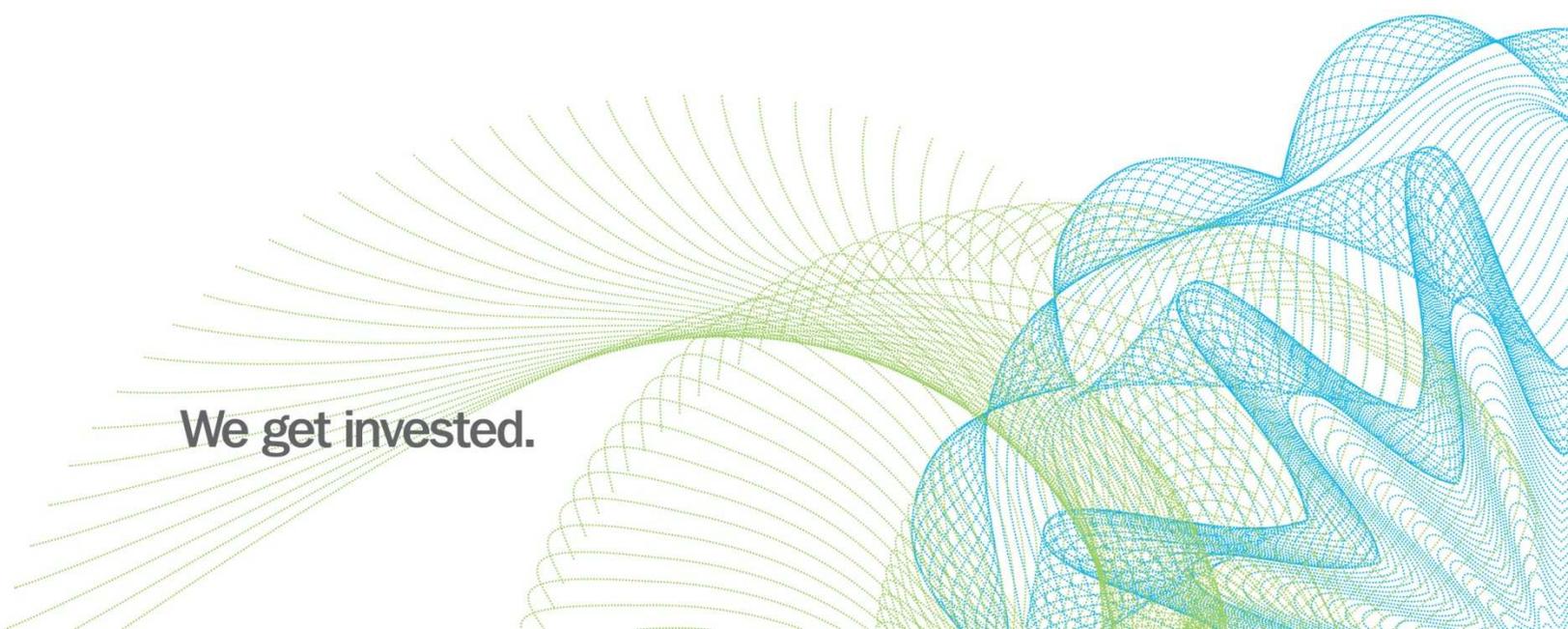


# BUSINESS PLAN

## 2018-2019

**innovacorp**  
EARLY STAGE VENTURE CAPITAL

**We get invested.**



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## Message from the Chair

Innovacorp continues to be a vital partner in Nova Scotia's strategy for economic growth. A robust start-up ecosystem is key to achieving a strong economic future for Nova Scotia and Atlantic Canada – and Innovacorp is helping build that ecosystem.

We are excited about the recent appointment of Malcolm Fraser as our new president and CEO. He is a successful serial entrepreneur who understands what it takes to make start-ups thrive. We also appreciate the leadership of our former leader, Stephen Duff, who recently returned to the private sector.

Innovacorp's mission is to *find, fund and foster* innovative Nova Scotia start-ups that strive to change the world. We continue to pursue this goal in our target high-potential technology sectors.

