ENTREVESTOR INTELLIGENCE

A FOCUS ON FINANCE

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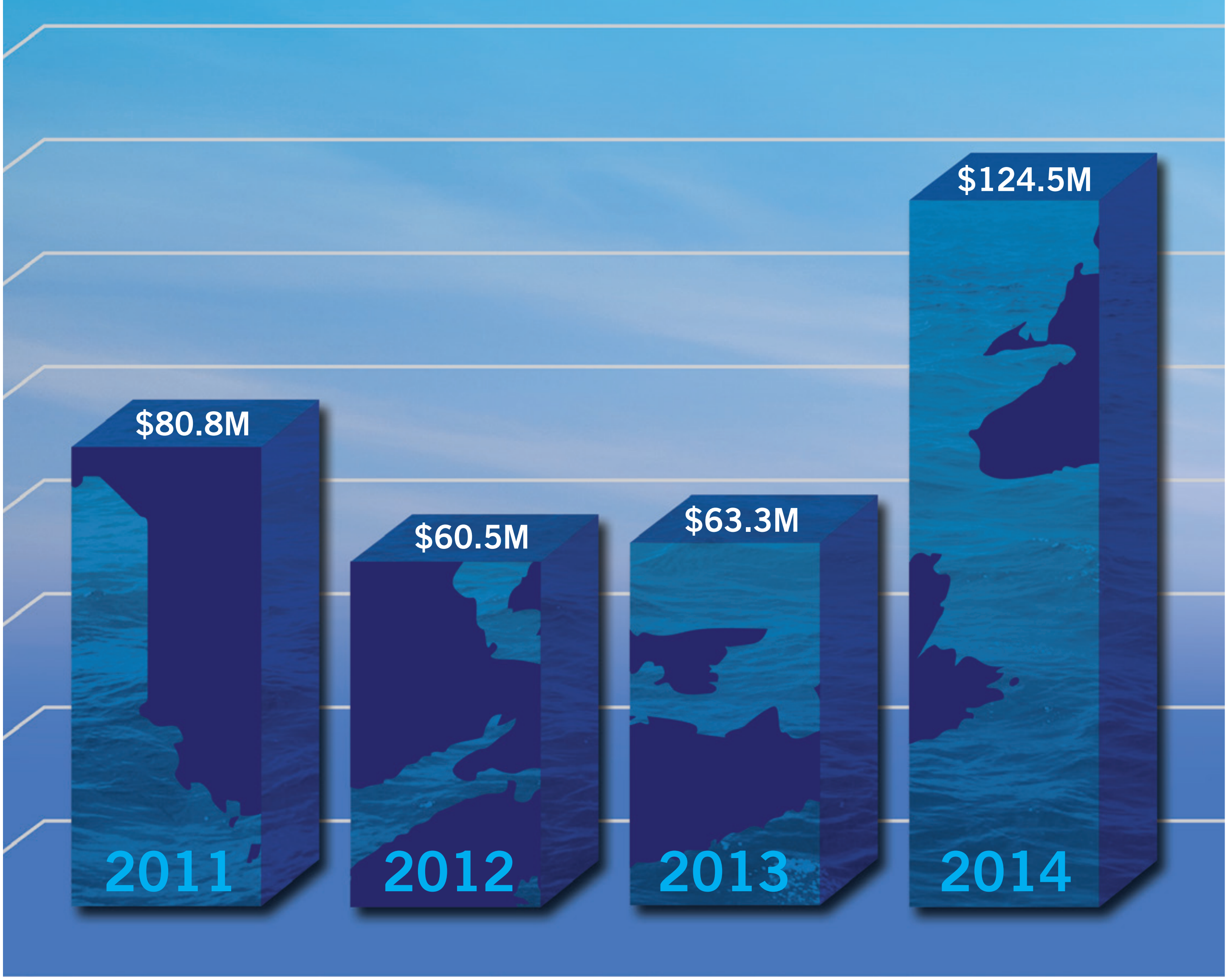
A BANNER YEAR IN FUNDING

