



ENTREVESTOR INTELLIGENCE

THE JOY OF SCALING

JUNE 2016 • VOLUME 5 , ISSUE 3



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Stalking the East Coast Gazelle

Companies growing 20% or more annually over several years are becoming more common in Atlantic Canada. There's a movement to keep them growing.

When the Halifax startup Proposify wanted to tell the world how it had grown in 2015, it put out a press release with some pretty gaudy numbers.

Founded by tech entrepreneurs Kevin Springer and Kyle Racki, Proposify had already been going for half a decade with the goal of producing a Software-as-a-Service product that would help agencies and others produce a better quality of pitches. It changed names, spun out of the web development company where it was born, took on a bit of capital. But it wasn't until 2015 that Proposify really began to grow. The numbers tell the story:

Monthly recurring revenue, or MRR, rose 1500 percent to \$66,517.

Paid customers increased 746 percent to 1,617.

The staff doubled to eight.

"It took years to get Proposify off the ground, and I can't count the number of times most people would have given up and moved on, but we kept pushing forward," said Racki. "As we sit on the cusp of \$100,000 in MRR, I'm incredibly proud of what our team – now 12 – has accomplished."

Proposify is an example of a recent trend in the Atlantic Canadian startup community – scaling companies. There was a baby boom in the East Coast startup world for the past few years with a lot of young companies forming, and now some of those youngsters are hitting a growth spurt. They're gaining customers, hiring staff, and exporting products around the world.

This growth is great for the companies themselves, their staff and their investors. It also has a massive economic benefit. All the people who have invested so much blood, sweat, toil and tears in the startup community in the last five years did so with the vision of creating an innovative economy on the East Coast. In order for that community of innovators to really have an impact on the broader economy, some of the startups have to grow into bona fide corporations. That's beginning to happen across the region. It's not happening with ease, and there are still plenty of challenges. But the seeds have been planted and shoots are appearing.

Now several organizations are beginning to formulate ways to help established companies scale. For example, the regional accelerator Propel ICT is working on a program for scaling companies.

"We've all witnessed the growth in startup activity in Atlantic Canada," said Calvin Milbury, President and CEO of the New Brunswick Innovation Foundation. "We're pleased about it and excited by it but we can't just be content with startups. We have to be internationally competitive."

Milbury refers frequently to the need for more "gazelles" in the regional economy. While "unicorns" are known to be high-growth companies with a billion-dollar valuation, gazelles are a slightly less well known species



Halifax-based Proposify doubled its team to eight people in 2015, as it began to gain traction after years of laying the company's foundation.

though no less important. Gazelles are companies of any size that are growing revenues by at least 20 percent per year over four years. It may be hard to find many of these companies in Atlantic Canada simply because not many of our startups have four years of revenue history. But there have been more frequent sightings.

"Our philosophy here is to grow these companies," said Milbury. "It's those companies, the ones that are growing quickly over a period of time, that are creating wealth in the economy."

Though it's difficult to get public statements on revenue growth, there is evidence of these companies blossoming. Halifax-based STI Technologies, for example, which helps pharma companies distribute samples, was named to the Deloitte Fast 50 last year when it revealed revenue growth of 204 percent over four years. That placed it 41st on Deloitte's annual tally of the fastest-growing companies in Canada.

STI was the only Atlantic Canadian company to make the Fast 50, though Deloitte did name Smart Skin Technologies of Fredericton in its Ones to Watch list, indicating it's on track to make the Fast 50 before too long.

St. John's-based financial technology company Verafin said last year that its revenues in 2014 had grown 45 percent, and that its compound annual growth rate in 2012-2014 had been 51 percent. Last autumn, Dartmouth-based multi-channel marketing company SimplyCast said its third-quarter 2015 sales increased 105 percent from the same period a year earlier, and that it experienced a 99 percent retention rate among its customers.

These companies are by no means alone. Entrevestor estimated that at the end of 2014 there were about 80 Atlantic Canadian companies that

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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 and the Waterloo Region. 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: Tim Burke, left, and Stephen Hankinson are on a hiring spree at Affinio, the fast-growing social media analytics company based in Halifax. Read the article starting on Page 10.

Entrevestor Intelligence Design: Roxanna Boers

Examples of Gazelles Are Plentiful

had more than \$100,000 in annual revenue and sales growth of 30 percent a year or more. By the end of 2015, the figure was probably closer to 100 companies.

The goal of Milbury and other people throughout the ecosystem is to keep these companies growing and scale them into major companies headquartered in the region. And coming up with programs to support such growth isn't easy. It's one thing for public agencies or government agencies to devise programs to give seed funding to companies; it's riskier, more expensive and harder to sell to the public programs to help medium-sized companies grow into big companies. And at the end of the day, good companies will have to figure out how to scale on their own.

"The ecosystem itself is at the point where the companies are facing all these scaling issues," said Dawn Umlah, Entrepreneur-in-Residence at Innovacorp. She said the big issue a lot of companies are facing is what she refers to as "operational debt". Essentially, that is the weaknesses in a company's structure or organization that creep into the business as it grows. They have to be addressed before the company grows further, and the process of removing operational debt can be painful.

"Operational debt can be found in a bunch of different areas," said Umlah. "One that is prevalent in many startups is translating an R&D organization into a scalable company. You have a great, smart team and you have a few customers and now what? How can you effectively replicate this at scale? Some of it is cultural and it requires cultural changes. The company typically needs a different type of urgency, accountability and discipline."

As a hypothetical example of the problem, she said a company might not have an individual who understands strong sales processes. The company might hire a seasoned sales leader, but that person may end up reporting to one of the founders,

'Our philosophy here is to grow these companies. It's those companies, the ones that are growing quickly over a period of time, that are creating wealth in the economy.'

