



ENTREVESTOR INTELLIGENCE

THE DEAL THAT CHANGED EVERYTHING

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The Exit That Created the East Coast Startup Community

The US\$326 million deal sparked Atlantic Canadians' interest in the startup phenomenon. As *Mark Taylor* reports, it also spawned the regional accelerator, dozens of re-investments and a robust ecosystem.

For Marcel LeBrun, it was like winning the Stanley Cup.

"Just like hockey players who work all their lives toward that goal of winning the Stanley Cup, entrepreneurs work very hard to build a startup into a successful business," said LeBrun, reflecting on the landmark exit of the company he co-founded, Radian6. "We felt like we won the Stanley Cup of tech entrepreneurship. It is also a great feeling to achieve this together with a team of people you really enjoy working with every day."

The exit of Radian6, which was announced five years ago, on March 30, 2011, transformed the landscape across Atlantic Canada in startups and technology. LeBrun's company sold to Salesforce.com of San Francisco for US\$276 million in cash and US\$50 million in stock.

Certainly there have been larger Atlantic Canadian deals -- only seven months after the Radian6 exit to Salesforce.com, Q1 Labs, originally of Fredericton, sold to IBM for an estimated US\$500 million. And Ocean Nutrition Canada of Dartmouth sold out to Royal DSM for \$540 million in 2012. But it was the Radian6 deal that changed the startup ecosystem for good.

The deal rewarded a group of angels, who reinvested in other companies. It allowed an early institutional investor to invest more in New Brunswick. It helped to finance the regional accelerator Propel ICT. It drew other tech entrepreneurs into the startup field and it established Salesforce.com on Canada's east coast.

"The exit resulted in getting the fastest growing software company in the world, Salesforce.com, to set up shop here in New Brunswick," said LeBrun. "That is huge. This is the most innovative and fastest growing company in tech and software. How do you attract a company like that? Only through an acquisition. They are an important presence here, creating leading edge-jobs, contributing to economic growth, investing in charitable causes, and developing top tech and business talent which is very important to our future growth."

Founded by LeBrun, Chris Newton and Chris Ramsey in 2006, Fredericton-based Radian6 quickly established itself as the pre-eminent company in the world for monitoring and analyzing social media. Its technology monitored hundreds of millions of conversations every day across Facebook, Twitter, YouTube, blogs and online communities, delivering insights in real-time. The company was profitable by 2009, and it was used by half of the Fortune 500, including Dell, GE, Kodak, Molson Coors, Pepsico, and UPS. Radian6 employed 350 people in New Brunswick and Nova Scotia when the deal closed.

The sale of Radian6 became a windfall for many Atlantic Canadian



Chris Ramsey: 'The ecosystem will continue to grow.'

investors in the company. For example, the New Brunswick Innovation Foundation turned two investments in Radian6 totalling \$326,973 into an investment return of \$9.25 million. The money has helped support investments in numerous companies since then.

"Since the acquisition, there has definitely been an increase in entrepreneurship in the form of new incubators and many, many new startups," said Ramsey.

"Many of those startups are doing well, some doing very well. It's a numbers game. Many will burn out, a few will make it, and a few of those will become leaders in their industries, big enough to make it all worth it. The ones that don't make it, they will graduate new, skilled people who

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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: Marcel LeBrun guided Radian6 to the exit that created the startup ecosystem in Atlantic Canada. Mark Taylor, the owner of Fredericton-based Delora Media, looks back at what the deal meant and how it came together. Read his article starting on Page 3.

Entrevestor Intelligence Design: Roxanna Boers

In an Exit, Atlantic Canada Actually Gains a New Company

will hopefully go on to create or join new startups, and the ecosystem will continue to grow.”

The next Facebook, Google or Amazon can be created and built in Atlantic Canada, Ramsey added.

Canada's Venture Capital & Private Equity Association named the Radian6 sale the 2012 VC Deal of the Year for its venture capital backers Summerhill Venture Partners, Brightspark Ventures and BDC Capital.

Best of all, the company continued to grow in Atlantic Canada as part of Salesforce. A year later, Salesforce.com did another Atlantic Canadian deal, buying Golnstant of Halifax, reportedly for more than \$70 million.

“An exit isn't an event where we lose a local company to the U.S.,” said LeBrun. “Rather, it is an event where we gain a new company from the U.S. This brings in more outside capital and a lot of spin off benefits. Also, you often see employees from the start-up eventually spinning-out to start new ventures of their own. It has a generational effect.”

He said the Atlantic region has a huge potential but needs more talent.

“The potential is always infinite,” said LeBrun. “There is no better time in history to be innovating and solving our world's most important problems. With the internet, cloud computing, mobile technology, the internet of things, big data, and the world of socially connected consumers, the opportunities are boundless and easier to

‘Since the acquisition, there has definitely been an increase in entrepreneurship in the form of new incubators and many, many new startups.’

– Chris Ramsey

address than ever before. I also love the growth of impact-minded entrepreneurs - those who are not just looking to maximize shareholder value but also looking to improve our communities and our environment. It is a great time to be an entrepreneur. The global market potential is incredible and it is entirely accessible from any location. All that is needed is execution.”

According to the Information and Communications Technology Council of Canada, ICT sector growth in Atlantic Canada has surged since the Radian6 deal. New Brunswick saw its sector grow more than 8 percent since the deal while the ICT industry in Nova Scotia grew 8.3 per cent in 2014 alone. Prince Edward Island is one of only four Canadian provinces to experience positive ICT GDP growth each year since 2011.

“It has grown tremendously thanks to the effort of many dedicated tech leaders, mentors and investors in our community who choose to contribute their time and energy for the betterment of our region,” said LeBrun. “Just look at the last two cohorts of companies that just came through the Propel ICT programs. The activity level is incredible. Radian6 played just a small part and the credit goes to our region's mentors, teachers, investors and incubators.”

Growth in Atlantic Canadian ICT Has Surged Since the Deal



Propel ICT's Launch36 accelerator became one of the first resulting activities to follow the Radian6 and Q1 Labs deals. The accelerator in 2011 set a goal to graduate 36 companies within three years. Propel ICT exceeded its goal in 2015 with 49 Atlantic Canadian startups emerging from Propel's Launch36 accelerator in 33 months.

