



ENTREVESTOR INTELLIGENCE

A PORTRAIT OF #STARTUPEAST

MARCH 2015 • VOLUME 4 , ISSUE 1



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Entrevestor Intelligence

Entrevestor Intelligence is published quarterly to provide a deeper analysis of the Atlantic Canadian startup world than can be delivered in daily news stories. The photo on the cover shows CTO Denis Daigle, left, and CEO Topher Kingsley-Williams of the Moncton startup Ongozah at work in the Vennture Garage. (See page 9)

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Revving Up Revenues

Though they're facing a challenging environment, Atlantic Canada's startups are increasing their revenues in a big way.

By Peter and Carol Moreira

Just over a year ago, John Eden released a Software-as-a-Service product for his company Charlottetown-based discoverygarden, which meant the startup could increase sales with fewer people.

Discoverygarden oversees Islandora, the digital repository for libraries and archives developed at the University of Prince Edward Island. And in 2014 it released its first SaaS product, greatly reducing the labour component of its work with client institutions.

Over the next six months, staff at the Charlottetown headquarters fell from 26 to 18 people, while revenues increased by 30 percent.

In many respects, discoverygarden is a microcosm for the Atlantic Canadian startup community in 2014. The company that has helped more than 100 institutions around the world preserve their digital relics increased sales while economizing on payroll. Though Eden may not have realized it at the time, it was a theme across the region.

The results of Entrevestor's 2014 Startup Survey show that the high-growth companies in Atlantic Canada are learning something about sales. The companies that shared revenue data with us revealed that their total revenues increased 36.5 percent over last year. That comes after revenues increased by 30 percent in 2013.

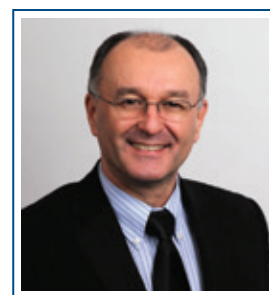
Sales growth is very much the story of the 2014 survey, taking over from news of a hiring boom in 2013. Our most recent survey found that employment at Atlantic Canadian startups increased by 9.4 percent – not bad, but falling far short of the dizzying 43 percent growth of 2013. And there is a school of thought in the community that it's a healthy development.

"The startup sector not adding jobs as quickly as it has in the past likely indicates productivity improvements," said Gary Dinn, who became CEO of the regional accelerator Propel ICT late last year.

"We will therefore not add jobs in lock step with revenue growth, as with older resource-based industries."

Entrevestor has strived to delve into the metrics of the startup community and produce the most detailed picture possible of how innovative companies in the region are growing. We try to understand how they're increasing sales, bringing on staff and funding their operations.

In the first two months of this year, we identified 287 startups in the region and surveyed as many as we could. We received 147 responses, though some respondents declined to give us sensitive information such as their sales or funding details.



Gary Dinn

Continued on Page 17

Cooler Heads Prevail in Hiring

Despite earlier forecasts of a continued employment boom, job creation grew at a much slower pace in 2014.

By Peter Moreira

When we published this report a year ago, the numbers that leapt from the page were the job creation figures.

The Atlantic Canadian startups we surveyed told us that they increased their staffing by 43 percent in 2013. They intended to increase employment by 50 percent in 2014, and the IT companies planned to double their staff overall.

It didn't quite work out that way.

Despite the blazing optimism in early 2014, the 139 companies that gave us 2014 data on their staffing overall employ 1,051 full-time staff in the Atlantic Provinces, and 137 part-time staff. Overall, that is 1,119.5 full-time equivalent positions and an increase of 9.4 percent over the previous year.

So what happened? Why did the job growth fall so dramatically short of expectations?

There are a few explanations, but first let's take a look at the big picture. Startups in Atlantic Canada had a massive hiring spree in 2013 and it would have been reasonable to expect some sort of contraction afterward. Whenever I delivered presentations of the Entrevestor data analysis last year, I said that startups were unlikely to meet their hiring expectations, largely because there weren't enough qualified people to fill the vacancies.

But it should be remembered that the staffing in this economic segment did not contract. It followed a 43 percent increase with a 9.4 percent increase, for a total two-year hike of about 56 percent. It's also advisable to keep in mind that the Atlantic Canadian economy overall saw employment rise 1 percent in 2014, according to Statistics Canada.

Even in a slow year, the startup job-creation vehicle outpaced the broader economy by a multiple of almost 10.

Having said that, startups in the region failed to hire as many people as they had hoped. Talking to founders, it seems that there are positions that have not yet been filled because they can't find the right people. And it also seems that CEOs were more cautious in their hiring than they initially wanted to be. Founders are being more careful in spending money than they had expected.

Several of the companies that reported a decline in staffing have also told Entrevestor that they did not receive the Scientific Research & Experimental Development, or SR&ED, tax credits that they had been expecting. That shortfall, often amounting to six figures, sometimes affected staffing levels.

Because of all these factors, several companies actually reduced staff even though they had hoped to hire more people.

There were 77 startups that provided us with employment data for both 2013 and 2014. Some 74 of them had expected to hire people in 2014. However, only six met their hiring predictions – three meeting them exactly and another three exceeding them. Thirty-four of these companies actually shrank staff during the year.

So were these companies with declining staff going through a period of distress? Some were, and one actually closed down. But the interesting statistic is that one-third of the companies that shrank staff actually increased revenues last year. Now, a few of these companies had such a low revenue base that it couldn't support their staffing. But there were others with six-figure revenues that felt compelled to reduce staff. There were a few other things we looked at this year so we could get a better idea of the quality of jobs being created. We asked companies to tell us the number of part-time positions (given a weighting of 0.5 of a position in the totals). Almost 90 percent of the positions created in the startup community are full-time positions. In addition to the jobs created in Atlantic Canada, the region's startups have 106 full-time and 43 part-time positions in other parts of the world.

There were 83 companies with paid employees that gave us payroll information, and they reported a total payroll of \$44.1 million. All told, these companies had 752 full-time equivalent employees, meaning that on average they paid their staff \$58,600 each. As we saw in last year's surveys, and confirmed by other research, startups create well-paying jobs.