As of January 31, 2018, Innovacorp's Nova Scotia First Fund (NSFF) held a portfolio of 40 companies. Revenue and employment generated by these companies in 2017-2018 was \$48.6 million and 591 jobs representing 20 per cent and 10 per cent year-over-year increases, respectively.

In 2017-2018, Innovacorp *funded* new and follow-on investments in 15 companies totaling \$7.8 million alongside \$31.7 million in leveraged private sector investment. Over the year, the portfolio's value increased by \$5.5 million due to distributions realized and up rounds, partially offset by write-downs.

We will focus more on *find* activities in the coming year as we look to attract and develop more entrepreneurs and companies through initiatives such as our Start-Up Visa Program and marketing a world-class ocean technology incubator/accelerator at COVE. Access to talent, research and industry at COVE will enable Innovacorp to be a key player in technology commercialization in the global ocean economy.

In 2018-2019, we will continue to *foster* incredible companies and entrepreneurs in Nova Scotia through initiatives that provide access to expertise, capital and world-class facilities. We will continue to partner with new programs such as Creative Destruction Lab, Volta Cohort and ideaHUB to build stronger companies and great leaders.

Building and investing in our start-up ecosystem is the best way to create more innovation, commercialization and entrepreneurship success stories in Nova Scotia.

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 2011-2012 to 2017-2018, Innovacorp made 87 investments totaling \$42.2 million in 52 companies while attracting \$94.8 million in direct leveraged co-investment from other venture capital funds and strategic and angel investors. During the same period, increases to the Nova Scotia First Fund (NSFF) from portfolio distributions and investment valuation increases supported by third-party transactions totaled \$18.5 million, offset by \$17.7 million in write-downs.

In 2018-2019, 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 being a limited partner in Build Ventures, Atlantic Canada's \$65-million regional venture capital fund, Innovacorp will invest \$15 million in Build Ventures' second fund (Build Ventures II), which

has a targeted size of \$50 to \$75 million. Further, Innovacorp will invest \$15 million in a new private sector-managed technology pre-seed fund. Following a public request for submissions, a manager for the new fund will be selected in spring 2018. Both funds will be actively investing in 2018-2019. 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 about two dozen companies employing over 300 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.

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. In 2018-2019, Innovacorp will hire a full-time employee to focus on attracting high-potential immigrant entrepreneurs to Nova Scotia.

Several of Innovacorp's newest initiatives will ramp up in 2018-2019. For example, in spring 2018, Innovacorp will accept its first clients at Start-Up Yard, an incubator at the Centre for Ocean Ventures and Entrepreneurship (COVE). In addition, Innovacorp's Momentum initiative will enhance the assistance provided to Cape Breton start-ups, providing access to an entrepreneur-in-residence, acceleration programs, training opportunities, a makerspace, mentorship and networking events.

## 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 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.

In 2018-2019, Innovacorp plans to build on the past year's success of its **acceleration programs in clean technology, life sciences and ocean technology**. These acceleration initiatives provide start-ups with access to world-class expert advice, workshops, incubation facilities and services, financial support and other resources. Companies that complete the programs may have the opportunity to pitch for investment.

In 2017-2018, Innovacorp expanded its **Spark Innovation Challenge** across the province. Four Spark competitions had been held in Cape Breton since 2014, and one in western Nova Scotia in 2016, Spark West. The province-wide edition received 136 submissions. Spark helps find and support high-potential, early stage knowledge-based companies, and encourage entrepreneurial activity in Nova Scotia. Winners receive cash and guidance from seasoned business professionals to put their ideas into action. Innovacorp intends to run Spark again in 2018-2019.