"The potential is to hit over 200 startups per year in the total ICT ecosystem," said Gerry Pond, one of Radian6's early investors. As well as being a driving force behind Propel ICT, Pond and several other investors in Radian6 have created East Valley Ventures, which has invested in more than 30 startups in the past five years, all but one in the Maritimes. The portfolio includes such highflyers as Resson Aerospace, Smart Skin Technologies and Spotful.

"We have to keep in mind there is a high turnover rate of 30 to 40 percent after five years in operation," said Pond. "This is a normal condition in healthy ecosystems globally. However we should see a couple more Radian6s or Q1 Labs by 2020. I'm personally out on the far end of that, predicting a \$1 billion exit by 2019 from Atlantic Canada."

He added that Propel ICT now operates in all four Atlantic Provinces and graduated 33 companies in 2015 alone.

"Propel ICT now serves all four provinces and the next cohort's two streams received 162 applicants by February 2016," said Pond. "I estimate this is about a five times growth factor in the last five years."

Propel ICT's success is one example of how the Radian6 exit impacted the region, he added. "It put New Brunswick and the Maritimes on the map as a credible centre for ICT startups in new tech fields," said Pond.

The former head of New Brunswick Telecom said he remembers the Radian6 exit well, and that it put millions of dollars in circulation for startups, the ecosystem and tax revenue.

"It was rewarding on two fronts," said Pond. "I was part of a team that built \$400 million of value in just five years in New Brunswick with New Brunswick founders and a New Brunswick management team. It returned on my investment 23 times, a record rate of return in the millions for me and other angel investors."

And as for LeBrun himself, he spent almost five years with Salesforce as Senior Vice-President of Tech & Product Marketing Cloud. He left the company in September, 2015, and now describes himself as a tech and social impact entrepreneur.

"It is a rare and special accomplishment that we will always enjoy looking back on," he said, reflecting on Radian6. "However, an exit isn't the final goal of business. It is a step along the way. It was important for us to continue to work to see that the company was successful, now as part of Salesforce.com, and to ensure that we built a great reputation in the region for having created lasting value." *



Gerry Pond: 'We should see a couple more Radian6s or Q1 Labs by 2020.'

OUR ANALYSIS OF THE CVCA DEAL OF THE YEAR AWARD

When the Radian6 deal won the CVCA Deal of the Year for venture capital in September, 2012, we took a look at how it stacked up against other winners of the award. Here's what we wrote:

"The Radian6 deal had an internal rate of return – the key ratio in determining the annual return for investors – of 142 percent. How good is that? Press reports say that the top quartile of American VC funds (admittedly entire funds, not individual deals) now book IRRs of just under 10 percent. So, if all your deals produce an IRR of 10 percent, you're better than three quarters of your competitors – and Radian6 exceeded that benchmark performance by more than 14 times.

"The second indicator is the total return of 22.8 times. This is self-explanatory: for every \$10 of equity they bought, they got back \$228 after three or four years.

"Let's provide a bit more context for the Radian6 deal: If you look at the last seven CVCA Deals of the Year, there's only one that tops Radian6. In 2007, a Victoria, B.C. biotech called Aspreva Pharmaceuticals sold out to a U.S. company for US\$915 million, which gave VC backer BC Advantage Funds a whopping IRR of 272% and a total return of 23.4 times.

"Other than that, there has not been an award winner whose numbers come close to Radian6. The closest was the 2007 prize winner, in which GrowthWorks earned a 134 percent IRR on its investment in Galleon Energy." – Peter Moreira.





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The New Fund in NEWFOUNDLAND

As the Director of Venture Newfoundland and Labrador, Chris Moyer has made four investments in a year. Now he's looking for more.

By Carol Moreira

After a successful first year in which he invested in four new companies, Chris Moyer believes that Venture Newfoundland and Labrador provides an investment model that other Atlantic provinces should emulate.

Moyer is the Director of Pelorus Venture Capital, the subsidiary of GrowthWorks Atlantic that manages Venture Newfoundland and Labrador.

The fund, which invests in ICT, ocean tech and medtech, comprises \$10 million from Newfoundland and Labrador, \$2 million from BDC Capital, as well as funds from angel investors. What's unique about the model is it draws money from government and private investors and assigns a professional manager to the fund.

"We're using a model that can be highly effective for Atlantic Canada, which has a very early-stage startup ecosystem with a lot of seed-level companies," said Moyer, a Saint John native.

"The gaps that exist in Newfoundland and Labrador exist elsewhere in Atlantic Canada. There's the problem of how to get angels invested."

Moyer said the companies that receive funding know Venture NL will invest more if they hit their milestones.

"A percentage of our fund is dedicated to follow-on investment," he said. "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."

He said the size of the rounds raised by the four companies -- Sequence Bio, HeyOrca!, Clockwork Fox and Sentinel Alert -- were impressive. Private investment fund Killick Capital also invested in all these companies.

"With our first four companies, private investment alone ranged from \$525,000 to over a million. ... It puts Newfoundland and Labradorian companies on a level playing field with companies elsewhere. I'd love that opportunity to be available for all Atlantic Canadian companies."

Moyer said that many pieces of a nurturing ecosystem are already in place in the region, including effective programming offered by regional accelerator Propel ICT, incubators, contests, and knowledgeable mentorship.

"When we started talking about this fund about three years ago, people wondered if there would be enough good companies to invest in. We said, 'They'll be there,' and they are. ... Now, we're looking at more investments."

Moyer relishes helping early-stage companies, believing it's at the early stage that he can add most value. For years, he's been known as the guy who gets his hands dirty at the GrowthWorks Atlantic fund in Halifax.

He's known for being skeptical about most ideas, but once he's on board he's a champion for his companies.



'We're using a model that can be highly effective for Atlantic Canada, which has a very early-stage startup ecosystem with a lot of seed-level companies.'