One final observation about the employment survey is that founders have not been dissuaded by the challenges they faced last year in finding and paying talent. The 139 companies that gave us job data told us they expect to hire 476.5 employees in 2015. If they're successful, their total staff will increase 43 percent. Forgive us, but it's a forecast we're taking with a grain of salt. ★

#Startupeast Employment in 2014

Companies providing jobs data	139
Total staff in Atlantic Canada*	1,119.5
Total staff a year earlier	1,023
Employment growth	9.4%
Staff outside Atlantic Canada*	127.5
Total payroll (83 responses)	\$44.1M
Startups with 10 or more staff	26
Startups with no paid staff	26
Expected hiring in 2015*	476.5
Projected 2015 job growth	43%

*Part-time employees recorded as 0.5.

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Seeding Rural Startups

Andrew Button is on a mission to build support networks in the under-populated parts of the region.



Kelsey MacAulay, COO of Blackstar Wealth Partners, coaches participants William Grant and Sean Turner at the Mashup Weekend in Bridgewater in November. Grant, Turner and their teammate Karine Gautreau won first place at the event.

Here's why Mashup Lab is Important

Startups tend to be an urban phenomenon.

Some 91 percent of the 282 startups in the Entrevestor Databank are found in urban centres. Only 26 are outside the major cities in the region. The larger the city, the more it tends to act as a magnet for startups. That's because the principal resource startups are built on is talent, and they grow most effectively when there is a variety of talent.

Developing businesses is difficult in the best of circumstances, and there are additional challenges in rural locales because it's harder to find the needed skills.

Yet the rural areas need economic development even more than urban centres do. For example, the New Brunswick government in October, 2013, said that its urban unemployment rate was 8 percent while the rural rate was 13.8 percent.

Startups are effective engines of employment and economic growth, and could serve to create activity in rural areas.

What Andrew Button has discovered is that there are people living and working on their own in many of the beautiful small communities in the region. By holding events in these towns, he helps these people learn who else is developing companies near them and how they can help each other out.

It's not bringing Silicon Valley to Mahone Bay, but it's helping businesses through their perilous early years.

By Sabina Wex

Andrew Button has attended too many meetings about Atlantic Canada's economic troubles. He has worked in economic development with a specialization in rural communities and found that the region's economic woes became a hot topic in every discussion.

Yet these constant meetings never found concrete solutions to grow economic development in Atlantic Canada.

"Who was actually going to do this work in these communities to inspire more entrepreneurial activity—that was always left as a question mark for me," said Button, who spent two years at the Lunenburg Queens Regional Development Agency. "So finally I got fed up and said, hell, I can do something."

And so, Button created Mashup Lab, holding the first meeting in Mahone Bay in May 2014.

Mashup Lab aims to bring rural and small-town entrepreneurs together in their own communities, rather than forcing them to migrate to urban centres, such as Halifax, Toronto or Montreal.

The organization hosts an event every six weeks so potential entrepreneurs in places like Mahone Bay, Yarmouth or Cape Breton can surround themselves with like-minded people. Past events have been nights devoted to business pitches or lectures by current startup entrepreneurs.

On Sept. 30, Button said he decided to do the most audacious thing he's ever done in his life: create Mashup Weekend, an event in which people can share ideas and turn them into startups over one weekend. It was audacious because the startup weekend model is usually practised in urban centres, and in one place. Button wanted it happening in several places.

In November, just two months later, Mashup Weekend occurred simultaneously in Yarmouth, Bridgewater and Kentville.

Button said 10 to 20 people showed up. The small number of people at the three locations allowed mentors to work intimately with one team rather than having to manage four teams, as often happens at similar events.

Matt Hall was a mentor at the event, where he helped a team create a feasible plan for a startup by the end of the weekend.

"People come wanting to have a good time and with relatively low expectations of tangible outcomes," said Hall, who is a cofounder of Agile Geoscience, a geoscience consulting company. He is also a co-founder of The Hub South Shore, a co-working space.

"...What blows everybody away is that actually you can get an amazing amount of real work and real insight done over a weekend—especially working with total strangers."

Hall moved to Mahone Bay after working for a Calgary oil company for 10 years. He said he expected to find a bunch of retirees in Mahone Bay, and

was surprised to find people with an entrepreneurial spirit, like Button, living in the community.

"Finding these amazing people living in places like Port Mouton and Blue Rock and Clare -- they had networks like you wouldn't believe, had done some amazing things," Button said. "And for whatever reason, [they] found themselves in these small communities in Nova Scotia. It was like this completely untapped resource that was sitting here." That was what happened to Suman Kalyan, co-founder of customer data analytics company Adroit Vista.

Kalyan moved from Toronto to Mahone Bay because of his wife's new job. In Toronto, he had worked as a data analyst for companies like Rogers and Telus.

"I was very comfortable in a big company," Kalyan said. "Running sales, marketing, that was all taken care of."

But when starting Adroit Vista, Kalyan realized he had little experience in areas like sales and marketing—he had only analyzed data. And though Kalyan had networks in Toronto and Europe, he didn't have one on the South Shore of Nova Scotia.

Button and Kalyan met at The Hub South Shore. Button advised Kalyan on creating a feasible business model, and gave him tips on how to manage sales and marketing effectively. Kalyan then attended Mashup Lab events and met other entrepreneurs whom he also asked about running a business.

"Andrew's been a champion for us," Kalyan said.

Kalyan's come so far with Adroit Vista that in March he will be a speaker at a Mashup Lab Lightning Talk, in which Nova Scotian startup founders discuss their experiences in setting up and running businesses.

Though Button has created many successful events, he admits that his business model isn't ideal. Right now, Mashup Lab depends on corporate sponsorship. The sponsorship money covers event expenses, but Button doesn't make a profit, despite Mashup Lab being a for-profit company.

However, Button said his goal right now is just to cover the cost of expenses. He makes a living through consulting companies about their economic development.

With Mashup Lab, Button said he not only wants to create many businesses in rural Nova Scotia, but to create ones that are sustainable. He admits that Mashup Lab's business model of corporate sponsorship isn't sustainable and is trying to discover a structure that would last.

"I felt like there was a real opportunity for us to understand how we build sustainable business models around this type of activity," Button said, "because I feel like that's the only way we're going to get amplified, accelerated, sustainable growth."

Button said he wants to expose more Nova Scotians to the feasibility of creating their own startups. Mashup Lab is in talks to collaborate with other Nova Scotian entrepreneurial organizations.

