

# Intelligence Report

**The new build**  
More openness  
for start-ups

**Look east**  
Where angels  
seek to tread

**Deal flow**  
Regional analysis  
and breakdowns

**Fuelling FDI**  
What attracts  
global funds?

**Quartet strategy**  
Gerry Pond's  
four-fold way



SCOPING THE START-UP ECOSYSTEM WITH EXCLUSIVE DATA AND EXPERT ANALYSIS



## start-up community

# Growing with the flow

The region's start-up community is flourishing, though still in its infancy. Many of its key components didn't even exist two years ago, but more fertile growing conditions are beginning to produce a stronger deal flow

### EDITORS' NOTE:

Entrevestor.com and *Progress* are uniquely qualified to compile and present exclusive coverage of this region's start-up activity. We're making the case that historians will agree the community was officially born about a year ago, at the first Demo Day for the Launch36 accelerator in June 2012.

Since then, a truly sustained and united effort to collaborate has begun to measurably improve the ecosystem for young companies. In the past two years, there have been five well-publicized exits. And this has led to a marked acceleration in seed funding for young companies.

The data tells the story: In 2012, 65 companies told Entrevestor they raised almost \$60 million in equity financing, that's up from two dozen companies raising \$55.9 million a year earlier. We're offering this special report knowing that something extraordinary is happening in Atlantic Canada. Every community needs its unique voice, to celebrate success and keep constituents informed. We're delighted to play that role.

— PETER MOREIRA  
AND PAMELA SCOTT CRACE

If there's a date on which the Atlantic Canadian start-up community was born, it was June 26, 2012. The location was Dieppe, N.B., and the event was the Demo Day of Propel ICT's Launch36 accelerator, at which community members from across the region and beyond witnessed 11 companies delivering tremendous pitches.

The really interesting things took place away from the stage that night. At the pub afterward, Propel ICT chair David Baxter and executive director Trevor MacAusland swore that the New Brunswick-based accelerator, which had graduated one Nova Scotia company, would grow by becoming more regional in the future. Scott MacIntosh of Fredericton-based tech consultancy SwiftRadius Inc. was introducing Chad Griffin, the CEO of the new Charlottetown start-up Adeptio Health that would soon be spun out of SwiftRadius. And Jordan Smith of Halifax-based OneLobby met Brian Dunphy of Fredericton and Todd Murphy of Saint John; the trio agreed to work together on OneLobby in Fredericton.

The gestation period of the regional community had lasted several years, but on that summer night in suburban Moncton, the vision became a reality. "It was the first time I saw the whole horizon of collaboration that would uniquely make us great at new venture creation across the region," says Baxter.

Although the distance from Newfoundland and Labrador makes it difficult to host regular events in all of the Atlantic provinces, the rapid development of the start-up community in the Maritimes is astonishing. Start-up communities have become a hot topic for entrepreneurs, investors, and their global support agencies. The discussion was elevated last year by the publishing of serial entrepreneur Brad Feld's book, *Startup Communities*, which said these societies must be led by investors buttressed by universities, support agencies, entrepreneurs, mentors, governments, and "flagpole industries."

The Atlantic Canadian start-up community is coming together in many of the ways Feld outlined but is still in its infancy; many of its key components didn't exist two years ago. More than anything, the community is being led by the success of a few companies. The recent exits of Radian6 and Q1 Labs of Fredericton, GoInstant of Halifax, Ocean Nutrition Canada of Dartmouth, and BioVectra Inc. of Charlottetown have stoked interest in regional start-ups.

That has helped several companies announce some impressive fundraising deals in the past two years: Unique Solutions of Dartmouth and LED Roadway Lighting of Halifax both attracted eight-figure financing in 2011. And last year high-profile financing was secured by

## What was interesting about fundraising in 2012 was the domination of seed funding

## 2012 breakdown by sector



## 2012 breakdown by sources



SOURCE: ENTREVESTOR DATABANK

Clarity of Moncton, IntroHive of Fredericton, and Leadsift of Halifax. There was nothing in 2012 approaching Unique's \$30-million funding from Northwater Capital Management Inc. of Toronto, but overall start-ups and innovative companies attracted more money than in 2011.