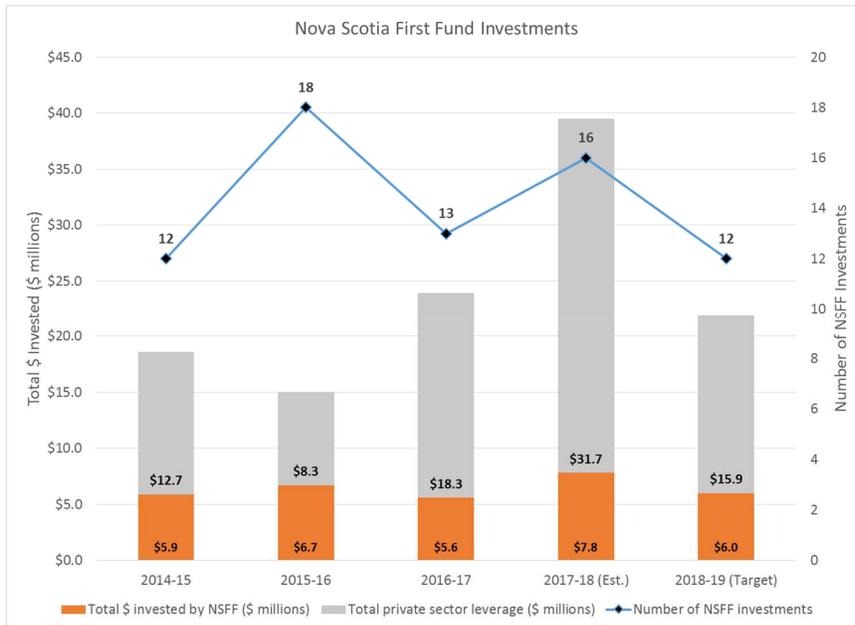
Strategic partnerships have become increasingly important in supporting Nova Scotia's promising entrepreneurs.

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. Innovacorp also worked with federal funding partners and **Volta Labs** to create the Volta Cohort Fund, a new seed fund 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

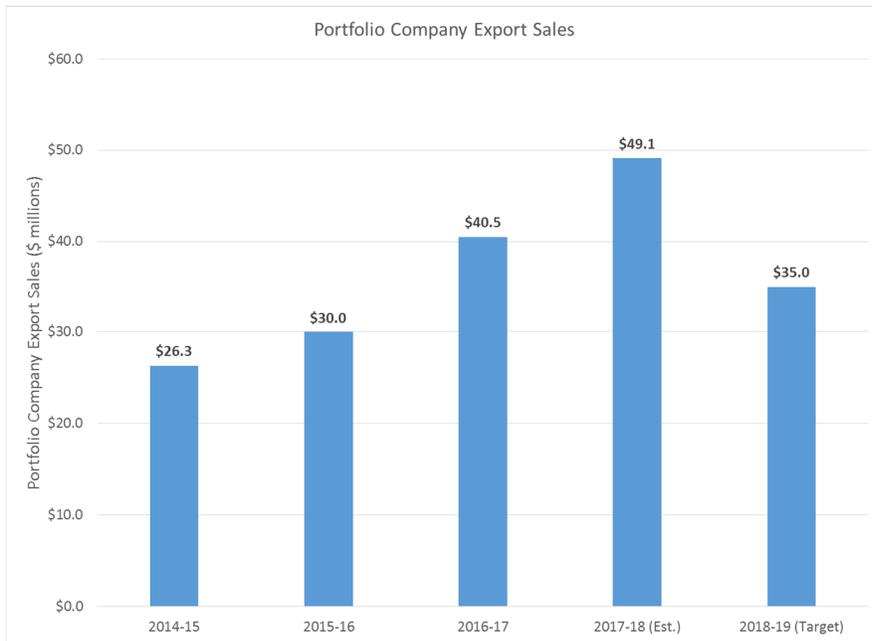


High-potential start-ups need access to venture capital to launch and grow. In 2018-2019, Innovacorp expects to make 8-12 investments in Nova Scotia start-ups, deploying \$4-8 million of venture capital. Innovacorp co-invests with institutional, private sector and angel investors from across Canada and beyond. We aim to leverage our Nova Scotia First Fund (NSFF) investments with private sector capital based on a dollar-weighted mix of at least 1:1 leverage in pre-seed and bridge financings and 1:2

leverage in seed and Series A investment rounds.