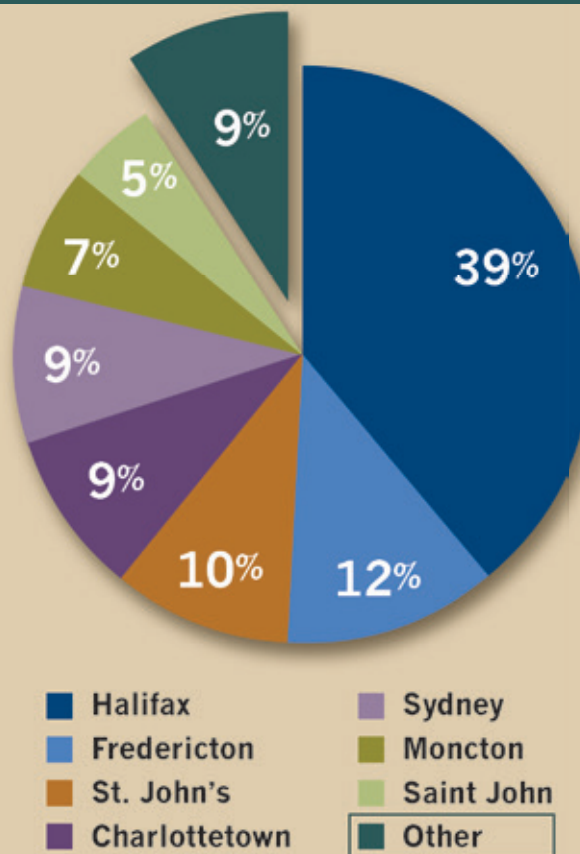
"The more activity we have in this entrepreneurial startup space in rural areas, the better," Button said. "I can only do so much. ...We need to be doing ten times more than what I can do."

Sabina Wex is a student at University of King's College and an intern with Entrepreneur. ★



Sean Sears delivers instructions at the Mashup Weekend in Yarmouth in November with participant Nessa Goodwin-Clairmont listening on. Sears, the CEO of the Halifax startup sageCrowd, was the facilitator of the event.

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Saeed El-Darahali (pictured), President and CEO of SimplyCast.com, is a proud Sobey School graduate and a supporter of the MTEI program. You can read more about his success journey at sobey.smu.ca/success.



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Startup Programs Starting Up

Around the region, several new programs are marshalling together rookie entrepreneurs and preparing them for accelerators and the market.

By Peter Moreira

There's a theme of community running through the story of Ongozah.

The Moncton startup founded by Topher Kingsley-Williams, Denis Daigle and Dan Gillis is developing a platform that will help community groups crowdsource the various things they need. And to nurture the company, they relied on a new community startup facility in their hometown.

Ongozah – a Swahili word that means everyone moving in the same direction – is one of the startups being groomed in the Vennture Garage, the new program recently opened in the Venn Centre in downtown Moncton to help encourage young entrepreneurs. By working with the staff at the Garage, the Ongozah team has almost completed its product, found 15 customers and bagged a couple of investors. It's also entered the Breakthru competition.

Vennture Garage's work with Ongozah is simply one example of a fairly new program that introduces young people to the tasks and philosophies of entrepreneurship. Such programs are springing up all around the region and becoming the farm teams for Propel ITC, the regional accelerator. There are a range of university programs, and there are community-focused pre-accelerator programs developing in Moncton, Sydney, and Prince Edward Island, to name a few.

"The idea for the Vennture Garage came out of the evolving circumstances in the ecosystem in New Brunswick and some excellent new programs," said Doug Robertson, CEO of Venn Innovation, which operates the program. "But there were concerns about the quantity and quality of applicants to those programs."

The idea is that society is awash in potential entrepreneurs, but most have been reared on traditional concepts of business that are outdated or just plain inaccurate. So these introductory programs familiarize them with concepts like ideation based on solving pain, customer discovery and the mysteries of the lean canvas. The programs also teach the virtues of failure, especially fast failure – a concept that is counterintuitive to most of us. In short, they are preparing entrepreneurs to apply for a facility like Propel.

On P.E.I., the provincial government has initiated its Ignition Program, which provides mentorship and \$25,000 in early-stage capital to entrepreneurs interested in both startups and more traditional businesses. Innovation PEI launched the program last June, and has so far invested a total of \$200,000 in eight companies.

Mark Richardson of Cornwall, for example, got help from Ignition for his company, Skip the Waiting Room. It's an online product that lets walk-in clinics help patients avoid long waits in a waiting room. The company went through the most recent cohort of the Propel accelerator.

Other startups that have tapped Ignition are Queen Bee Games of Pownal, and BamText Corp. of Charlottetown.



In Sydney, startups are gaining a boost from two recent introductions to the ecosystem – the UIT program at Cape Breton University and the Spark Cape Breton competition. Initiated last year, Spark differs from other startup contests in the region because it aims to give a bit of money (\$5,000 to \$50,000) to a broad range of winners. In two years, 14 companies have received funding from the award.

UIT, meanwhile, is an experimental tech/entrepreneurship course that will continue, even expand, next year. It has taught 12 students (six of them women) the basics of entrepreneurship, relying heavily on online curriculum.

"The energy that is in the startup community in Cape Breton right now is unbelievable," said Bob Pelley, the Innovacorp executive in Sydney. "It's a perfect storm of UIT and the success of Spark and other factors. It's all just highlighting what can be done here."

Back at the Vennture Garage in Moncton, Robertson and Entrepreneur-in-Residence Dave Gallant have established a program in which participants can enter and leave at any time and still benefit. It provides co-working space free for the participants, and works hard to encourage young people to learn about entrepreneurship. They focus a lot on what makes a good idea for a business.

"A lot of us never know how to come up with a good idea," said Gallant. "I have people come in that have a desire to be an entrepreneur . . . but they don't have a good idea [for a business]." So his instruction focuses on how to test ideas with potential clients and how to plot the stages from idea to development. "I help them come up with an idea that solves a problem."

Still in its first year, the numbers speak to its success. Twenty-one teams have applied and there are now 10 or 11 active teams working in the Garage. Three have entered Breakthru, and three or four have decided to leave the program.

