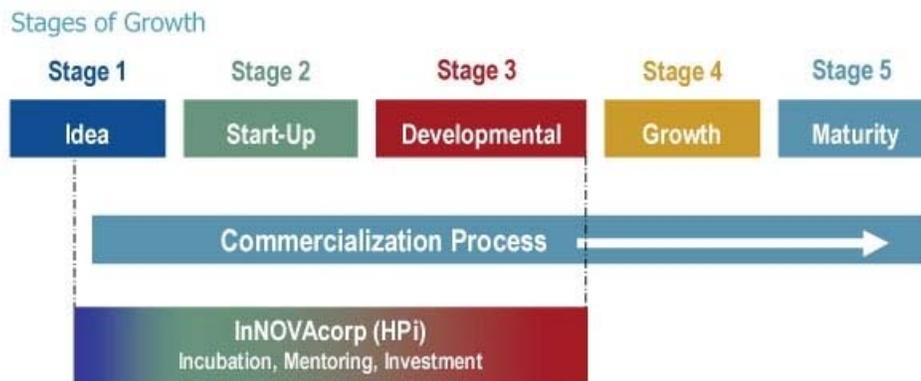
The High Performance Incubation (HPi)<sup>TM</sup> business model represents InNOVAcorp's core business offering. Recognized internationally as a best practice approach to technology commercialization, HPi comprises three interwoven resources – incubation infrastructure, business mentoring and seed/venture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



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

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

**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 both 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 (IT) and engineering industries;
- the BioScience Enterprise Centre in downtown Halifax focuses on companies in the life sciences industry; and
- the grow-out facility at 101 Research Drive in Dartmouth (currently occupied by Ocean Nutrition Canada).

With an ideal blend of business services, professional development and networking opportunities, and relevant resources, these centres offer the infrastructure and environment that emerging technology companies need to grow.

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

In 2006-2007, InNOVAcorp completed Phase I of the Woodside Knowledge Park by accommodating the Ocean Nutrition Canada (ONC) micro-encapsulation facility. During 2007-2008, InNOVAcorp facilitated an agreement to develop the Highway 111 Mount Hope extension which in the summer of 2008 will provide direct highway access to the Knowledge Park. The completion of this valuable link will allow InNOVAcorp to recruit additional businesses to the Knowledge Park, maximizing cluster synergies.

Going forward, we will look to optimize the facilities managed by InNOVAcorp to provide a critical mass of incubation infrastructure and further extend our reach by expanding our affiliate incubator network.

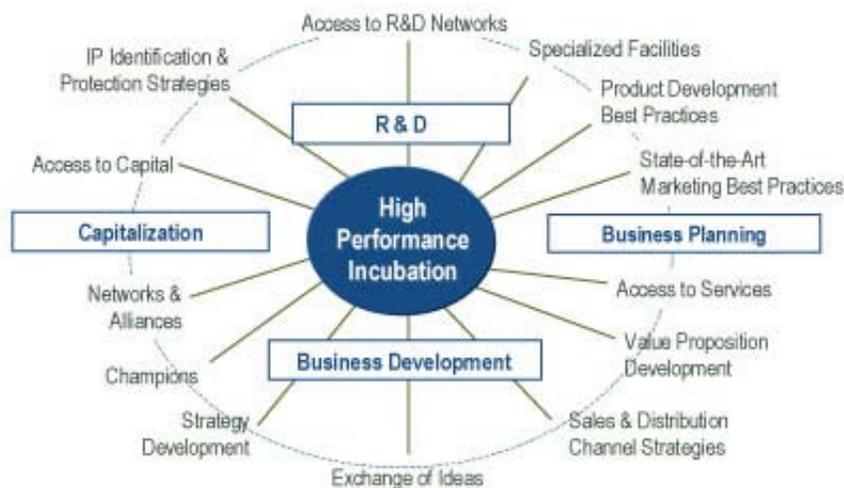
Affiliate incubators are defined as Nova Scotia incubation facilities that are owned and/or managed by a third party and that meet InNOVAcorp's best practice criteria. InNOVAcorp incubation experts will provide start-up and ongoing management consulting. Further, InNOVAcorp will develop an incubation community that has access to best practices, annual meetings, etc.

