

Crown Corporation

B u s i n e s s P l a n s

for the fiscal year 2015–2016

Innovacorp

Business Plan 2015–2016

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Message from the Minister, Chair, and CEO

In February 2014, the Nova Scotia Commission on Building Our New Economy delivered *Now or Never: An Urgent Call to Action for Nova Scotians*. Commonly referred to as the “Ivany report,” the Commission highlighted underlying challenges in the Nova Scotia economy, yet expressed a belief that we have the ability to change our path – and the moment to change that path is now. At Innovacorp, we see emerging opportunities that can be capitalized on to improve our future.

Although Nova Scotia’s start-up scene is increasingly vibrant, like any other ecosystem it is not immune to global financial, demographic, and socio-economic factors. Still, in contrast to the Nova Scotia economy at large, the start-up segment is relatively robust. According to data published by *Entrevestor.com*, there were about 160 start-ups in Nova Scotia at the end of 2013 that employed approximately 1,600 Nova Scotians. During that year, the number of people employed in these companies grew by 43 per cent and company revenues grew an average of 30 per cent. In the same year, wages in Atlantic Canadian start-ups averaged roughly \$53,000.

As the province’s early-stage venture capital organization, Innovacorp sees the start-up community’s 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.

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

This business plan represents year one in our five-year strategic plan and focuses on delivering five strategic outcomes:

- Early-stage, high-potential companies gain access to risk capital.
- Clients achieve annual business objectives as a result of our incubation practice.
- Client success is accelerated.
- Clients gain access to world-class technical, investment, and business expertise through new strategic partnerships.
- The regional start-up ecosystem grows and matures.

Sincerely,

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

Jacquelyn Thayer Scott, PhD
Board Chair, Innovacorp

Stephen Duff
President & CEO, Innovacorp

Mission

We find, fund, and foster innovative Nova Scotia start-ups that strive to change the world.

Vision

Our region will become one of the top 10 start-up ecosystems in the world.

Core Values

Respect: understanding and appreciating everyone's unique contribution

Integrity: living by our highest principles

Co-operation: mindful willingness to help

Excellence: striving to be extraordinary in everything we do

Planning Context

In November 2014, Bill No. 49, An Act to Improve Economic Development in Nova Scotia, came into effect. The act requires that, along with other Crown corporations and agencies, Innovacorp prepare and submit to the Minister of Economic and Rural Development and Tourism a strategic plan no later than March 2, 2015. The act further requires that Innovacorp submit a five-year evaluation of its activities compared against the strategic plan no later than September 30, 2019, and every five years thereafter. The activities and operation

of the corporation will be independently reviewed no later than June 30, 2019, and every five years thereafter. The following 2015–2016 business plan represents year one of Innovacorp's five-year strategic plan.

The Province of Nova Scotia is focused on creating a climate for private sector and social enterprise economic growth to support oneNS economic goals. This means creating the winning conditions for the private sector to compete and succeed in global markets – it's about creating the right long-term climate, not trying to change the daily weather. There are four main areas of policy focus aimed at achieving the goals outlined in the Ivany report – fiscal, economy, education, and demographics (FEED). Innovacorp will tangentially support all elements of FEED, but will primarily influence the economy.

Externally, global socio-economic, demographic, and financial forces will continue to create economic uncertainty, and Innovacorp will not be immune to these forces. The emergence of a "two-speed" global economy is a reality. The influence of oil prices, oil import and export levels, and currency exchange fluctuations on emerging-market economies will create differential economic advantage and disadvantage depending on which side of this complex equation these economies fall. Overall, current expectations are that growth in the world GDP for 2015 will be higher than 2014.

Within Innovacorp's planning context, the release of the final report from the Nova Scotia Commission on Building Our New Economy was followed by three informative studies looking at important elements of our ecosystem. Tom Traves delivered *Review of Economic Development Assistance Tools* in February 2014. This was followed in June by Gilles Duruflé's report entitled *Fueling*

Entrepreneurship and Innovation: A Review of the Nova Scotia Government's Role in Venture Capital Provision. Finally, Charting a Path for Growth – Nova Scotia Tax and Regulatory Review was delivered in November by Laurel Broten. These reports contain comprehensive analysis and recommendations that have been influential in Innovacorp's strategic planning process, including Innovacorp's role and approach in delivering early-stage venture capital as well as business incubation and acceleration programs and services. For example, the Province of Nova Scotia has implemented Gilles Duruflé's recommendation that venture capital should be consolidated with Innovacorp and that the focus of investment should be early-stage, high-potential start-ups.