– Chris Moyer

He's a Launch36 mentor and he serves on the board of eight portfolio companies, five in Newfoundland.

"Early stage companies need help at the strategic level. I can add value with my skillset," he said. "Interesting decisions are made at this stage, such as who will the company's clients be? How should the product be priced?"

"Small seed companies have one or two founders and maybe one or two employees who may not be able to help with these decisions. It's important CEOs can talk to someone who's seen and experienced a lot more than the team."

Moyer joined Growthworks Atlantic 11 years ago as a controller. He had gained a CMA designation and was finishing an MBA at Saint Mary's University. He did his Bachelor of Commerce at Dalhousie.

He instantly felt at home in the startup world, where he was able to use his talent for out-of-the-box thinking.

Now, he said he and the team at the new fund are committed to "growing companies to the point where we have a vibrant economy."

It's a theme that's also big at his home: Moyer recently became engaged to Gillian McCrae, currently vice-president of Propel ICT.

"We met at a Propel selection camp. We got in a fight during our first meeting," he said with a grin. "It's all startups all the time in our house." ★

Traveling for Mentorship

East Coast Startups are flocking to accelerators and incubators outside the region to broaden their networks and get closer to their clients.

By Peter Moreira

At the end of the interview, Matt Daigle wanted to clarify one thing about his company, Rise. The startup, which helps homeowners find sustainable materials, may be in an incubator in Boston, but it will continue to be based in Fredericton.

"We're very much a New Brunswick company and we're very proud to be based here," said Daigle, stressing that he is not thinking of a move to New England.

Rise was one of the stars last year of the Propel ICT's Build program, the course for novice companies in the regional accelerator. The program helped Daigle to commercialize its product, an online platform that helps homeowners, contractors and retailers find materials and products that can benefit the environment and reduce costs.

But since January he has been in a second mentoring group – Boston-based Greentown Labs – as a remote member. Joining an accelerator or incubator outside the region is becoming increasingly common for Atlantic Canadian startups. They're joining these groups in a range of locations across the continent. They're gaining experience, broadening their networks and moving closer to their customers. And it is helping them to develop their businesses on a global scale.

"It gives these teams exposure to other teams and the way they do things, but also to an audience in other jurisdictions," said Brian Lowe, a Co-Founder of the First Angel Network and Entrepreneur in Residence



Matt Daigle: Benefiting from the "amazing team" at Greentown Labs

'Through the new networks, they get introduced and connected in other jurisdictions as well as those networks they have here. It broadens their horizons.'

– Brian Lowe, First Angel Networks

at Dalhousie University. "Through the new networks, they get introduced and connected in other jurisdictions as well as those networks they have here. It broadens their horizons."

It wasn't that long ago – six or seven years, maybe? – that there were only a handful of accelerators, like Y Combinator and Techstars, and they were confined to the U.S. About five years ago, the Canadian government wanted Canadian startups to get the benefits of working with mentors in a key tech hub, so the Canadian Commissioner Service worked with the Silicon Valley mentorship and liaison group C100 to set up the first Canadian Technology Accelerator in the San Francisco area. That idea blossomed and now there are CTAs in several locations throughout the U.S. and around the world. And more private-sector accelerators (including Atlantic Canada's Propel ICT) cropped up, giving startups a range of options and locations to apply for.

Two or three years ago, Atlantic Canadian companies began to move into the CTAs in growing numbers. Moncton-based Vidcruiter attended the Silicon Valley program in early 2013, and since then the Atlantic Canadian startups that have attended CTAs include Equals6 and Mindful Scientific in Boston, Affinio in New York and Health QR in Philadelphia. Saint John-based IPSNP Computing Chief Executive Chris Baker went through the program in Boston, and benefited from it so much that he then went through the CTA in London.

Meanwhile, several companies have entered highly regarded programs in Canada. PACTA of Halifax and Brownie Points of St. John's both attended FounderFuel in Montreal. And at the university level, several people have been accepted into The Next 36 of Toronto, the leading program for undergraduate entrepreneurs, and its sister enterprise for more established companies, The Next Founders. The latest is Justin Javorek of Dalhousie University and his company ConsumeAPI.

"A lot of them, at least with The Next 36, start to think bigger when they come to us," said Jon French, the marketing director of The Next 36.

“They start to think about growing outside their own jurisdiction or local geography or even Canada.”

More recently, Atlantic Canadian startups have been going into private-sector programs more frequently. Consider Affinio, for example. It attended the CTA in New York City, then the BBC Worldwide Labs Incubator. Most recently, it was accepted into Microsoft's Seattle Accelerator.

It's one of several companies that are using western accelerators to develop networks on the other side of the continent. Moncton-based Qimple recently graduated from the highly rated 500 Startups accelerator in Silicon Valley, and Kinduct Technologies of Halifax went through the Dodgers Accelerator in Los Angeles. It's an accelerator operated by the Major League Baseball team for companies specializing in disruption in sports or entertainment.

The Mill in Las Vegas has welcomed enough Halifax companies that there is talk of it developing links with the city and its startup house, Volta Labs. Zora, which has developed software for residential landlords,

entered the program early last year, and made introductions so two other Volta companies, Vendeve and Addo, also attended the program.

Entrepreneurs from around Atlantic Canada are introducing one another to accelerators outside the region. That's how Matt Daigle and Rise linked up with Greentown Labs. Daigle last year read an *Entrevestor* profile of Halifax's Megan McCarthy, whose startup PowerWHYS is also working on a project involving green renovations. They linked up, and McCarthy told him about the Association of Cleantech Incubators of New England, which eventually directed Daigle to Greentown. He applied and was accepted as a remote member who visits Boston about once a month.

It's helping Rise to broaden its network and meet investors as it tries to raise \$250,000.

“We're still early in establishing ourselves in Boston so we're still building our network there,” said Daigle. “They have an amazing team working there working at different things. One person is dedicated entirely to investing, and she can tell you who to talk to.” ★

WHO'S IN WHICH ACCELERATOR

Here's a list of some of the Atlantic Canadian startups that have participated in accelerators outside the region.