At the end of 2007-2008, InNOVAcorp's incubation facilities stood at 88 per cent occupancy. Tenants typically "graduate" from the incubation facility as they progress through the third stage of the business development cycle. In 2008-2009 InNOVAcorp will strive to maintain occupancy of its incubation facilities at approximately 91 per cent, enabling the corporation to offer incubation services to new clients and allowing the tactical expansion of existing clients.

## 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 program helps clients find more direct and cost-effective paths to success.

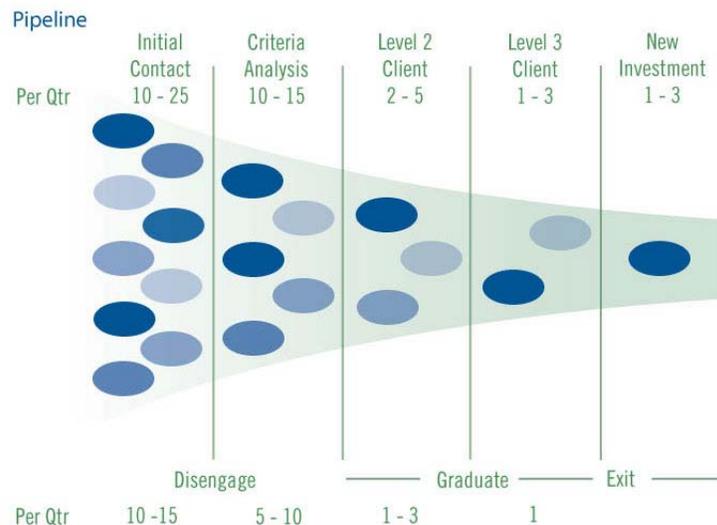
InNOVAcorp uses a tailored approach to assisting entrepreneurs, meeting the unique requirements of each client during each stage of the business growth cycle. Our comprehensive suite of services includes: fundamental business planning, intellectual property identification and protection strategies, access 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 2007-2008, InNOVAcorp provided advisory services and relationship management support to more than 158 Nova Scotia-based early stage companies, and reviewed and advised 22 university research-level projects.

The illustration below depicts InNOVAcorp's typical pipeline flow. During 2007-2008, 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 2008-2009 InNOVAcorp will continue to strengthen its go-to-market expertise in key sectors, such as information and communications technology (ICT), life sciences, and clean technology. InNOVAcorp will continue to leverage our refined internal processes and tools to maximize efficiencies and strategically expand the in-house team based on the support requirements of our clients. Business expertise in the community and abroad will continue to be accessed to efficiently and effectively build a robust external mentoring network.

## **Early Stage Commercialization Fund**

In conjunction with Nova Scotia Economic Development, InNOVAcorp will continue to manage the Early Stage Commercialization Fund (ESCF) to review, advise and support the early stage technology commercialization of the best post-secondary institution research.



Working closely with the province's 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 be apparent.

ESCF Objectives:

- promote and accelerate technology transfer activities in academic institutions in Nova Scotia
- provide the opportunity to assess the commercial potential of intellectual property
- narrow the gap that exists at the very beginning of the commercialization process, to enable the projects to move closer to industry collaboration and/or technology spin-off

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.

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

InNOVAcorp will continue to support rural innovation through co-management of the Nova Scotia Co-operative Council's Proof-of-Concept Fund and by working closely with the regional development authorities throughout the province.



industrial and energy innovations.

Created and managed by InNOVAcorp, the first pilot I-3 Technology Start-up Competition, which targeted Cape Breton innovators, was launched on March 2, 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, to

In 2007-2008, InNOVAcorp launched a province-wide I-3 competition to identify and support high potential early stage Nova Scotia-based companies, and help fuel entrepreneurial activity across the province. The competition took place simultaneously in five geographic zones and attracted 121 formal submissions.

