ENTREVESTOR INTELLIGENCE

LAUNCHING AND SCALING

SEPTEMBER 2016 • VOLUME 5 , ISSUE 4

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Bigger Companies = Higher Revenue Growth

It's not just that Atlantic Canadian startups are bringing in more and more revenues each year. It's that the rate of growth is actually accelerating.

By Peter Moreira

This chart says all you need to know about revenue growth at Atlantic Canadian startups in the last three years.

Revenue growth at the region's startups is accelerating. It's not just that they're increasing sales each year. It's that in each of the last three years these innovative companies have improved on the growth rates from the previous year. And it is already having a bigger economic impact, increasing the amount of exports attributable to startups and leading to employment growth.

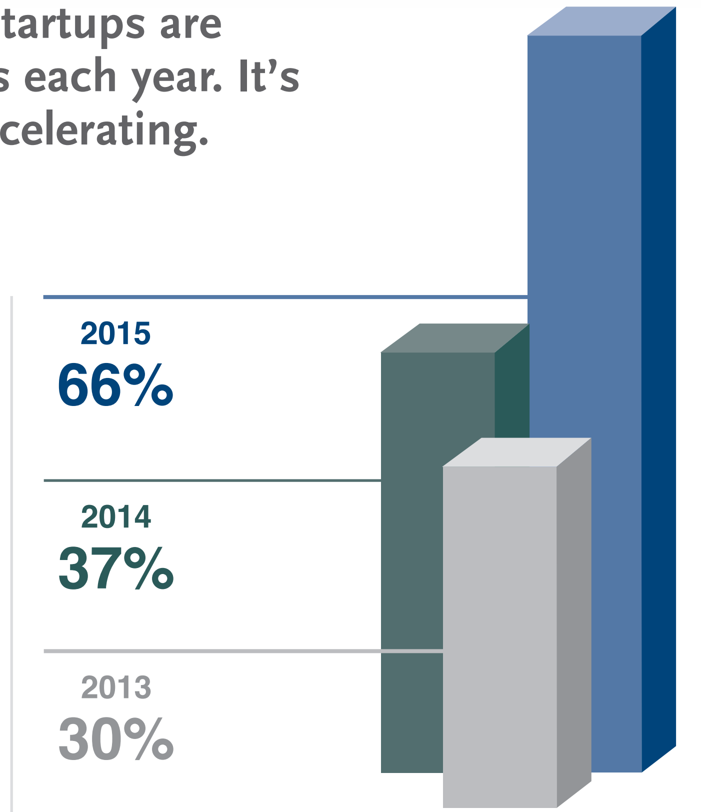
And the main reason for the acceleration is that East Coast startups are getting bigger.

The data that Entrevestor collected for 2015 has revealed two important trends. First, we're moving from a community of small experimental companies to a group that includes several high-growth corporations with international reach. As these companies grow in size, they develop stronger sales teams and refine their products to better meet market demand. We estimate there are now more than 130 startups (locally owned companies commercializing proprietary innovation for the global market) in the region that have more than $100,000 in annual revenue. And of these, about 30 have more than $2 million in revenue.

That means that they maintain or even accelerate the rate at which they increase their sales. A company booking its first sales looks great in terms of growth for that company. But the economic impact is far greater when that company boosts its annual revenues from, say, $500,000 to $1 million.

It is these larger companies that are creating the second major finding: overall revenue growth is actually accelerating. It increased about 30 percent in 2013, 37 percent in 2014 and 66 percent in 2015.

Entrevestor collects data on startups across the region. (You can find an infographic with our findings on Pages 10 and 11 of this report.) We identified 368 startups at the end of 2015 and surveyed as many as we could. Some 152 companies replied to the survey, including 127 that provided data on revenue. While we in the media often highlight funding by startups, the growth in revenue is the surest indicator of the health of startups. [When calculating revenue growth, we considered only companies that produced revenue in 2015. We did not include pre-revenue companies nor those that had failed in 2015.]



Revenue Growth is Accelerating

What we're finding is that startups are coming to believe that they have to at least double their revenues to be taken seriously. "In Silicon Valley, your revenues should be tripling or you're not growing fast enough," said Sean Fahey, the CEO of Moncton-based Vidcruiter. He added that his company is "trending toward that and I don't think I'm an outlier."

Few startups reveal their growth data publicly but many indicate that sales are rising strongly. Halifax's Dash Hudson, which analyzes data for Instagram users, won't reveal revenue details. But CEO Thomas Rankin said Dash Hudson charges US$1,000 to US$5,000 a month for the service, and it has some contracts worth US$125,000 a year. Clients include the Condé Nast media group, Revolve clothing and Hyatt Hotels Corp. "In November we started to generate revenue on the SaaS (Software-as-a-Service) platform and it's been growing really fast," said Rankin.