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WHAT'S INSIDE

Entrevestor Intelligence

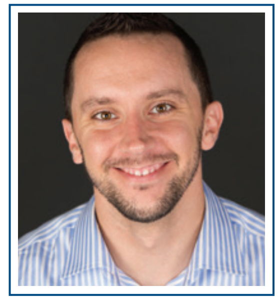
Entrevestor Intelligence is published quarterly to provide a deeper analysis of the Atlantic Canadian startup world than can be delivered in daily Entrevestor news stories. We're financed by paid advertising, including ads from government agencies. Entrevestor compiles data on the startup community and sells analysis of this data to clients, including government agencies and departments.

To receive daily reports on startups in Atlantic Canada, leave your email address at the bottom of our home page, www.entrevestor.com.

Small Deals Add Up

A $60M deal grabs the headlines, but 2014 was also a great year for angels and provincial VC funds.

By Peter and Carol Moreira



Blair Ryan

Blair Ryan figured he should strike while the iron was hot, and last summer the iron seemed to be sizzling.

The CEO of The Rounds, a Halifax startup developing a social network for medical professionals, announced an equity capital raise of $1 million in April 2014, led by Innovacorp and supported by a host of angels. But then Ryan ran into one of the best problems a startup can have. He quickly did everything he'd promised to his investors.

What's more, the users of The Rounds were doctors, and many saw the business opportunity of the site. Some were eager to invest. So in November, Ryan announced a "seed -extension", worth $565,000 of funding from angel investors.

"The reason we raised a 'seed-extension' was because we'd hit most of those milestones after four months," said Ryan recently. "So we decided to raise some cash because, a) we had a great story that supported the raise, and b) because adding to the team in that moment really let us capture and take advantage of the early success."

In many ways Ryan could be the poster boy for financing in the East Coast startup grouping in 2014. Yes, the headlines were captured by the $60 million private equity funding of St. John's-based Verafin, or a few other multi-million-dollar institutional deals. But the equity funding of startups last year more than anything featured a 64 percent increase in angel investment and strong activity by government-owned investment groups. Those little deals added up.

"A large increase in angel investment in the region is incredible in a couple of ways," said Patrick Hankinson, who made several investments after selling his company Compilr last year. "It shows that as a region we're building businesses that are competitive on a global scale. With platforms like Angel List or Gust, investors easily have access to hot startups in Silicon Valley, yet they are placing their bets on Atlantic Canadian companies."

Continued on Page 16

ON OUR COVER Breaking Down Financing in 2014

Equity funding in 2014 was the strongest since we began collecting data.

We witnessed quite a year for funding in 2014. Even if we strip out the $60 million funding of Verafin, other investors were active. The graph on our cover demonstrates that East Coast startups raised at least one-third more than the total in any of the past three years.

Why We Need More CFOs

The gun-for-hire will only take you so far. Companies with real ambition need CFOs who can help with operations and strategy.

By Peter Moreira

It's accepted that there's a shortage of capital in the Atlantic Canadian startup community. But here's another problem that's less well-known but no less relevant – there is also a shortage of people to manage that capital properly.

The Chief Financial Officer, the oft-overlooked counter of beans, is in short supply in Canada's east coast startup cluster. And the lack of proper, seasoned CFOs is affecting more than just capital-raising and cash management at our startups. It's also affecting strategy and operations.

"Given where a lot of the startups are, there's quite a lot of nervousness in bringing on a full time CFO," said J.P. Furey, who fills the position at the Halifax startup Bluelight Analytics. "What companies need is a CFO who's versatile and can play a role strategically and operationally."

He and other startup CFOs say the image of an in-house accountant who's just a numbers guy is outdated and could be harmful. CFOs, said Furey, should have a role in such parts of the operation as business development, pipeline structure and contract negotiation. And they should be vocal in helping the company shape its strategy.