"To enter the Garage, they have to look at the problems, look at the solutions and they have to go out and validate it," added Robertson. "They have to talk to 10 people a week for one month. They need to come back with the results." ★

THE STARTUP REVIEW:

Entrevestor examines
Atlantic Canadian startup
metrics for 2014.



WHERE WERE
NEW STARTUPS
LAUNCHED IN
2014?

21 Halifax
13 Sydney
11 Fredericton

29

Newfoundland & Labrador

WHERE ARE THE STARTUPS BASED?

26

Prince Edward Island

79

New Brunswick

153

Nova Scotia



HIGHLIGHTS
OF 2014:

Propel ICT graduated its
49TH STARTUP

Spectrum Equity
INVESTED
\$60M in Verafin

EXITS BY
UserEvents, Compilr,
G2, and NewPace

TOTAL VC FUNDS RAISED IN 2014:*

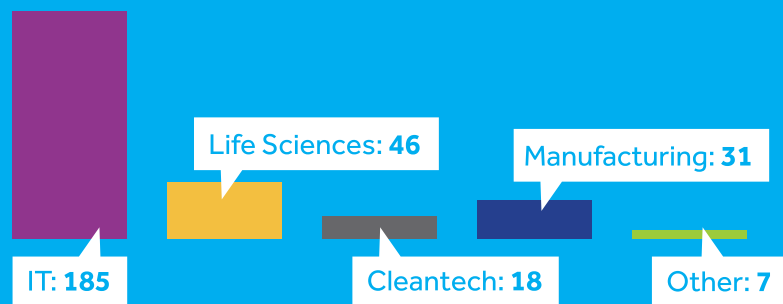
\$84M+ 2013 » \$30.8M
2012 » \$23.1M
2011 » \$51.5M

*Includes private equity

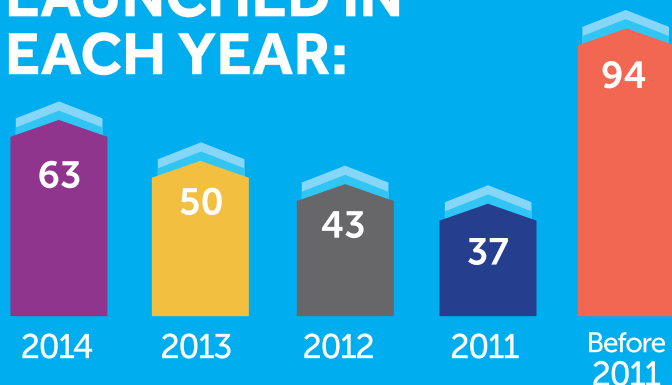
NUMBER OF STARTUPS RECEIVING VC FUNDING:*



TOTAL STARTUPS BY SECTOR:



NUMBER OF STARTUPS LAUNCHED IN EACH YEAR:



WE SURVEYED 147 STARTUPS AND HERE'S WHAT THEY TOLD US:



Employment
increased by:

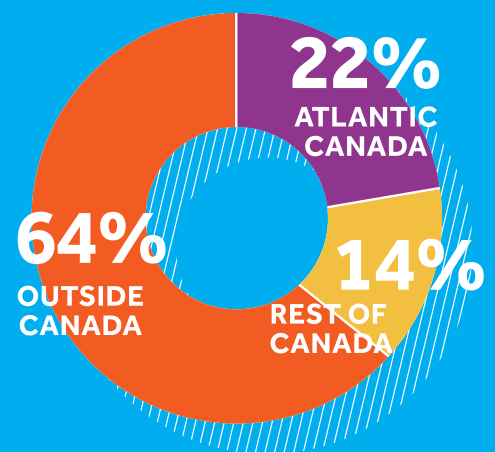
9.4%



Revenue
rose by:

36.5%

Where did the
revenues come from?*



*Includes startups with less than
\$10M in sales



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THE F-WORD

Nathan Armstrong is not afraid to talk about the failure of his company Hyton Innovations. He feels he's stronger for it.

By Peter Moreira

Nathan Armstrong doesn't mind using the F-word, and believes more Atlantic Canadians should discuss it openly.

The F-word, despite what you may have thought, is "failure".

Armstrong is rightly proud that he and his brother Greg launched their cleantech startup Hyton Innovations, were shortlisted for an award and took the company through two accelerators. And he's not ashamed to say that they eventually failed.

It's a fact of the startup world. Startups are highly risky propositions. They deal with experimental technology, often lack proper working capital and have challenges in finding suitable personnel. They often fail.

43 startups closed in 2014
17 were founded in 2013
10 were founded in 2012
22 were in the Halifax area
26 had no employees
31 were in IT
7 were in cleantech

"There are still people who view it negatively," said Armstrong in an interview. "There are always people who are going to say, 'I knew Hyton wouldn't progress.' But we need to find people in the community who can step up after failure."

The story of the Armstrong brothers is far from an uncommon one. In examining the members of the Atlantic Canadian startup community,

we found that 43 startups failed, or died, or however you want to describe their ceasing to be. In round numbers, it's about 15 percent of the companies we were following last year. Some had employees and had been going for a few years. Some were operating off little more than the dreams of a few college kids.

Hyton was somewhere in the middle.

Entrevestor first reported on the Armstrong brothers two years ago when they entered their Fredericton-based company – then called CeteX – into the New Brunswick Innovation Foundation's Breakthru competition. Its aim was to help companies clean up wastewater from their plants without a massive investment in infrastructure.

CeteX or Hyton proposed fitting all the equipment needed to treat wastewater into a mobile shipping container, backing it into a plant and letting a client lease the system without an expensive upgrade. It would clean the water so that it could be flushed away with no harm to the environment, or re-used in the plant.

The company was one of five finalists in the Breakthru competition. It entered the Accelr8 program at Planet Hatch in Fredericton then, last year,

"No one really knows what to do after a company closes. You wonder what you're going to do next and not many people want to talk about it. It could be the most pivotal period in an entrepreneur's life."

– Nathan Armstrong

it went through the Launch36 accelerator. It also competed in BioNova's BioInnovation Challenge.

The Armstrongs lined up early adopters for their system, but they didn't have the firepower to fully develop the product.

"We had great early adopters," said Armstrong, now 27. "But we were trying to build a business without a team so product development was a problem. We just didn't have the cash flow to build it."

In mid-2014, Greg Armstrong opted to take another position and they decided to wind down the company.

