



Crown Corporation

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

FOR THE FISCAL YEAR 2013–2014

Innovacorp ***Business Plan 2013–2014***

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Message from the Minister, Chair, and CEO

As Nova Scotia's early-stage venture capital organization, Innovacorp is an important part of the province's *jobsHere* economic plan. The young, knowledge-based companies Innovacorp invests in and assists are innovative and globally competitive, and they create good jobs. These start-ups are vital to growing our economy.

Nova Scotia's start-up scene is vibrant, and the technology community is flourishing. The region has had some recent home runs, including the July 2012 sale of Halifax-based GoInstant to American cloud-computing giant Salesforce.com. We're eager to help build on this momentum in the year ahead.

Brad Feld, a renowned expert on establishing start-up communities, says the number one rule in building such a community is that entrepreneurs must lead the charge. We agree. But we also know Innovacorp has a significant role to play in helping to create a mature entrepreneurial culture and community in Nova Scotia. It takes a village, as the saying goes.

To achieve results under Nova Scotia's *jobsHere* strategy, Innovacorp's 2013–2014 business plan focuses on the following priorities:

- Maximize the impact of the Nova Scotia First Fund
- Optimize the value of Innovacorp's incubation facilities
- Enhance Nova Scotia's start-up community

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

Dr. Tom Traves
Interim Board Chair, Innovacorp

Jacquelyn Thayer Scott
Interim CEO, Innovacorp

Mission

We support early-stage Nova Scotia knowledge-based companies through investment, incubation, and expert advice.

Vision

We will accelerate the development of the knowledge-based economy in Nova Scotia.

Planning Context

As the last several years have made clear, Nova Scotia's economic performance is deeply influenced by events and the economic health of the world outside its borders. The economic recovery from the "Great Recession" continues to be slower worldwide than many forecasters anticipated, as 2012 marked another year that forecasters reduced forecast growth. Europe has slipped into another recession, and a number of developing economies have growth calming. Uncertainty driven by concerns over sovereign debt in Europe, a slow American recovery with periods of political gridlock, and slower growth in emerging markets serve to act as a drag on confidence affecting private sector investment. Although well below pre-recession levels in many measures, the American economy is starting to show some signs of a strengthening recovery. Nova Scotia's immediate outlook is expected to be slower than long-run trends, but in the

medium-term there are a number of projects (e.g., naval ships contracts, Nova Centre) that will enhance Nova Scotia's growth projections in the future.

Economic growth in Nova Scotia is strongly linked to investment and trade performance. Combine this with the ongoing restructuring of the Nova Scotia economy, and *jobsHere* continues to be very relevant. Emphasis on learning the right skills for good jobs, growing the economy through innovation, and helping business be more competitive globally with the common emphasis on improving productivity are a continued focus for economic development efforts in Nova Scotia.

Innovacorp assisted in the development of Nova Scotia's *jobsHere* plan. We must help deliver on the plan, and we are well positioned to do so. Our work – helping early-stage Nova Scotia knowledge-based companies succeed – supports *jobsHere*.

Strategic Goal

Innovacorp's goal is to fuel sustainable economic growth by

- enabling Nova Scotia knowledge-based companies to accelerate the commercialization of their technologies and increase competitiveness in export markets
- helping to build a dynamic high-growth entrepreneurial culture in Nova Scotia



Innovacorp Core Business

Innovacorp is Nova Scotia's early-stage venture capital organization. Our goal is to help emerging Nova Scotia knowledge-based companies commercialize their technologies and succeed in the global marketplace. We are especially interested in the information technology, life sciences, and clean technology industries.

Early-stage investment is at the core of Innovacorp's business model, but the team offers more than just money. Innovacorp provides hands-on business advisory services, tailored to meet the unique – and evolving – needs of each of the promising technology companies in our portfolio. We also give entrepreneurs access to world-class incubation facilities and an international network of expert advisors.

In 2012–2013, through Innovacorp, the province made seed investments totalling \$5.46 million in 12 promising technology companies, and these investments leveraged an additional \$6.19 million in investment from other sources. Further, we have committed to investing \$15 million in a new regional venture capital fund targeting opportunities throughout Atlantic Canada. With these commitments, we still have capital available to maintain our current investing pace in 2013–2014.

Innovacorp manages two incubation facilities. The Technology Innovation Centre in Dartmouth targets companies in the information technology and engineering industries, and the Innovacorp Enterprise Centre on the Dalhousie campus in Halifax focuses on companies in the life sciences and clean technology industries. The sites are premier destinations for early-stage technology companies. The facilities offer much more than just space and infrastructure. They offer an environment, a community. They also offer on-site support, flexible leasing, and corporate credibility – things emerging companies need to reduce costs, grow stronger faster, and thereby increase their success.