Startup	Headquarters	Accelerator	Location
Addo	Halifax	The Mill	Las Vegas
Affinio	Halifax	Microsoft's Seattle Accelerator BBC Worldwide Labs Incubator CTA	Seattle London New York
Brownie Points	St. John's	FounderFuel	Montreal
Equals6	Halifax	CTA	Boston
EyeRead	Halifax	BlackBox Connect	Silicon Valley
Fundmetric	Halifax	Google for Entrepreneurs	Kitchener
HealthQR	Halifax	CTA	Philadelphia
IPSNP	Saint John	CTA CTA	Boston London
ConsumeAPI	Halifax	The Next 36	Toronto
Kinduct Technologies	Halifax	Dodgers Accelerator	Los Angeles
Mindful Scientific	Halifax	CTA	Boston
Pacta	Halifax	FounderFuel	Montreal
Qimple	Moncton	500 Startups	Silicon Valley
Rise	Fredericton	Greentown Labs	Boston
Sequence Bio	St. John's	CTA	Boston
Singular	Wolfville	SAP startup program CTA	Silicon Valley Silicon Valley
Spring Loaded Technology	Dartmouth	The Next Founders	Toronto
Vendeve	Halifax	The Mill	Las Vegas
Zora	Halifax	The Mill	Las Vegas



Riding a Wave of New Companies

Our list of Atlantic Canadian companies increased 24 percent in 2015, mainly because of a surge in new IT companies.

By Peter Moreira

Tanya Collier MacDonald in many ways exemplifies what was happening in the Atlantic Canadian startup community in 2015.

She entered (and did well in) a competition. She worked with an accelerator outside the region. And she gained traction with her product. But above all, she launched a tech company. That's worth noting because strong company formation was one of the hallmarks of the East Coast startup community in 2015.

Collier MacDonald is the Founder and CEO of Orenda Software Solutions, the one-year-old Sydney startup that won the Cape Breton region in Nova Scotia's I-3 competition, and is now working with the IBM Innovation Centre in Toronto.

"Orenda is developing its platform and heading into the commercialization phase," said Collier MacDonald of the company, which produces social media analysis technology that analyzes in real-time the overall reputation of an organization, usually a medium to large enterprise. "And we've formed one partnership with a national company."

Orenda was part of a wave of company launches across Atlantic Canada in 2015. In our preliminary tally, Entrevestor has counted a total of 355 startups in Atlantic Canada as of Dec. 31 2015 – an increase of 24 percent over a year earlier. The big reason for the increase is that we've counted 93 companies that formed last year, with the heaviest concentration in the IT sector.



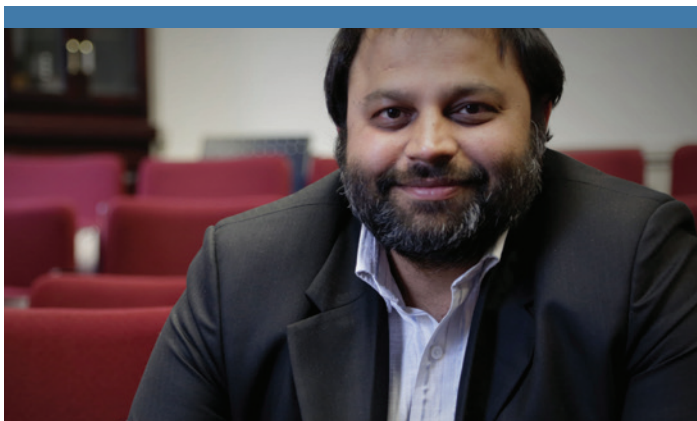
Tanya Collier MacDonald: Her Orenda was one of the high-profile companies formed in 2015

In compiling the Entrevestor Databank for 2015, we really strove to make sure we cast a wide net (with a fine mesh) over the region to capture as many startups as possible. We refused to compromise on our definition of a startup: each has to be a locally owned company that is developing a product for the global market from proprietary technology. It can't be a service company. At least one founder has to be in Atlantic Canada.

We're now in the process of surveying these companies, and next quarter we'll give more data on such areas as revenue, funding and employment. For now, we're presenting our initial findings on the composition of the startup community, and the big news of 2015 was company formation.

"This isn't surprising, if you look at what the universities are doing, if you look at what Propel is doing, and what's happening in other programs," said Dharendra Shukla, the Dr. J. Herbert Smith ACOA Chair in the Engineering faculty at University of New Brunswick. "If you talk to investors, they say the capital these days is restricted, but they're really excited about the deal flow."

Calculating company formation is always tricky. Consider this: In the autumn of 2014, the New Brunswick Innovation Foundation received 62 entries for its Breakthru competition, which targets the hottest new startups in the province. A year later, Innovacorp in Nova Scotia received 188 applications for its I-3 Technology Startup Competition. And the regional accelerator Propel ICT took 33 companies through its 2015 cohort, and then received 162 applications for its first cohort of 2016.

