

BUSINESS PLAN

2017-2018

innovacorp

EARLY STAGE VENTURE CAPITAL

We get invested.



Table of Contents

- Message from the Chair 1

- About Innovacorp 2

- Innovacorp Activities 2
 - Early Stage Venture Capital..... 2
 - Incubation 3
 - Acceleration Programs 3

- Performance Measures..... 5
 - Early Stage Venture Capital..... 5
 - Incubation 5
 - Acceleration Programs 6

- Budget Context 8

Message from the Chair

The February 2014 “Ivany Report” identified the need for the Province of Nova Scotia to take immediate steps to transform its economy to reverse years of economic decline. One of the 10-year goals the report identified was to significantly increase investment in innovation.

Simply stated, innovation is about new and better ways of doing things that deliver value. An innovation-driven economy can generate the wealth needed to provide the health, education and social supports we have come to appreciate and expect.

Innovacorp plays an essential role as a seed and early stage investor in Nova Scotia venture-grade start-ups. Our investment goal is to finance start-ups in sectors where the private sector is reluctant to invest due to the early stage of the companies or the difficulty in growing ventures in sectors like health, biotechnology, clean technology, ocean technology, and advanced manufacturing.

As of March 31, 2017, Innovacorp’s Nova Scotia First Fund (NSFF) held a portfolio of 40 companies. Revenue and employment generated by these companies in 2016-2017 are forecast at \$40.4 million and 500 jobs, respectively. In 2016-2017, Innovacorp made new and follow-on investments in 11 companies totaling \$5.4 million while attracting \$18.3 million in leveraged private sector investment. In addition, two portfolio companies raised a further \$9.5 million from new investors, \$8 million of which was from outside Atlantic Canada.

We can see the momentum building in Nova Scotia’s start-up community. By providing early stage venture capital, incubation infrastructure and entrepreneurial support programs, Innovacorp has established a proven track record in helping high-potential technology companies start and scale.

The Province recently recapitalized NSFF to ensure there is sufficient ‘fuel’ to launch and grow start-ups over the next five years. Additional risk capital will be available starting in the second half of 2017 through a new \$25-million private sector-managed venture capital fund.

We are very excited about the opportunities in ocean technology, a sector which promises to be a game-changer for Nova Scotia. To support growth in the sector, the Centre for Ocean Ventures and Entrepreneurship (COVE) is under construction. Opening in 2018, it will transform the Dartmouth waterfront into a bustling centre of ocean commerce. COVE includes an incubator operated by Innovacorp that will accelerate ocean technology start-ups through programs, incubation, capital and access to shared equipment and expertise.

Sincerely,



Rodney F. Burgar
Board Chair, Innovacorp

About Innovacorp

Innovacorp is Nova Scotia's early stage venture capital organization.

Our mission is to find, fund and foster innovative Nova Scotia start-ups that strive to change the world. Our vision is that this region will be among the top 10 start-up ecosystems in the world.

Early stage investment is at the core of our business model. We also give entrepreneurs access to world-class incubation facilities, expert advice and other support to help them commercialize their technologies, accelerate their companies, and succeed in the global marketplace. We support the start-up community and culture across the province through competitions, programs and events that foster a vibrant entrepreneurial ecosystem.

Innovacorp Activities

Early Stage Venture Capital

Venture capital-backed start-ups typically have a greater economic impact than their non-backed peers, demonstrating stronger growth in revenue, employment and assets. The province's venture capital community is maturing and the ONE Nova Scotia Commission set a goal for per capita venture capital investment in Nova Scotia to reach the five-year national average by 2024.



From 2011 to 2016, Innovacorp made 63 investments totaling \$30 million in 43 companies while attracting \$51.3 million in leveraged capital from other venture capital funds and strategic and angel investors. Based on past activity and the diminishing capital available to invest, Innovacorp's **Nova Scotia First Fund** was recapitalized in October 2016.

In 2017-2018, Innovacorp will continue to make venture capital investments in high-potential Nova Scotia start-ups while actively managing and providing follow-on investment to existing portfolio companies. Innovacorp's investment professionals will seek to leverage our deals with other venture capital and angel co-investors, attracting capital and expertise from outside the region.