"No one really knows what to do after a company closes," said Nathan Armstrong. "You wonder what you're going to do next and not many people want to talk about it. It could be the most pivotal period in an entrepreneur's life."

Armstrong found solace in the peers and mentors who he and his brother had relied on in building up Hyton. They included Springboard Atlantic CEO Chris Mathis, Enovex CEO Scott Walton and Xiplinx CEO Brent MacDonald. He also found support from the other founders in his Planet Hatch cohort.

He thought of launching another startup immediately, but soon realized it wasn't the right time. So he took about two months, during which he conducted a penetrating assessment of himself, his skill set and his wants.

He realized he had an entrepreneurial flair and he did not want to work for a conventional company. He liked innovation. He liked the sales process.

Armstrong began to spend more time with MacDonald. He'd been following Xiplinx, whose Internet of Things application helps food and beverage producers manage their manufacturing processes. Soon he was working for Xiplinx as an account management executive. He works with potential clients through their pilot programs and helps to convert them to paid subscribers.

"I don't think I could work at a normal company where you're just a number," he said. "I feel suffocated where I can't use my skill set and get into the strategic thinking. Down the road I will probably jump into entrepreneurship again if I get the chance." ★

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Build Ventures: So far, So Good

Keefe and Barbara have a strong portfolio, but they know the toughest part may be ahead of them.

By Peter Moreira

The mood was joyous and full of humour among the two Build Ventures partners the day after the New England Patriots won the Superbowl.

Patrick Keefe, a Patriots fan, was delighted his team had prevailed the night before. And his partner Rob Barbara, a New York Giant supporter, was pleased that there was no longer a sore point that the Pats had lost two Superbowls to his team.

"This has really been the only strain in the relationship and now it's gone," joked Barbara over lunch at a Turkish restaurant in Halifax.

Barbara and Keefe are now about 18 months into their venture capital partnership, and so far there have been few problems other than the feud between their football teams. Since five governments and a few private investors came together to launch the fund, the duo have invested in five companies, and none has been a flameout. In fact, all five seem to be performing brilliantly – no mean feat in the chancy game of VC investment.

But the partners are quick to point out that they're now going through the easy part of developing a VC portfolio.

"As well as things have gone in the first two years, we're probably going to have bad news before we have good news," said Keefe, proudly sporting a grey Patriots T-shirt.

Added Barbara: "If the fund is managed properly, the bad news is going to come first because we're not going to hide behind it."

Everyone knew there would be bad news at some point when the four Atlantic Canadian provinces and the Business Development Bank of Canada kicked in most of the more than \$60 million for the fund. The idea was that there was a crying need for a financial body to provide follow-on funding to the best companies in the region. The best way to meet that need was for all four provinces to back private fund managers to ensure that there was sufficient capital and no political interference. Failures would happen, but they should be outweighed by successes.

So far, things have unfolded as planned.

Based in the Volta startup house in Halifax, the company has invested in five companies: Smart Skin Technologies, and Resson Industries, both of Fredericton; Introhive, of Fredericton and Washington, D.C.; Affinio of

Halifax; and Celtx, of St. John's. Though it's still early days for all these investments, the Build partners are pleased that all five are reporting growing revenue and no major problems.

"That infusion of cash has helped us grow our business and really helped us get into the market," said Smart Skin CEO Kumaran Thillainadarajah. Since Build and a host of co-investors invested \$3.9 million in the company in January, 2014, Smart Skin's team has grown from seven engineers to 13 and it has opened a sales office in Munich, Germany. The company's revenues rose 600 percent last year.

Peter Goggin, the CEO of Resson, said his company has benefited from more than just money through the \$3 million in funding it received from Build and Rho Ventures Canada. Barbara has joined the board and helped the Fredericton company make connections in Nova Scotia.

"What we're really pleased with is that when firms outside the region are considering an investment here, a lot of them want to know what Build is doing before they make their decision."

– Rob Barbara



Mark Kennedy (left), Kumaran Thillainadarajah (middle), and Peter Goggin, right, with his co-founder Rishin Behl (right)

Keefe and Barbara are pleased to state that all these companies are doing well, but they know that will not always be the case.

The Build I fund will probably make 12 to 15 investments, and the partners know the nature of the VC trade is such that there's bound to be a company or two that runs into trouble. And they will likely run into trouble before a member of the portfolio exits. That's what Keefe and Barbara mean when they say they'll have bad news before the good. Despite that, the prospect of a second Build fund does come up in discussions with Keefe and Barbara. Raising that fund may prove more challenging than raising the first, because the goal will be to raise money with a greater contribution from the private sector.

That would be a challenge given the dearth of VC limited partners in Canada at the moment.

The Build Partners said Build I will have to be performing well when it comes time to raise Build II. That doesn't mean there will have to be a range of blockbuster exits. But the partners will have to demonstrate that they backed companies that achieved dynamic growth in global markets.

Between now and then, Keefe and Barbara will continue to build out the portfolio of their first fund. They are visible at events around the region, and continue to seek opportunities. They have invested in three of the



Rob Barbara (left) and Patrick Keefe (right)

four provinces, and would like to make a deal or two in P.E.I., whose government invested \$2.5 million in the fund.

Build's most recent funding was its largest to date, and it demonstrates how the group's roots in Atlantic Canada bring it opportunities before other funds learn of them. Build sank \$3 million into the St. John's pre-production software company Celtx in a deal that closed Christmas Eve. CEO Mark Kennedy said Keefe had been following the company since they met in Halifax in late 2011. "Back in the summer, I told [Keefe and Barbara] that we were taking a serious look at raising some capital," said Kennedy. "I did an early pitch to get their feedback, and they were interested. Before long, Build agreed to invest."

Barbara and Keefe are also willing to invest in companies outside the province. About 65 percent of Build's funding comes from the Atlantic

provincial governments, which means Build could invest as much as 35 percent of its capital in other places. Barbara and Keefe almost invested in a Montreal company recently, but were outbid by another fund.

Atlantic Canada will continue to be the focus of the firm's activities. They perceive a huge amount of opportunity in the region, and are excited by the growth of the ecosystem. They're also pleased to have developed ties with funds based in other parts of the world that are interested in investing in Atlantic Canadian startups and working with Build. In fact, the Build seal of approval is becoming a factor in outside investors' investment decisions.