Tech, biotech, cleantech, and other innovative companies in Atlantic Canada raised at least \$59.1 million in 2012, up from at least \$55.9 million the previous year, according to data collected by Entrevestor. We use the term "at least" because so many companies and investors are vague about their funding. Some will say they've raised money without naming the amount; others will say they've raised more than a certain figure. Having canvassed start-ups across the region, we can state that these companies sold at least \$59.1 million in equity last year, although our estimate is closer to \$60.5 million.

What was interesting about fundraising in 2012 is the domination of seed funding. People across the region seemed to be stirring from slumber, having been awakened by the Radian6 and Q1 Labs exits and rising to start companies. Some 65 companies received funding, averaging just over \$900,000 each. The previous year, only 24 companies had raised equity funding. Does that mean more money was raised on average in 2011? It would be misleading to believe so. As we mentioned, the \$30-million Unique funding dominated the market in 2011, and the \$11.6-million financing by LED Roadway also contributed to the total. If you strip out those two deals, the average funding in 2011 was worth about \$650,000.

So in 2012, we funded almost three times as many companies across the region as the previous year, and for the most part those companies were able to raise more money than they had in 2011. Yet there's a cautionary note here: such a flood of seed funding means there will be an even larger flood of companies looking for follow-on funding, leading to multimillion-dollar rounds in the next few years. That will lead to increasing pressure to find more money from outside the region.

Much work has been done to attract more venture capital from out-

## FOUR FABULOUS DEALS OF 2012

Much has been written about the fundraising last year by Clarity, IntroHive, and LeadSift, which collectively raised almost \$6 million from a range of angels and venture capitalists from across the continent. They were fantastic deals that are a testament to the excellence of the companies' founders. Here are four under-appreciated funding deals from last year:

**1 AioTV** of Halifax and Denver raised \$8 million in November by selling a 44% stake to UTStarcom Holdings Corp., a publicly listed maker of broadband equipment from China. At a time when the start-up community is trying to extend its international reach, it's hard to beat a deal that increases penetration in China. AioTV, which is backed by Innovacorp, has developed a single platform that can offer service using free video (such as YouTube), live linear TV (traditional networks), and video on demand (Netflix).

**2 B4Checkin Inc.** of Halifax quietly assembled \$1.1 million in angel financing from a clutch of blue-chip Canadian investors throughout 2011 and 2012. The angels include former Imasco Ltd. chair Purdy Crawford and former Emera CEO David Mann. It was one of the biggest angel deals to close last year, and the quality of investors, who bring their networks to such deals, was impressive.

**3 Cellufuel Inc.** of Halifax came to public attention when it established a test facility at the shuttered Bowater pulp mill near Liverpool, N.S. What's impressive about the group is that it tapped its founders' network to bring in \$500,000 from a New York investment fund. It's one of the few Atlantic Canadian companies to tap U.S. funds last year.

**4 Vitrak Systems Inc.** did what P.E.I. start-ups do very well: tap local investors. In its first funding round, the Charlottetown maker of pressure-sensitive floor pads raised \$650,000 from mostly local angels to leverage its Atlantic Innovation Fund financing. — P.M.

side the region, but it didn't show up in vast quantities in 2012. One of the quirks of the last year's funding story is that 20 different companies attracted angel funding from outside the region, up from only three a year earlier. But the VC funding was dominated by funding from local bodies, either the provincially owned VC agencies or GrowthWorks Atlantic Venture Fund. Only five companies attracted venture capital backing from outside the region in 2012.

The increased flow of money into these young companies is part and parcel of the enhanced ecosystem and development of the start-up community. The community depends on access to this capital, and investors feel reassured putting money into these companies because their chances of success increase as the community develops.

But funding bodies are only part of the equation. Underpinning

## YEAR OVER YEAR COMPARISON

Comparing equity funding totals in 2012 versus 2011 is cause for optimism, but with a few cautionary notes. As noted, the 2011 regional funding scene was dominated by outside investors, with the Unique Solutions and LED Roadway investments contributing the lion's share of the total funds raised. Yet 2012 is dominated by seed funding activity, with almost three times as many start-ups finding investors, largely located within the region. — P.M.