Within this planning context, Innovacorp sees opportunity. The development of strategic partnerships and linkages with other start-up ecosystems, external venture capital investors, and business acceleration organizations will add value for Innovacorp's client companies. For example, Innovacorp will enter into a collaborative agreement with Israel to create the Nova Scotia-Israel Innovation Program (NSIIP), an initiative that will facilitate R&D partnerships between entrepreneurs and companies in Nova Scotia and Israel.

Strategic Priorities

Innovacorp has adopted five strategic priorities. These priorities will guide Innovacorp over the medium to long term, and annual business plan goals will reflect them:

1. Early-stage, high-potential companies gain access to **risk capital**.
2. Clients achieve annual business objectives as a result of our **incubation practice**.

3. Client **success is accelerated**.
4. Clients gain access to world-class technical, investment, and business expertise through **new strategic partnerships**.
5. The **regional start-up ecosystem** grows and matures.

Core Business Areas

At Innovacorp we believe in Nova Scotia entrepreneurs. Governed by a private-sector-led board of directors, we are an accountable, fiscally responsible Nova Scotia Crown corporation that helps high-potential, early-stage Nova Scotia companies commercialize their technologies and succeed in the global marketplace. Early-stage investment is at the core of our business model, and we provide 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 deliver value by giving entrepreneurs access to world-class incubation facilities and leveraging strategic partnerships to introduce our clients to an international network of expert advisors and investors. The three primary drivers articulated in our mission – *finding, funding, and fostering* – are expanded on below.

Finding

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 several ways. Through the Early Stage Commercialization Fund (ESCF),

Innovacorp assists the academic community (universities and colleges) in pursuit of entrepreneurial opportunities. The program is used to review, advise, and support early-stage technology commercialization of post-secondary institution research that has market potential. Since ESCF's inception in 2005, Innovacorp has provided over \$3.6 million to 127 research projects. As of February 2015, 42 projects remain active, 10 have licensed technology, and 23 spin-out companies have been created.

Innovacorp runs the biennial provincial I-3 Technology Start-Up Competition. The competition's goal is to find and support early-stage Nova Scotia knowledge-based companies and encourage entrepreneurial activity across the province. Nova Scotia 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 the province, a 60 per cent increase from the previous competition. The competition will run again in 2015–2016.

An important part of building a vibrant start-up ecosystem is the targeted creation of new relationships and networks. Innovacorp regularly holds information-rich 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 organize the monthly TecSocial in Cape Breton and continues to provide 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.

Funding

As Nova Scotia's early-stage venture capital organization, we work in technology sectors with high commercialization potential and are especially interested in the information technology, life sciences, clean technology, and oceans technology industries.

Between 2010–2011 and 2014–2015, Innovacorp made investments totalling \$24 million in 36 promising technology companies, and these investments leveraged an additional \$34.7 million in investment from other venture capital investors. We also invested \$1.7 million from our \$15 million commitment as a limited partner (LP) in Build Ventures, the 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.

Fostering

Innovacorp manages three incubation assets. The Technology Innovation Centre in Dartmouth targets companies in clean technology and a variety of other knowledge-based sectors, while the Innovacorp Enterprise Centre on the Dalhousie University campus in Halifax focuses on companies in the life sciences sectors. The Innovacorp Demonstration Centre in Brooklyn is an industrial demonstration facility where cutting-edge bioresource innovators and researchers can test their products before bringing them

to full market scale. The demonstration centre offers access to raw materials such as wood fibre, a port, a wharf, and steam from the nearby biomass-fueled Brooklyn Power plant. The three 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 provide on-site support, flexible leasing, and corporate credibility – things emerging companies need to reduce costs, grow stronger faster, and thereby increase their likelihood of success.

In addition, Innovacorp leases space at Venture Solutions Inc., a Sydney-based incubator, and at the Acadia Entrepreneurship Centre on the campus of Acadia University in Wolfville. Innovacorp regional managers work out of these offices and help Innovacorp fulfill its mandate to broadly serve Nova Scotia's entrepreneurial community.