The breakdown of submissions from across the province included:

- 14 submissions from Zone 1 (Cumberland, Colchester, Pictou, Antigonish and Guysborough counties)
- 17 submissions from Zone 2 (Lunenburg, Queens, Shelburne and Yarmouth counties)
- 18 submissions from Zone 3 (Digby, Annapolis, Kings and Hants counties)
- 55 submissions from Zone 4 (Halifax Regional Municipality)
- 17 submissions from Zone 5 (Victoria, Cape Breton, Inverness and Richmond counties)

Each first place zone winner received \$100,000 in a combination of cash and in-kind contributions. Each second place zone winner received \$40,000 in a combination of cash and in-kind contributions. The cash and in-kind contributions are to be used towards the establishment or further development of the start-up venture. At the end of the competition, one provincial winner selected from among the five first place zone winners was awarded a \$100,000 seed equity investment from InNOVAcorp's HPI Microfund.

During the planning stages of the competition, InNOVAcorp developed partnerships with over 25 professional service firms from across Nova Scotia to deliver in-kind 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 will provide hands-on venture guidance and assistance to the winners in their region in the form of legal, accounting, marketing, human resource, and other consulting services.

I-3 Competition Learnings:

- I-3 submissions primarily fell in one of three industry sectors: information and communications technology (ICT), life sciences, and advanced manufacturing. Interestingly, these sectors are considered by many to represent the future of Nova Scotia's knowledge economy.

- Approximately 20 per cent of I-3 submissions fell into the emerging sector of clean technology, meaning the submission's product or service core value proposition included a positive environmental impact. The submissions involved ways to reduce greenhouse gases through renewable energy generation, products which use renewable raw materials, and/or products and services which significantly reduce energy consumption over alternatives. The emphasis on clean and green speaks to the markets' strong demand and related business opportunity for cleaner and greener products.
- I-3 submissions were generally evenly split between business to consumer (B2C) vs. business to business (B2B) customer segments. Further, the majority of submissions were targeting national and international markets. This diversity and global scope is very positive and demonstrates the entrepreneurs' understanding of the global business community.
- 45 per cent of I-3 submissions already had working prototypes.
- While InNOVAcorp's total submission expectations were significantly surpassed, as a result of the exposure gained by the I-3 competition, the organization continues to receive additional start-up company inquiries from across the province.

In 2008-2009, it will be critical for InNOVAcorp to scale its HPI business model so the highest potential I-3 submissions access our commercialization expertise, and all I-3 submissions are provided value added guidance that will allow them to take the next positive steps for their initiatives.

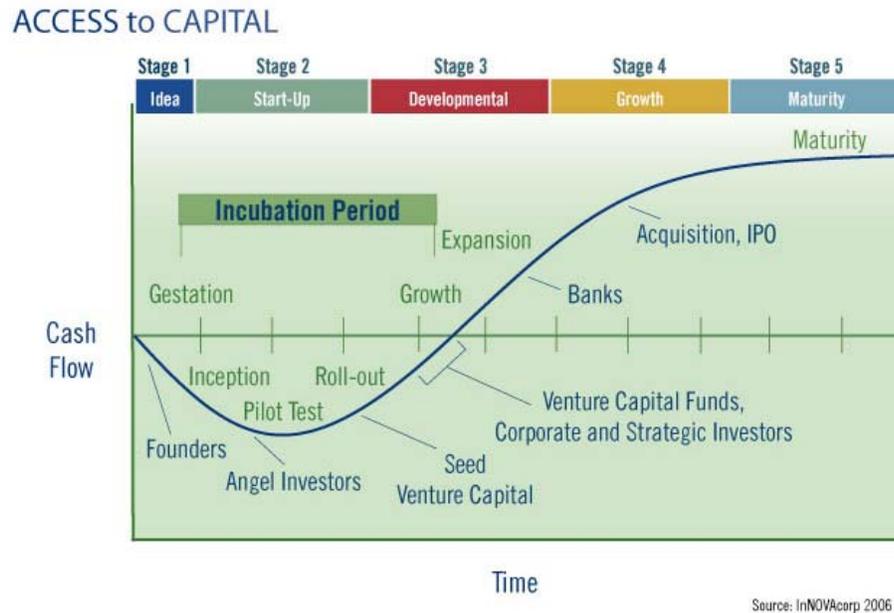
### **Industry-led R&D and Commercialization**