STAT	2011	2012
Total funding	\$55.9M	\$59.1M
Angel funding	\$17.9M	\$18.4M
VC funding	\$45.1M	\$27.1M
Companies funded	26	65
Biggest deal	\$30M (Unique Solutions)	\$8M (aioTV)

SOURCE: ENTREVESTOR DATABANK

the community are the institutions that span the entire region, including Newfoundland and Labrador. The Atlantic Canada Opportunities Agency is pre-eminent in that category. And Springboard Atlantic, which ushers university research to the broader economy, works with 18 institutions throughout the region. Invest Atlantic, the premier entrepreneurial conference in the region, has strived from the outset to represent all four provinces; its Pitch101 series is holding events in each province. East Coast Start-up Week included representation from the Maritimes but also from Fogo Island off Newfoundland.

Within the Maritimes, more is being done because the cities are within driving distance of each other. Launch36's latest cohort is balanced evenly among the provinces. Events such as MentorCamp and DemoCamp have worked hard to attract people from across the region. As the community grows, the emphasis may not be on greater geographic expanse or new programs so much as managerial mentoring. The region has done a fantastic job of channelling seed funding into a range of companies with great prospects. The challenge may now be to convert great ideas, people, and entrepreneurs into mature managers. The goal is to teach them the changes that are needed to go from managing five employees to overseeing 50.

David Baxter says there may even need to be an evolution of Propel ICT's focus beyond its accelerator program, Launch36. Because the distances are daunting, rather than a group of companies meeting once a week for five months in a central location, the organization should create "mentor townships," where mentors within communities would guide young companies to bona fide businesses.

"Sometimes I find that an accelerator's focus on launching new ventures alone results in start-up orphans, and then what do you do?" says Baxter. "Maybe we become a regional network of mentoring capacity to help entrepreneurs grow their companies from launch to their full potential." Clearly, the regional community is established but it's continuing to mature. ■

## angel trends

# Look eastward

Start-ups are searching for—and finding—more and more angel investment from away

Heimdall Networks CEO Jim DeLeskie declined to be interviewed about his company until January of 2013, preferring to quietly develop his software for about a year without any publicity. Sydney, N.S.-based Heimdall is developing a product that protects corporations and governments against distributed denial-of-service attacks, the type of stuff that the Anonymous group does to shut down websites. Heimdall's market is a high-growth, high-interest sector with a lot of players and rapid advances in technology. DeLeskie didn't want to tip his hand to competitors by going public too soon.

But here's the interesting thing about Heimdall: By the time DeLeskie granted an interview, he had already raised more than \$1 million in angel funding from a single investor. He didn't use a formal network. And he didn't leave Nova Scotia to secure the funding. A

single individual invested \$1 million-plus in the company, signalling something curious that's happening in the region.

"I was lucky to be able to work with an angel who could and would fund my start-up," says DeLeskie. "I not only saved time beating the bushes but was also able to walk away from what would have been not so good deals for me as a founder."

Angels are loosely defined as individuals who invest in companies during the early stages, and they're becoming a more and more important factor in the financing of Atlantic Canadian young companies. The successful exits of such companies as Radian6, Q1 Labs, and GoInstant has piqued the interest of wealthy individuals in regional start-ups. There was a time when such people would invest mainly through the First Angel Network, which has channelled about \$9 million into 23 companies over eight years. More recently other groups, such as the Newfoundland and Labrador Angel Network and East Valley Ventures, have leant structure to angel financing.

But increasingly, Atlantic Canadian founders are approaching angel investors and getting more from outside an organized group. According to data collected by Entrevestor,

**21 companies  
attracted  
money from  
individuals  
outside the  
region**

## BREAKDOWN OF ANGEL DEALS BY SECTOR IN 2012

Sector	No. of deals	Value (\$ Million)
ICT	30	11.5
Life sciences	6	2.8
Cleantech	2	0.5
Foodtech	2	1.5
Manufacturing	3	1.6
<b>Total</b>	<b>43</b>	<b>17.9</b>

SOURCE: ENTREVESTOR DATABANK

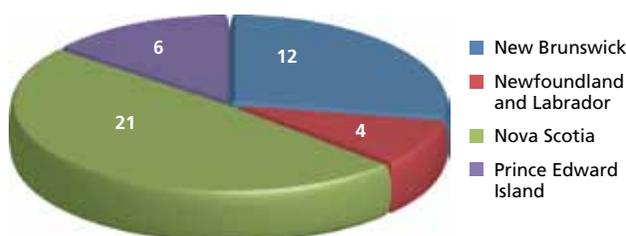
43 Atlantic Canadian companies received at least \$17.9 million in 2012, which excluded funding by Clarity because it featured VC and angel funding. The previous year, 11 companies reported raising at least \$8.4 million. These figures include funding by founders, including the \$3.6 million that CEO Chuck Cartmill invested in LED Roadway Lighting in 2011.