– Calvin Milbury, President and CEO
New Brunswick Innovation Foundation



Calvin Milbury

RECENT SEVEN-FIGURE FUNDING DEALS

COMPANY	CITY	BUSINESS	FUNDING
IceJam	Charlottetown	Gaming	\$3M
Appili Therapeutics	Halifax	Drug discovery	\$2.3M
LifeRaft	Halifax	Social media analytics	\$2M
Spring Loaded	Dartmouth	Bionic knee brace	\$1.9M
Fiddlehead	Moncton	Predictive analytics	\$1.8M
CarbonCure	Halifax	Green building materials	\$1.75M
Eigen Innovations	Fredericton	Internet of Things	\$1.4M
Ubique Networks	Toronto/Sydney	Server acceleration	\$1M
SkySquirrel	Halifax	Vineyard analytics	\$1M

There are Challenges in Nurturing Scaleups.

who still doesn't understand fully how sales work. The company therefore has to adjust to make sure the expertise of the new person permeates the company culture.

NBIF has raised the banner of helping companies with revenue to grow, and recently held an information session titled "From Startup to Scaleup" that outlined three ways it will help growing companies:

Governance and leadership – While NBIF wants to help startup founders progress into executives, it also wants stronger governance. Research has shown that companies with boards of directors outperform those without boards. Some founders resist establishing boards, but NBIF and others in the community say boards can extend a company's reach and talent pool. "Think about it as a great situation that you cannot do without," said Daniella DeGrace, CEO of Gemba Software Solutions, at the Moncton event.

Sales – Most startups have a few customers or early adopters. But to scale, companies need to master modern sales products. For business-to-consumer SaaS products, the companies need to learn the methods to get their product to millions of clients and to measure and amplify the things people pay for. For enterprise products, companies need to learn how to develop and execute on a sales funnel. They may have to open sales offices close to their customers.

Capital – NBIF has a ceiling of investing up to \$1 million in each company, and will in rare exceptions increase that ceiling. The real change in its funding strategy is that the foundation is now willing to take a lead role in A and B rounds. Whereas it previously would join follow-on rounds led by larger partners, NBIF now could write the term sheets itself so the target company could show other funders an offer on the table.

"When companies are performing-to-plan or exceeding their plans, we will not be afraid to step up," said Milbury. "We'll work to get to those [bigger deals]. We're hoping to take that on, hopefully through partnerships."

Across Atlantic Canada, throughout the spring of 2016, more and more companies have been bringing in million-dollar-plus financing deals. As of press time for this publication, this amounted to almost \$13 million in equity investment, most of it coming from private sources. At *Entrevestor*, we hear of deals coming down the pipe, and through the summer there will be more significant deals announced by scaling companies.



Dawn Umlah

'From an economic standpoint, startups on their own don't create all the opportunity. You need multiple big companies – and a few of them that grow big and stay here.'

– Dawn Umlah
Entrepreneur-in-Residence, Innovacorp

This issue of *Entrevestor Intelligence* examines trends in scaling companies. We profile a few that are gaining revenues or hiring staff. We look at the burgeoning communities in St. John's and Charlottetown. And we profile the granddaddy of the Atlantic tech companies, Mariner Partners of Saint John. We're doing this now because scaling is the most important issue facing our community.

"It's of the utmost importance," said Innovacorp's Umlah. "From an economic standpoint, startups on their own don't create all the opportunity. You need multiple big companies – and a few of them that grow big and stay here. If you have everyone still at the startup stage you're not really building up the skill base the way you need to." ★





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OUR SILENT GIANT

Mariner Partners is the most influential tech company in the region, with its own world-leading businesses and investments in a portfolio of startups.

By Peter Moreira

Last autumn, Mariner Partners concluded a sizeable transaction the way it does much of its business – quietly.

The Saint John technology conglomerate works with a host of startups, and one that captured a lot of its attention was Shift Energy, an Industrial Internet of Things concern that provides automated energy controls to large facilities. Mariner and several of its principals had great faith in Shift's technology, so they sank both time and money into the company despite several setbacks. Then last fall, they decided to buy the company outright and make it a wholly owned subsidiary of Mariner Partners.

"This year, we began to get traction with the owners and operators of large buildings who are taking the lead in sustainability and energy efficiency" said Mariner CEO Curtis Howe. "This is a market measured in billions, so it is a really significant opportunity. We've learned enough about the business that we really believe we can move it forward."

The Shift acquisition transitioned the entire Mariner group. Emerging from the deal, Mariner has four main business divisions, one of which is Shift Energy. Shift has the potential to generate significant revenues for the group, said Howe, and this can be done partly by selling to existing Mariner customers. As a developer of IIoT technology, it's active in a hot, hot space, with companies such as Cisco, IBM, and General Electric increasingly involved in the IIoT segment. And the investment in Shift represented a substantial amount of money.

"It was a lot," said Howe with a laugh. "More than I ever thought we'd invest in a startup."

Here's one interesting thing about this transformative deal: it was carried out with no fanfare. There was no announcement that this startup was



now a unit of one of the most powerful tech companies in Atlantic Canada. There was merely a redesign of the Mariner website to show that Shift was now one of the principal operating units.

Interesting, but not surprising.

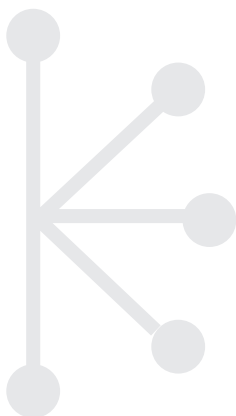
Mariner should be far better known than it is in Atlantic Canada and across the country. It had revenues in each of the past two years of more than \$25 million (growth was stunted in 2015 because it had clients in the Alberta oil patch). It offers world-leading video streaming technology, and its portfolio of startups represents untold potential. Its executives, some of them veterans of New Brunswick Tel, were the driving force behind Propel ICT, the regional accelerator.