InNOVAcorp intends 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, just ahead of PEI. 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 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 intends to play a key role in moving this agenda forward.

In 2008-2009, InNOVAcorp will continue to provide SR&ED technical assistance in partnership with expert third party financial advisors to ensure Nova Scotia-based knowledge companies are maximizing the benefits of this important tax credit. The organization will also work to ensure 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 of between \$100,000 and \$1 million. 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 \$96 million in risk and venture capital. Since its recapitalization in 2003-2004, the fund has leveraged \$22 million of investment (\$12.4 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-based companies raised \$7 million in venture capital financing in 2004. In 2005, they raised \$18.7 million, in 2006 that number further increased by more than 40 per cent to reach \$24 million, and it leveled off in 2007 to \$17.3 million.<sup>1</sup> The average venture capital deal size in Atlantic Canada has increased more than 25 per cent since 2004, surpassing the growth of deal size nationally. InNOVAcorp continues to play a key role in this "access to capital" turnaround.

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 help create the necessary conditions for efficient private sector risk capital markets in Nova Scotia and Atlantic Canada.

<sup>1</sup> Source: Thomson Financial, 2008

## Priorities for 2008-2009

In 2007-2008, InNOVAcorp strengthened its role as the "go to" organization for technology commercialization.

Through effectively scaling our services, and by increasing the value we bring to collaborations with academic institutions and the private and public sectors, in 2008-2009 InNOVAcorp will increase its positive impact on the Nova Scotia economy through five priorities:

1. Enhance the Scalability of the HPI™ Business Model
2. Operationalize our Clean Technology Practice
3. Maximize the Sustainability and Economic Impact of the NSFF
4. Complete Planning for the Development of a New BioScience Enterprise Centre
5. Monetize University Research and Entrepreneurial Activities

### **1. Enhance the Scalability of the HPI™ Business Model**

*Current State:* The InNOVAcorp HPI™ business model is recognized as a best practice technology commercialization approach. The model comprises three interwoven resources – incubation infrastructure, business mentoring and seed/venture capital investment. In order to maintain the client engagement quality of the current and anticipated 2008-2009 client pipeline, InNOVAcorp will focus on maximizing its value add while scaling up its HPI business model, to fuel sustainable economic growth. Priority areas for the coming year are: improve management of the existing pipeline to ensure those opportunities with the most commercialization potential receive the right amount of support; continue to develop a more robust third-party resource base of subject matter experts; work with companies that made I-3 competition submissions to identify and support those with the most commercial potential; and continue to improve the industry relevance of the in-house team.

*Desired State:* Optimal scale achieved to maximize benefit for clients and return on investment for InNOVAcorp. The InNOVAcorp HPI business model is the most effective technology commercialization practice in North America.

### **2. Operationalize our Clean Technology Practice**

*Current State:* The declining state of the world's environment is driving innovation across virtually every industry. Every organization must do its part to reduce greenhouse gases, both operationally as well as in the products and services it delivers. Consumers will no longer tolerate/purchase products and services offered by companies that do not demonstrate efforts to establish green best practices.