Said Barbara: "What we're really pleased with is that when firms outside the region are considering an investment here, a lot of them want to know what Build is doing before they make their decision." ★

Who's in the Build Portfolio Now?

Company	City	Business	Investment date	Total Raise	Co-Investors
Introhive	Fredericton and Washington	Relationship intelligence for CRM	2013	\$5M	GrowthWorks Atlantic, Salesforce.com, NBIF, Angels
Affinio	Halifax	Social media analytics	Oct. '13	\$1.5M	None
Smart Skin	Fredericton	Pressure-sensitive surface technologies	Jan. '14	\$3.9M	Rho Ventures Canada, GrowthWorks Atlantic, NBIF, Angels
Resson	Fredericton	Data-based agricultural analytics	Nov. '14	\$3.025M	Rho Ventures Canada, BDC Capital, NBIF, Angels
Celtx	St. John's	Pre-production software for film and video	Dec. '14	\$3.3M	Killick Capital

Putting New Funding to Good Use

Having raised \$60 million in private equity in 2014, Verafin recorded organic revenue growth of 45 percent and added 200 clients.

By Peter Moreira

If there was a Deal of the Year for #startupeast in 2014, it would undoubtedly have gone to Verafin's \$60 million financing by American private equity fund Spectrum Equity.

Rumours of a whopper of an investment began to circulate in Verafin's home base of St. John's in the spring, and it lived up to expectations when CEO Jamie King announced it last May. Now Verafin, which makes software that detects money laundering and fraud, says it has continued to grow with the new capital on board.

"With our third consecutive year of double-digit revenue growth, strong new customer growth, and many new enhancements to our product, we had an outstanding year in every part of our business," said King in a statement in February.

The details of the Spectrum investment were never released, but the Boston- and Silicon Valley-based fund took a substantial minority stake, and some of the \$60 million tranche went to buying out existing investors. In its history, Spectrum has raised \$4.7 billion for investment in IT and media companies, and now has more than 50 portfolio companies including AMC Entertainment, SurveyMonkey and Ancestry.com.

No deal announced last year in the Atlantic Canadian startup community had more impact. The exits in 2014 were modest. The Spectrum deal was the largest investment in a high-growth company in Atlantic Canada since Entrevestor began almost four years ago, possibly ever. It was a pure private sector deal, and brought in foreign capital. It allowed Killick Capital to exit its investment in Verafin, and Killick has already begun to redeploy the capital, adding to its funding of Celtx in late 2014.

Most important, it has allowed the continued growth of one of the most successful startups in the region.

Verafin's revenues continue to storm ahead, with organic revenues rising 45 percent in 2014. At the time of the investment, the company forecast its sales would rise by about half in 2014 to about \$30 million. Overall, Verafin said its compound annual growth rate for revenues in the past three years has been 51 percent.

The company has clients in 44 states in the U.S. and its number of customer bookings in the fourth quarter of 2014 was 68 percent higher than the same period a year earlier. The company, which reached its 1,000th customer in May, 2013, added 200 customers in 2014.

"This growth demonstrates the strength of the unique Verafin cloud



Jamie King

solution," said Vice-President of Sales Jason Quann. "It's been an amazing year for growth, and we are very excited to continue this momentum into 2015."

Founded in 2003 at the Genesis Centre at Memorial University of Newfoundland, Verafin makes enterprise fraud-detection and anti-money laundering solutions for financial institutions across North America. Its software uses advanced behavior-based analytics that allow banks and credit unions to stay a step ahead of cutting-edge fraud trends.

The company has been growing strongly for several years. Its citation in the Deloitte Technology Fast 50 (the 50 fastest-growing tech companies in Canada) in 2012 revealed its revenues had grown 358 percent in the five years to 2011. In March 2013, the company added the 1,000th financial institution to its list of clients.

Verafin's other milestones in 2014 included:

- Upgrading its user interface for increased speed and enhanced usability;
- Improving analytics so false alerts were reduced by 50 percent;
- Implementing new data interfaces to bring the total to more than 125;
- Launching a new user community with 6,000 users to enhance the customer experience;
- Surpassing 120 million transactions processed daily;
- and maintaining a leading retention rate of 98 percent.

The company is continuing its growth in 2015. In listing its achievements in the past year, Verafin noted it was listed in the Globe and Mail's Canada's Top 100 Employers list for 2015, which should help in its bid to attract new talent.

As it looks forward to 2015, Verafin plans to continue its track record of growth and further penetrate the North American market with its innovative software solution. The company now has weekly product releases to increase its ability to help customers fight fraud and money-laundering.

"We are constantly working to ensure we provide our valued customers with the highest level of service and the best solution for their needs," said King. "We are proud to have over 1,200 customers benefit from our software and are well on our way to see that reach 3,000 in the next few years." ★

The community ecosystem is evolving and VC Funding is on the rise

Continued from page 3

Combining this data with our reporting from around the region, our first Entrevestor Intelligence report this year gives a detailed picture of what's going on in this exciting segment early in 2015. We've had help. Lise Hansen of Bonfire Communications in Saint John produced the magnificent infographic in the middle pages, and David Alston, Chief Innovation Officer at Introhive, weighs in with his vision of a digital society in New Brunswick. And our tremendous intern Sabina Wex has looked into what Mashup Lab is doing in rural Nova Scotia.

Overall, we're seeing a few things happening today that we didn't notice a year ago.

Revenue is All Important

There is still a crying need for programming talent, and founders are still obsessed with funding. But there is a prevailing attitude in the startup community that as a group we simply need to sell more. "I know enough to know that's what is inhibiting Canadian companies, Atlantic Canadian companies, from scaling," Mariner Chairman Gerry Pond said recently.

Yet the sales picture appears to be improving--up almost 37 percent according to our survey results. It's difficult to pick out trends from revenue data. But there were more companies moving into the middle band of healthy if not spectacular revenue and out of the pre-revenue band. In the latest survey, 21 percent of the respondents were in the \$100,000-\$1 million revenue band, compared with 18 percent in 2013. At the lower end of the spectrum, 48 percent of the companies had revenue below \$10,000 this year, down from 53 percent a year earlier.