"An effective CFO is an essential part of the strategic team," said Keith Abriel, the CFO at Halifax-based DHX Media Ltd., and a previous CFO for such startups as Bluelight and CarbonCure Technologies. "It isn't to say that they should dictate the strategy, but they need to be a key part of the strategic team."

The common problem is company founders usually divide the equity among themselves, setting aside about 20 percent or so for other employees. As the company grows, they realize they need a full-time CFO, someone to help with all the tasks outlined above. But the company could have trouble paying the full-time salary demanded by someone who could be working at one of the Big Five consultancies.

So they have to offer equity. But the CFO would need more than just a slice of the employee pools and the founders may be reluctant to share their stakes.

What companies need is a CFO who's versatile and can play a role strategically and operationally.

– J.P. Furey

Mario Laflamme, CFO at Toronto-based Biosign Technologies, said companies need to dream big and understand that they need the right personnel to help achieve those dreams.

"You have to think big because that is a fundamental issue if you want to grow the company," said Laflamme, who was formerly CFO with Halifax-based LED Roadway Lighting. "You have to create a situation where someone says, 'Hey, I want to be on this team because I believe it will be successful.' If you want to bring in top talent then you have to pay them and the pay is not just in cash – it is also in equity."

Ideally, the team of a rapidly growing seed-stage startup will look for someone with experience who has had a hand in every step of the startup lifecycle – founding, a seed raise, VC funding, M&A and an exit. A good CFO will also understand the company's operations and be able to work closely with the COO to make sure the business runs with maximum efficiency.

Such a person will help not only with the company's operational performance, said the CFOs. He or she should also be able to help the company attract more capital. For one thing, CFOs speak the language of investors. For another, they know how to shape strategy to help attract investment.

"You need a catalyst to get your investors excited," said Abriel. "They have to be able to say, 'This is what we're going to get for our money.' They have to understand what it [the investment] will be used for."

So as the young Atlantic Canadian startups grow, there will likely be more demand for full-time, full-service CFOs, but the question is whether there will be enough qualified people to fill the openings. Ideally, as the community grows, more financial execs will gain more experience and grow into the rounded individuals the community needs. Even now there are people available, but the risks and compensation of the startup life don't always appeal to them.

"You see a lot of talented financial people who could do more or they take a job that pays the bills but a lot of this financial talent is under-utilized," said Laflamme. *

CONGRATULATIONS TO THE 33 COMPANIES PARTICIPATING IN PROPEL ICT'S SIXTH COHORT.

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Our Fastest-Growing Startup Hub

Two-thirds of the startups in the Sydney area are less than three years old because of recent additions to the ecosystem.

By Peter Moreira

Before Nova Scotia Premier Stephen McNeil unveiled his state of the province address in February, the stage was occupied by a few startups, one of which represented the fastest-growing startup hub in the region.

Colin MacInnis and Brian Best, two students at Cape Breton University's UIT program, took the stage to discuss their company Phased.io, which had been developing a tool for student councils. They're examples of what's happening in the region once known as Industrial Cape Breton.

The burgeoning tech community in Greater Sydney has been a well-kept secret for several years, but it might soon be better known.

Here's a fact that few people realize: Two-thirds of the startups in this community didn't exist three years ago. The growth has been encouraged by several factors but largely by the coordinated efforts of entrepreneurs, academics and government to churn out new companies and see where they will lead.

"Sydney is really fostering the development of the tech startup community," said MacInnis. "There are a lot of great companies beginning right here at home and they're more than willing to help others looking to get started."

The second-largest metro area in Nova Scotia has boasted some intriguing innovations companies for some time. Corrine MacIsaac has been building up Health Outcomes Worldwide in New Waterford into a multi-million-business, and Mathew Georghiou's MediaSpark has launched a range of eBooks and the GoVenture World massively multi-player online game.