Priorities for 2015–2016

Each of Innovacorp's five strategic priorities represents ongoing, multi-year undertakings. In the upcoming year, Innovacorp will strive to achieve the following annual outcomes toward these priorities:

Early-stage, high-potential companies gain access to risk capital

Although Nova Scotia is making steady progress, our private venture capital activity continues to lag behind Canada and the US. In a mature ecosystem, companies are started by serial entrepreneurs who

reinvest their own money. Angel investors typically follow, and venture capital is then raised to accelerate company growth. In relative numbers, the entrepreneurial and business angel base is smaller in Nova Scotia, with fewer serial entrepreneurs able to reinvest their own money and expertise to start a new company. For these reasons, Innovacorp plays a leading role at the seed and start-up stages of the company life cycle and is an important part of the province's economic development.

From 2010 to 2013, there were 47 venture capital deals in Nova Scotia at an average deal value of USD2.2 million. This is in contrast with the average Canadian deal of USD3.4 million and the average US deal, valued at USD7.1 million. In that period, Innovacorp invested CAD15.4 million in 22 companies while leveraging an additional CAD18.1 million in other venture capital, for an average deal size of CAD1.5 million.

As the knowledge-based economy grows and commands an increasing portion of global economic activity, Innovacorp will continue to invest in and assist Nova Scotia start-ups that strive to change the world. These companies are vital to growing our economy and early-stage venture capital is essential to getting them started.

In 2015–2016, Innovacorp will achieve the desired outcome through the following steps:

1. Make 8–16 investments, deploying \$4–8 million of venture capital.
2. Seek external venture capital co-investors to leverage our investments (1:1 in seed rounds and 2:1 in Series A rounds).
3. Actively manage the Nova Scotia First Fund to achieve a rate of return

benchmarked to the Province of Nova Scotia's long-term cost of capital.

Clients achieve business objectives as a result of our incubation practice

As described above, Innovacorp manages three incubation assets. The Technology Innovation Centre in Dartmouth targets companies in clean technology and a variety of other knowledge-based sectors, while the Innovacorp Enterprise Centre on the Dalhousie University campus in Halifax focuses on companies in the life sciences sectors. The Innovacorp Demonstration Centre in Brooklyn is an industrial bioresource demonstration facility. These sites are premier destinations for early-stage technology companies.

In 2015–2016, Innovacorp will achieve the desired outcome through the following steps:

1. Secure funds to complete infrastructure fit-up for the Innovacorp Enterprise Centre.
2. Implement improved entry and exit criteria for incubation clients.
3. Establish regularly scheduled progress/milestone review meetings with incubation clients and provide support where needed.
4. Create an optimal incubator mix of early-stage companies and support organizations.
5. Achieve a best-practice target occupancy of 85 per cent in incubation facilities.
6. With our provincial partners, deliver a business case for a marine innovation centre on the Dartmouth waterfront.

7. Monetize non-strategic assets and, subject to the Finance Act, seek to redeploy capital for value-added offerings.

Client success is accelerated

History teaches that most start-ups fail and that failure is an integral part of the life cycle of an entrepreneur. Many founders are inexperienced in important aspects of starting and building successful companies, so finding ways to access the right mix of start-up capital, strategic advice, and mentoring helps improve their chances of success.

In 2015–2016, Innovacorp will achieve the desired outcome through the following steps:

1. Run the province-wide I-3 Technology Start-Up Competition.
2. Run the SPARK Cape Breton competition.
3. Run two cohorts of the Early Stage Commercialization Fund.
4. Provide clients with access to technology, sector, and business experts to help accelerate their path to success.
5. Run the first cohort of the Nova Scotia–Israel Innovation Program.
6. Establish 3–6 month engagements for clients in the “Canadian Corner” at Disruption Corporation’s headquarters in Crystal City, VA.
7. Arrange for clients to participate in sector-specific accelerator programs for information technology, life sciences, clean technology, and oceans technology.
8. Administer the Productivity and Innovation voucher program to enable small and medium sized businesses to acquire research support

Clients gain access to world-class technical, investment, and business expertise through new strategic partnerships

To compete successfully in global markets, Nova Scotia companies need to be able to access the best advice the world has to offer. Whether it's in technology, business strategy, sectors, or markets, Innovacorp will partner with the world's best rather than incur increased overhead costs by recruiting new staff. We will not reinvent the wheel in a world that is increasingly open, virtual, and blind to the existence of borders.

In 2015–2016, Innovacorp will deliver the desired outcome through the following steps:

1. Establish at least one new strategic partnership that leverages private, not-for-profit and/or corporate organizations, with an emphasis on clean technology
2. Secure federal funding sources and/or a national Centre of Excellence on a client-led project
3. Increase our network of venture capital co-investor prospects for syndication in seed and follow-on financing rounds
4. Create or participate in a new fund we consider strategically aligned with our mission
5. Enhance the depth and scope of our Science & Technology Advisory Council (STAC) in strategic sectors such as tidal, clean energy, and biofuel

The regional start-up ecosystem grows and matures

The development of a vibrant, dynamic regional start-up ecosystem will be an important determinant of future socio-economic prosperity in Nova Scotia.