It will come as no surprise that startup founders are remarkably optimistic about revenue growth in 2016. Overall, the founders that already have revenues are forecasting growth of 120 percent in 2016. We conducted our survey mainly in the second-quarter, so many of the respondents had

ENTREVESTOR INTELLIGENCE

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Entrevestor Intelligence
Entrevestor Intelligence is the quarterly publication of Entrevestor, which provides news on the startup and innovation communities in Atlantic Canada. These reports provide a deeper analysis of the startup world than can be delivered in daily news stories. To receive our daily reports, please leave your email address at entrevestor.com.

Cover photo: *Melvin Nash and Melissa Lunney were two of the graduates of the first cohort of the JEDI Aboriginal Business Accelerator Program. Read the article starting on Page 10.*

Entrevestor Intelligence Design: *Roxanna Boers*

Four-Fifths of Sales Are to External Markets

a pretty good idea of how the year was shaping up. The reality will likely fall short of their expectations but the important point is that there is strong momentum for sales growth.

At the end of 2014, founders predicted their revenue growth in 2015 would average 131 percent. In the end, the revenue growth tally came in at 66 percent – about half their expectations but an impressive number nonetheless.

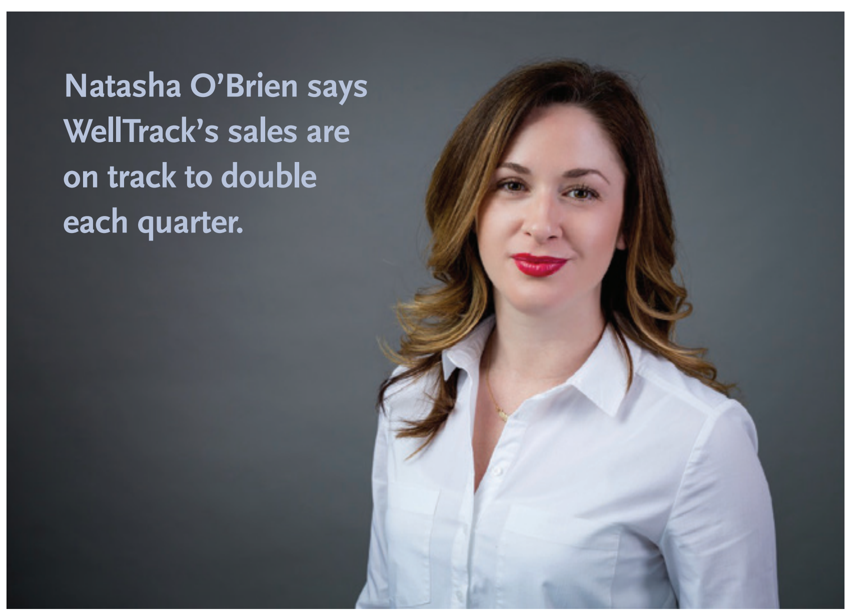
The story of WellTrack illustrates how startups in the region are honing in on sales strategy and learning to ramp up revenues. The Fredericton company, whose official name is CyberPsyc Software Solutions, has developed online tools to help to treat anxiety and depression. And it has found a receptive market in universities and colleges, which are worried about the high incidence of mental problems among students.

The company posted $120,000 in recurring revenue in the second quarter of 2016, and at press time was on track to increase it to $240,000 in the third quarter. The goal is to double it again in the fourth quarter, which would give the company a neat $1 million in annual recurring revenue.

"We've closed $100,000 to $150,000 in the next few weeks, which would put us close to doubling our revenues in this quarter, just as we did in the last one," said COO Natasha O'Brien in an interview.

Overall, the growth in sales is aiding the growth in exports. The survey respondents said they made only 19.6 percent of their money in Atlantic Canada in 2015. Rounded off to 20 percent, it's roughly the same level as the previous year. About 19 percent of the revenues came from the rest of Canada and 62 percent from outside the country.

If there is one reason to be concerned about the revenue picture, it's that the region's startups are far too focused on just two markets – Canada and the U.S. Only five startups of 58 respondents discussing their primary market listed countries other than Canada or the US. Almost seven in 10 startups make all their money or virtually all their money in these two countries. This is a concern because the startups are missing huge opportunities in fast-growth economies. And a shock to the U.S. economy would jeopardize the health of the Atlantic Canadian startup community. The companies that are exporting beyond North America are all reporting more than $100,000 a year in sales and are growing quickly. *



Natasha O'Brien says WellTrack's sales are on track to double each quarter.