We also manage a grow-out facility in Dartmouth. It is currently occupied by Ocean Nutrition Canada (ONC) – now known as Royal DSM, a Dutch multinational that purchased ONC in 2012 for \$540 million – as well as Composites Atlantic.

In addition to our core business of investment, incubation and expert advice, Innovacorp also supports the start-up community and culture across the province. We do this in many ways, including the following:

- To improve our visibility and capacity outside Halifax, Innovacorp has developed partnerships with other incubation facilities in the province, including the NSCC Annapolis Valley campus in Middleton, Venture Solutions Inc. in Sydney, and Acadia University in Wolfville. We are also contributing

to the planning and set-up of a new bioenergy and forestry demonstration and development centre in Liverpool at the site of the former Bowater Mersey mill. In addition to sharing our expertise in incubation products and services, the partnerships allow us to identify promising local early-stage entrepreneurs who fit with and can benefit from our business model.

- Through the Early Stage Commercialization Fund, Innovacorp assists and supports the academic community (universities and colleges) in the pursuit of entrepreneurial opportunities. The initiative is used to review, advise, and support the early-stage technology commercialization of post-secondary institution research that has market potential.
- Innovacorp also runs the provincial I-3 Technology Start-Up Competition every two years. The competition's goal is to find and support early-stage Nova Scotia knowledge-based companies, and encourage entrepreneurial activity across the province. The province is divided into five geographic zones to maximize community involvement, partner participation, and entrepreneur submissions.
- Innovacorp regularly holds information-rich and networking gatherings for early-stage technology entrepreneurs. Our seminar series Business Over

Breakfast is particularly well attended, bringing together Innovacorp clients from across Nova Scotia, business professionals, industry representatives, students, and other key stakeholders. Recent session topics include lean start-up methodology, angel investing, technology licensing, and social media. The sessions are webcast to Innovacorp's Cape Breton stakeholders.

- Innovacorp, through financial and in-kind support (e.g., coordination, speaking, joint promotion), also contributes to many smaller industry-driven, entrepreneur-focused events such as Start-Up Weekends and DemoCamps.

Priorities for 2013–2014

Over the last couple of years, we have strengthened Innovacorp's role as Nova Scotia's early-stage venture capital organization. In the upcoming year, we will enhance our ability to help create, develop and grow globally competitive knowledge-based companies across the province by focusing on three priorities:

1. Maximize the impact of the Nova Scotia First Fund.
2. Optimize the value of Innovacorp's incubation facilities.
3. Enhance Nova Scotia's start-up community.



Maximize the Impact of the Nova Scotia First Fund (NSFF)

Innovacorp's role as a seed and early-stage investor in Nova Scotia continues to be an important part of the province's *jobsHere* strategy.

Atlantic Canada-based venture-grade companies continue to be undercapitalized compared to U.S.-based companies. In 2011, according to Canada's Venture Capital and Private Equity Association (CVCA), the amount of capital invested in Atlantic Canadian knowledge-based companies was less than half of that invested in companies based in the U.S. Yet companies in our region must compete globally against better-funded companies. In 2011, the average Atlantic Canadian investment in companies was 28 per cent higher than the Canadian average. This was due to a single large transaction that made up over 43 per cent of the year's Atlantic Canadian regional investment. Factoring out the impact of that transaction, regional venture investment as a percentage of the national average increased to 77 per cent in 2011 from 61 per cent in 2010. While this increase is encouraging, work remains to close the gap with the national and, more important, U.S. average.

The young, knowledge-based companies Innovacorp invests in and assists are innovative and globally competitive, and they create good jobs. These start-up companies are vital to growing our economy. Venture capital is essential to

successfully taking innovative products and services to market.

In 2013–2014, Innovacorp will

1. make 7–10 investments in early-stage Nova Scotia companies in the information technology, life sciences, and clean technology sectors
2. seek co-investors to leverage NSFF investments and where feasible, syndicate with partners from outside Nova Scotia to increase the pool of risk capital in Nova Scotia
3. actively manage our investment portfolio companies to accelerate their path to market and position them for growth, with the aim of achieving an appropriate risk-adjusted rate of return for the province
4. implement a robust metrics system for investment activity and portfolio companies

Optimize the Value of Innovacorp's Incubation Facilities

As described above, Innovacorp manages two incubation facilities and a grow-out facility. We have also developed partnerships with other incubation facilities outside Halifax to improve the support available to promising local early-stage entrepreneurs across the province.