What's more, the company's chairman and co-founder is probably the best known member of the Atlantic Canadian startup grouping. Gerry Pond, the former head of New Brunswick Tel, has been celebrated across the country for his contributions to startups and technology. He is the face of Mariner, and is better known than the company itself.

"It would be difficult to overstate the impact Mariner has had in the regional ecosystem," said Doug Robertson, President and CEO of the Venn Centre in Moncton. "Building on the transformative innovations that characterized their days at NBTel, Gerry Pond and his colleagues have played a significant leadership and catalytic role, from initiatives like Propel in its various iterations to investment in and mentorship of so many dynamic IT companies, to policy and thought leadership both provincially and regionally. The positive impact of Mariner's contribution will be felt across the region for many years to come."

'It would be difficult to overstate the impact Mariner has had in the regional ecosystem.'

– Doug Robertson, President and CEO, Venn Centre



Mariner's Four Divisions Set it Apart

A close examination of Mariner's four divisions shows why it should be considered the most influential company in the East Coast tech community.

Mariner xVu

Mariner xVu (pronounced "X-View") is an analytics system that allows online video content providers to identify and correct problems with Internet video delivery systems.

"The internet wasn't built to deliver video", said Howe. "And the pieces bolted on to support video are quite sophisticated. When they don't work properly, it's really hard to figure out what went wrong."

Mariner xVu can figure out what went wrong even when the issue is hidden deep in the largest systems. It's a difficult task because online video delivery – which has grown even more complicated with the advent of mobile video – involves different components based in different places. In fact, the xVu software now searches out issues in more than 135 billion video network transactions annually. Howe calls it "finding a needle in a continental haystack."

It's an attractive business because video is by far the fastest growing segment of the internet and that growth is nowhere near reaching a plateau. We'll see that growing strongly for the next few years," said Howe.

Mariner Innovations

This is a consultancy business that specializes in application modernization and IT professional services. It helps corporations and other organizations solve IT problems. It has strong client relationships in Atlantic Canada, and its customers extend across Canada and into the U.S.



Curtis Howe

'We realized we had one of the world's best talent pools in internet video. We are now the world's leaders in what we do.'

– Curtis Howe, CEO, Mariner Partners

Mariner Innovations had been growing strongly so it became one of the four pillars of the group. However, 2015 proved to be a challenging year because several of its clients were in the Alberta oil patch and were cutting back.

Shift Energy

Mariner itself started Shift in 2009 to develop data-based products addressing energy consumption of large facilities. In May 2013, the company changed direction, building an IIoT application that would react automatically to the data it collected. With the software installed, a large building or group of buildings can automatically reduce energy use in key areas based on data analytics.

To achieve this goal, its EOS software uses a technique called Intelligent Live Recommissioning, which applies sophisticated algorithms to the data to determine the optimal settings instantly through the existing building control systems. In a typical large building, EOS collects and analyzes about 5 million data points per day, and uses that analysis to fine tune the energy performance of centralized heating and ventilation components such as boilers, chillers and air handlers – about 2,000 adjustments daily. Those small adjustments can reduce energy costs in a large office building, hospital or arena by 10 to 20 percent.

Mariner is so excited about the Shift company that it bought out other investors and now showcases the IIoT unit as one of its four pillars. A year ago, the Shift technology was being used by Rogers Centre in Vancouver and an Ontario hospital. Now it's being installed in office towers, hospitals and arenas across Canada and the company has signed its first U.S. customer.

The Mariner group worked hard to tweak the product so it would find a market.

"Finding the right market for this was a real puzzle," said Howe. "If EOS were deployed into the top 10 percent of the world's building stock, it would decrease the world's energy consumption by 3 or 4 percent, and the world's carbon emissions by the same amount."

Shift is now in talks with 50 potential customers, and is finding strong interest especially in sports facilities and convention centres. Howe expects Shift Energy to be a major contributor to Mariner's top line by 2017.

The Company Strives to Remain in Atlantic Canada

East Valley Ventures

This is the unit that makes Mariner Partners unique in the region. No other tech company has an investment portfolio comprising dozens of tech startups.

Headed by Pond and finance specialist Jeff White, East Valley is almost a club in which Mariner and people associated with the group invest in startups. Mariner itself has invested in about half a dozen of the 25 startups listed on the East Valley website. All but two of the investments are in Atlantic Canada (Ottawa's gShift bought a Mariner company InNetwork in an all-stock deal; and Mariner invested in Victoria, B.C.-based Tutela Technologies for strategic reasons.) Some past investments have failed. A few have exited. A few – like Fredericton-based Smart Skin Technologies and Charlottetown- and Montreal-based Spotful – are building revenue rapidly.

"They consider themselves something very different than an investment company," said David Baxter, President of Moncton-based Fiddlehead Technology, one of the East Valley portfolio companies. "They believe they're there to help these companies. Money is not the first thing they offer. They offer a support network right out of the gate."

One final point about Mariner Partners is its pedigree. The origins of the company began in New Brunswick Telecom. Before it merged with its Atlantic Canadian counterparts to form Aliant, it was known as one of the most innovative phone companies anywhere. Its executives – like Pond, Howe and operations whiz Bob Justason – are still mainstays of Mariner.

Then during the dotcom boom of the 1990s, many of the NBTel alumni worked at Saint John-based iMagic TV. It blossomed into a publicly listed company by helping phone companies offer TV and Internet to customers. After Alcatel bought iMagic for about US\$30 million in 2003, the people that built iMagic worked on other ventures such as Radian6 and Q1 Labs (both of which exited in 2011-12) while others wanted to work in online video.