Here's some other good news about revenues: almost four-fifths of them come from outside Atlantic Canada. The recent growth of startups in the region would be a hollow victory if the growth were not based on exports. Only 22 percent of the startup revenue comes from Atlantic Canadian customers. Almost three times that amount (64 percent) comes from clientele outside Canada.

VC Funding in Improving

The biggest venture capital deal last year was Spectrum Equity's \$60 million investment into Verafin of St. John's. (We group private equity deals, such as the Spectrum funding, in with VC.) But it was only part of the story. Overall, 2014 was a record year with \$84.4 million of institutional investment into Atlantic Canadian startups, up 170 percent from 30.8 million a year earlier.

If you strip out the Spectrum funding, the 2014 total falls to \$24.4 million. But if we take out that deal, we should also exclude Imperial Capital's \$17 million funding of STI Technologies in 2013, in which case the 2013 total would be \$13.8 million. That still means VC funding increased by 77 percent in 2014.

The Ecosystem is Evolving

In this issue, we look at a few community-based organizations that are contributing to the system that nurtures startups in the region.

The big advance has been the broadening of the Propel ICT regional

accelerator. It went from a cohort of six teams in the spring of last year to a multi-location cohort of more than 20 teams in the autumn. It brought on Dinn as CEO, a Newfoundlander who will continue to operate from St. John's.

But there was also a strengthening of the pre-accelerator groups that feed into propel. The Mashup Lab movement in Nova Scotia, Vennture Garage in Moncton, Ignition in P.E.I. and several initiatives in the Sydney area are getting teams ready for accelerators and the market.

A Sense of Reality

Also in this issue, we take a look at the challenges of the startup life. Our whole community is learning, (as if they didn't know it before) that this startup stuff is hard. If it weren't, we'd all be listed on Nasdaq by now, or maybe the NYSE. Atlantic Canadian founders are becoming more sober in their judgments, which is probably why they hired fewer people than they'd expected last year.

There were about 43 startups that shut down in the region last year, and we wanted to look at the issue of failure. So we talked with Nathan Armstrong, who closed down Hyton Innovation last summer. And we profiled Yves Boudreau, whose first company went bankrupt. Boudreau is now in 500 Startups in San Francisco with his second.

We hope the pages of this report will provide a clear picture of where #startupeast stands early in 2015. We believe we offer a great blend of metrics on the industry and the human stories behind the numbers. It features the triumphs and the challenges. And this publication once again highlights a growth story.

Yes, there are challenges facing the community but, as Dinn points out, revenues rising faster than employment growth is a sign of improving productivity.

"Simultaneously, we are also not constrained by commodities markets, prices or raw material availability, making the upside very attractive if we continue to grow startups," he said. "We also have some of the highest educated populations in the world, making this something that is possible to achieve." ★

MAJOR VC DEALS IN 2014

Company	Amount	Investor(s)
Verafin	\$60 million	Spectrum Equity
Reno Sub-Systems	\$8.5 million*	Intel Capital, Innovacorp
Celtx	\$3.3 million	Build Ventures, Killick Capital
Resson	\$3.025 million	Rho Ventures Canada, Build Ventures, BDC Capital, NBIF
LED Roadway Lighting	\$1 million†	Nova Scotia Business Inc.

* Figure converted from US dollars, based on media reports.

† Conversion of debt into equity.



Overcoming Adversity

After suffering a harsh bankruptcy with his first venture, Yves Boudreau is prospering again by taking Qimble to 500 Startups.

By Carol Moreira

Yves Boudreau is so thrilled to be participating in prestigious San Francisco-based accelerator 500 Startups that his voice seems to glow with Californian sunshine.

Being one of two Canadian startups in the respected accelerator is especially meaningful because his first business ended in bankruptcy.

"I'm learning so much I'll be a wise Buddha when I'm done here in another 12 weeks," said the CEO of Moncton-based online recruitment company Qimble. The company tracks and rates job seekers to make the hiring process easier for both recruiters and applicants.

For Boudreau, it feels good to be forging ahead after his first venture ended unhappily.

The entrepreneur, now 36, began his first business at 19 when he started Halation Studios, a digital creative agency, out of his home town of Bathurst.

Halation quickly received work from major record labels and financial corporations. Boudreau was named a 2003 CBDC Young Entrepreneur of the Year and was nominated as a 2004 Ernst & Young Entrepreneur of the Year. But problems arose.

"My first venture had an amazingly talented team," he recalled in a phone interview. "We were all misfits from New Brunswick Community College in Miramichi. Revenues went up and 2001-2004 were good years. We were racking up accolades and I was buying into our hype.

"Then the reality of me not knowing how to grow the business kicked in. I was naïve about managing my team, our clients, and cash flow. In 2004-2005, we were running up debts."

Boudreau had to scale down and cut expenses. He began to have trouble sleeping then developed anxiety.

"I knew nothing about anxiety, so one day when I suddenly couldn't breathe I thought I was having a heart attack at 25. The doctor said I needed to change my lifestyle.

"I didn't, but my passion did waver and I began to lose my grip. I was breaking down in my banker's office, pleading for help to make payroll. I feared losing everything."

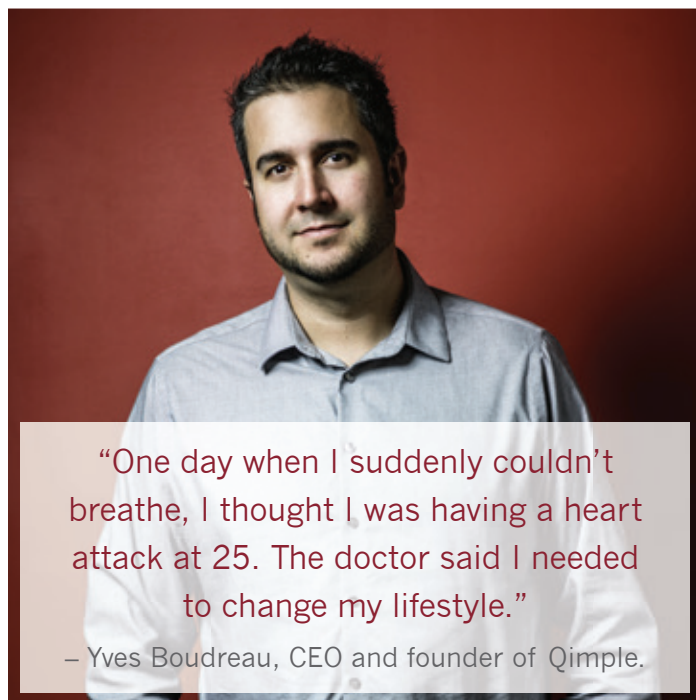
Finally, a fire damaged his company's equipment and meant the end of the business. "That was the last straw for me. I knew it was time to move on," he said.