Bob Pelley

The profile has risen in the past few years. In 2012, the Caper community scored a massive win when GoInstant, a co-browsing startup whose co-founders included Cape Breton University alumni Gavin Uhma and Kirk MacPhee, sold out to Salesforce.com for a reported $70 million. Then Jim DeLeskie's Heimdall Networks won the 2014 I-3 Technology Startup Competition, Innovacorp's event that aims to find the best new startups in Nova Scotia.

And there has been a wave of company formation. According to the Entrevestor Databank, there were 16 startups formed in the Sydney area in 2013 and 2014 – two-thirds of the 24 companies we follow in the area. Only Halifax has produced more startups in that time in Atlantic Canada, but Halifax is home to scores of startups so the growth has been far more explosive in Sydney.

More and more people, especially young people, are learning that they can plan careers as entrepreneurs.

"It's a viable option and enough people are now saying that you can do it anywhere and here, Cape Bretton, is a great place." said Bob Pelley, Innovacorp's representative on Cape Breton Island.

There are two concurrent factors that have uncorked the startup spigot in the region better known for coal and steel.

First, Uhma began to work with CBU to establish the UIT program, which in the past year has taught technology and entrepreneurship to a dozen students, including six women. The intake will rise to 20 students in the coming year. The students are encouraged to come up with ideas in various forms of technology and investigate whether they could be developed into businesses. "The idea of the program is that throughout the course of the year they'll be exposed to different forms of technology," said Uhma.

It has led to a few companies, including Phased.io.

Phased.io began as a planning and organizational tool for student councils, but MacInnis and Best have since morphed it into a company that helps businesses and organizations bring in new employees or go through the process of succession.

The second development is the Spark Cape Breton competition, which has been held in each of the last two years and awarded development money to 14 companies. Spark Cape Breton looks for young companies, some with little more than an idea, and awards them small amounts of development capital. The winners last year ranged from a team of professors working in nanotechnology to a high school student.

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

After Exits, Dobbin Looks Ahead

The President of Killick Capital is pondering his next investments after cashing in on aerospace and Verafin in the last 18 months.

By Peter Moreira

More than a decade after encountering skeptics at a conference, Mark Dobbin feels vindicated for his faith in Atlantic Canadian entrepreneurs.

The Founder and President of St. John's-based Killick Capital Inc. was reminiscing lately about how he felt when attending an event for venture capital investors in Halifax in 2004 – about the time he launched his investment firm.

"They were discussing VC in Atlantic Canada and the theme seemed to be there aren't enough good companies," said Dobbin in a phone interview. "We disagreed with that then and we were proven right."

He paused for a moment and added, "I don't think I encounter that sentiment any longer."

Nothing could validate Dobbin's decade-old investment strategy more than the performance of Killick in the past year-and-a-half. The fund, which largely manages investments for the Dobbin family, has recorded two exits and joined a fresh investment round for one of its portfolio companies, Celtx. One company has had troubles, but overall Killick is on a roll and is pondering new investments.

A tall, lean man with a warm smile, Dobbin was perpetuating his family's gift for entrepreneurship when he and Tom Williams, the Vice-President of Investments, began Killick. His late father Craig Dobbin was a larger-than-life figure who built up his helicopter fleet into CHC Helicopter Corporation, the world's largest helicopter company. Mark Dobbin has continued the family love of aeronautics, so one of the two funds it manages is the Killick Aerospace Group. The other is known as its Atlantic fund, though it makes some investments outside the region.

Based in the Dallas suburb of Carrollton, Texas, Killick Aerospace sold four of its six divisions earlier this year to Alexandria, Va.-based transport support company VSE Corp. The sale will gross the Newfoundland investment firm about US$229 million (C$286 million). Killick is now growing the two remaining divisions, which are involved in aircraft parts supply and engine field services.

The units that Killick sold are also subject to an earn-out, meaning the final pay is tied to their future performance, so Dobbin still has to work on them. But he and Williams are also repositioning their Atlantic Canadian investments after a year of major shifts.

The biggest change came last year when Killick successfully exited its investment in financial software company Verafin. California private equity company Spectrum Equity invested $60 million in the St. John's company and bought out several early investors including Killick.