"We realized we had one of the world's best talent pools in internet video," said Howe. "We are now the world's leaders in what we do."

He adds that these companies – Q1 Labs, Mariner, Shift -- share several technological elements. The talent pool has grown, and Mariner recently moved into a new larger office on the top floor of Brunswick Square in Saint John. Howe said the company's revenue grows at about 15 percent per year, and he does not foresee any slowdown in that growth.

A question about the future prospects is whether the company will raise capital to accelerate growth. Howe said a public listing is "not top of mind for us" but he wouldn't rule it out either. If the company were to raise capital, a more likely vehicle would be a strategic investment from one of its blue-chip clients. One idea that Howe douses immediately is an exit.

"It would be easy to sell the company but that's not our goal," said Howe. "We definitely think that Atlantic Canada needs to build companies that can attract foreign investment as Q1 Labs and Radian6 ... have done so successfully, but we think it's equally important to grow headquarters operations here in the region, and we've positioned Mariner in that latter group." ★



Gerry Pond: He is the face of Mariner, and is better known than the company itself.



Highlights from the East Valley Ventures Portfolio

East Valley Ventures has one of the most exciting portfolios of startups in the region. Here are milestones reported by a few of its companies in the past few months:

- **EyeRead, a Halifax-based educational-technology company, was accepted into the Google for Entrepreneurs program in Kitchener, Ont.**
- **Eigen Innovations, a Fredericton-based Internet of Things company, placed third at the second annual Cisco Innovation Grand Challenge in Dubai.**
- **Automotive technology company Selectbidder of Moncton has signed auction partners in California, Florida, Maine and Pennsylvania.**
- **Halifax-based Swept (formerly Clean Simple) raised \$575,000 in equity funding, becoming the first Atlantic Canadian portfolio company of the venture capital fund Highline.**
- **Spinzo, the Saint John-based developer of a crowdsourcing platform, signed on the Arizona Coyotes of the National Hockey League as its first professional sports client.**



From 9 to 60 Staff in 14 Months

After Affinio closed its \$4 million funding round, the social media analytics company went on a hiring spree that is continuing.

By Peter Moreira

Tim Burke wandered through the empty half of Affinio's office to the meeting room where the interview would take place.

In the early morning sunshine, this half of the open-plan office was an expanse of empty tables, and a ping pong table, but no sign of anyone working – so far.

“Oh, it will fill up,” Burke said with an easy smile when he was seated.

When Affinio, the company Burke heads, moved into the space in the spring of 2016, the co-founders wanted a lot of room for growth. The three-and-a-half-year-old social media analytics company is staffing up – fast. It had nine employees when it raised \$4 million in venture capital last November. Six months later, there were about 37 employees, all but three of them in the Halifax headquarters. By the end of 2016, Burke expects to have a staff of 60, and he foresees the company's galloping growth to continue through 2017.

“It's pretty aggressive,” Burke said of his hiring spree, adding that most of the hires are in sales, marketing and customer support. “It's primarily

because it's an enterprise SaaS [software-as-a-service] sales structure. It's very similar to Radian6, and we see very aggressive growth. We're going after accounts we think we can and should win.”

There's no shortage of buzz in Halifax about Affinio, given its rapid expansion plans. The company does not release revenue details, but its strong funding and growing staff have turned heads.

“They are definitely one of the rising stars,” said Dawn Umlah, Entrepreneur-in-Residence at Innovacorp. “Even in terms of talent acquisition, they're working very well ... I hate to say ‘killing it’, but that's what they're doing.”

The buzz is nothing new for Burke and Stephen Hankinson, his technical co-founder and long-time collaborator. In the first decade of the century, they formed Quark Engineering, a small team of product whizzes that built products for themselves and others. It was a team with diverse talents, and at the core were Burke, an engineer with an entrepreneurial flare, and Hankinson, a programmer who other coders speak of in reverential tones. They struck gold in 2009 when they produced TetherBerry (later called Tether), an app that let people gain an online connection for their



‘Even at [the early stage], the response to the demo was overwhelming. The most common response we got was, “We’ve never seen anything like this before.”’

– Tim Burke, CEO, Affinio

Helping BBC Worldwide to Fathom its Audience

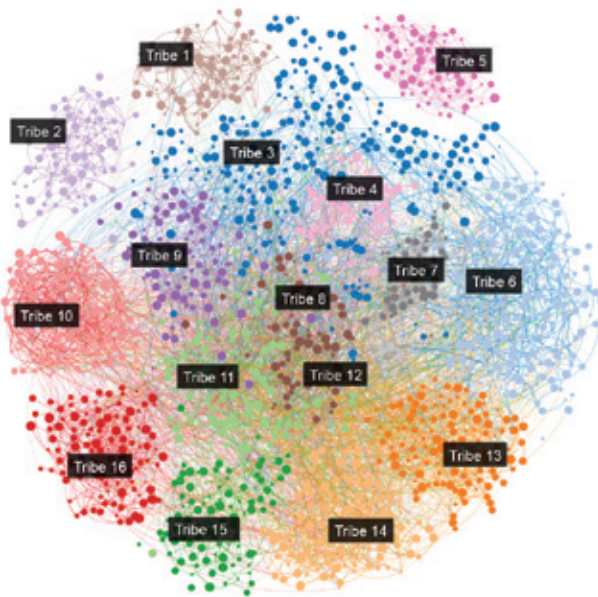
In April 2015, BBC Worldwide announced that it had selected Affinio to help it better understand its audiences around the world.

The announcement included a sample of Affinio's simple but effective graphics that show how different groups of an audience are connected.