One important factor in angel-funding growth is that 21 companies brought in money from individuals outside the region last year. That's important because young companies in Atlantic Canada need to expand their networks and increase sales overseas. Attracting outside investors helps expand contacts in other markets.

In broader terms, the rising trend of angel investing helps because it tends to be less complicated than attracting money from a venture capital firm; there's less legal work and fewer hoops. Generally speaking, you can save time and resources by finding early stage funding through angels.

DeLeskie has a single funder, meaning he can keep in touch with his source of funds with one phone call. "I believe it will produce a better end result, in terms of meeting and managing expectations and my time," he says. "And every founder knows that time is the one thing even more scarce than money." ■

## Provincial breakdown of the number of angel deals by province



## outside investment

# Broader horizons

Momentum to internationalize the start-up ecosystem is getting a boost from a number of organizations and events

When the board of LightSail Energy of San Francisco raised \$37.3 million in venture capital funding last year, the press release said the round "was led by Peter Thiel, with participation from Khosla Ventures, which incubated the company, Bill Gates, Innovacorp, and other investors."

That's right—Nova Scotia's innovation agency appeared next to the founder of Microsoft in the list of investors. Based in the Bay area, LightSail is dedicated to using thermal dynamics to solve a key problem with electrical grids—providing green power to the grid when it's most needed rather than when it's easiest to produce. The company was founded by Dartmouth native Danielle Fong, and so it's planning to build a facility near New Glasgow. Because of that, Innovacorp decided to sink \$2 million into the company.

**"The continued growth of the ecosystem is contingent on smart outside investment in local companies"**

— Thomas Rankin, Innovacorp

While everyone involved hopes this investment pays off economically, what's indisputable is that it's already helping one of the great missions of the start-up community: expanding into the international marketplace. This move is imperative because so many regional companies are looking for follow-on funding, the later-stage funding rounds of more than \$3 million, or more than most funding bodies in the region can handle.

"The continued growth of the ecosystem is contingent on smart outside investment in local companies," says Innovacorp director Thomas Rankin. "We see our role as providing the leverage to bring in that capital. We work hard through our personal networks and through our partnership with organizations such as the C100 group to make this happen."

There is a determined effort in the Atlantic Canadian start-up community to become a more active segment of the international investment community. Several companies and organizations are developing stronger ties with C100. The investment in LightSail was a small step in that direction. Investors here are

## 10 COMPANIES MAKING WAVES INTERNATIONALLY

COMPANY	PROV.	BUSINESS	INTERNATIONAL INITIATIVES
<b>2nd Act Innovations</b>	N.S.	SaaS file organization	Hired CEO in Silicon Valley and brought into management committee.
<b>Adfinitum Networks</b>	N.L.	Databank of advertisements	Angel investors include Japanese funders. Has a leading global databank of ads from 60 countries.
<b>CarbonCure Technologies</b>	N.S.	Green-building material	Recent funding from 350 Capital of Toronto. Has licensed product in Ontario and is working on deals in California.
<b>Clarity</b>	N.B.	Online market for advice	Attracted investment from across the U.S. and targets international markets. CEO Dan Martell is on the board of C100 in Silicon Valley.
<b>Enovex</b>	N.B.	Oxygen production	Has its main development team at a university in India.
<b>Halifax Biomedical</b>	N.S.	3-D X-ray devices	Now looking for \$10 million in equity funding. Its early sales have been to U.S. hospitals.
<b>LED Roadway Lighting</b>	N.S.	LED lighting fixtures	Received \$4 million in funding from Cycle Capital Management of Montreal. Strong sales in Brazil and other markets.
<b>Neurodyn</b>	P.E.I.	Parkinson's drug discovery	Sought funding from Mertz Holdings of Houston. Has a strong relationship with the Michael J. Fox Foundation.
<b>Picomole Instruments</b>	N.B.	Cancer-detection device	Exploring Latin America or Asia as early adoption markets.
<b>Unique Solutions</b>	N.S.	Retail body scans	After being funded by a Toronto VC, opened scanning booths in 50 of the largest U.S. malls. Working on subsequent funding in the U.S.

developing more contacts across the continent with the hopes of attracting more investment to young companies in the region. Already, outside investors are making a huge contribution to our ecosystem.