In addition to acting as a limited partner in Build Ventures, Atlantic Canada's \$65-million regional venture capital fund, Innovacorp will establish a new \$25-million private sector-managed technology seed fund. Following the recent public request for submissions, a fund manager is expected to be selected in early 2017-2018 and actively investing by fall 2017. Innovacorp, Build Ventures and the new

fund, along with the co-investors they engage, will help fill funding gaps in the start-up ecosystem and advance the province toward the 2024 per capita venture capital target.

Incubation

Innovacorp manages three incubation sites which host approximately two dozen companies employing over 200 entrepreneurs and skilled professionals. The **Technology Innovation Centre (TIC)** in Dartmouth targets companies in the clean technology sectors, while the **Innovacorp Enterprise Centre (IEC)** 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.

Going forward, Innovacorp will continue to deliver incubation infrastructure and support for high-potential Nova Scotia start-ups, including collaboration spaces and access to expertise through strategic partnerships and programs. Upgrades to TIC and IEC facilities and services will enhance the client experience.

New incubation clients are also attracted through the **Start-Up Visa Program**, a federal program for immigrant technology entrepreneurs who wish to establish new, high-growth businesses in Canada that will support innovation and job creation. Innovacorp is a designated Canadian business incubator under this program, and able to recommend entrepreneurs to receive a start-up visa from Immigration, Refugees and Citizenship Canada.

Two new incubation initiatives are planned for development in 2017-2018. The **Centre for Ocean Ventures and Entrepreneurship (COVE)** will target early stage ocean technology companies and the **Momentum Hub** in Sydney will serve the broader technology community there.

Acceleration Programs

Innovacorp's business acceleration activities are significant components of the overall value it provides to Nova Scotia's entrepreneurs. The programs, events and other initiatives augment the organization's venture capital activity and incubation facilities and services to help start-ups gain market traction and achieve success more quickly.

The **Early Stage Commercialization Fund** helps move Nova Scotia university and community college research to market. It provides support for projects that demonstrate commercial readiness or are close to achieving a prototype or proof-of-concept stage with a possibility of attracting industry partners and investment. The prospect of generating a new revenue stream must also be apparent.

Innovacorp delivers a variety of sector-specific programs designed to help start-ups achieve business milestones and reach investment readiness. Competitive in nature, these initiatives target companies in the life sciences, clean technology, information technology and ocean technology sectors.

For example, ocean technology companies are supported through three programs. The **Demo at Sea Program** lets Nova Scotia companies demonstrate pre-commercial ocean technologies in a real-life ocean setting. The **OceanTech Development Program** provides companies with up to \$20,000 each to address short-term milestones in their technology development plan. Finally, the **Early Adopter**

Program provides companies up to \$20,000 each toward the first deployment and testing of a product with an early adopter customer. Similar programs such as the **CleanTech Accelerate Program** and **Smart Energy Demonstration Program** support clean technology and smart energy ventures.

Innovacorp's Spark competitions began in 2013-2014 when **Spark Cape Breton** was piloted to offer funding and mentoring to help new technology companies in Cape Breton develop their products. To enter, start-ups need to have a new knowledge-based product or service and zero sales revenue since inception. Funds awarded are used to support the completion of prototypes or preparation for taking the product or service to market.

In 2016-2017, Innovacorp added **Spark West** to find and support entrepreneurial activity in western Nova Scotia, and plans are underway to launch a third Spark competition in 2017-2018. **Spark North** will assist start-ups in Cumberland, Colchester, Pictou, Antigonish and Guysborough counties. Spark competitions are delivered by Innovacorp with funding assistance from the Atlantic Canada Opportunities Agency.

Strategic partnerships have become increasingly important in supporting Nova Scotia's promising entrepreneurs.