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Building a Sales Culture

Various groups, from universities to private consultancies, are developing programs to teach the basics of selling.

By Carol Moreira

As revenue growth accelerates at Atlantic Canada's startups, something is permeating the community that hasn't been there before – a sales culture.

More and more frequently, the discussion in the startup community is concentrating on the need to teach young companies and young people how to sell things. There are new programs focusing on sales. There's mounting pressure on colleges and universities to devise new curriculum. There is an ever louder debate on how sales should be taught and how to change the image of sales as a profession.

"Sales is definitely a pain-point in our sector," Emily Boucher, Director of Marketing and Research at Digital Nova Scotia, said in a recent interview.

"We're trying to help fill the gaps we can for the startups and SMEs (small to medium-sized businesses) among our members."

Digital Nova Scotia recently began piloting a sales development program in Halifax for SMEs. The program aims to help participants focus on issues such as generating cash flow, attracting investment, developing strategic partners, accelerating sales, and building professional networks.

Boucher said the pilot program, titled Navigating New Channels: ICT Sales Strategy Bootcamp, teaches participants to consider five key questions associated with channel development. These are: Who are the influencers that can have the greatest impact on your business? Where will you find them? How will you leverage them to gain the biggest reach with the least effort? What trends are you uncovering that impact your plan? What can be improved this week?

Chantal Brine, Vice President, Youth Employment at Venor, and Tracey Kieley, Senior Consultant in Sales and Marketing at Venor.

"Our program is about executing," Boucher said. "The focus is on the participants themselves using their own companies as case studies."

Sales curricula are also entering business programs like the Masters of Technology, Entrepreneurship and Innovation at St. Mary's University. In July, the University of New Brunswick at Saint John added its first sales course in its MBA program. A pilot project, the program includes a special course called Sales. If students rate it highly, it will probably be offered again. The nine-week course draws heavily on mentorship from the private sector, inviting people with sales experience to discuss the components of sales like negotiation, problem-solving, communications and emotional intelligence. It also delves into sales ethics.

'Belief in oneself and the product or service you are selling is key.'

– Tracey Kieley, Senior Consultant, Venor

Emily Boucher: 'We're trying to help fill the gaps'

"The point is not to train people to become sales people," said Chris Weir, the EY executive who leads the course. "When people leave this course, they will be armed with knowledge and information, not sales skills. What I hope to do is give the students an appreciation for sales, the importance of it, the professional nature of it."

Courses like this are needed to prepare students for the modern work force and help them understand the rewards of a career in sales.

"Many youth are unaware of sales, and some are intimidated by it. Negative stereotypes, such as the used car salesman, persist," Chantal Brine, Vice President, Youth Employment at the Halifax-based personnel search firm Venor, said in a recent interview.

Sales is a high rejection business admits Brine's colleague, Tracey Kieley, Senior Consultant in Sales and Marketing at Venor.

"It's a mental game, every day there's head trash. The phone can feel like it weighs 20 pounds and you have to pick it up and make the call. To be a good sales person, you need drive, passion and understanding of what sales is."

What sales is, is solving someone's problem.

"When sales people find the right culture and product they flourish," Kieley said. "Belief in oneself and the product or service you are selling is key."

Brine said the millennial generation (those born roughly between 1980 and 2000) can find sales particularly frustrating because they grew up with the instant access afforded by technology.

"Sales and business development can be hard," said Brine, who is a millennial herself. "You're going to get rejection…that and instant access and gratification don't necessarily align." *

Our doctor by the numbers.

We've got some pretty legit experts in-house at Innovacorp.
For example, take our life sciences investment manager, Lidija Marušić,
who also has her medical degree. As in MD, medical degree.

1,700 - Age of her hometown: Split, on the sunny Adriatic coast of Croatia.

16 - Number of years in venture capital and commercializing life sciences technologies.

13 - Age she became a junior high astronomy champion.

4 - Number of languages she's fluent in. Croatian, Italian, English and French.

300 - Grams of HeLa cells she used to purify proteins binding to a DNA replication origin while doing her PhD in molecular genetics.

7 - Number of times she tried to explain the last sentence to her Innovacorp teammates before giving up.

$3.70 - The amount raised from private investors for every $1 she invested for Innovacorp in portfolio companies.

4 - Number of degrees. MD, MSc, PhD and MBA.

8 - Number of start-up boards she's served on while at Innovacorp.