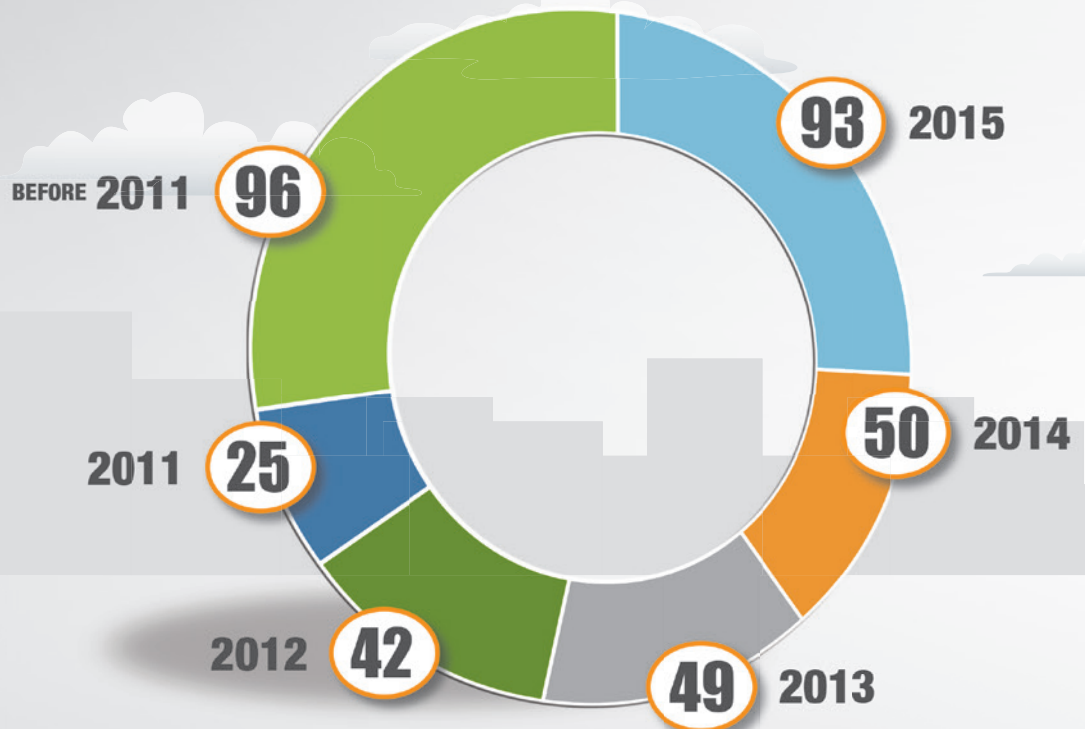


Dharendra Shukla: Where will the funding for these companies come from?

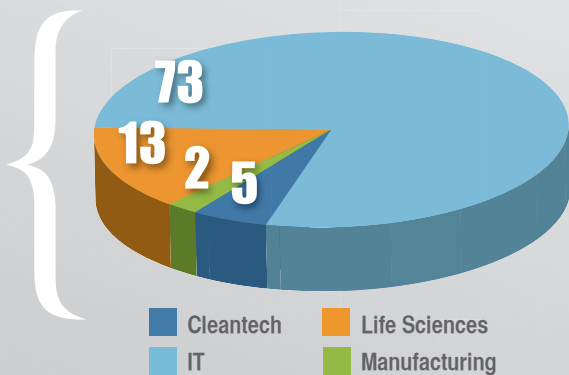
THE COMPOSITION OF #STARTUPEAST

We've counted 355 startups in Atlantic Canada at the end of 2015 – an increase of 24 percent from a year earlier. Here's a breakdown of the age, location and sector of the current East Coast Startup community.

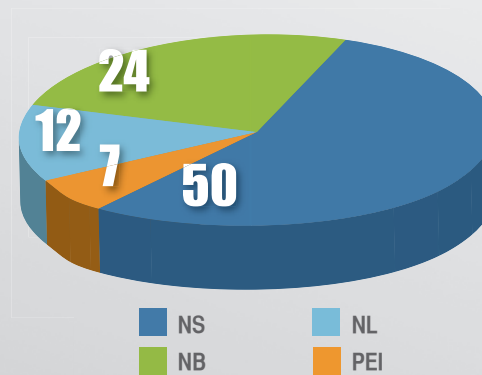
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BY SECTOR

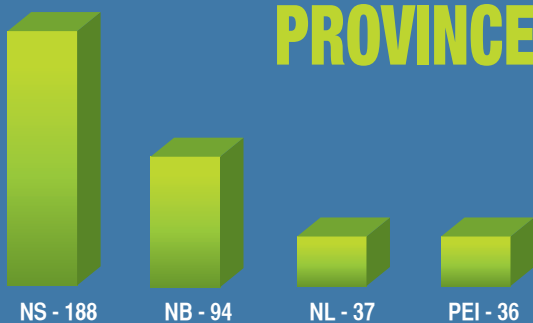


BY PROVINCE

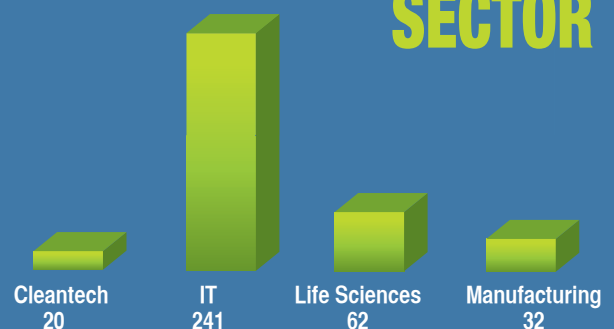


**NEW
COMPANIES
LAUNCHED IN
2015**

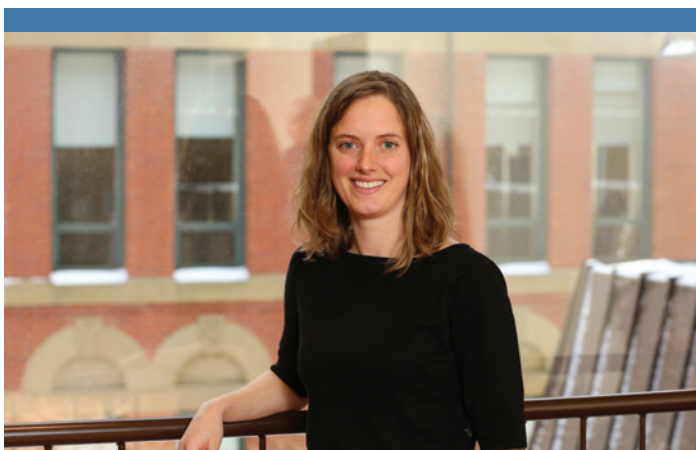
EAST COAST STARTUPS BY PROVINCE



EAST COAST STARTUPS BY SECTOR



78 percent of the new startups were in the IT sector



Caitlin Pierlot: Won the 2015 BioInnovation Challenge

So how do we end up with only 93 new startups in 2015?

The answer is that there is high attrition in startup teams. Within the selection process, these organizations weed out people who are thinking about starting a business, but decide against it for various reasons. And as the accepted teams go through the programs, several drop by the wayside. Last year there was considerable attrition within the Propel Launch program.