Related to the focus and momentum of all things green, a new sector has emerged. Clean technology has quickly become the leading venture investment category globally, with billions of venture capital already invested into clean technology companies. Clean technologies are innovations that improve a business's productivity, efficiency and economic performance while reducing natural resource use, energy consumption, and the production of waste and hazardous materials. InNOVAcorp, through its HPI™ business model, has observed significant growth in the number of Nova Scotia-based knowledge companies whose core value proposition is based on a clean technology angle. Innovations that look to decrease the amount of energy required, improve sources for renewable energies, and produce more environmentally-friendly materials are examples of types of Nova Scotia clean technology opportunities.

InNOVAcorp has been working in the clean technology sector at a modest level for more than three years.

*Desired State:* InNOVAcorp will formally operationalize its clean technology practice in the 2008-2009 fiscal year, enabling start-up companies in this field to tap InNOVAcorp's business building services and expertise.

### **3. Maximize the Sustainability and Economic Impact of the NSFF**

*Current State:* One of InNOVAcorp's key assets is the Nova Scotia First Fund (NSFF) combined with seed and venture capital investment expertise. The fund is being managed so that investee companies benefit from operational and financial due diligence and mentoring, and are better prepared to approach other investors. Investments are designed to provide return on investment and cash-on-cash monetization on exits. The high number of undercapitalized venture-grade opportunities and their related inability to meet operational objectives are resulting in a poor investment track record for the region.

*Desired State:* The NSFF is managed in a manner which provides maximum benefit to the Nova Scotia economy and fully capitalizes on available operational expert advice. InNOVAcorp plays a key role in improving Nova Scotia's innovation capital markets. The NSFF is engaged with partner funds to increase the venture capital pool necessary to build and monetize competitively capitalized venture-grade opportunities.

- Managers of the NSFF will continue to make inroads to position Nova Scotia as a burgeoning hub of R&D and market-driven innovation.
- Our investment approach will continue to be to invest in the most innovative opportunities showcasing Nova Scotia's know-how and offering the highest potential of commercial success. In addition, our strategy will focus on opportunities that shape, influence and capitalize on the ever-changing market demand for innovative products and services.
- We will continue to expand our network of syndicate partners, with the aim of continuing to broaden the investor base of venture-grade opportunities in Nova Scotia.
- Our investment strategy will continue to strive to increase the size of venture rounds in Nova Scotia on a deal-by-deal basis by leveraging our capital.
- InNOVAcorp continuously evaluates all options available to expand its investment capacity. During the upcoming year, we will recommend and implement a fund strategy that will maximize leverage, optimize capital deployment, and maximize the long-term sustainability of the NSFF going forward.

### **4. Complete Planning for the Development of a New BioScience Enterprise Centre**

*Current State:* The BioScience Enterprise Centre provides special facilities, infrastructure and services that are critical to the growth and success of its resident life sciences clients. InNOVAcorp has successfully recruited new life sciences clients to achieve 76 per cent occupancy in March 2008, while maintaining breakeven operational funding status. Waterfront development plans require the BioScience Centre to relocate. Relocation scenarios have been considered, and a new BioScience Centre is to be constructed and ready for occupancy in April 2011.

*Desired State:* Create a seamless, on budget, one-move transition into a new building that allows for expansion and minimum inconvenience for existing tenants, attracts new high potential early stage companies, and maximizes synergies with industry, academic, and institutional life sciences research activities.

## **5. Monetize University Research and Entrepreneurial Activities**

*Current State:* Nova Scotia is home to 11 universities and a strong community college system with 13 campuses across the province. Approximately \$120 million in research is conducted at these institutions each year. While the local economy certainly benefits from the education of our young people, 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 are relatively low. Over the past three years, both the provincial and federal governments have invested in infrastructure designed to increase the commercialization of university research. The real world "business building" component of university and college curriculum is lacking, and there are few formal ties between university research and the innovation capital markets.

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

## Performance Measures

This section outlines the performance measures InNOVAcorp will track in 2008-2009. 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 titled *Priorities for 2008-2009*.