12 - Number of pounds of wild cranberries she picked last fall in Nova Scotia.

11 - Number of Canadian and international expert peer review committees she's participated on.

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THE STARTUP REVIEW:

Metrics for the Atlantic Canadian startup community in 2015.

THE NUMBER OF STARTUPS INCREASED IN 2015

368 NUMBER OF ATLANTIC CANADIAN STARTUPS

29% PERCENTAGE INCREASE OVER 2014

63% GROWTH IN COMPANY LAUNCHES

COMPANIES LAUNCHED IN 2015: **104**

COMPANIES LAUNCHED IN 2014: **64**

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About 130 companies with annual sales above **$100,000.**

2015 NOTES

Companies with more than $50K in revenue increased staff

41%

Companies collaborating with post-secondary institutions increased revenues

110%

TOTAL FUNDRAISING

by Atlantic Canadian startups *(millions)*

$76.5 2015

$126.8 2014

$63.3 2013

$60.5 2012

$80.8 2011

SALES GROWTH BY STARTUPS WITH REVENUES

2015 66%

2014 37%

2013 30%

ACCELERATED JOB GROWTH

2015 25%

2014 14%

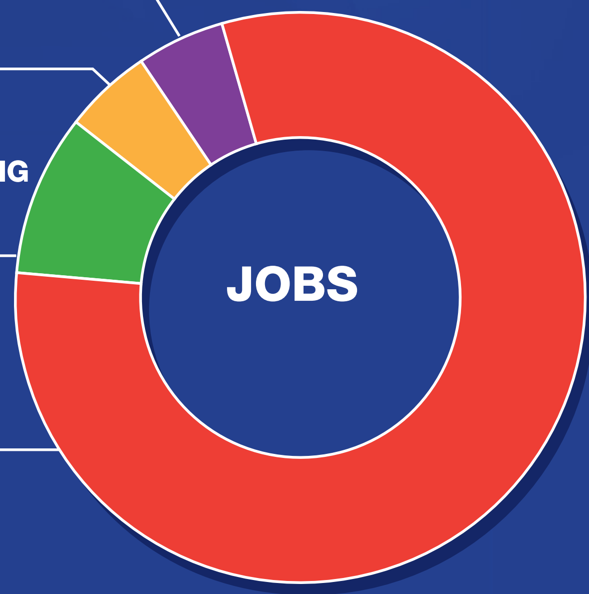
THE INCREASED DOMINANCE OF IT

5%
CLEANTECH

5%
ADVANCED MANUFACTURING

9%
LIFE SCIENCES

81%
IT

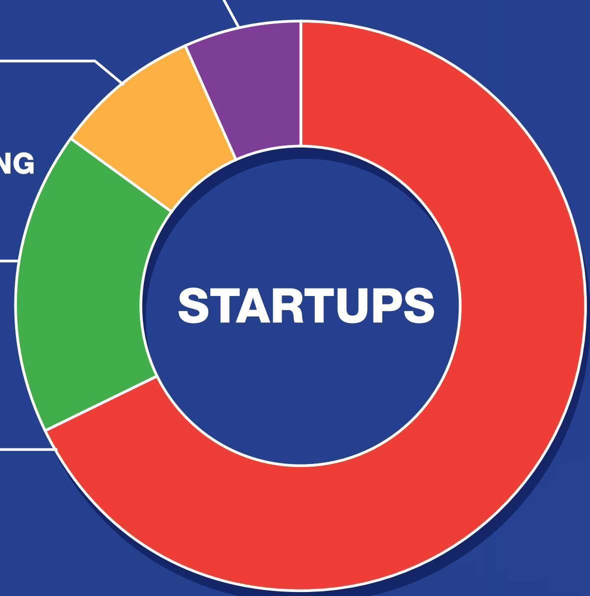


24
CLEANTECH

31
ADVANCED MANUFACTURING

63
LIFE SCIENCES

250
IT



ENTREVESTOR INTELLIGENCE

This data is drawn from Entrevestor's survey of Atlantic Canadian startups, supplemented by hundreds of interviews with startup founders and service providers. Some 152 startups responded to the survey for 2015.

Infographic by Roxanna Boers

The Nation's First First Nations Accelerator

The JEDI Aboriginal Business Accelerator is officially part of a shipbuilding engagement strategy. But the companies coming out of it aim far beyond the defense sector.

By Peter Moreira

To truly appreciate the uniqueness of the JEDI Aboriginal Business Accelerator Program, it's a good idea to spend time with Cameron Paul.