"Affinio allows us to see patterns in our audience that we've not seen before," said BBC Worldwide Executive Vice President of Insight David Boyle in the statement. "Crucially, it shows the different segments of consumers that follow our brands, allowing us to better understand and engage each of the different types of consumers who love our brands."

Affinio analyzes the interests, affinities, and social connections of each user to develop a social DNA profile for every user, said BBC Worldwide. It segments members with high affinity to one another into communities of like-minded people. Within each community, Affinio details an unprecedented understanding of the culture of the tribe through how members describe themselves, how they communicate, what interests and affinities they have, and what content is important to them.

BBC Worldwide, the main commercial arm of the BBC, has annual revenues of about \$2 billion. Its goal is to build the BBC's brands, audiences, commercial returns and reputation around the world.



laptop through their cell phone plan. That consumer product brought in more than \$100,000 in revenue in the first three days, and won the team Innovacorp's 2010 I-3 Technology Startup Competition.

Tether was a cash cow for Quark and provided revenues while Burke and Hankinson built out the team, including Ardi Iranmanesh, an expert in SaaS metrics, and Phil Renaud, who is now Affinio's VP Engineering. As well as working on their own projects, the team did contract work for several companies, including startups. Hankinson is known throughout the region for the speed and precision of his coding, and clients came to Quark to get the team to build out their technology.

Then in 2013 the Quark team began to work on a new project, which they called Affinio. It is an advanced database technology that allows low-cost, real-time processing of social network data to determine how every person on the web is connected. It mines publicly available social media posts and other business data to find people who are connected by common interests, experiences or networks.

Burke admits there are other similar products on the market but what sets Affinio apart is its ease of use, its interpretive functions and its vivid graphics. From the outset, it drew attention.

"Even at that stage, the response to the demo was overwhelming," said Burke. "The most common response we got was, 'We've never seen anything like this before.'"

The company launched in 2013 with \$1.5 million in investment from Halifax venture capital fund Build Ventures. Build Principal Rob Barbara says his firm likes to invest in technology that "a few really smart guys can't duplicate in a couple of months." Affinio fit the bill as it immediately drew international attention. In the past three years, Affinio has been showcased at the O'Reilly Strata Conference in New York, and has participated in the Canadian Technology Accelerator in New York, the BBC Worldwide Labs incubator in London and Microsoft's Seattle Accelerator.



Hankinson and Burke won Innovacorp's 2010 I-3 Technology Startup Competition for Tether, a product that made more than \$100,000 in its first three days.



The Founders of Radian6 Have Been Great Mentors

And, the company is having success in sales, with 80 percent of the revenue coming from the U.S., led by the New York-based Vice-President of Customer Success John Gleeson.

“It was a really smart move for us to have a guy in New York,” said Burke. “John has a daily presence there and it’s been significant in developing and retaining clients. ... We’ve got a lot more traction in the media and entertainment industries that are using our platform to guide their brand strategy.”

Along with the sales came more funding. Whitecap Venture Partners of Toronto led a \$4 million round last November, joined by Build, New York-based Social Starts, New York-based BRaVeVentures and several angels. And that money is funding the hire of a significant staff. From nine to 37 in six months and then an expected 23 more in the next seven months.

“We’re hiring a lot of great young talent,” said Burke. “It’s a really young



Stephen Hankinson is a programmer known for the precision and speed with which he develops products.



Tim Burke: An engineer with an entrepreneurial flare.

‘They are definitely one of the rising stars.... I hate to say ‘killing it’, but that’s what they’re doing.’

– Dawn Umlah, Entrepreneur-in-Residence, Innovacorp

group, most of them straight out of university.”

About one-quarter of the staff is in product development, with 35 percent in sales and marketing and the rest in executive positions and customer support. As he focuses on building his staff and the company, Burke is leaning heavily on some key mentors. First there are Marcel LeBrun, Chris Ramsey and the team that built Fredericton-based Radian6, one of the most successful tech companies in the region. Burke talks with them regularly to discuss scaling of a company. And he’s found that the Microsoft accelerator has a tremendous alumni program, which has been instrumental in introducing Affinio to clients.

As the summer deepens, Burke is turning his attention more and more to a Series B round of financing, which he hopes to close in early 2017. He didn’t reveal many details but he said some clients in the media industries have investment arms that have noticed Affinio. The company is also working with clients to adapt new products, some of which analyze data owned by the clients themselves.

“With a lot of the new products, growth will continue on a really fast pace, even more fast than what we’re doing now,” said Burke. “Our revenue per customer is growing and the size of deals is continuing to rise as well.” ★

COO Role Changes as a Startup Scales

Erin Flood of HotSpot Merchant Solutions has had to grow as she oversees operations of the evolving business.

By Carol Moreira

Three years ago, HotSpot Merchant Solutions was a small Fredericton startup. Today, it's growing with a major U.S. partner. Erin Flood, the company's Chief Operating Officer, said growth is driven by prioritizing relationships and communication.

The HotSpot technology allows the remote payment of parking meters. The product produces data for downtown businesses, and allows the businesses to advertise to customers through their cellphones. The company can also track customer response rates.

HotSpot operates in Fredericton, Saint John, Moncton and Charlottetown, and has about a 30 percent penetration rate in each. Last year, the company began a partnership with North Carolina-based mobile payments company Passport. It's expected the move will increase HotSpot's accessible market by 100 times.

Flood has been with HotSpot since the beginning and her role has changed with the growth of the company.

"I was brought on to manage marketing and social media and develop a brand presence. I'd been working for a non-profit on their social media," said the young woman, who has also worked in the IT sector.

Her role rapidly expanded to include customer services and human resources. Now, she is also responsible for hirings and strategic partnerships.

"In startup life, you wear a lot of hats," said Flood who graduated from Nova Scotia's St. Francis Xavier University in 2011 with a focus in psychology and sociology. She has also completed Seth Godin's AltMBA and is a C100 Top Tech Woman in Canada.