So our 93 startups are those that were “active” as of Dec. 31 – which means the teams are working diligently on moving their companies forward. They include some – but not all -- of the regional finalists from the I-3 event. They also include all of the first 2016 Propel cohort, because those teams were all active enough to pass the Propel selection camp early in the year.

Our list of companies launched in 2015 ranges from teams working on an idea part-time to those in accelerators to those incubating at universities to a company like Saint John-based Gemba Software Solutions, which launched with a \$1.5 million investment in September. Gemba was spun out of Saint John-based Innovatia. The new company’s ProcedureFlow software provides visual process maps that offer new employees and others the ability to quickly navigate their way through the company’s operations. At its launch, it received \$1.5 million in funding from NBIF and Innovatia.

“The money is helping us to actually develop the market,” said Gemba’s CEO Daniella Degrace. “We are using the money to help us expand the sales capability and to continue to develop our product.”

Most of the 93 rookie startups – including Orenda and Gemba – are in the IT space. A full 73 new tech startups entered the databank -- or 78 percent of the total startups founded in 2015. That’s an even larger weighting in IT than you’d expect, as IT accounts for just two-thirds of the broader Atlantic Canadian startup community.

The creation of 93 new startups marks a dramatic increase over the two previous years, when we counted about 60 companies launching each year. We also witnessed a decrease in companies that failed – there were 33 of them in 2015, about half the number a year earlier. (There was also a handful of companies that exited, left the region or became service companies, thus leaving our databank.)

There are a few interesting notes about our tally on new companies throughout the region. There is stronger company formation in both Newfoundland and Labrador (12 new companies) and Prince Edward Island (seven new companies) than we witnessed previously.

And the buzzing startup community in Cape Breton continued to launch new companies without losing many to attrition. Even though a high proportion of its companies are pre-revenue and have not received equity investments, there have been relatively few teams that left the arena. Some 10 new companies have formed, all in IT.

Meanwhile, the IT sector is undergoing slower growth in Halifax.

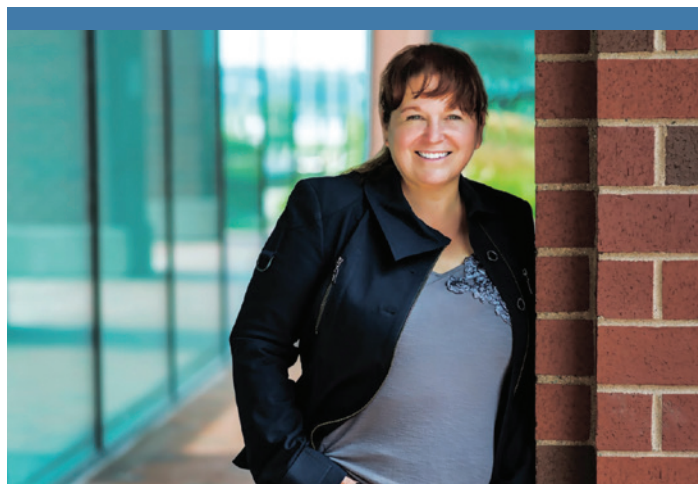
With 128 in total, Halifax is home to more than one-third of the total startups in the region, and it accounted for about one-third of the startups that launched in 2015. But the 18 new IT companies that sprouted up in Halifax last year amounted to just 54 percent of the new companies in the city. That confirms the impression held by several observers that there has been a deceleration in the formation of tech startups recently in Halifax.

On the other hand there were 10 new life science companies formed in Halifax. They were companies like Covina BioMedical, founded by Dalhousie University researchers Caitlin Pierlot and Brett Dickey. The company (formerly known as Biofix) won the 2015 BioInnovation Challenge, which searches for the top new life sciences company in the region.

Covina is developing a new bone cement to be used in the treatment of orthopedic patients. The new product is a non-toxic glass ionomer cement that would simplify the procedure for treating broken bones in such patients.

The formation of new companies is good news for the startup community. It brings new life to the grouping of startups in the region and shows that Atlantic Canada has the intellectual capacity to develop new marketable ideas. But it also strains capacity. One question that UNB’s Shukla asks is: how will all these new companies be funded in the future?

“Unless we see some exits, we might not see fresh money coming in,” he said. “The next few years will have to result in something more exciting in terms of exits. If not, [the result will be] pressure for companies to go looking for capital elsewhere.” ★



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A Landmark in CROWDFUNDING

Before Lux Wind Turbine revolutionizes the wind energy market, it may leave its mark on crowdfunding in Canada.

By Peter Moreira

Halifax-based Lux Wind Turbines wants to revolutionize the wind energy industry. But its first big impact may be in the way equity crowdfunding is carried out in Canada.

The company has launched a campaign to raise between \$500,000 and \$800,000, which would fund the test project for its new form of wind turbine. The campaign is worth examining because it involves several different regulatory frameworks and could be a model for future campaigns. What's more, Lux Wind is the first company ever to raise money using a crowdfunding framework recently approved by the Ontario Securities Commission and other provincial regulators.

If the crowdfunding and trials are successful, Lux Wind believes its turbine can solve one of the problems bedeviling the wind energy industry – economic feasibility. These turbines can be constructed and installed at least 40 percent cheaper than conventional wind turbines, and that means that they could be used profitably without government subsidies.

"It's a technology that has a lot of potential to really change the industry," said CEO Terry Norman in an interview. "It's a Canadian design, has Canadian entrepreneurs behind it and it's a chance for us to show the world what we can do."

Norman is a veteran of the Nova Scotian wind industry and says the reason traditional wind turbines are so expensive is so much of the machinery is high in the air, difficult to install and maintain. And the structure has to turn to face the wind.

Designed by Saskatoon-based engineer Glen Lux, the Lux two-megawatt turbine looks like an eggbeater with six blades that catch the wind and whirl around a vertical axis, regardless of which way the wind is blowing. Norman said the design – which won an award from a division of NASA

two years ago -- cuts the manufacturing and installation costs by at least 40 percent, and that means these turbines could generate electricity profitably in any jurisdiction.

