

# **Crown Corporation**

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

FOR THE FISCAL YEAR 2014–2015

### **Innovacorp**

*Business Plan 2014–2015*

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# Message from the Minister, Chair, and CEO

Nova Scotia's start-up scene is incredibly vibrant. As the province's early-stage venture capital organization, Innovacorp sees the momentum building every day. The young, knowledge-based companies Innovacorp invests in and assists are innovative and globally competitive, and they create high-value jobs. These start-ups are vital to growing our economy.

Recently, Innovacorp hosted the provincial finals of the I-3 Technology Start-Up Competition, ending a five-month search to find the best start-ups in Nova Scotia. The competition attracted 228 submissions, which was a 60 per cent increase from the previous competition in 2011–2012. Nova Scotians once again demonstrated there is no shortage of innovation and entrepreneurship happening across the province, and Innovacorp is proud to play a significant role in enabling this dynamic entrepreneurial culture.

The Atlantic region is experiencing increased activity in the venture capital community and the incubation and acceleration of technology-based businesses. We are eager to help build on this momentum in the year ahead.

Innovacorp's 2014–2015 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.

Sincerely,

The Honourable Michel Samson  
Minister of Economic and Rural Development and Tourism

Jacquelyn Thayer Scott, PhD  
Board Chair, Innovacorp

Stephen Duff  
President & CEO, Innovacorp



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## Mission

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

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## Vision

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

## Planning Context

Nova Scotia is a small economy, and its economic performance is strongly influenced by others. Forecasts suggest that worldwide economic growth is expected to be higher in 2014. Economic recovery has taken a firmer hold in Nova Scotia's traditional markets of the United States and Europe. Both the Canadian and Nova Scotia economies are expected to have stronger growth in 2014 than 2013. Export growth will be aided by recovery in American demand and depreciation of the Canadian dollar. The lower Canadian dollar makes Nova Scotia more attractive in terms of travel and locating business activity here.

In the government planning context, the release of the final report of the Nova Scotia Commission on Building Our New Economy (Ivany report), the independent reviews of provincial economic development assistance programs, and the government's response to the studies will affect economic development activity in Nova Scotia. At the time of preparing

Innovacorp's 2014–2015 business plan, the full implication of what this means for our operations is not known. Therefore, this business plan is presented based on a status quo approach, which may change as we respond to the government's direction.

The Ivany report has outlined a series of recommendations, many of which align closely with Innovacorp's mission and vision. Specifically, opportunities in bolstering the start-up community, entrepreneurship, export orientation, green economic growth, immigration, and adding new value to the forest sector are all elements that are supported through Innovacorp's work.

For example, Innovacorp manages a clean-technology venture capital fund and seeks to make seed investments in early-stage clean-technology start-ups based in Nova Scotia. On the immigration front, in October 2013, Citizenship and Immigration Canada accredited Innovacorp as a designated business incubator under the federal Start-Up Visa Program, enabling us to help attract the best and brightest entrepreneurs from around the world. The proposed Innovacorp Demonstration Centre in Brooklyn looks to leverage the assets of the former Bowater Mersey mill for the forest economy of the future, helping innovative companies demonstrate and prove their value-adding forest technologies at a commercial scale. Indeed, the synergies between the Ivany report and recommendations and Innovacorp's work are striking.

## 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, and
- helping to build a dynamic high-growth entrepreneurial culture in Nova Scotia.

## Core Business Areas

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, clean technology, and oceans 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 2013–2014, Innovacorp made seed investments totalling \$4.8 million in 11 promising technology companies, and these investments leveraged an additional \$8.5 million in investment from other

sources. We also invested \$1.4 million as a limited partner (LP) in Build Ventures, the new regional venture capital fund targeting opportunities throughout Atlantic Canada. We continue to seek investment-grade opportunities in early-stage technology companies while managing investment capital to follow-on and support our existing portfolio companies in future investment rounds.