The objective of NSFF is to generate a return for Nova Scotia. This is measured by the total value of the portfolio (i.e., realized distributions and unrealized changes in value) to the total amount contributed by the Province (Modified TVPI ratio<sup>1</sup>). At the end of 2017-2018, NSFF's TVPI was 0.83:1. The TVPI for investments made since 2011 when Innovacorp's investment thesis was enhanced, is 0.94:1. Innovacorp's objective is to generate returns at least sufficient to recover the Province's contributions to NSFF and the cost of capital on those funds (i.e., approx. 1.2:1).

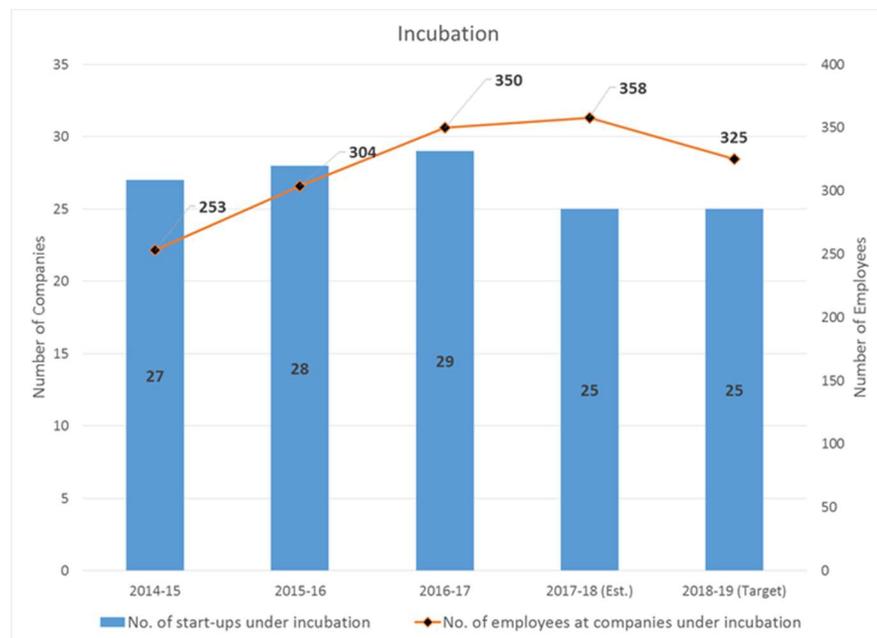
<sup>1</sup> The TVPI ratio typically includes in Paid In capital the amount of management fees paid to the fund manager. NSFF capital funds are 100 per cent used to make investments, and investment management costs are included in Innovacorp's operating budget. The measure is noted as modified to indicate it is not directly comparable to TVPI statistics.



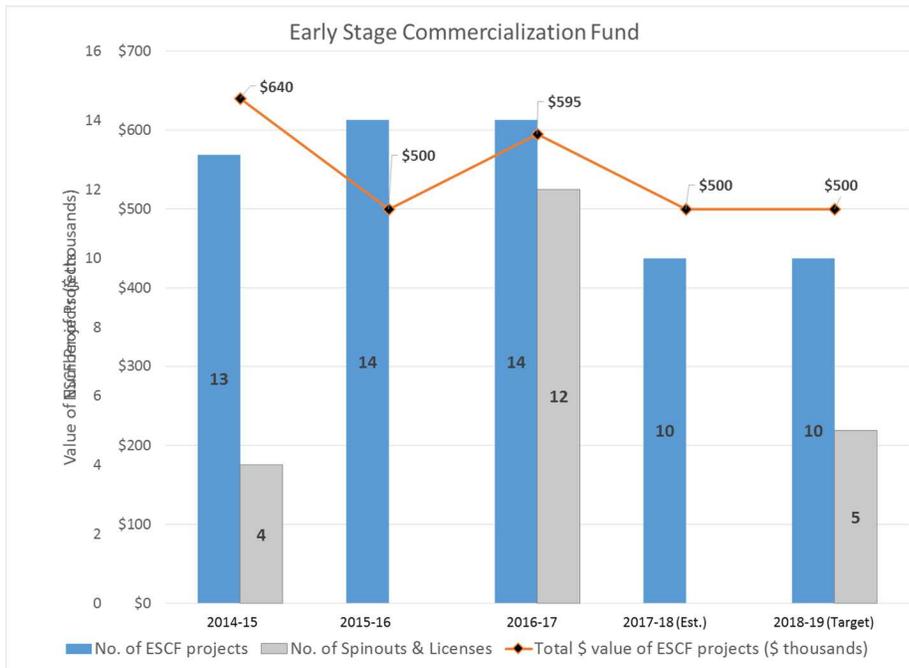
Export sales by NSFF portfolio companies are expected to decline by \$14 million in 2018-2019 to an aggregate annual revenue of \$35 million as a result of revenue lost from exits and portfolio companies ceasing operations, which will be offset by anticipated underlying growth of 25 per cent year over year in the remaining companies.