Paul is the Economic Development Officer at the Joint Economic Development Initiative, or JEDI, which fosters economic growth for First Nations communities. In the spring, JEDI hosted the 10-week accelerator to teach business fundamentals to a group of aboriginal founders. And Paul, a Maliseet originally from the Tobique First Nation, stresses that the program was a key ingredient in helping the entrepreneurs flesh out their ideas and develop roadmaps to get to market.

But all accelerators fulfill such a role. In this case, there is a cultural gap between the aboriginal and business communities, and the accelerator brought them together to work at launching businesses.

But there's even more to it than that. Paul, who has been with JEDI for four years, explained that people living on reserves do not legally own their homes. That means that native entrepreneurs who need capital can't draw on equity built up in their homes – an option that is open to Canadians who don't live on reserves. These types of impediments, he said, make the work of JEDI and the Aboriginal Business Accelerator essential in developing First Nations' entrepreneurs – these organizations understand dynamics that aren't familiar to run-of-the-mill accelerators.

"I think that it's definitely a revolutionary program," said Paul. "We've definitely taken a risk in taking on this program, but we have established that there is a need for a high-level program like this."

The Aboriginal Business Accelerator is the first accelerator of its kind in the country, and the story of how it all came together in January of this year is rather surprising. It is actually part of JEDI's New Brunswick Aboriginal Shipbuilding Engagement Strategy, which was launched in 2014.

Governed by the four Aboriginal Tribal Councils in New Brunswick, JEDI is a not-for-profit that supports Aboriginal participation in the economy. It works with all levels of government and the New Brunswick Business Council. A few years ago, JEDI decided that something should be done to help Aboriginal businesses to participate in the multi-billion-dollar federal shipbuilding program awarded to Irving Shipbuilding of Halifax in 2011.

So JEDI came up with a program that worked with various partners to help indigenous business people to gain work from the shipbuilding contracts. It mentored participants, for example, on how to gain the needed certification and respond to a request for proposals. But something was still missing. The group was generating some interesting ideas for innovative products, so the organizers decided they needed a vehicle to teach business fundamentals and product development. They launched the tech accelerator with the goal of teaching entrepreneurship for the defense and aerospace sector.

The surprising part comes when you meet some of the eight teams of entrepreneurs in the first cohort of the accelerator, which are not your typical defense and aerospace companies.

Consider Melissa Lunney, the founder of a startup called AppDiginous. As the name suggests, the company is developing apps. Specifically, Lunney is working on a cell phone app that would help disabled people to open doors. Many entries in public spaces have doors that open when someone pushes a button; but the location of the button often forces someone in a wheelchair to reverse or maneuver their wheelchair to get through the doors. AppDiginous is an app that automatically opens the door when someone approaches it with their cellphone.

Or consider Melvin Nash from Oromocto First Nation. Nash is the founder of WaterMoc One Power Corp, an Aboriginal-owned business that is developing a river turbine that can provide green energy. Nash has been working on the project for about eight years and has come up with a design

> **`We've definitely taken a risk in taking on this program, but we have established that there is a need for a high-level program like this.'**
>
> – Cameron Paul, JEDI Economic Development Officer

for a device that floats on the water and produces an exponential gain in power the larger the turbine blade.

“We’re keeping it in line with the goal of preventing climate change, and it’s the most eco-friendly device there is because it doesn’t destroy any fish,” he said. “It is about as close to perfect as anything out there.”

WaterMoc One has been collaborating with the local researchers and post-secondary institutions to optimize its technology and create a prototype to demonstrate how its concept is a step ahead of any river turbine technology on the market today. The company will be concentrating on developing the technology so that it is scalable, green and economical.

JEDI Shipbuilding Strategy Manager Mark Taylor agreed these may not be typical “defense and aerospace” ventures. However, he said companies in the defense and aerospace field have a variety of needs. And the new government in Ottawa is demanding that there be a cleantech component to companies doing business with the federal government.

“If you talk to anyone in aerospace and defense these days, they’ll tell you that a huge area is technology with mobile platforms,” said Taylor. “And cleantech is heavily desired.”

Nash, Lunney and the other entrepreneurs entered the program with plans for what they wanted to do, but none was an experienced entrepreneur. Nash, for example, describes himself as an inventor who has a long career in putting his mechanical know-how to work solving such problems as how to clean commercial quantities of fiddleheads.

The eight teams met regularly at the National Research Council offices in Fredericton, going through a series of seminars. Learnsphere, a New Brunswick-based training organization, facilitated the training and Dale Thibodeau of DJ Thibodeau and Associates was the lead instructor. The group also worked with community partners like the Pond-Deshpande Centre and business groups like Lockheed Martin Canada, Saint John River Valley Tribal Council and BMO. Each entrepreneur was paired with a mentor with some experience in their business sector. Lunney, for instance, was paired with Trevor Bernard, an experienced programmer who has worked for three companies that have had successful exits.