Innovacorp manages two incubation facilities. The Technology Innovation Centre in Dartmouth targets companies in a variety of technology sectors, 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 and faster, and thereby increase their success.

We also manage a grow-out facility in Dartmouth, currently occupied by Royal DSM and Composites Atlantic.

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

- Through the Early Stage Commercialization Fund (ESCF), Innovacorp assists and supports the academic community (universities and colleges) in the pursuit of entrepreneurial opportunities. The program is used to review, advise, and support the early-stage technology commercialization of post-

secondary institution research that has market potential. Since ESCF's inception in 2005, Innovacorp has provided over \$2.8 million to 107 research projects. As of March 1, 2014, 34 projects remain active, 12 have licensed technology, and 20 spin-outs have been created.

- Innovacorp 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 to encourage entrepreneurial activity across the province. The province is divided into five geographic zones to maximize community involvement, partner participation, and entrepreneur submissions. In 2013–2014, Innovacorp received a record-breaking 228 I-3 submissions from across Nova Scotia, a 60 per cent increase from the previous competition.
- Innovacorp regularly holds information-rich and networking gatherings for early-stage technology entrepreneurs. Our Business over Breakfast seminar series is particularly well attended, bringing together Innovacorp clients from across Nova Scotia, business professionals, industry representatives, students, and other key stakeholders. In addition, Innovacorp continues to run the TecSocial in Cape Breton and provides support to the Refresh group in the Annapolis Valley.
- 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, DemoCamps, and Ladies Learning Code workshops.

## Priorities for 2014–2015

In the upcoming year, Innovacorp will focus on the development and growth of 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 economic development strategy.

Nova Scotia-based venture-grade companies continue to be undercapitalized compared to the Canadian and American averages. In 2012, according to Industry Canada's Q4 2012 Venture Capital Monitor, \$37 million was invested in 25 companies, for an average of \$1.5 million per company. According to Canada's Venture Capital & Private Equity Association (CVCA), the average amount of venture capital raised by all Canadian and American firms was \$3.7 million and \$8.4 million, respectively.

Venture capital activity in Nova Scotia increased significantly in 2012. The number of companies invested in increased by 213 per cent, from 8 to 25. Capital invested

decreased by 23 per cent from \$46 million to \$37 million. It is important to note, however, that 65 per cent of Nova Scotia's 2011 investment was due to a single large transaction. Factoring out the impact of that transaction, venture investment in Nova Scotia increased by 131 per cent in 2012. Innovacorp was very active in 2012, investing \$5.7 million in 12 companies, and continued this pace of investment in 2013–2014.

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 2014–2015, Innovacorp will**

1. make 7–10 new and follow-on 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

#### **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 across the province to improve the support available to promising local early-stage entrepreneurs.

#### **In 2014–2015, Innovacorp will**

1. secure funds to fit-up remaining space at the Innovacorp Enterprise Centre
2. continue to enhance the infrastructure and services offered to clients at our facilities
3. maintain a targeted occupancy level of 85 per cent at the incubation facilities
4. implement Citizenship and Immigration Canada's Start-Up Visa Program to attract new innovative immigrant entrepreneurs to Nova Scotia

#### **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 2014–2015, Innovacorp will**

1. identify and implement 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, and provide follow-up assistance to participants from past competitions
3. enhance post-secondary research commercialization capacity through support for projects with market potential
4. work with post-secondary institutions and students to encourage entrepreneurship in the knowledge-based sectors, including assisting in the province's new sandbox initiative to leverage post-secondary space and other infrastructure to foster entrepreneurship and commercialization opportunities
5. continue to support entrepreneur-led initiatives that enhance the start-up ecosystem (e.g., Start-up Weekends, DemoCamp, PodCamp, PropellCT)

## Performance Measures

This section outlines the performance measures Innovacorp will track in 2014–2015. Using 2011–2012 as a baseline, these economic impact and leading indicator metrics will provide an indication of Innovacorp’s progress towards its strategic goals. The priorities and operational plan to achieve them are presented in this document under the section titled Priorities for 2014–2015.