Boudreau was \$250,000 in debt.

"I tried to negotiate deals with creditors and might have avoided bankruptcy but couldn't make it work in the end."

After the bankruptcy, he felt directionless and began to hide away at home.

"When you work so hard for something and it doesn't pan out, it feels like



"One day when I suddenly couldn't breathe, I thought I was having a heart attack at 25. The doctor said I needed to change my lifestyle."

— Yves Boudreau, CEO and founder of Qimble.

you can't be successful at anything else," he said.

"I couldn't talk about this for a long time. It felt like a loss. I had to work hard at overcoming the emptiness I felt. The lift began when I went to a Cybersocial event and met old friends whom I hadn't seen in months."

Eventually, Boudreau was hired by Enterprise Greater Moncton as an entrepreneurship development officer.

"I felt I could use my experience to help other entrepreneurs. Over time, the job became rewarding and I regained confidence," he said.

Attending an event with regional accelerator Launch36 one night, he realized he needed to found another startup.

"I saw [other entrepreneurs] on stage and I knew that I was meant to be part of it. I'd spent five years re-building financially. I had a good-paying job, but I knew I was ready to put it all on the line again," he said.

Now, as Boudreau builds his second company, he places a greater emphasis on balance and physical and mental health.

"I'm as driven as I was when I started my first venture," he said. "But I'm more leveled-headed this time around and handle the highs and the lows better.

"It means so much to be at 500 Startups in San Francisco after the rollercoaster I've been through. It feels like I've come full circle. I hope my story will inspire others." ★



Creating a New Culture

We need to accommodate the young people who want to work in careers that address the world's problems.

By David Alston

I returned recently from a trip to India. We were there to film part of a new documentary called *The Millennial Dream*. We wanted to see how millennials and an emerging culture of social entrepreneurship in a city of 1.5 million people could inspire us back home. The documentary records New Brunswick's journey toward becoming Canada's mecca for millennials or "digital natives" who want to create and work in impact organizations that aim to improve the world we live in. It's a bold and necessary vision, especially since, for the first time, deaths now outnumber births in N.B. The constant stream of young people sleepwalking out of our province as soon as they graduate doesn't help either.

This is a vision that sees my home province shift from being one of Canada's greatest exporters of young talent to one of its greatest importers. Studies show that this generation and the generation that follows it, Gen Z, value making an impact in the career they choose. Often, it's more important to them than earning higher salaries at organizations that don't have missions to make an impact. There are many studied reasons for this. I believe that, unlike any other generation in our history, our 30-somethings, and those a little younger, have grown up mostly being able to live atop of Maslow's Hierarchy of Needs; in the triangle labeled "self-actualization". When you also consider they've grown up with instant digital access to the whole of the world's problems at their fingertips, it's no wonder they feel an urgency to find solutions. For them, the days are gone when you worked long hours to "pay the bills" so that, someday in the distant future, you could retire and maybe dedicate the rest of your days to something more meaningful. No, they want to have meaning embedded in their careers now because they know the world's environmental and social problems won't allow them to wait 40 years to find solutions.

So with this knowledge in mind, one would think that our youth would be lining up to start their own businesses, ready to problem-solve at the drop of a hat, ready to help the world innovate its way out of the mess it's gotten itself into. Sadly, for the most part, that's not the case. Or better put, it's not the default or the norm ... yet.

But that's not because the support structures don't exist. There are a wide number of initiatives currently underway that work with students and others—from Brilliant Labs, Place Aux Competences, The Gaia Project, and CHAT to the Future, to Junior Achievement, The Pond-Deshpande Centre, the University of New Brunswick's Technology, Management and Entrepreneurship program, The Wallace McCain Institute and PropellCT, among many others. The awareness and support within the leadership of the province at the political, civil service, non-profit, private sector and community levels are also there. They're collaborating with one another, shoring up additional grass-roots movements and working in a collective impact approach. And New Brunswick is blessed with groups that are aiding a cultural transformation. There is a wonderful

mentor network of CEOs willing to coach young entrepreneurs. There are employees from tech and the trades going into schools to help teachers with project-based curriculum ideas and assisting with early literacy skills. Indeed, the momentum is strong and building and it paints a path of great hope and opportunity.

So what seems to be missing?

After speaking with hundreds of students, parents, employers and educators, I've boiled it down to one thing. We are currently still soaking ourselves and our children in a culture of the past—a culture of the status quo.

When I landed in India and began the eight-hour drive to Hubli from Bangalore all my senses were on high alert. I began to soak in a new culture. Watching it through the glass of a TV screen back home or with my Western assumptions was not at all the same as "being there". What was amazing was how fast I adjusted to a brand new world. It took a day.

As parents, educators, leaders and employers, we need to begin to paint a vivid new world where the culture of social entrepreneurship and innovation, while perhaps overwhelming at the beginning, quickly become the new norm. Let's begin to soak ourselves in a wondrous realm of new possibilities, if not for us then at least for the new generations chomping at the bit to embrace them.

David Alston is the Chief Innovation Officer at Introhive and the driving force behind Brilliant Labs, a project that encourages the teaching of programming in public schools. ★



David Alston

The thrill isn't gone with Paul and Jay's technology.

Karma Gaming's co-founders Paul LeBlanc and Jay Aird are developing next-generation lottery games for consumers who have grown up online.

And the duo is selling their technology around the world to regulated lotteries. These organizations are eager to revitalize their product lines and appeal to the younger generation.

Today's consumers want to buy online and have exciting gaming experiences. Karma Gaming lets the digital crowd experience the age-old and universal thrill of winning while leveraging the fun of casual gaming.

Equity investment from Innovacorp is helping Paul and Jay take their made-in-Nova Scotia technology to the global regulated lottery market. Having signed up almost every lottery that's online in North America and now inking its first deals in Europe, Karma Gaming's odds of success are pretty good. At least, that's what we're betting on.

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