It's difficult to state exactly how much money is flowing into our start-ups from outside investors, because several companies have raised money from individuals in Atlantic Canada and elsewhere and don't provide specific breakdowns. However, of the 74 companies that publicly said they sold equity in 2011 and 2012, 34 reported investors are from outside Atlantic Canada. The most notable of these was Unique Solutions, which raised \$30 million from Northwater Capital of Toronto, a single deal that comprised 54% of the total VC and angel money raised by Atlantic Canadian companies in 2011.

At the other end of the spectrum, one of the greatest changes is the number of angels from outside the region who are backing Atlantic Canadian companies. Twenty-one companies in 2012 brought in individual investors from the outside. This movement to internationalize the ecosystem is getting a boost from a number of organizations and events. In June the Critical Path Group of Toronto will host the At-

lantic Venture Forum to provide a meeting place for Atlantic Canadian companies and potential partners/investors from elsewhere. The sponsors include Extreme Startups of Toronto and Grand Bank Capital of Boston.

MentorCamp has already held two events in Halifax, which has led to two international companies moving to Halifax and two companies funded by a range of angels.

Meanwhile, the region's companies are moving on their own to broaden their wingspan and embrace customers and investors in international markets. Consider 2nd Act Innovations, whose founders, Andrew Doyle and Peter Hickey, didn't just hire Reza Kazemipour and Guillaume Oget in northern California but named them CEO and CTO, respectively. In return, these new execs bring their networks in Silicon Valley. A great believer in the importance of extending the region's international reach,

Doyle says companies such as 2nd Act are working hand-in-hand with various organizations to reach out to international investors. "It's a two-way street," he says. "They're growing their network and introducing people to us, but as we grow we're able to introduce them to our network too." ■

One of the greatest changes is the number of angels from outside the region

research & development

# The advisory landscape

IRAP contributions may have fallen recently, but the NRC program has enhanced its role as an adviser to innovative companies

Like many entrepreneurs, Robert Niven looks to the National Research Council’s Industrial Research Assistance Program (IRAP) for more than just money. Niven is the CEO of Halifax-based CarbonCure Technologies, and since 2008 he has been an NRC-IRAP client. The funds he has received from the program have helped him develop the system of carbon-cured concrete blocks now being rolled out throughout North America.

But there’s an underappreciated side to IRAP: the advisory business. Its importance is highlighted by the fact that almost three times as many clients in Atlantic Canada sought IRAP advice as received money in 2011-12. Advice doesn’t often spring to mind when people think of IRAP, because it’s best known for the financial assistance it gives to companies undertaking R&D. In the four years leading to March of 2012 (the most recent figures available),

the program contributed a total of \$90.3 million to innovative projects in Atlantic Canada.

But Niven and others rely on its experts to help navigate the hazardous waters of commercialization. “They’re a government group that really understands business,” he says. “They help you work through the bureaucracy in various departments. Their people have been around a long time and have great industrial contacts.”

The reason advisory clients are topical now is that there were 559 advisory and 199 funded clients in 2011-12, the widest gap in four years. Part of that reason was that IRAP funding dropped in 2011-12 by 55%, largely because of the balloon in funding during the federal government’s Economic Action Plan. Over the two-year period ending March 2011, the funding in each year was more than double the 2008-09 level as the government sought to jump-start