Taylor said JEDI is now putting together a five-year plan, the amount of time needed to make sure the program evolves. It will include partnerships with other startup groups in the region like PropelICT, the regional accelerator. The next cohort is already being planned to take place in Planet Hatch, the entrepreneurship centre in Fredericton.

The entrepreneurs not only want to see their ventures succeed and generate profits. They also hope their success will put them in a position to give back to their communities. “We’re all trying to figure out ways to include First Nations in our businesses because they’re all in need of revenue,” said Nash. “And we can do it in ways that allow us to grow responsibly.”

Eventually, the JEDI organizers hope the program will include a fund to help provide seed financing for native startups. The long-term goal is to add the financing component on to the program that has helped entrepreneurs like Nash and Lunney to begin their entrepreneurial journeys.

“They offered this course to us and we learned so much,” said Lunney. “By the time it was over, I thought, I wish I could have taken it a long time ago.” *

Melissa Lunney: ‘By the time it was over, I thought, I wish I could have taken it a long time ago.’

Melvin Nash: `We’re all trying to figure out ways to include First Nations in our businesses because they’re all in need of revenue. And we can do it in ways that allow us to grow responsibly.’

Keeping Talented Youth on the East Coast

Accelerating growth among East Coast startups is creating more and more employment opportunities – especially for young Atlantic Canadians.

By Peter Moreira

About four years ago, a trio of game developers came together to form a Bedford-based gaming studio called Alpha Dog Games, and quietly began to grow.

The team started with three founders – two of whom, Jeff Cameron and Shawn Woods, are still with the company – and it took on staff as its production increased. In fact, Alpha Dog recently added its 17th employee.

"We have a few big games that we're working on, including a title called MonstroCity that's now being beta tested in the Philippines," said CEO Cameron in an interview. "We're planning on a worldwide release for it hopefully later this year. We have other high-level ideas in the pipeline, but all 17 people are working on that game."

The fact that this one company has almost sextupled its staff in three years tells you something about the startup community in Atlantic Canada. Some of these tiny young companies are turning into mid-sized ventures, and they're hiring in increasingly large numbers. And most of the people they're hiring are young -- Cameron said his youngest staff member is about 20. They are attracting and retaining young people.

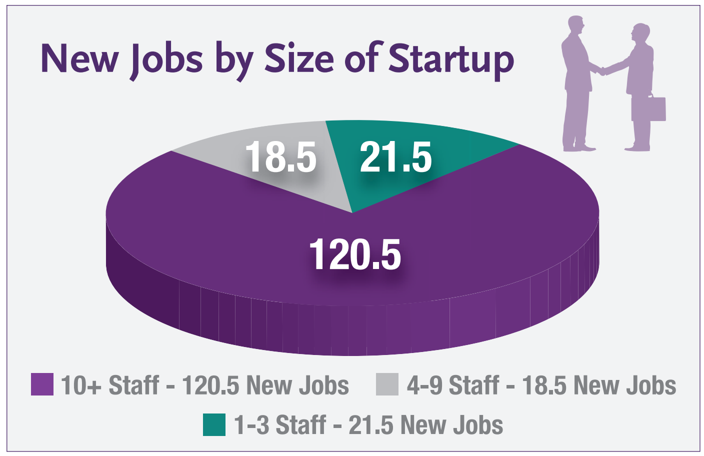
Alpha Dog is a prime example for another reason – it is a scaling company rather than a brand spanking new startup. The group of companies that call themselves "startups" include many outfits that are several years old. And the ones that are really adding jobs are the ones that are scaling – they are growing beyond 10 employees because they have a product in the market or soon will.

Fredericton-based Resson, for example, plans to double its staff to about 45 by early 2017. The company that collects and analyzes agricultural data raised about $14 million in new capital this spring, but it also is rapidly growing revenues.

The day after its funding announcement, Resson posted four jobs on the Entrevestor Job Board – for two developers, an optical engineer and an agronomist. The posting for an agronomist is interesting because it shows that startups are hiring people from a diverse range of disciplines.

In Halifax, the data analytics company Affinio had nine people in November 2015. That increased to 38 by the spring and it plans to increase its staff to 60 by year end. CEO Tim Burke said its rapid expansion will likely continue in 2017 and is generated by strong revenue growth.