The next change to the Killick portfolio came in late 2014 when Halifax-based Build Ventures invested $3 million in Celtx, a St. John's producer of software for the film industry. Killick, which had previously invested $1.5 million in Celtx, joined the round with a $300,000 investment.

Mark Dobbin

"That business is going through an exciting growth phase and we're enjoying that," said Dobbin. "They've just hired a new CFO and moved into a larger space and they're just kicking it up a notch."

Killick is continuing to develop Max, the chain of family recreation and arts centres, starting with a few facilities in St. John's. Dobbin considers Max a mix of business and community service, and is committed to continuing with the project.

The problem patch in the Killick landscape has been its investment in the Ottawa company Plasco, which is developing a plant at which energy can be produced by burning waste. The company filed for creditor protection recently. Though Dobbin admits it "will not be a successful investment" he is quick to add he learned a lot from the experience.

"Don't be seduced by the technology," he said. "And don't get involved in a company that grows their cash burn to the point that you're not able to fix it. We're not blaming the board or management but the cash burn was beyond our ability to fix."

Overall the fund is in a strong position after two exits. Dobbin and Williams are considering new investments. They're willing to join small deals as a co-investor outside the region as long as they're invited into the deal by a VC partner they know and trust. And they've got a list of Atlantic Canadian companies that may soon be ripe for an investment. And in comparison to the environment in Killick's early days, there are more good companies and more funders.

"One of the benefits we had five years ago is there had been a dearth of equity capital at the time," said Dobbin. "There's still an element of that now but the pipeline is better and there's more people investing now. Everything is moving in the right direction. I'd like it to move faster but you can only do so much at one time." *

Watch Out, GOOGLE! Take Cover, APPLE!

Cape Breton native Kirt McMaster is out to disrupt your mobile operating system duopoly. And he's getting some help from some of the world's biggest names in business.

By Peter Moreira

A guy from Cape Breton Island has launched a war with both Google and Apple, and investors like Rupert Murdoch and Twitter have bet $85.4 million that he'll win.

Kirt McMaster is gaining fame in the tech world as the CEO of Cyanogen Inc., a Palo Alto, Calif., company that is developing a new operating system for smartphones. There is now a duopoly in these operating systems as 90 percent or more of the smartphones in the world run off Apple's iOS system or Google's Android. McMaster, a former Dalhousie University student who grew up in Ben Eoin near Sydney, wants Cyanogen to join them, possibly exceed them.

"We're building a platform that opens Android out," said McMaster in a recent phone interview as he drove from Los Angeles to San Francisco. "On aggregate, we believe we can create something that is as powerful as the incumbents because our partners are more powerful than the incumbents."

The task is absolutely staggering for Cyanogen, which has 96 employees and is valued at just over $1 billion. Google and Apple together employ more than 140,000 people and are valued at $1.1 trillion. They have a huge head start in a massive market. But there is such tremendous growth in that market, and Cyanogen's partners are so powerful, that there's an opportunity for a new competitor. McMaster colourfully tells the world that competitor will be Cyanogen.

"We're putting a bullet through Google's head," he told Forbes magazine last month, showing he's lost none of the Caper spirit since he left the region two decades ago.

Is it mere bluster? Probably not.

"Cyanogen is a very interesting company," said David Crow, the co-founder of the StartupNorth website and co-lead of The Next Phase workshops in Atlantic Canada. He noted that the Android market is more than the slice that runs off the Google operating system. There's also the non-Google Android market and Cyanogen is making waves in that portion.

> **'We're re-imagining the whole industry and we're doing it as a startup and we move very fast.'**
>
> – Kirt McMaster

CYANOGEN

"Cyanogen provides users, developers and companies a mobile operating system built on top of Android without a Google OS," said Crow. "Who are these developers? Major developers like Microsoft, Twitter, Amazon, Facebook and others that compete with different Google services. Cyanogen is one of the leading companies because it offers a mobile platform for these companies to build new businesses and business models to reach new users in emerging markets."