## IRAP ICT funding breakdown

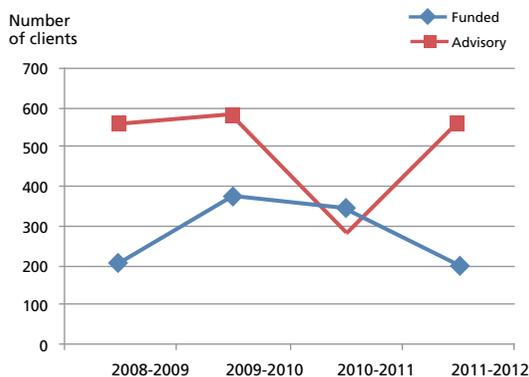


## IRAP life sciences funding breakdown

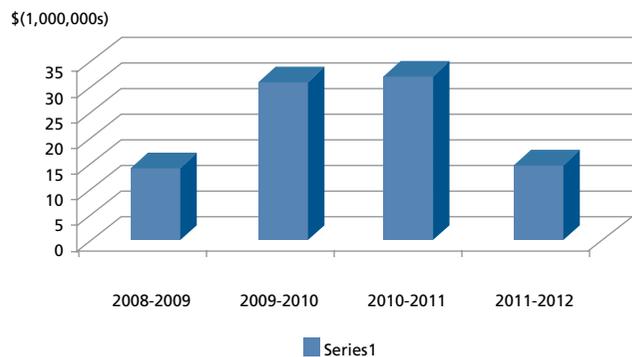


SOURCE: NRC/IRAP 2008-2012

## IRAP funded and advisory clients



## IRAP totals in Atlantic Canada



SOURCE: NRC/IRAP

the economy by backing innovative companies. However, the Economic Action Plan ended and funding declined.

So was the Economic Action Plan funding a flash in the pan? Not at all. First, that money went into growing companies; many of them are still thriving and returning benefits to the economy. What's more, the federal government has identified innovation as a key economic driver and has restored IRAP funding permanently to the levels enjoyed during the Economic Action Plan. So when the 2012–13 figures are released, experts expect the funding levels to be close to the \$30 million seen two years before.

The provincial breakdown of IRAP funding in the past four years paints the most accurate picture of corporate R&D funding in the region, both by provinces and sectors. Information and communications technology is by far the most important segment, accounting for \$34 million, or more than half of regional IRAP funding during that time period. New-

## Experts look for a rebound in IRAP funding in 2013 and beyond

foundland and Labrador was the most active province in securing IRAP funding for ICT, drawing \$11.71 million. It was followed by New Brunswick, then Nova Scotia, which is surprising given that Nova Scotia has the largest population.

It may be that Newfoundland and Labrador attracts so much ICT funding because its ocean-related

companies are classified in the ICT segment and reaching their development stage when a lot of capital goes into deploying products. They're more mature than the start-ups that are currently all the rage in the Maritimes.

What we're seeing most recently, especially in the Maritime provinces, is more payments in smaller amounts—a sign that the blossoming start-ups are drawing on small business financing to launch their companies. For example, the average payment to a funded client in Nova Scotia in 2011–12 was \$68,000, down from \$78,000 three years earlier, before the Economic Action Plan financing kicked off. Experts say the main reason for the smaller payments is that more entrepreneurs are launching more tech start-ups, which generally need less funding than mature enterprises.

Nova Scotia is the undisputed leader in one segment known for intense R&D: life sciences. The province accounted for \$7.11 million of the life sciences funding in Atlantic Canada in the past four years, which is 60% of the \$11.78 million total. The reason for its dominance? The regional biotech sector is concentrated around Dalhousie University and the surrounding of hospitals on the Halifax peninsula. ■



### regional fund

## Skin in the game

Patrick Keefe will head a soon-to-be-launched regional venture capital fund. He's buoyed by the sense of confidence among entrepreneurs and innovators

The family shots have been packed away, the papers and pens stored; Patrick Keefe's office at Innovacorp is empty of everything except the essentials left for the next occupant. As Keefe glances down at the Halifax Harbour from Innovacorp's wide windows, he looks like what he is: a man in transition. There may be a hint of nostalgia for his three years leading Innovacorp's investment activity, but it's mingled with anticipation for his next role as head of the new regional venture capital fund.

Established to address the shortage of funding for start-ups in Atlantic Canada, the new fund will soon open for business with Keefe working alongside a second person, so far unnamed, who is from Toronto but will be moving to the region. The fund will eventually contain a total of between \$50 million and \$60 million and run for around 10 years. The governments of Nova Scotia and New Brunswick have each promised \$15 million and Prince Edward Island, \$2.5 million. Technology Venture Corp of Moncton has also put in \$5 million, and other sums are coming from wealthy individuals and institutions that Keefe has spent the last few months courting.