Another Halifax startup, sports medicine technology company Kinduct Technologies had 48 employees in May and expects to increase the number to 65 by the end of the year.



Larger companies are hiring more people and growing at a faster rate than smaller firms. Of the 152 companies responding to the Entrevestor Survey, startups with 10 or more employees took on three-quarters of the new employees in 2015 and grew their staffs at an annual rate of 36 percent.

We're seeing this pattern across the startup community of medium-sized companies adding employees at ferocious pace. When Entrevestor surveyed startups this year, 152 companies provided us with employment data. Collectively, these companies employed 792.5 people in Atlantic Canada as of Dec. 31, 2015 – up 160.5 positions or 25 percent from a year earlier.

What was really interesting is that three-quarters of the hiring came at companies with more than 10 employees. These companies added 120.5 full-time-equivalent positions, representing a growth rate of 36 percent.

This trend will likely continue as the number of innovative companies hitting the 10-plus staff levels is increasing each year. And many current mid-sized companies are growing into bona fide corporations. They are providing challenging, well-paid jobs to young people. These employees get to live the East Coast lifestyle and have the thrill of working for growing companies.

Alpha Dogs, for example, has already produced the game Wraithborne and has partnered with a German partner to put out MonstroCity. And Cameron notes the reason the company is based in the Halifax area is the quality of life in the region – for the founders as well as the hires. Woods, 38, was working in Vancouver before co-founding Alpha Dog and Cameron, 41, was in New York.

"We take quality of life seriously and we've been taking on people who feel the same way," he said. "We came back here to make sure we were able to raise our families and really enjoy life." *

A Bold Initiative to lead INNOVATION

The time has come for the federal government to adopt a national investment tax credit for innovative companies.

By Peter Moreira

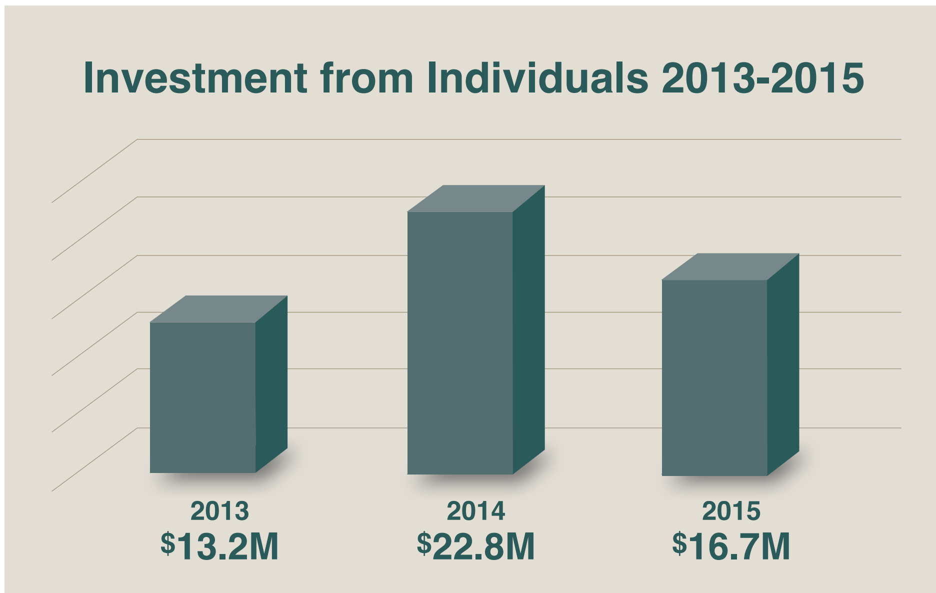
New Brunswick's venerable tech investor Gerry Pond often bemoans the fact that he can receive a tax incentive to invest in Arkansas but not in Nova Scotia.

The investment group that Pond chairs, East Valley Ventures, has a portfolio of 26 active companies, and Pond could have claimed New Brunswick's Small Business Investor Tax Credit only on the 17 that are based in New Brunswick. His investments in Nova Scotia, Prince Edward Island and British Columbia would not have been eligible.

The problem is that the only real Canadian tax incentives to invest in startups are offered by provincial governments, and they apply only when both investor and the startup are based in the province that issues the credit.

Navdeep Bains, the federal Minister of Innovation, Science and Economic Development, needs to change this. The Minister is now devising "a bold, coordinated strategy on innovation" and the cornerstone should be a federal tax credit to encourage investment in innovative startups.

Canada cannot develop an innovative economy without startups. Pure research is essential for innovation, but innovation that stays in a lab has a limited economic impact. To truly diversify the economy, Canada needs companies that produce revolutionary products for industry and consumers. They will need tens of billions of dollars of investment, and a federal investment tax credit is the best way to ensure that investment.