Measure	Base Year 2005-06	Actual 2006-07	Actual 2007-08	Target 2008-09
<b><i>Economic Impact Metrics</i></b>				
<i>Revenue generated by client companies:</i> 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.	\$120M	\$174M	\$225M	\$240M
<i>Employment generated by client companies:</i> This measure tracks the annual employment generated by current and graduate client companies.	860	1183	1500	1600
Total employment payroll of current and graduate client companies.	\$40M	\$52M	\$62M	\$70M
<i>Amount of Nova Scotia First Fund (NSFF) leveraged investments:</i> 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.	\$83.8M	\$93.0M	\$96.3M	\$101.3M
<b><i>Client Satisfaction Metrics</i></b>				
<i>Percentage of clients satisfied with InNOVAcorp services overall:</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 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%	91%

<b>Measure</b>	<b>Base Year 2005-06</b>	<b>Actual 2006-07</b>	<b>Actual 2007-08</b>	<b>Target 2008-09</b>
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<i>Percentage of clients that would recommend InNOVAcorp to a business colleague:</i>	90%	93%	88%	91%
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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.

### **Leading Indicator Metrics**

Number of early stage Nova Scotia-based companies InNOVAcorp engaged during 2007-08.	85	106	158	200
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In addition to the companies referenced above, InNOVAcorp provided value added guidance to a number of companies that made submissions to the province-wide I-3 competition.			121	
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Number of new clients	12	15	11	15
Number of active HPi™ clients	30	38	43	45
Incubation occupancy levels	85%	91%	87%	90%
Number of clients exporting products/services internationally	42	47	46	45

\* *The metrics provided are based on information and estimates gathered from InNOVAcorp client companies.*

# 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.

	<b>Estimate 2007-2008</b>	<b>Forecast 2007-2008</b>	<b>Estimate 2008-2009</b>
<b>Revenues</b>			
Provincial Funding	4,557,000	4,557,000	4,666,000
NS Funding Recognized (deferred) re capital assets acquired	428,000	428,000	271,000
Incubation	1,716,000	1,716,000	1,620,000
Mentoring	62,000	125,000	125,000
Product Engineering	237,000	237,000	237,000
Software Sales and Services	400,000	400,000	400,000
	<u>\$7,400,000</u>	<u>\$7,463,000</u>	<u>\$7,319,000</u>
<b>Expenses</b>			
Incubation	1,673,000	1,673,000	1,677,000
Mentoring	1,447,000	1,447,000	1,366,000
Investment	483,000	483,000	574,000
Product Engineering	222,000	222,000	208,000
Software Sales and Services	400,000	400,000	400,000
Corporate Services	1,811,000	1,811,000	1,843,000
	<u>\$6,036,000</u>	<u>\$6,036,000</u>	<u>\$6,068,000</u>
<b>EBITDA</b>			
Provincial Funding	4,557,000	4,557,000	4,666,000
NS Funding Recognized (deferred) re capital assets acquired	428,000	428,000	271,000
Incubation	43,000	43,000	(57,000)
Mentoring	(1,385,000)	(1,322,000)	(1,241,000)
Investment	(483,000)	(483,000)	(574,000)
Product Engineering	15,000	15,000	29,000
Software Sales and Services	-	-	-
Corporate Services	(1,811,000)	(1,811,000)	(1,843,000)
	<u>\$1,364,000</u>	<u>\$1,427,000</u>	<u>\$1,251,000</u>
<b>Non Operating Items</b>			
NSFF Total Return	(190,000)	(453,000)	(174,000)
Post Retirement Benefits & Long Service Award	(237,000)	(237,000)	(237,000)
Amortization	(782,000)	(782,000)	(663,000)
Interest Income (expense) dividends & capital gains (losses)	(430,000)	(430,000)	(452,000)
	<u>\$(1,639,000)</u>	<u>(1,902,000)</u>	<u>(1,729,000)</u>
<b>Surplus (Deficit)</b>	<u>\$ (275,000)</u>	<u>\$ (475,000)</u>	<u>\$ (275,000)</u>

*Helping early stage Nova Scotia companies  
commercialize their technologies  
and succeed in the global marketplace.*

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