A tall and youthful 44, Keefe was raised in Halifax and educated at Harvard and Oxford. He is proud of his work at Innovacorp, where, over the last 30 months, he has led investments into 14 promising entrepreneurs and companies. "These are long-term investments," he says. "Some of these companies will become important contributors to our local tech community."

## A VIEW FROM THE TRENCHES

Patrick Keefe, the head of Atlantic Canada's new regional venture capital fund, assesses the state of entrepreneurship in the region.

- **A TRACK RECORD** Recent high-profile exits (sales) of four regional companies have boosted confidence. Among them, Radian6, Q1 Labs, Golstant, and Ocean Nutrition sold for a combined estimated total of \$1.6 billion (the Q1 sales figure was not publicly announced).
- **SENSE OF COMMUNITY** These sales provide positive examples and encouragement to other entrepreneurs and are leading to benefits such as increased angel investing. The wealth created by the deals gets recycled into the community; that's already moving at a rapid pace in New Brunswick. There's also a significant amount of world-class talent behind these companies, and the people who benefitted from these deals want to do other things; they may begin another start-up or work for one. It's leading to a lot more mentoring; there's a real sense of community developing.
- **MORE OUTSIDE INVESTMENT** All of this is attracting investment from outside the region. The recent announcement of Clarity, the Moncton-based company that raised \$1.6 million in funding, concerned the same Silicon Valley-based investors who invested in Golstant. It all points to increased momentum.
- **MORE OPEN NETWORKS** One of the things you see in Silicon Valley or Boston is the culture of complete openness and exchange among entrepreneurs and other folks in the ecosystem, including investors, universities, and government. If we can make the community successful as a whole, all of our chances of success will increase. This notion of being willing to help when asked is developing here. You see it in grassroots entrepreneur-led community events such as DemoCamp. The event, held in Halifax each autumn, allows entrepreneurs to present their products to the public, including investors.

Now Keefe is excited about doing the same thing on a wider stage. But there will be challenges: No company chosen for investment can receive more than 10% of the fund, which means the new fund can finance a maximum of 10 to 12 companies. "There are a lot more than 12 potential investments in the region," he says. (In fact, Entrevestor estimates that fledgling Atlantic Canadian companies will need at least \$100 million in follow-on funding over the next two years.) "Part of my job that isn't fun is that I have to say no an awful lot. And I'll be wrong and I'll make mistakes."

Investing public money is also a big responsibility. "I've had more than one person try to talk me out of this," he says, grinning. The argument is that the asset class is difficult, very few funds in Canada have been successful, and a large portion of the fund is public money. By definition, you're in the spotlight. "My response is that I believe in the opportunity, and I believe the fund could be successful. I'm investing my own money in the fund, and I feel it's important. I've got three young boys. A lot of my friends from high school and growing up found it necessary to move away to find greater opportunity."

Keefe is buoyed by the sense that Atlantic Canadians are becoming more confident about themselves as entrepreneurs and innovators. That confidence is often vocalized. "It's useful to hear it resonating around the community," he says. "There are a lot of like-minded people, and there are more of them every day. There's

a real momentum developing."

Recently, there have been some successful high-profile exits (sales) of regional start-ups and good news about follow-on funding. "But it won't all be good news," cautions Keefe. "There will be setbacks in the community. A lot of companies that have raised seed funding will be looking for their next round of financing in the next 12 to 14 months, and not all of them will get it. As a region, we can't be quick to condemn failure. An entrepreneur who doesn't make it shouldn't be tarred and feathered publicly. In lots of instances, entrepreneurs run into difficulties before they find a fit."

Keefe is qualified to speak for entrepreneurs, having laboured in the trenches of entrepreneurship himself. Between 2004 and 2008, he built a Starbucks Coffee Company business in Atlantic Canada, securing an exclusive licence to operate, then opening 11 locations in five cities before selling to the Starbucks Corporation. Before that, he held senior positions at The Boston Consulting

Group and Boston-based venture capital firm Atlas Venture. "I know what it's like to make payroll," he says. "I felt the pain of going to bed at night with a couple hundred employees depending on me. At times, the journey is bumpy."