In the last three years, individual investors have sunk at least $52.6 million into Atlantic Canadian startups. A federal investment tax credit could only increase these amounts.

Investment tax credits are now available in roughly seven provinces and 30 American states. They return to investors a percentage of the money they place in a new business up to a certain maximum. The New Brunswick program is probably the most generous in Canada, offering a credit of 50 percent on investments of up to $250,000.

But New Brunswick companies can only use the credit to attract investment from 750,000 New Brunswick residents. The British Columbia program only applies to BC residents. Ontario doesn't have a program.

A federal tax credit would at least allow Canadian startups to draw investment from any Canadian taxpayer. I say "at least" because Ottawa could enhance the program by following the example of such states as Arkansas and Minnesota, which allow investors from outside the state to benefit from the tax credit.

The big worry about such a program is that it would be a drain on the Treasury, even though repeated studies (such as Thomas Hellman's "An Evaluation of the Venture Capital Program in British Columbia" in 2010) have shown these tax credits actually increase tax revenue. A federal tax credit doesn't have to be an openended drain on the Treasury. Like the B.C. program, the federal government could cap the program each year so it would only offer a certain amount of tax credits.

Some also worry an investment tax credit would be viewed as a gift for the wealthy as moneyed investors would be the only ones to claim the credit. That argument ignores the fact that startups need capital and can only get it from people or institutions with capital. The message has to be that financing innovative companies is essential to our national goals, and the investment tax credit is the best way to do this. Members of cabinet know this is the case. Before he became Transport Minister, Marc Garneau said in 2013, "If the rich are encouraged to invest in Canada's startups, then it will be worthwhile."

There is now a splendid opportunity to bring in these tax credits because the best imaginable salesperson for such a policy is the current Prime Minister. Justin Trudeau gets innovation and is superb at discussing technology in ways that grab people's attention. He also has the ear of many of the groups that would criticize an investment tax credit.

So what should the tax credit look like?

First off, the maximum allowable investment has to be $250,000 or higher, and each qualifying company should be able to apply the credit to investments up to $3 million per year. Hundreds of Canadian startups are now in their growth stages and need multi-million-dollar funding rounds. The investment strategy will fail if these companies need to find dozens of investors to raise meaningful money. The high threshold would also allow investors in smaller companies to benefit, so it would encourage startups of all sizes.

Second, the incentive should be offered to investors outside Canada. All Canadian governments spend gazillions attracting external investment, but are strangely reluctant to incentivize foreign investors to put money in our fastest-growing, domestic companies. By extending the credit to foreigners, investors from around the world would be encouraged to consider backing some of the great innovators in Canada.

Third, the government should work with provinces to reform their investment tax credits so they mesh with the new federal program. This could reduce the immediate cost to the federal treasury and amplify the power of the program in luring investment into innovation. It would also ensure the tax credits go to startups outside Montreal, Toronto and Vancouver.

One word of warning: the economic impact of this initiative will be blunted if the government tries to channel too much of the investment into renewable energy. The pressing need to end the use of fossil fuels is obvious. But the conversion to clean energy will require hundreds of billions of dollars in infrastructure changes. A tax credit for innovation isn't the way to finance infrastructure. Our research at Entrevestor shows the greatest economic payback comes with investment in information technology. And given the collapse in resource prices, Canada needs investment in enterprises that will grow quickly.

So let's say that the federal government awards a 30 percent tax credit, and will cut off the spigot after it awards, say, $2 billion of tax credits. And let's say half the credits are awarded to people living outside Canada. What would the effect be if investors maxed out on the program?

First, the net hit to the federal treasury would be minimal, and it could even benefit the government's coffers in the medium term. Second, it would mean an equity investment of $6.7 billion in the fastest growing segment of the Canadian economy. That would compare to the $2.3 billion invested by venture capital firms in Canada in 2015, according to Canada's Venture Capital and Private Equity Association. It would be the most effective way possible to develop innovation in our economy.

A federal innovation tax credit would be the type of "bold" strategy that Minister Bains has so rightly called for.

Let's emphasize again: Canadian startups need capital, especially at the scaling phase of their growth. The government should encourage private investment, even if it could be seen as a benefit to wealthy investors. This is the best way to generate jobs for young people and to diversify the Canadian economy.

A federal innovation tax credit would be the type of "bold" strategy that Minister Bains has so rightly called for.

This column has been adapted from the author's submission to Minister Bains as he consults on the government's innovation strategy. *

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