Norman has decided to crowdfund the test product on the FrontFundr platform, and in doing so is entering uncharted waters in crowdfunding in the country. Equity crowdfunding – or the sale of investments to a broad range of people over the internet – is regulated in Canada by provincial security commissions, so there is a patchwork of regulation.

Ontario and a few other provinces (including Nova Scotia and New Brunswick) recently approved what's known as "the crowdfunding exemption" to existing security rules. It allows any investor to invest as much as \$2,500 in a campaign. Lux is the first Canadian company to launch a crowdfunding campaign using the crowdfunding exemption.

However, this exemption has only been approved by five provinces. Retail investors in British Columbia and Saskatchewan can invest in the campaign through the more restrictive "startup exemption." They can invest up to \$1,500.

Accredited investors – which is what regulators call rich people – from any province can invest as much as they like.

And within Nova Scotia, Lux Wind is raising money through a Community Economic Development Investment Fund, or Cedif. Nova Scotia retail investors qualify for an equity tax credit under the scheme.

Lux Wind has already raised about \$90,000 from family and friends.

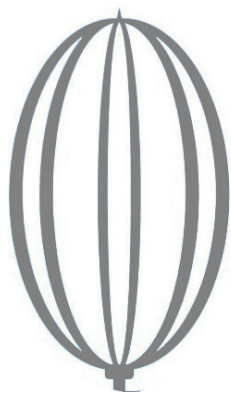
One of the interesting things about the crowdfunding campaign is that retail investors should end up with a majority stake, as the company is selling off as much as 78 percent of the equity. Norman said there will be more fundraising efforts in the future, which will undoubtedly dilute early investors, but for now he feels it best that the company have a diverse base of shareholders.

He also said there is a lot of interest in the crowdfunding community in Canada about the outcome of the Lux campaign. This sort of layered approach, in which the rules apply according to the province, may be a model other issuers in the country adopt. And the wind industry, of course, will be watching the development of the Lux turbines.

"The large turbine manufacturers won't want to see the thing because they have a lot of money invested in the [current system]," he said. "But this is really going to change the industry." ★



Terry Norman



'It's a Canadian design, has Canadian entrepreneurs behind it and it's a chance for us to show the world what we can do.'

– Terry Norman

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Big congrats to Sustane Technologies Inc., the I-3 provincial winner crowned after a five-month search to find the best start-ups in the province.

Sustane Technologies has the potential to eliminate the need for landfills. Its technology transforms waste into clean, value-added products such as biomass fuel pellets and biofuels. After completing its initial full-scale plant in Chester, the company will deliver its solution to municipalities around the world.

And of course, three cheers for all the I-3 zone and sector winners!

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Like Emergence on Steroids

Natural Products Canada, which is based in Charlottetown, is the culmination of years of planning.

By Peter Moreira

When the federal government announced funding in February for Charlottetown-based Natural Products Canada, it was the culmination of several years of effort by the PEI life sciences community.

The PEI BioAlliance first applied to create a natural products commercialization centre after the federal government launched its Centres of Excellence for Commercialization and Research, or CECR, program in 2007. But it was rejected at the time because the original proposal was too local. So it began to work with partners from across the country and came up with a proposal that won the backing of Ottawa. It's the first time a Maritime proposal received CECR funding.

"What we're really good at is bringing our local networks around the best idea and developing a strong structure in terms of design," said BioAlliance Executive Director Rory Francis in an interview. "We have a very credible name across the country and we were able to bring in partners from Quebec, Ontario and Saskatchewan to make it happen."

In February, Minister of Innovation, Science, and Economic Development Navdeep Bains announced that the federal government would contribute \$14 million to Natural Products Canada, which would be headquartered in Charlottetown. While the BioAlliance would serve as the Atlantic Canadian hub for the centre, the partnership includes AgWest Bio in Saskatchewan, the Ontario Bioscience Innovation Organization and the Institute for Nutrition and Functional Foods in Quebec. The federal contribution will be matched by over \$10 million from industry and other sources, for total funding of more than \$24 million over the next five years.

The Natural Products Centre will be headed by CEO Shelley King, who previously worked with Synapse (the tech transfer office at the University of P.E.I.) and Genome Atlantic. She and her eight staff members will work with companies

that have products based on natural substances and need to bring them to market.

It's a project that has Francis and others in the Atlantic Canadian life sciences community excited, and here's why.

First, the sector it works in is hot. There's a push from consumers and government for businesses

'I get excited because the bar to get to CECR funding for that program is really, really high.'

— Rory Francis



Rory Francis

to offer more products made from sustainable materials, including those drawn from nature. That offers a huge opportunity to study how to extract useful chemicals and materials from natural sources, and to apply them to products ranging from food to cosmetics to agricultural inputs to drugs to animal health products. The list is endless.

Second, by working with partners from across

the country, the companies in the NPC program will have access to a tremendous network. All four of the founding institutions bring with them vast groups of contacts in business, government and academia. That means a company in Atlantic Canada entering the program will have access to researchers, labs, investors, mentors and potential customers from across the country and beyond.

And third, the centre has the ability to finance companies, but the competition is tough. That means the companies interested in gaining the funding will have to up their game, which should benefit the entire sector.

"I get excited because the bar to get to CECR funding for that program is really, really high," said Francis. It is the second time in three years that Charlottetown has won a federal competition to offer programming for life sciences companies. In 2014, the PEI BioAlliance won funding from the National Research Council's Canadian Accelerator and Incubator Program. That created Emergence, a life sciences incubator that is now working with 22 to 24 companies.

"NPC can do a bunch of things that Emergence can't – it's sort of Emergence on steroids," said Francis. "The nature of these CECRs is they have to be sustainable over a period of time. ... so [the member companies] have to have a stream of income."

And Francis believes the NPC will be adept at helping companies develop those streams of income because so much of the expertise is drawn from private business. It will have academic partners like University of New Brunswick Saint John, UPEI and universities in other regions, but it's led by private business people.