In his new role, Keefe can expect more turbulence. "As these companies go through their life cycle, the road is never smooth. There are always bumps that threaten the life of the company. When you have a portfolio of several companies, you're riding that roller coaster with them constantly. The trials and tribulations of the entrepreneurs become yours." ■

**"I believe in the opportunity, and I'm investing my own money in the fund"**

— Patrick Keefe

## opinion



## A quartet strategy

Gerry Pond identifies four major ingredients the region is lacking in or missing altogether

I usually cite 10 recommendations to improve the start-up ecosystem in Atlantic Canada, but there are four that I feel passionately about. My comments refer largely to the technology sector, but I think they apply to the entire start-up community.

**Mentorship.** The key ingredient in developing start-ups is having enough good mentors. Yes, capital is important, but the do-or-die element in the ecosystem is mentorship. And the most important—and hard to find—component is *quality* mentorship. We just can't get enough of that, and I believe it's the hallmark of a start-up community.

We're finding it tough to get enough quality mentors. It really is no different than any other talent: there are people who are good at it and others who aren't quite so good. It's not a simple matter of bringing in someone with business experience, or even entrepreneurial experience, and saying he or she is a mentor. It's a matter of finding the right people and matching them with the right companies.

A good mentor is difficult to develop. What we're doing at Propel ICT, the region's private sector-led accelerator, is working on developing mentors. And the Wallace McCain Institute is building this peer-to-peer support group, which is good for fostering mentorship. We're getting there, but we're not there yet.

**International sales and marketing.** Including product management for technology companies, we have big problems in taking products to international markets. It's a real skill shortage in the region, and it's hurting a lot of our innovative companies. They're all export oriented, and they have to sell overseas or even in the U.S. What we lack is a training ground for these people because we don't have the big companies like Cisco or Google here to train people in selling software in foreign markets. When we do hire people in these roles, they're usually expats looking to come back to Atlantic Canada who have worked for some of these companies. We don't have too many like them here to draw from.

Most of the people in sales in this region haven't experienced work in fast-growth economies or haven't been to Asia. That means that they're not, for instance, familiar with intellectual property rules in China. They don't know how to operate and protect themselves in that climate. We need people who can operate in these markets. You can't just say we're not going to sell in China; it's too big a market to pass up.

There's a shortage of people in the world who have international sales experience in software. We need to get better at developing them. I've asked universities when they're going to make international sales—not just marketing, but sales—a specialization in their curriculum, and I've been told they're considering it. Of course, some private schools teach sales and they're good, but we need to be more serious

about it. Our companies are going to stumble until we get a higher quality of sales talent.

**Access to capital.** In particular, we need to find funding for companies before they're cash flow-positive and in what we call "the valley of death." They aren't looking for huge amounts of money, but they need enough to finance a lean operation until they build their revenues. The easiest, most cost-effective way to do this would be to liberalize the Equity Tax Credits (ETCs) across the region so they apply to investors who live in different jurisdictions from the companies they're funding. This is something we've been requesting for a long time.

Judging from the responses we get from provincial finance departments, they seem to be of the opinion that they aren't part of the economic development programs of the governments they serve. It's as if it's someone else's job. One advantage of enhanced ETC programs is they cost the government very little to administer. There's a simple application process, and we don't need armies of civil servants to oversee the program. I don't see why we can't be the best in Canada in ETCs.

In fairness, the ETCs in the region are as good as most others across the country. But we need to grow businesses at a faster rate than other provinces, so we need some unique programs. I'm saying these ETCs in Atlantic Canada can be *better* than other provinces. It wouldn't cost the governments any money if you believe that new-business formation results in government revenue. And I've seen that it does.

**Less overlap in government.** We need more co-operation and less overlap among provincial bodies. Do we really need the cost of four security commissions? Do we really get any benefit from having four separate agencies? In several economic development functions, we have four little departments doing exactly the same thing when we'd all be better served by one large department. What we should do is pick the strongest elements of departments in each province and bring them to one pan-regional department.

I understand this is difficult to achieve on a political level. Provincial governments say they can't offer services to residents and businesses of other provinces. But I think we have to chip away at such thinking. We're losing a lot of money because of administrative duplication.

There are other things I could recommend, but I don't feel as passionate about them as these four. If we could master mentorship, international sales, access to capital, and less governmental overhead, we could go a long way to developing the regional start-up ecosystem. ■

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