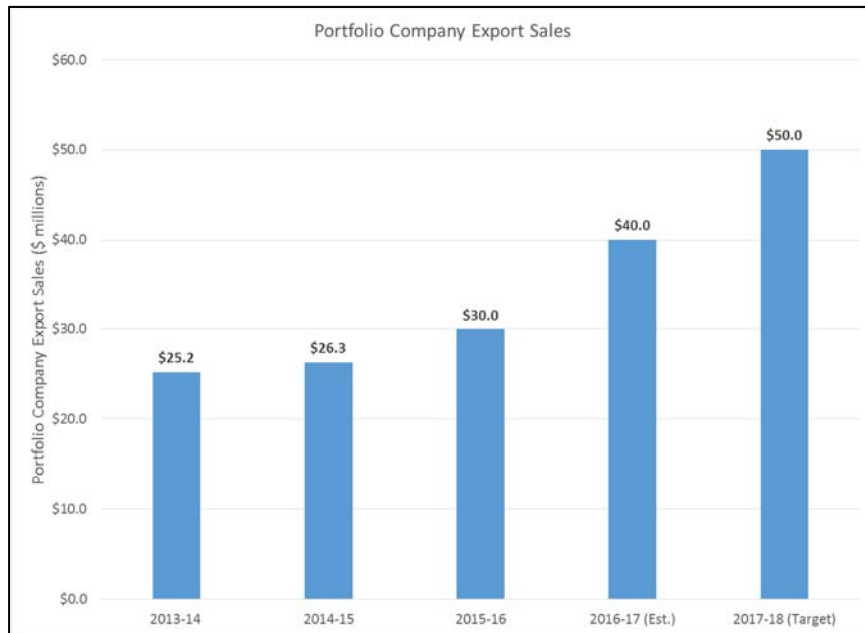
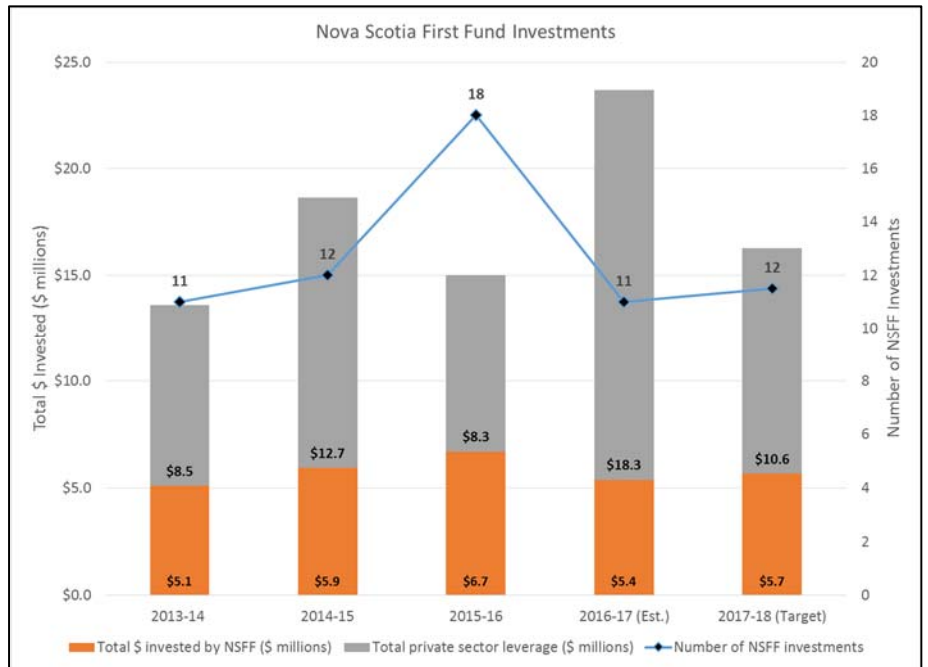
Through a partnership with **Bioenterprise Corporation**, a Guelph-based agri-technology accelerator, Innovacorp offers valuable advisory services to high-potential agricultural start-ups. The **Market Intelligence Atlantic Partnership** with Toronto-based MaRS lets Innovacorp connect clients with 14 premium technology and market research databases, delivering hundreds of thousands of dollars' worth of market value. In 2017-2018, Innovacorp will work with federal funding partners and Volta Labs to create a new seed funding program for information technology start-ups.