At Innovacorp, every investment made, every incubation client engaged and every competition award granted contributes to the step-by-step maturing of the Atlantic Canadian ecosystem.

In 2015–2016, Innovacorp will deliver the desired outcome through the following steps:

1. Host 8–10 Business Over Breakfast sessions.
2. Host 8–10 TecSocial events.
3. Partner with ecosystem support organizations such as Volta Labs, Digital Nova Scotia, MentorCamp, and PodCamp to deliver high-impact programs and events for entrepreneurs.
4. Partner with educators and trainers such as Dalhousie University Starting Lean, Saint Mary's University's Master of Technology in Entrepreneurship and Innovation, and Cape Breton University's UIT Startup Immersion Program to host entrepreneurial training programs, competitions, and events.
5. Develop new connections between the Nova Scotia start-up ecosystem and the top ecosystems in the world, including Boston, Silicon Valley, Tel Aviv, and Waterloo.
6. Welcome at least one new client to Nova Scotia through the incubation stream of Citizenship and Immigration Canada's Start-Up Visa Program.

Performance Measures

This section outlines the performance measures Innovacorp will track in 2015–2016. Using 2011–2012 as a baseline, the measures are organized in accordance with Innovacorp’s strategic priorities.

Measure	Base Year 2011–12	Actual 2012–13	Actual 2013–14	Forecast 2014–15	Target 2015–16
Start-ups gain access to risk capital					
Total investment (\$CAD) by Nova Scotia First Fund (NSFF)	\$5.85	\$5.17	\$5.10	\$8.40	\$6.00
Amount of investment leveraged by NSFF (cumulative from February 1996)	\$115M	\$127M	\$141M	\$155M	\$164M
New value is added for clients through incubation					
Average incubation client tenure (months)*				54.4	60
Percentage of incubation client milestones achieved*				n/a	50%
Percentage of incubation clients receiving venture capital investment*				19.2%	25%
Client success is accelerated					
Export revenue generated by investment portfolio companies	\$26.2M	\$22.1M	\$25.2M	\$26.3M	\$30.0M
Number of people employed by investment portfolio companies	220	312	347	376	400
Total employment payroll of investment portfolio companies	\$9.7M	\$22.8M	\$25.7M	\$27.4M	\$30.0M
New partnerships strengthened our support					
Number of new strategic partnerships*				2	2
Number of clients benefiting from new partnerships*				1	10
The start-up ecosystem grows and matures					
Number of early-stage Nova Scotia companies engaged during the year (excluding competitions)	108	130	163	188	170

* New outcome measures introduced in 2015–2016

Budget Context

Innovacorp is 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.

	Estimate 2014–15 (\$)	Forecast 2014–15 (\$)	Estimate 2015–16
(\$)			
Revenues			
Provincial funding	7,472,000	8,112,000	9,650,000
Funding recognized re capital assets acquired	109,000	109,000	118,000
Incubation	1,830,000	1,958,798	1,166,000
Investment	12,000	46,345	42,000
Total revenues	9,423,000	10,226,143	10,926,000
Expenses			
Incubation	3,914,000	4,451,798	4,493,000
Investment	2,353,000	2,667,345	2,265,000
Corporate services	1,995,000	1,870,000	1,527,000
Total expenses	8,262,000	8,989,143	8,285,000
EBITDA			
Provincial funding	7,472,000	8,112,000	9,650,000
Funding recognized re capital assets acquired	109,000	109,000	118,000
Incubation	(2,084,000)	(2,493,000)	(3,327,000)
Investment	(2,341,000)	(2,621,000)	(2,223,000)
Corporate services	(1,995,000)	(1,870,000)	(3,394,000)
Total EBITDA	1,161,000	1,237,000	824,000
Non-operating items			
NSFF total return	(361,000)	(2,381,000)	(218,000)
Post-retirement benefits and long-service award	(138,000)	(138,000)	(142,000)
Amortization	(484,000)	(534,000)	(368,000)
Interest Income (expense), dividends, and capital gains (losses)	(319,000)	(254,000)	(237,000)
Total non-operating items	(1,302,000)	(3,307,000)	(965,000)
Surplus (deficit)	(141,000)	(2,070,000)	1,726,000