In the past few months, a parade of powerful players who don't like the Google-Apple duopoly have fallen in line behind McMaster's little company. The investors in the most recent $85.4 million investment round include: PremjiInvest, the investment arm of Azim Premji, India's third-richest man; Twitter; mobile chip giant Qualcomm; Spanish telecom carrier Telefónica; media baron Rupert Murdoch, and Taiwanese electronics manufacturer Foxconn. That funding round was on top of $30 million the company had raised previously from some of the top Silicon Valley venture capital funds.

As well as the investors, Cyanogen has formed partnerships with some of the world's leading tech companies. In April, Cyanogen and Microsoft Corp. announced a partnership to integrate popular Microsoft services across the Cyanogen operating system. The distribution arrangement includes such Microsoft favourites as Bing, Skype, Outlook, and Office.

All figures in this article are in US dollars.

What has attracted these mammoth partners is a six-year history of open-source innovation that gained a fervent following. In 2009, veteran programmer Steve Kondik began to tinker with Android (which is itself an open-source system) in an attempt to improve it. Soon he attracted a crowd and chatrooms were buzzing about the new platform called Cyanogen that could customize Android. Before long, 1 million people were using it.

In 2012, McMaster heard about the product, sought out Kondik and convinced him they should form a company. They did and McMaster became the CEO.

What they have now is a product that McMaster describes as "Android on steroids" – an alternative with more power, speed and features than the existing products. It's a product that lets coders and hackers endlessly tinker with their phone to experiment and add features. But McMaster also wants a product that offers the general consumer greater speed, security and flexibility – an ability to easily add features to customize their phones.

He also believes the task before him is completely achievable. Tens of millions of people in 190 countries already use Cyanogen. The number of smartphones in the world is expected to grow from about 2 billion next year to 5 billion in the next few years. McMaster believes most of the growth will be in non-Google Android products. In fact, he predicts the non-Google Android market in a few years will be bigger than the entire smartphone market now.

Cyanogen plans to work closely with equipment makers and mobile network operators to expand the usage, and emerging markets will be key to the company's growth. It's no coincidence that so many of the investors have huge operations in emerging markets – Foxconn in greater China, Telefónica in Latin America and PremjiInvest in India. "Every quarter you're going to see us roll out new features that are different than Android and Apple," said McMaster.

He also believes his company will lead to a new breed of tech startup. "In time, a new class of startup will arrive on top of Cyanogen and that's something that's really exciting to me," he said.

McMaster would not say how much capital he expects to need to fulfill his ambitions, but he did note the money raised by Chinese phone-maker Xiaomi, which databank TechCrunch says has raised a total of $1.6 billion. The message is clear: McMaster is just getting started.

In the near term, he wants to build up the company, focus on growth and hire some great people.

"The demand is high for awesome people, especially in the Valley," he said. "The good news is there are very few places in the world that give you the opportunity to re-imagine the mobile computer. We're re-imagining the whole industry and we're doing it as a startup and we move very fast." *

'Our partners are more powerful than the incumbents'

– Kirt McMaster

What McMaster Brings to CYANOGEN

Kirt McMaster hasn't got home much since he left Nova Scotia a few decades ago – he's been too busy with his various ventures in Silicon Valley. He talks regularly to his father Sheldon, but visits have been few and far between.

After graduating from Riverview Rural High School in the early 1990s, he studied computer science at Dalhousie University. During this time, he co-founded one of North America's first Internet professional service firms. (After acquisitions and name changes, it has morphed into EQ Inc., which still clings to life on the TSX Venture exchange.)

He dropped out of Dal in 1997 and moved to the San Francisco area to join the dotcom boom.

"As any entrepreneur will tell you, I screwed around in university for a number of years and I wondered why I was there," he said. "I didn't need school to do what I wanted to do in tech."