Innovacorp will continue to help foster the development of the entrepreneurial ecosystem and deliver monthly events such as **TecSocial** in Cape Breton and the popular **Business Over Breakfast** series.

Performance Measures

Early Stage Venture Capital

High-potential start-ups need access to venture capital to launch and grow. In 2017-2018, Innovacorp expects to make 8-12 investments in Nova Scotia start-ups, deploying \$4-8 million of venture capital. Innovacorp co-invests with institutional, private sector and angel investors from across Canada and beyond. We aim to leverage our Nova Scotia First Fund (NSFF) investments with private sector capital based on a mix of 1:1 leverage in seed investment rounds and 1:2 leverage in post-seed and Series A investment rounds.



Export sales by NSFF portfolio companies are expected to grow by \$10 million in 2017-2018 to an aggregate annual revenue of \$50 million.

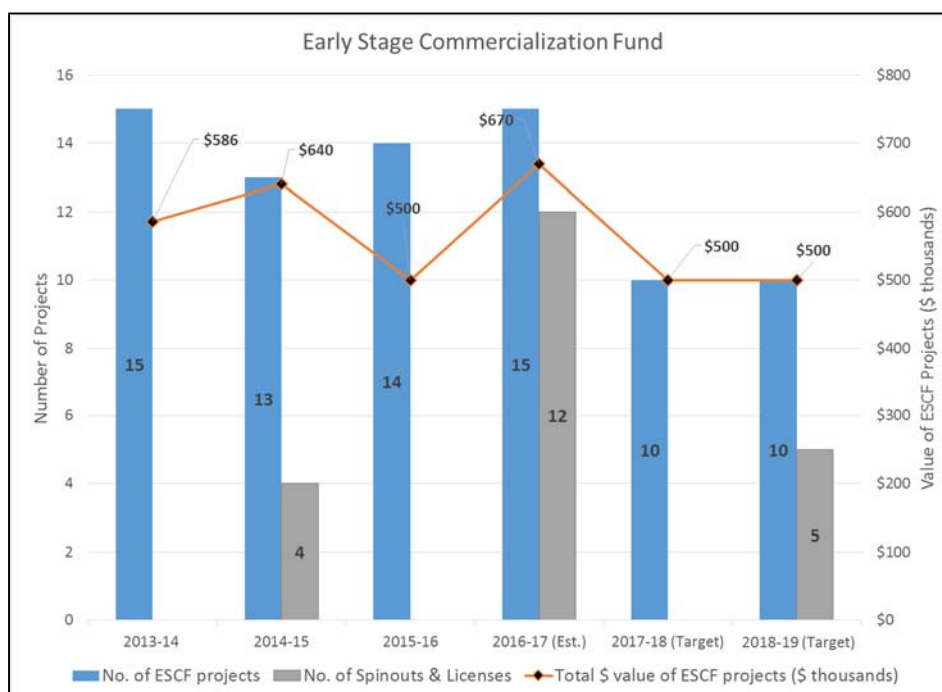
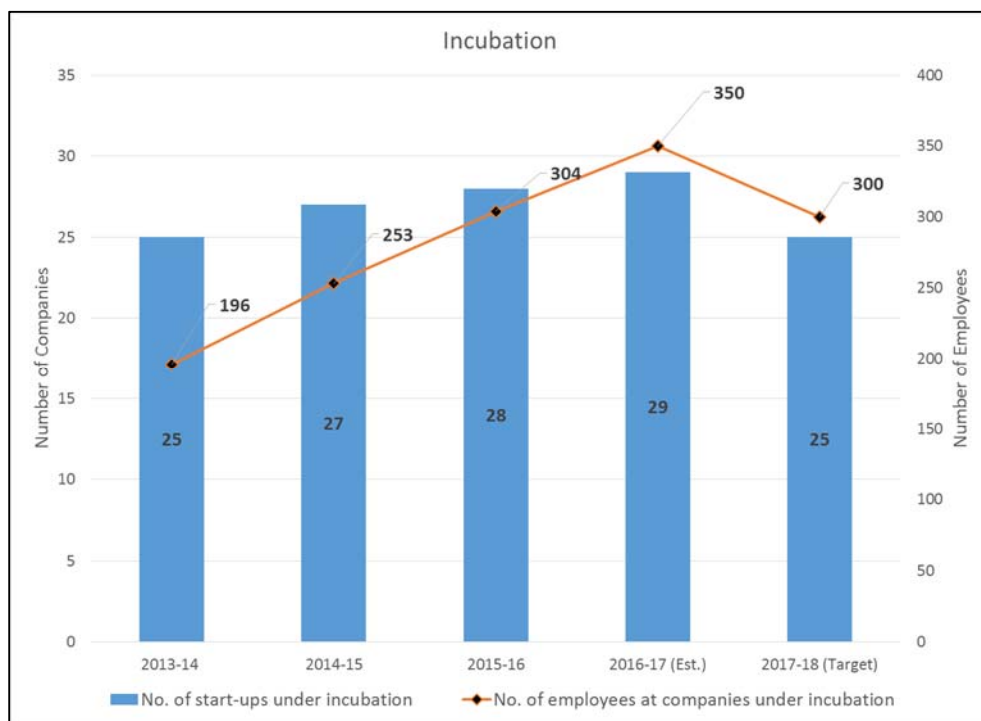
Incubation