"The hats allow you to gain more experience, although it did seem overwhelming at first. We lived and breathed the company. We still do... Building a company has been an unmatched education."

HotSpot is currently hiring account managers and developers and could take on up to five new hires in the next few months. The number could grow to 15 by the fall.

Growth is rapid, but the team has learned to be cautious about hiring, after taking on a lot of people in 2013 and then having to downsize.

"We jumped the gun," Flood said. "We went up to 15 staff. We weren't focusing on developing our people, we were pushing the product. Now, we're learning from our mistakes, and investing in great people."

There are currently three on the executive team—Flood, CEO Phillip Curley and CTO James Lockhart. They are assisted by veteran entrepreneur David Wagner. With part-time and contract staff, there are ten people involved in HotSpot operations.



'In startup life, you wear a lot of hats. The hats allow you to gain more experience, although it did seem overwhelming at first.'

— Erin Flood

Flood said HotSpot is not about hierarchy.

"At the start of every week, we hold a big meeting. That communication is crucial," she said.

"We aim to ensure hires fit with our culture. It's not just qualifications. We see their strengths from conversation. We're looking for passionate, humble, empathetic, positive and self-directed people."

Investing in trusted staff allows the executive team to lower their stress levels.

"In a startup, you're always stressed, but if you weren't there'd be a bigger issue," Flood said. "You need to be aware of your company's position in the marketplace and what is going on elsewhere."

"When you're not worried, I don't think you're learning. You might be missing something," she added.

Stress may be largely inevitable, in Flood's opinion, but she does keep it in check by ensuring she has an hour a day, tech-free, to exercise outside.

At the moment, the executive team members are all training to take part in the Duncan Hadley Triathlon.

The team is also busy learning the culture of Passport. The U.S. company has raised US\$7.5 million in investment, has satellite offices in Barcelona and Bangalore, and operates in more than 1,000 locations, including Chicago, Toronto and Boston.

"We have to ensure communications with Passport are streamlined and consistent," Flood said. "We travel quite a bit. When our technology is introduced to a new city we're there. It's exciting. We're learning how things are done in the U.S." ★



New Funding Sources in St. John's

Four companies have received funding in the past year from Venture NL and Killick, and they are now accelerating their growth.

By Peter Moreira

After the funding announcements emerged from St. John's, the postings began to appear for job openings with the companies.

Clockwork Fox Studios, Sentinel Alert, HeyOrca!, and Sequence Bio had all just raised money from local institutions and were now hiring.

In the past year, St. John's has witnessed an evolution that many in its startup community had been working on for a long time. It has had an active community, mentorship and work areas for a while, but now there are new funding streams in place that are generating growth.

"It's incredible for the community," said Peter Gifford, Propel ICT's St. John's-based Entrepreneur in Residence. "At the moment, we've got very active seed-stage investors who are not only investing their capital in the companies but are also investing their expertise."

Two factors led to the funding growth. The Newfoundland and Labrador government teamed up with several parties to form the Venture Newfoundland and Labrador fund, which is managed by Pelorus Venture Capital. Meanwhile, Killick Capital, the investment fund of the Dobbin family, realized gains from a few exits and was in a position to redeploy capital.

"When we looked at the investment opportunities available in St. John's they were skewed to earlier stage companies," said Mark Dobbin, who heads the fund. "We decided to respond to this market by investing in more companies at smaller amounts per company."

Through last autumn and winter, Venture NL and Killick spearheaded a funding drive into four growth-stage companies in St. John's:

► **Sequence Bio**, \$1 million, co-founded by Tyler Wish and Chris Gardner. The St. John's company that analyzes genetic data to improve medical outcomes received \$500,000 in equity funding from both Killick and Venture NL.



Sarah Murphy of Sentinel Alert won the Women Entrepreneurs' Bootcamp in Kitchener last year.

Founded in 2013, Sequence works with partners to analyze vast sets of data from gene pools to get a deeper understanding of which people are at the greatest risk of contracting a disease.

► **Clockwork Fox**, \$1 million, founded by Ed Martin. The educational game producer landed \$750,000 in new investment from Killick and Venture NL. It also received funding from Pluto Investments, Petten Holdings, and Joe Antle. The company's flagship product is Zorbis Math Adventure, a game-based learning system for early math that aims to improve K-3 learning outcomes.

► **HeyOrca!**, \$625,000, co-founded by Teo and Sahand Seifi. HeyOrca! is an online platform that helps marketers collaborate on social media content. The company, which operates out of the Genesis Centre, is a graduate of the PropelICT Build program, allowing it to tap into a \$150,000 convertible note from BDC Capital. The other investors in this round are Venture NL and Killick.

► **Sentinel Alert**, \$525,000, co-founded by Sarah Murphy and Jason Janes. Sentinel produces software that can detect when a worker has had an accident or may soon have one. The software is originally being used on devices like smartphones, but the company hopes to eventually partner with a hardware

company to produce a wearable device. The company received investment from Killick, Venture NL and a private angel investor.

These deals amount to just over \$3 million, which is significant but not earth-shattering. What's interesting about the recent funding wave is the various sources. In addition to individual and family investments, several institutions have invested in Newfoundland lately. BDC Capital is a direct partner in Venture NL and made a direct investment in HeyOrca! In addition to these investments, Halifax-based Build Ventures in late 2014 invested \$3 million in St. John's-based Celtx, which makes software for the film industry.

The greater significance is what comes next. These companies are now in a position to raise more money, assuming they build their operations significantly. And as the St. John's success story Verafin has demonstrated, the real economic benefit comes in the later stages.