### 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 2018-2019, Innovacorp targets providing incubation infrastructure and resources to 25 high-potential Nova Scotia start-ups, which together will employ about 325 people.

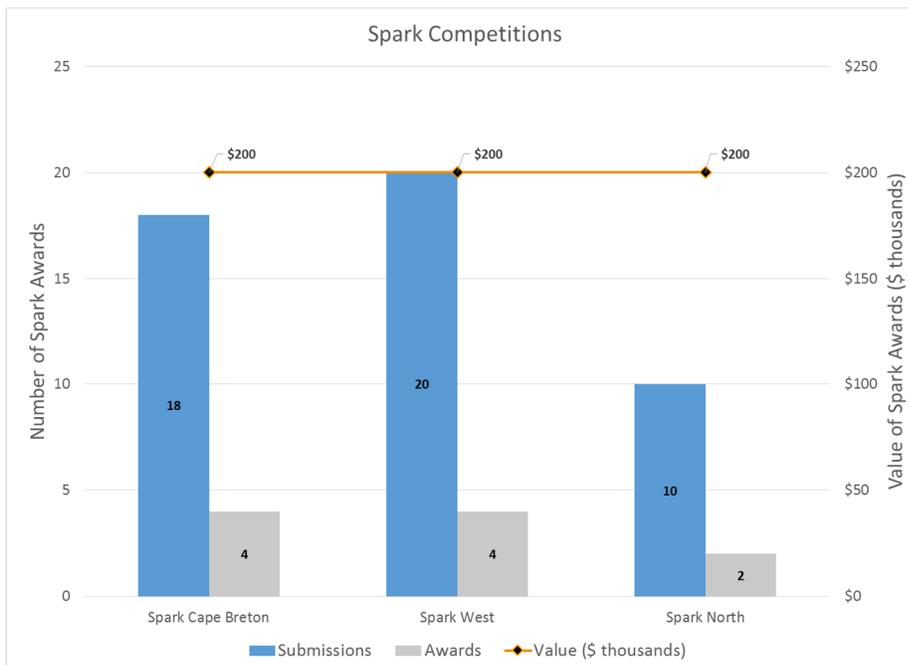


## Acceleration Programs



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 2018-2019, 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 2018-2019<sup>2</sup>.



Through our annual Spark competitions we look for the best early stage technology companies in Nova Scotia. Winners receive funding and mentoring for the completion of prototypes or preparation to take their product or service to market. In 2018-2019, Innovacorp targets receiving 48 Spark submissions and making 10 awards totaling \$600,000.

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 sector-specific, milestone-based acceleration programs in 2018-2019. We target making 25 awards totaling \$750,000 and expect participating companies to achieve their desired development milestones.

<sup>2</sup> ESCF spin-out and licensing data is collected bi-annually.

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 2018-2019, Innovacorp will continue its partnership with Bioenterprise Corporation to help commercialize Nova Scotia agricultural technologies. We expect to advance 10 start-ups through our partnership with Bioenterprise. Further, Innovacorp and Bioenterprise will work together to bring their successful collaboration model to at least one new Atlantic province, to strengthen the region's agricultural technology sectors.