Innovacorp manages three incubation sites: the Technology Innovation Centre in Dartmouth, the Innovacorp Enterprise Centre in Halifax, and the Innovacorp Demonstration Centre in Brooklyn – premier destinations for early stage technology companies. In

2017-2018, Innovacorp targets providing incubation infrastructure and resources to 25 high-potential Nova Scotia start-ups, which together will employ about 300 people.

Acceleration Programs

Innovacorp runs two cohorts of the Early Stage Commercialization Fund (ESCF) each year. ESCF provides funding and go-to-market support for university and college research projects that demonstrate potential to advance a technology to a prototype or proof-of-concept stage and market readiness. In 2017-2018, Innovacorp targets supporting 10 ESCF projects and awarding a total of \$500,000. We also expect to see five new licensing deals or spin-out companies from past ESCF projects by 2018-2019¹.

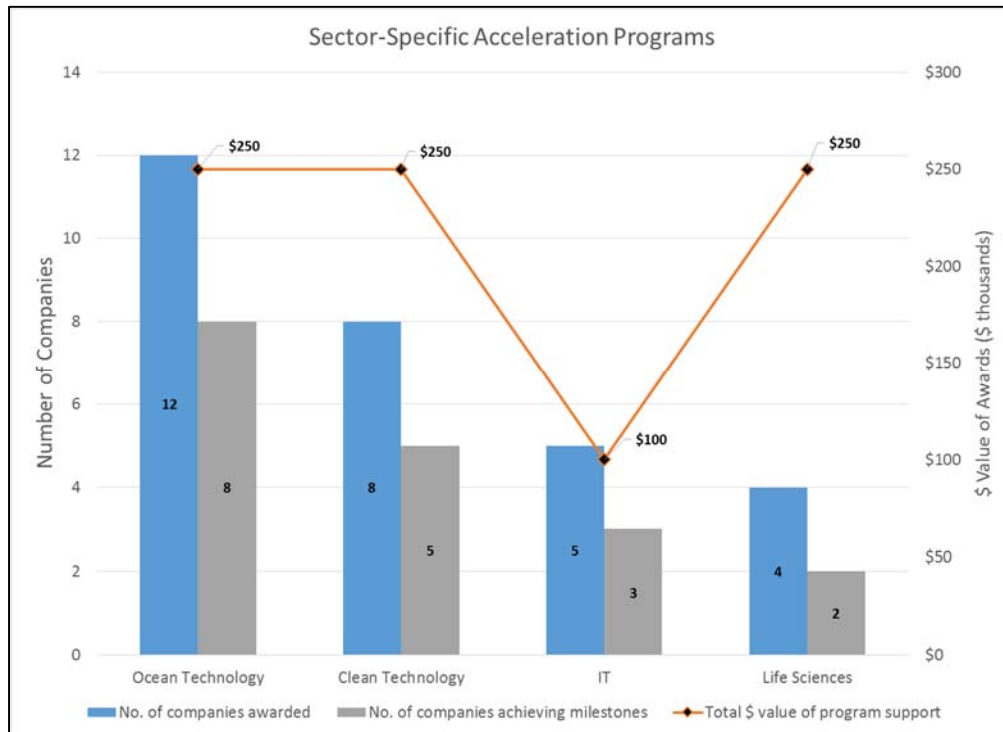
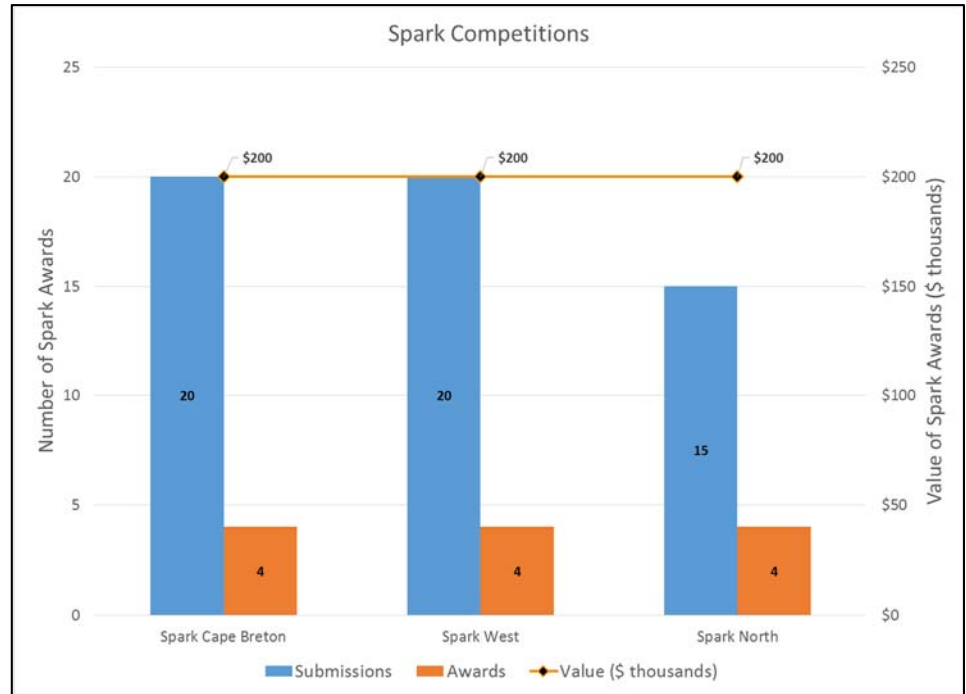


Through our annual Spark competitions we look for the best early stage technology companies in Cape Breton, western Nova Scotia and northern Nova Scotia. Winners receive funding and mentoring for the completion of prototypes or preparation to take their product or service to market. In 2017-2018, Innovacorp targets receiving 55 Spark submissions and making 12 awards totaling \$600,000.

¹ ESCF spin-out and licensing data is collected bi-annually

As Nova Scotia’s early stage venture capital organization, we often encounter emerging companies that are approaching investment readiness, but need help reaching that milestone. Innovacorp will run four sector-specific, milestone-based acceleration programs in 2017-2018. We target making 29 awards totaling \$850,000 and expect 18 of the participating companies to achieve their desired development milestones.

Innovacorp works with start-ups in a variety of technology sectors, and we build partnerships to enhance what we offer so our clients get the expertise, capital and other resources they need to succeed in global markets. In 2017-2018, Innovacorp will continue its partnership with Bioenterprise Corporation, a Guelph-based business accelerator, to help commercialize Nova Scotia agricultural technologies. We expect to advance 10 start-ups through our partnership with Bioenterprise.



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 innovation and economic development initiatives.