"A percentage of our fund is dedicated to follow-on investment," Pelorus investment manager Chris Moyer recently told *Entrevestor*. "Private funds allow everyone to work together to push the companies forward.... In all our investments, angels that invested in our fund invested their own money in the companies as well." ★

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Digital Charlottetown

Long known as a stronghold of life sciences, the P.E.I. capital has developed a strong ecosystem for ITC companies. Here's how it happened.

By Peter Moreira

Gillian McCrae smiled as she looked back at the makeshift stage where six Prince Edward Island digital technology companies had just pitched.

McCrae, the Propel ICT Vice-President, had just overseen her organization's first Local Demo Day in Charlottetown. It had taken place before a packed house at the Upstreet Craft Brewery, the crowd full of mentors, entrepreneurs and politicians. And, she had to agree things were different when she started her own IT company on the Island four years earlier.

When McCrae went through the Propel accelerator, then called Launch36, she had to drive to Moncton each week for instruction. Propel and the Charlottetown tech community were too young to have a cohort in P.E.I. Both have grown up, as was evident at the Local Demo Day.

"You can see how much support there is here to help companies succeed," said McCrae. "There wasn't anything like this when I was going through."

With its rich tradition in agriculture and veterinary medicine, the Prince Edward Island innovation community until recently was skewed heavily toward life sciences. Yes, there were great IT success stories, like video display advertising company ScreenScape Networks and digital archive manager discoverygarden. But with institutions like the PEI BioAlliance and the Regis Duffy Bioscience Fund, the support network for life sciences teams was far greater than for their brethren in IT.

But that is changing for a few reasons.

First, there are more IT companies springing up in P.E.I. Consider this: the latest Propel ICT cohort received a record 168 applications and P.E.I. (which has about 6 percent of the region's population) accounted for 18 percent of the entries.



Gillian McCrae: 'There wasn't anything like this when I was going through.'

'What's going on in P.E.I. is just phenomenal – especially the involvement of our youth as they are our future.'

**~ J. Heath MacDonald
Minister of Economic Development
and Tourism**

Second, there are more established places for them to meet and work. Some of the young startups have been working in the Launchpad PEI co-working space, which is where the Propel cohort met. And as this report went to press, Charlottetown's Startup Zone was about to open. This startup house was expecting to welcome 16 companies in IT and other segments, offering them office space, programming and peer-to-peer support.

And third, there is Propel itself. Island companies are still able to join the advanced

Build accelerator and travel to Moncton once a week for mentoring. Onset Communications, a Charlottetown company that helps film crew members communicate with one another instantly, did just that in the first cohort of 2016.

But there is also an option of joining the Launch program for entrepreneurial beginners, which for the first time this year met in Charlottetown. Five companies completed the Launch accelerator on the Island this spring and presented at the Local Demo Day. They included companies like Airbly, which has developed hardware and software that automates the process of keeping a flight log for small aircraft, and King Ding Productions Inc., which aims to improve food safety.

"IT is the fastest growing industry," said J. Heath MacDonald, the minister of Economic Development and Tourism. "It just continues to expand. And what's going on in P.E.I. is just phenomenal – especially the involvement of our youth as they are our future."

McCrae knows the importance of building IT companies, and the challenges these companies face. Before joining the Propel staff in 2015, McCrae was the CEO of GetGifted, an Island phenomenon that let merchants give gifts to customers as long as they stopped by the shop or restaurant. The company went through Launch36 but shut down when the problems of expanding in a big city became obvious. Now, based in Halifax, McCrae works mentoring companies across the region and is looking forward to the next cohort – for which applications are now open.

She said the entrepreneurs and experts throughout Charlottetown have come out to help mentor the new tech entrepreneurs. "This has created an integrated program with support from the community and from the people within the program itself."★

Channeling Funds into Drug Development

In less than a year, Appili Therapeutics has raised \$3.3 million in funding, built up a team and established a base in Halifax.

By Peter Moreira

Kevin Sullivan had the pride of a guy showing off his new Cadillac. But it wasn't a car he was displaying, it was the new laboratory that his company had recently moved into.

The company is Halifax-based drug discovery outfit Appili Therapeutics Inc., which in May announced \$3.3 million in funding, comprising equity, debt and grants. On the same day, Sullivan unveiled the company's new lab in the Innovacorp Enterprise Centre in Halifax and introduced the team of PhDs working for the company. A month earlier, Appili had announced it received a special fast-track approval designation from the Food and Drug Administration.

Not bad for a company that began last year.

"Appili is a company that hasn't been around long, and coming from where they started to where they are today is truly impressive," said Scott Moffitt, the Managing Director of BioNova, the life sciences industry association in Nova Scotia.

Appili is a notable company because of its leadership, its strategy and the story of how the company came together. Sullivan is a businessman operating in a segment that is often known for the high concentration of academics. He's raised more than \$40 million for various companies, and he brings a deep expertise in developing new drugs.

Sullivan came to Nova Scotia in 2013 to take the helm at DeNovaMed, a Halifax company working on a cure for antibiotic-resistant viruses. He had previously spent 10 years (including four as COO) with London-based Viron Therapeutics Inc., which was developing a cardiovascular drug. Viron raised more than \$35 million in equity and non-dilutive capital and took its lead product through Phase 2 trials.



Kevin Sullivan: Home runs and singles

During his work in the biotech field, Sullivan met up with Brian Bloom and Jolyon Burton, the principals of the Toronto-based healthcare-focused investment boutique Bloom Burton & Co. Together, they decided to form a company in Halifax headed by Sullivan that would develop drug candidates.

The first is ATI-1501, which aims to remove the nasty taste from an existing drug that treats *Clostridium difficile* infection, or CDI, an urgent antibiotic-resistant bacterial threat that causes 29,000 deaths annually. A drug called Metronidazole has been used to treat the condition since the 1970s, but kids with CDI don't want to take it because of its dreadful taste. ATI-1501 removes the bitter taste.