In 2013–2014, Innovacorp will

1. secure funds to fit-up remaining space at the Innovacorp Enterprise Centre
2. maintain an occupancy level above 85 per cent at the incubation facilities
3. enhance the infrastructure and services offered to clients at our facilities and where possible, enhance our service offering to affiliate incubation facilities
4. ensure the best possible client mix at the incubation facilities by improving entrance and exit criteria
5. conclude negotiations with the Canadian Association of Business Incubation and Citizenship and Immigration Canada to offer a new program that encourages immigrant entrepreneurs to locate in Nova Scotia's incubation facilities
6. work with partners on potential new sector-specific incubation facilities (e.g., oceans and digital)
7. implement a robust metrics system for incubation activity

Enhance Nova Scotia's Start-up Community

Innovation and entrepreneurship are cornerstones of any long-term economic growth strategy. While entrepreneurs must take the lead in building the start-up community, Innovacorp has a significant role to play in helping to create a mature start-up culture and community in Nova

Scotia. We achieve this through targeted events and initiatives, expanding our services to underserved parts of the province, and enabling and convening entrepreneurs and other stakeholders to create the necessary support activities.

In 2013–2014, Innovacorp will

1. identify and implement additional ways to improve our reach to rural Nova Scotia
2. run competition(s) to encourage, find, and support early-stage Nova Scotia knowledge-based companies
3. enhance post-secondary research commercialization capacity through support for projects with market potential
4. use technology to expand our seminar series and other gatherings to a greater audience across the province
5. work with post-secondary institutions and students to encourage entrepreneurship in the knowledge-based sectors
6. continue to support entrepreneur-led initiatives that enhance the start-up ecosystem (e.g., Startup Weekends, DemoCamp, PodCamp, PropelICT)
7. engage with other regional, national, and international partners to strengthen the Nova Scotia and Atlantic Canada brand and more quickly achieve our vision
8. implement a robust metrics system for measuring start-up community development



Performance Measures

This section outlines the new performance measures Innovacorp will track in 2013–2014. Using 2011–2012 as a baseline, these economic impact and leading indicator metrics will provide an indication of how well Innovacorp’s strategic goals are being met. The priorities and operational plan to achieve them are presented in this document under the section titled *Priorities for 2013–2014*.

In 2013–2014, Innovacorp will review and further strengthen its performance metrics to improve measurement of client progress in building business capability, achieving scale and exit potential, and generating return on investment.

	Base Year 2011–12	Actual 2012–13	Target 2013–14
Economic impact metrics			
<i>Revenue generated by portfolio 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 portfolio companies.	\$26.2 million	\$22.1 million	\$30 million
<i>Employment generated by portfolio companies:</i>			
This measure tracks the annual employment generated by current portfolio companies.	220	312	350
Total employment payroll of portfolio companies	\$9.7 million	\$22.8 million	\$26 million
<i>Amount of Nova Scotia First Fund (NSFF) leveraged investments:</i>			
This is the cumulative amount (from February 1996) of investment made in NSFF portfolio companies, measured in millions of Canadian dollars.	\$115 million	\$127 million	\$140 million

	Base Year 2011–12	Actual 2012–13	Target 2013–14
Leading indicator metrics			
Number of early-stage Nova Scotia companies Innovacorp engaged during the year	108	130	140
In addition to the companies referenced above, Innovacorp provided value-added guidance to a number of companies that made submissions to the provincial I-3 competition.	142	0	150
Number of NSFF investments (excluding competitions)	8	10	9
Percentage of portfolio clients exporting products/services (On average, approximately 2.9% of Nova Scotia companies export internationally. From <i>A Profile of Canadian Exporters 1993–2006</i> .)	80%	92%	90%

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



Budget Context

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

	Estimate 2012–13 (\$)	Forecast 2012–13 (\$)	Estimate 2013–14 (\$)
Revenues			
Provincial funding	7,472,000	7,412,000	7,472,000
NS funding recognized re capital assets acquired	77,000	77,000	102,000
Incubation	1,720,000	1,750,000	1,819,000
Investment	122,000	64,000	12,000
Total revenues	9,391,000	9,303,000	9,405,000
Expenses			
Incubation	3,339,000	3,439,000	3,594,000
Investment	2,560,000	2,051,000	2,836,000
Corporate services	2,032,000	2,066,000	1,823,000
	7,931,000	7,556,000	8,253,000
EBITDA			
Provincial funding	7,472,000	7,412,000	7,472,000
NS funding recognized (deferred) re: capital assets acquired	77,000	77,000	102,000
Incubation	(1,619,000)	(1,689,000)	(1,775,000)
Investment	(2,438,000)	(1,987,000)	(2,824,000)
Corporate services	(2,032,000)	(2,066,000)	(1,823,000)
EBITDA	1,460,000	1,747,000	1,152,000
Non-operating items			
NSFF total return	(643,000)	(94,000)	(401,000)
Post-retirement benefits and long service award	(212,000)	(50,000)	(138,000)
Amortization	(467,000)	(467,000)	(459,000)
Interest income (expense), dividends and capital gains (losses)	(279,000)	(14,000)	(295,000)
	(1,601,000)	(437,000)	(1,293,000)
Surplus (Deficit)	(141,000)	1,310,000	(141,000)