For 15 years, he's held a series of positions, including as adviser to a venture capital fund, an exec with Sony, and a consultant. A few of the most notable posts include: founding Dimension X, bought by Microsoft in 1998; internet professional services company Spike, which listed in Australia; Internet solutions firm Rare Medium, which listed on Nasdaq, grew to a $9 billion market capitalization then flared out in the dotcom crash; Boost Mobile, acquired by Nextel; and most recently Syn, which was mainly focused on iOS TV and raised $1.2 million in funding.

Late in 2012, McMaster wound down Syn to focus on Cyanogen, with the goal of developing a credible competitor for iOS and Android.

Kirt McMaster

Venture Capital's Big Brother

Private Equity is becoming a more common funding source in Atlantic Canada and 2015 could be the best year yet.

By Geoff Davies

When Steve Nicolle was looking for growth funding for Halifax-based pharmaceutical services company STI Technologies Ltd. in 2013, he decided the founding source that made the most sense was private equity.

STI was transitioning from a startup to a growth company, and Nicolle, then the CEO, wanted to partner with a company that could help it grow.

"We were looking for investors aligned with where we're going instead of where we've been," said Nicolle, now retired and on several boards, including that of STI. "I was surprised at how many (firms) there were, how much money they had and how interested they were in deploying their capital."

Toronto-based private equity firm Imperial Capital ended up investing $17 million in STI and bought out the company's venture capital investors.

Imperial-STI was one deal that made the past half-decade a busy time for private equity in Atlantic Canada. What's more, 2015 is on track to be the busiest yet.

Private equity is like the big brother of venture capital. Instead of investing a few million or less, with the expectation of a potential 20-fold return, private equity firms can put up $50 million to $100 million, often for a majority stake. Private equity firms tend to be active managers, unlocking value through financial or organizational restructuring.

This funding source became popular in Canada in the 1990s and is newer still on the East Coast. Gavin Penny, Thomson Reuters' resident expert on private equity in Canada, said the region's smaller sample size makes it harder to examine trends, but overall PE is on the uptick.

"As for buyout deals this quarter, we've seen $6 billion invested across Canada — the best [first quarter] we've ever seen," Penny said in an interview. That's good news for Atlantic Canada, because it tends to move in unison with national PE trends.

"We already have two deals on file for Atlantic Canada [in the first quarter]," he said. "It's not a lot but it's still on pace to be the best year on record for Atlantic Canada just in terms of deal count."

There have been more than $100 million in disclosed private equity deals in Atlantic Canada almost every year in this decade – even though that mark was breached only three times between 1995 and 2009. It's gaining acceptance in the region

"Research study after research study shows that these PE-backed companies tend to outperform, compared to public companies or companies that are financed in other ways," said Kirk Falconer, editor of PE Hub Canada.

Falconer, who co-authored a 2013 Conference Board of Canada report on the private equity in the country, says Canada has seen an expansion of private equity activity coast-to-coast.

"It's a result of there being more Canadian PE firms than there ever were before, the fact that they've got more capital under management than they've ever had before, and the fact that U.S. private equity investors and other international investors are taking an increasingly strong interest in Canada," Falconer said.

The creation of more private equity shops in Atlantic Canada, such as Killick Capital and SeaFort Capital, has contributed to the uptick in activity, Falconer said.

St. John's-based Killick Capital was founded in 2004 by Mark Dobbin (See page 7) to invest in Atlantic Canadian businesses and the aerospace sector. And Halifax-based SeaFort Capital was founded in 2012 by a group including members of the McCain and Sobey families. It prefers "old economy" companies with a strong tangible asset base.

In April, SeaFort closed a leveraged buyout of Dartmouth trucking company Jardine Transport Ltd.

"In a way that wasn't possible 10, 15, 20 years ago, you're seeing a good match between companies and private equity investors," Falconer said.

The fact that come-from-away firms like Imperial are increasingly taking notice of Atlantic Canadian companies is a good thing, but it means local companies will have to step up their game, said Nicolle.