The Food and Drug Administration recently granted orphan drug designation to ATI-1501, meaning Appili could have an accelerated regulatory path and protection against competition for seven years. The company expects to begin clinical trials next year and have a product on the market in three or four years.

The second drug candidate is ATI-1503, a drug that could fight deadly infections such as *Klebsiella pneumoniae*. The media is full of warnings about viruses that are resistant to antibiotics and Sullivan said this drug could help combat them, but it's a longer, riskier project than the first drug.

"We're now entering a post antibiotic era, where a common cut could be deadly," said Sullivan. "That's what keeps us up at night."

Sullivan described Appili's strategy as one based on "hitting home runs and singles." The idea is that the drug for CDI can get to market quickly, but address a limited market. By selling the product, it could produce a steady income stream. That would help to finance the drug for antibiotic-resistant viruses, which could become a blockbuster drug.

The strategy helped Sullivan attract \$2.3 million in equity financing in the latest round -- \$1.8 million from individuals brought together by Bloom Burton, and \$500,000 from Innovacorp. Appili supplemented the raise with funding from the Atlantic Canada Opportunities Agency and NRC Irap.

"This is a seed round," said Sullivan. "We'll be looking to go back to the capital markets in the summer and close another round of financing in the fall." ★





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What's Wrong with HALIFAX?

There's a lack of buzz in the city's tech community, but that's not to say nothing is happening.

By Peter Moreira

In late May, a professional steeped in startups told me he was disappointed with the lack of quality he's seeing in the Halifax startup community. The next day we reported in *Entrevestor* that Appili Therapeutics had raised \$2.3 million in equity funding.

The day after that, a tech consultant told me he hadn't heard of much new happening in Halifax, and we reported that Metamaterial Technologies Inc. had bought the business of Silicon Valley peer Rolith.

It's a common complaint that I've heard countless times in the last year, especially in the IT community: the Halifax startup community is dead. Or it's too quiet. Or there's a lack of quality.

This is usually the place where I jump in and point out how wrong this impression is. I'm not going to do that in this column. What I will say is the situation is more complex than the naysayers realize, and that they are missing something. But I will agree on two points – there is a lack of buzz in the Halifax startup world, and the city is missing a groundswell of new IT companies coming up beneath the established companies.

The lack of buzz is a stark contrast to five years ago when the first DemoCamp was held in Halifax. Organized by Milan Vrelic (then CEO of TitanFile), there was a festive atmosphere at the showcase for startups in the city. The auditorium was packed, with people sitting in the aisles. And there was a giddy joy about all the new companies that were launching – right here in Halifax.

Five years down the road, we can point out that the harsh reality of that lovefest was that most of the companies that presented there have fallen by the wayside. There were only two demoing companies at the 2011 DemoCamp that can be called no-questions-asked, Halifax-based successes: Compilr, which exited for \$20 million, and Pitch Perfect, which continues to grow under the name Proposify.

What Halifax offers now that was missing before is a fertile ecosystem that includes a broad range of successful companies attracting capital and customers.

What Halifax offers now that was missing in 2011 is a fertile ecosystem that includes a broad range of successful companies attracting capital and customers. There are more scaling companies than we've ever seen. We've featured several in this report, like Affinio and Proposify. Sports medicine technology company Kinduct Technologies has participated in the Dodgers Accelerator program in Los Angeles and has secured a host of sports teams as customers. STI Technologies made the Deloitte Fast 50 last year. PACTA, whose technology helps big companies manage their contracts, recently pitched at the Google Demo Day in Silicon Valley. Companies like Dash Hudson, QRA and B4Checkin continue to build traction with paying customers.

That's just in the tech space. In life sciences and medical devices, companies like Appili, Densitas and ABK Biomedical are pushing ahead. Ditto for cleantech with companies like TruLeaf and CarbonCure Technologies. In manufacturing, Spring Loaded Technology received \$1.9 million in funding from Build Ventures and is selling its bionic knee brace.

High-growth companies of this quality have not existed in Halifax in such numbers before. What we're not seeing is enough new startups coming up behind these companies. Again, there are intriguing companies like Athletigen, QR Health, and Site 2020 that are growing. And Vrelic has returned to the startup world with Zora, whose product helps landlords vet tenants. A few more would be nice, but it's not like the cupboard's bare.

The fact that Vrelic has started his second startup in Halifax highlights a trend to watch. We're going to start seeing entrepreneurs who have had successful exits re-entering the arena with new companies. These people bring know-how, a huge network of contacts and their own capital. It won't be a massive movement as there haven't been enough exits. But it will add to the startup community and help to battle the notion that there's nothing happening in Halifax. ★

Andy by the numbers.

We've got some pretty legit experts in-house at Innovacorp. For example, take our IT investment manager, Andrew Ray, who started his career as a rocket scientist. As in, Rocket Science, rocket scientist.

400,000 - Number of users on his former start-up's mobile payment platform, Bazari.

8 - Number of investors he's raised money from as an entrepreneur.

1 - Number of star clusters he discovered as a rocket scientist.

5 - Number of deals he's led at Innovacorp.

10 - Number of investments he manages in Innovacorp's start-up portfolio.

3 - Number of languages he speaks. English, French and Italian (for the food).

5 - Number of start-up boards on which he's a director.

220,000 - Number of times satellites have orbited the earth using the navigation software he developed.

7 - Number of countries he's lived in. (That means visas for England, Belgium, France, Italy, India and the US.)

4 - Number of near-death experiences he's had on his motorcycle in the Himalayas.

1 - Number of popes he's danced for. (Don't worry, we'll get the deets at the next Innovacorp holiday party.)

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