	Estimate 2016-2017 (\$)	Forecast 2016-2017 (\$)	Estimate 2017-2018 (\$)
Revenue			
Provincial funding	9,552,000	10,485,000	8,600,000
Funding recognized re capital assets acquired	115,000	115,000	147,000
Incubation	1,467,000	2,014,000	1,249,000
Investment	42,000	22,000	12,000
	11,176,000	12,636,000	10,008,000
Expenses			
Incubation	5,572,000	7,399,000	4,780,000
Investment	2,709,000	2,584,000	2,709,000
Corporate services	1,978,000	1,675,000	1,642,000
	10,259,000	11,658,000	9,131,000
Surplus before non-operating items	917,000	978,000	877,000
Non-operating items			
NSFF total return	(343,000)	(466,000)	(328,000)
Post-retirement benefits and long service award	(116,000)	(66,000)	(75,000)
Amortization	(377,000)	(377,000)	(403,000)
Interest income (expense), dividends, and capital gains (losses)	(222,000)	(222,000)	(212,000)
	(1,058,000)	(1,131,000)	(1,018,000)
Surplus (deficit)	(141,000)	(153,000)	(141,000)

Revenue

Provincial funding 2017-2018 estimate is \$952,000 lower than the 2016-2017 estimate. Highlights of the changes are summarized in the following table:

Thousands of dollars	
Estimate 2016-2017	\$9,552
Funding for incubation facility at COVE	302
Increase in core funding	26
Transfer of Productivity & Innovation Voucher Program to another agency	(1,000)
Reduction in funding for Innovacorp Demonstration Centre	(280)
Estimate 2017-2018	\$8,600

Funding recognized re capital assets acquired 2017-2018 estimate of \$147,000 is \$32,000 higher than the 2016-2017 estimate of \$115,000 due to increased amortization of grants received to fit-up space at the Innovacorp Enterprise Centre.

Incubation 2017-2018 estimate is \$218,000 lower than the 2016-2017 estimate. Highlights of the changes are summarized in the following table:

Thousands of dollars	
Estimate 2016-2017	\$1,467
Reduction in sponsored projects	(166)
Reduction in client revenue	(52)
Estimate 2017-2018	\$1,249

Investment 2017-2018 estimate of \$12,000 is \$30,000 lower than the 2016-2017 estimate of \$42,000 due to decreased directors' fees.

Expenses

Incubation 2017-2018 estimate is \$792,000 lower than the 2016-2017 estimate. Highlights of the changes are summarized in the following table:

Thousands of dollars	
Estimate 2016-2017	\$5,572
Funding for incubation facility at COVE	302
Movement of programming budget	250
Maintenance	100
Transfer of Productivity & Innovation Voucher Program to another agency	(1,000)
Reduction in funding for Innovacorp Demonstration Centre	(280)
Reduction in sponsored projects	(166)
Other	2
Estimate 2017-2018	\$4,780

Corporate services 2017-2018 estimate is \$336,000 lower than the 2016-2017 estimate. Highlights of the changes are summarized in the following table:

Thousands of dollars	
Estimate 2016-2017	\$1,978
Movement of programming budget to Incubation	(250)
Reduction in head office expenses	(111)
Other	25
Estimate 2017-2018	\$1,642

Non-Operating Items

NSFF total return 2017-2018 estimate of \$(328,000) is \$15,000 lower than the 2016-2017 estimate of \$(343,000) due to increased dividends and interest from the portfolio.

Post-retirement benefits and long service award 2017-2018 estimate of \$(75,000) is \$41,000 lower than the 2016-2017 estimate of \$(116,000) due to the amortization of an actuarial gain.

Amortization 2017-2018 estimate of \$(403,000) is \$26,000 higher than the 2016-2017 estimate of \$(377,000) due to the amortization of the fit-up of space at the Innovacorp Enterprise Centre.

Interest income (expense), dividends, and capital gains (losses) 2017-2018 estimate of \$(212,000) is \$10,000 lower than the 2016-2017 estimate of \$(222,000) due to a reduction in interest expense on an outstanding loan.

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