## 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 innovation and economic development initiatives.

	Estimate 2017-2018 (\$)	Forecast 2017-2018 (\$)	Estimate 2018-2019 (\$)
<b>Revenue</b>			
Provincial funding	8,669,000	9,224,000	9,266,000
Funding recognized re capital assets acquired	147,000	147,000	146,000
Incubation	1,180,000	1,675,000	1,607,000
Investment	12,000	512,000	-
	10,008,000	11,558,000	11,019,000
<b>Expenses</b>			
Incubation	4,780,000	5,830,000	7,246,000
Investment	2,709,000	3,209,000	1,259,000
Corporate services	1,642,000	1,642,000	1,746,000
	9,131,000	10,681,000	10,251,000
<b>Surplus before non-operating items</b>	877,000	877,000	768,000
<b>Other income (expense)</b>			
NSFF total return	(328,000)	(1,642,000)	(337,000)
Post-retirement benefits and long service award	(75,000)	(75,000)	(67,000)
Amortization	(403,000)	(403,000)	(466,000)
Interest income (expense), dividends, and capital gains (losses)	(212,000)	(212,000)	(39,000)
	(1,018,000)	(2,332,000)	(909,000)
<b>Deficit</b>	(141,000)	(1,455,000)	(141,000)

### Revenue

**Provincial funding** 2018-2019 estimate is \$597,000 higher than the 2017-2018 estimate. Highlights of the changes are summarized in the following table:

Thousands of dollars	
<b>Estimate 2017-2018</b>	<b>\$8,669</b>
Funding for proposed new programs in budget	485
Increase in core funding	93
Increase in funding for incubation facility at COVE	88
Reduction in funding from departments	(69)
<b>Estimate 2018-2019</b>	<b>\$9,266</b>

**Incubation** 2018-2019 estimate is \$427,000 higher than the 2017-2018 estimate. Highlights of the changes are summarized in the following table:

Thousands of dollars	
<b>Estimate 2017-2018</b>	<b>\$1,180</b>
Funding of Momentum in Sydney	552
Reduction in client revenue at facilities	(144)
Other	19
<b>Estimate 2018-2019</b>	<b>\$1,607</b>

### **Expenses**

**Incubation** 2018-2019 estimate is \$2,466,000 higher than the 2017-2018 estimate. Highlights of the changes are summarized in the following table:

Thousands of dollars	
<b>Estimate 2017-2018</b>	<b>\$4,780</b>
Transfer of program budgets from Investment	1,460
Proposed new programs in budget	485
Momentum in Sydney	552
Incubation facility at COVE	88
Projects sponsored by other departments	(69)
Other	(50)
<b>Estimate 2018-2019</b>	<b>\$7,246</b>

**Investment** 2018-2019 estimate is \$1,455,000 lower than the 2017-2018 estimate. Highlights of the changes are summarized in the following table:

Thousands of dollars	
<b>Estimate 2017-2018</b>	<b>\$2,709</b>
Transfer of program budgets to Incubation	(1,460)
Other	10
<b>Estimate 2018-2019</b>	<b>\$1,259</b>

**Corporate services** 2018-2019 estimate is \$104,000 higher than the 2017-2018 estimate. Highlights of the changes are summarized in the following table:

Thousands of dollars	
<b>Estimate 2016-2017</b>	<b>\$1,642</b>
Consulting work on several HST issues	43
Other	61
<b>Estimate 2018-2019</b>	<b>\$1,746</b>

## **Non-Operating Items**

**Amortization** 2018-2019 estimate of \$(466,000) is \$63,000 higher than the 2017-2018 estimate of \$(403,000) due to capital additions.

**Interest income (expense), dividends, and capital gains (losses)** 2018-2019 estimate of \$(39,000) is \$173,000 lower than the 2017-2018 estimate of \$(212,000) due to interest expense savings on the principal repayment of an outstanding loan.

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