"Most of these CECRs tend to be academically led," said Francis. "They're known for great science and academic research. In this case we've kind of turned this around – you haven't heard too much about the academic component because this was really very much a private sector-led initiative." ★



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Five Ways to Improve your Corporate Governance

Advisory and corporate boards don't have to be complicated. *Gerard Buckley* has a few simple suggestions on corporate structure to make your company more attractive to investors and acquirers.



By Gerard Buckley

There is a considerable amount of writing dedicated to corporate governance for public companies. However, there is substantially less published about governance for private corporations considering the number of Canadian-controlled private corporations dwarf the number of Canadian public corporations traded on its various stock exchanges.

The entrepreneurs that start businesses in Canada are often mystified by the amount of jargon and best practices thrown at them under the guise of "corporate governance". In this article I will attempt to give the reader five suggestions that should be implemented if the founder of a tech growth company desires to scale and succeed.

To quote Richard Leblanc, a York University professor, "How a company is governed influences rights and relationships among organizational stakeholders, and ultimately how an organization is managed, and whether it succeeds or fails. Companies do not fail: boards do." Or to paraphrase this for a new entrepreneur, this structure gives investors, acquirers and other stakeholders the confidence that your company is well managed.

It is just not good enough for entrepreneurs to have an idea. They must develop a strategy and it is a board member's responsibility to ensure that the strategic direction is set. When there is a pivot from that strategy, there are good fundamental and business reasons for doing so. Although you will hear me say "strategy without passion or vision is useless," it is incumbent on a board to understand and measure a company's performance against the agreed strategy. In the early stages of a company, this process is

fluid. However, an investor will be motivated when they see achievement against those strategic goals.

In March 2014, BDC discovered, through its extensive research into small business governance in Canada, that only 6 percent of Canadian companies have advisory boards. In addition, 76 percent of companies had neither advisory boards nor boards of directors. However, where either advisory or corporate boards existed, gross revenue was 24 percent higher and productivity was 18 percent higher than those companies without boards. It can be concluded that private companies in Canada benefit from stronger corporate governance.

There are a number of relationships where there is a misalignment or imbalance of skills and experience that a founder will face in starting a business that will include accessing venture capital to being acquired. Putting in place sound governance structures will assist the entrepreneur, evening the playing field.

Although access to capital, talent, partners, and customers are an entrepreneur's most important considerations, having a strong corporate structure ensures confidence in management's ability to succeed. The following recommendations are the "low-hanging fruit" to enable the CEO of a growth company to implement several governance structures without getting overly complicated.

'Having a Lead Director or Non-Executive Chairperson is a key criterion for a company's governance structure.'

~ Gerard Buckley

- 1 Create an advisory board early in the company's growth cycle and set up a board structure just before the company raises a professional investment round.**

When creating an advisory board, you are hoping to recruit significant resources who provide support, knowledge, and access to unique professional networks. When raising a professional investment round,

governance, and board seats can be skewed. Not all board members have the same interest. For example, after a professional round it is often seen that an investor will sit on the board. However, their priorities are increasing capital, and eventually having a big payout, which are not always conducive with what's best for the company. An advisory board is a great sounding board for your strategy and business plan.

2 Appoint a Non-Executive Chair or Lead Director to lead the governance structure.

Having a Lead Director or Non-Executive Chairperson is a key criterion for a company's governance structure. The Chairperson will be a mentor for the CEO, providing guidance, structure, and support. Not only is the Lead Director a mentor to the CEO, but he or she is also a spokesperson for the board, whether it is an Advisory or Corporate Board. This person collects input from the board and from the senior management team for the CEO's annual review, and reports any relevant feedback to the CEO. He or she hosts an executive session without management at the end of the annual review meeting in order to gather feedback, and creates and runs the agenda of the board meeting. A Non-Executive Chair by and large allows the CEO to run the company and the Chair to manage the affairs of the board.

3 Structure the board of the company for the size you want to grow to (i.e. audit, compensation, risk and governance committees).

In order to ensure a solid governance practice in the future, different committees must be established early on in order for the committees to grow with the company. The objective is to allow the committees to function efficiently, all members to participate, and an appropriate level of diversity of experience and knowledge to ensure oversight of the company.

4 Ensure the company uses skills-based criteria to select board members.

It is important for your board to have a diverse skill base. Constructing a quality board is about the calibre and perspective of individual directors as well as the deliberate creation of a dynamic, and a chemistry that allows for the effective execution of corporate governance and strategic oversight. Building a skills matrix that is overlaid on management and board positions ensures the company has the necessary skills to scale, acquire clients, and manage its affairs.

5 Regularly communicate with shareholders through quarterly newsletter, AGM, etc.

Communication between shareholders and directors is strongly beneficial for both parties. Directors will benefit from hearing factual views from shareholders. Investors will benefit from hearing the board's philosophy and perspective related to certain governance and strategic issues, in turn justifying the board's decisions and actions.

Private corporations, such as Spartan Bioscience of Ottawa, have demonstrated that good governance practices – regular shareholder communication and appointment of a non-executive Chair have contributed in the recent strategic investment from Canon USA. "Good governance provides checks and balances for private companies. It's especially important for startups where experienced Board members can help young entrepreneurs avoid mistakes and capitalize on opportunities," said Paul Lem, M.D., CEO of Spartan Bioscience.

Research by BDC shows that companies with boards of advisors or directors produce 24 percent higher gross revenues than those without boards.

Said the Leading Canadian Bank Management Circular: "We believe good corporate governance is an essential foundation for strong performance and fundamental to our success. It provides proper oversight and accountability, strengthens internal and external relationships, builds trust with our stakeholders and promotes the long-term interests of shareholders." This is as true today for private corporations accessing capital as it is for the largest public corporations.

Governance is not meant to thwart innovation, but to allow it to thrive in an environment of trust and communication based on the strategic direction of the company.

Gerard Buckley is the founding partner of Jaguar Capital. In a career that has included work with Scotia Bank and Maple Leaf Angels, he has worked on M&A teams transacting more than \$10 billion. He wrote this article with Harlen Suslik. ★



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