In 2014–2015, Innovacorp will review and further strengthen its performance metrics to improve measurement of client progress in business-building capability, achieving scale and exit potential, and generating return on investment.

Measure	Base Year 2011–12	Actual 2012–13	Actual 2013–14	Forecast 2014–15
<b>Economic Impact Metrics</b>				
<i>Revenue generated by portfolio companies:</i>	\$26.2 million	\$22.1 million	\$25.2 million	\$28 million
While most of Innovacorp’s clients are early-stage companies, this measure tracks the annual revenue, in Canadian dollars, generated by current portfolio companies.				
Employment generated by portfolio companies:	220	312	347	380
This measure tracks the annual employment generated by current portfolio companies.				
Total employment payroll of portfolio companies.	\$9.7 million	\$22.8 million	\$25.7 million	\$28 million
<i>Amount of Nova Scotia First Fund (NSFF) leveraged investments:</i>	\$115 million	\$127 million	\$141 million	\$155 million
This is the cumulative amount (from February 1996) of investment made in NSFF portfolio companies, in Canadian dollars.				

<b>Measure</b>	<b>Base Year 2011-12</b>	<b>Actual 2012-13</b>	<b>Actual 2013-14</b>	<b>Forecast 2014-15</b>
<b>Leading Indicator Metrics</b>				
Number of early-stage Nova Scotia companies Innovacorp engaged during the year.	108	130	163	170
In addition to the companies referenced above, Innovacorp provides value-added guidance to a number of companies that made submissions to the provincial I-3 competition.	142	0	228	0
Number of NSFF investments (excluding competitions).	8	10	11	10
Incubation occupancy levels	94%	96%	93%	85%
Percentage of portfolio clients exporting products/ services internationally. On average, approximately 2.9% of Nova Scotia companies export internationally (from <i>A Profile of Canadian Exporters 1993-2006</i> ).	80%	92%	60%	75%

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, 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 2013-14 (\$)</b>	<b>Forecast 2013-14 (\$)</b>	<b>Estimate 2014-15 (\$)</b>
<b>Revenues</b>			
Provincial funding	7,472,000	8,277,000	7,472,000
NS funding recognized re capital assets acquired	102,000	102,000	109,000
Incubation	1,819,000	1,819,000	1,830,000
Investment	12,000	74,500	12,000
<b>Total revenues</b>	<b>9,405,000</b>	<b>10,272,500</b>	<b>9,423,000</b>
<b>Expenses</b>			
Incubation	3,594,000	3,914,000	3,914,000
Investment	2,836,000	3,278,500	2,353,000
Corporate services	1,823,000	1,823,000	1,995,000
<b>Total expenses</b>	<b>8,253,000</b>	<b>9,015,500</b>	<b>8,262,000</b>
<b>EBITDA</b>			
Provincial funding	7,472,000	8,277,000	7,472,000
NS funding recognized (deferred) re capital assets acquired	102,000	102,000	109,000
Incubation	(1,775,000)	(2,095,000)	(2,084,000)
Investment	(2,824,000)	(3,204,000)	(2,341,000)
Corporate services	(1,823,000)	(1,823,000)	(1,995,000)
<b>Total EBITDA</b>	<b>1,152,000</b>	<b>1,257,000</b>	<b>1,161,000</b>
<b>Non-operating items</b>			
NSFF total return	(401,000)	(447,000)	(361,000)
Post-retirement benefits & long-service award	(138,000)	(138,000)	(138,000)
Amortization	(459,000)	(459,000)	(484,000)
Interest Income (expense), dividends & capital gains (losses)	(295,000)	(97,000)	(319,000)
<b>Total non-operating items</b>	<b>(1,293,000)</b>	<b>(1,141,000)</b>	<b>(1,302,000)</b>
<b>Surplus (deficit)</b>	<b>(141,000)</b>	<b>116,000</b>	<b>(141,000)</b>