"Let's not get caught up in the hype of yet another startup challenge weekend and yet another accelerator and incubator without holding ourselves accountable," Nicolle said. "I think we need to hold ourselves to a higher standard. Who are the top 10 investors in my sector globally? Why wouldn't I pitch to them?" *

Steve Nicolle

Four Founders with Hockey Sticks

For the second year in a row, we showcase four entrepreneurs who are experiencing impressive sales growth. We've selected established companies that can demonstrate their revenues are increasing dramatically. These four founders – three of whom have products associated with healthcare -- exemplify the trend.

CyberPsyc Software Solutions

Fredericton

CEO Darren Piercey
Online Wellness platform

Having just broken into the U.S. market, CEO Darren Piercey is expecting strong growth for his startup whose software helps organizations improve the mental health of their members. It has secured HCL America, an IT consulting and services company, as a client. The 1,000 employees of HCL America's North Carolina head office will be able to use CyberPsyc's Software-as-a-Service product that helps people treat stress, anxiety and depression. That offering will soon extend to the 7,000 HCL staff in the Americas. "We're getting really good traction," said Piercey. "Just in the past few weeks, we've signed three new customers. So we've got 13 customers now and we expect to double that by the end of the year."

Halifax Biomedical Inc.

Mabou, NS

CEO Chad Munro
Medical devices

In the winter of 2013-2014, everything fell into place for Halifax Biomedical. The manufacturer of advanced medical imaging products and analysis services overcame significant roadblocks for its two main products – one that takes 3D images of a patient's knee and the other that images the spine. Customers' costs fell and use of the devises could be covered by medical insurers. As a result, the number of patients using the products rose from about 1,000 in 2014 to an estimated 5,000 in 2015. "I think we've got the product to a point where it's adoptable," said CEO Chad Munro. "We just closed a supersite with over 2000 patients per year and now are trying to close another supersite with 4,000."

Kinduct Technologies

Halifax

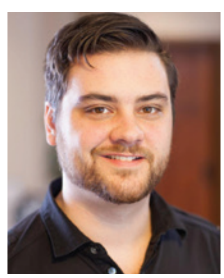
CEO Travis McDonough
Health technology

Kinduct has developed digital solutions that help organizations – including those working with athletes and medical patients – to access the information they need to improve their health and physical performance. The company's solutions help organizations collect, organize, share and analyze data in one centralized platform. Its sales in the past few years have been tremendous, averaging 518 percent over three years. "It is a little skewed of course because of our first year," said McDonough, referring to a year of 1,380 percent growth. That was followed by years of 69 percent and 107 percent revenue growth.

Proposify

Halifax

CEO Kyle Racki
Proposal software



Proposify recently had a problem – a wonderful problem. Its website keeps tally of how much business its clients win using Proposify software, which helps agencies produce beautiful proposals and pitches. But the site's scorecard only went up to nine figures, so when the total exceeded $100 million, co-founders Kyle Racki and Kevin Springer had to adjust it. Such growing pains should be expected for a company whose growth has accelerated since the beginning of the year. Its total revenue rose 94 percent month-on-month in April, reaching $36,000. "We noticed the spike once we added a few features [early this year] and we made the product a lot easier to use," said Racki. "Every month after that, we came out with better features and we noticed a further increase. "

Biotech Blossoms in NB

Long known as a bastion for IT, the province is selling more products extracted from its verdant landscape and shoreline.

By Peter Moreira

When Mycodev founder Brennan Sisk appeared with New Brunswick Premier Brian Gallant to announce the company's $500,000 funding in March, he knew it was a celebration for more than his company.

The funding announcement by the New Brunswick Innovation Foundation was the latest in a string of events that showed something interesting happening in the province: life sciences companies are stepping into the spotlight.

In the startup world in the past few years, a sentence with the words "New" and "Brunswick" usually included the letters I and T. IT was front and centre, and with good reason. Celebrated exits like Radian6, Q1 Labs and User Events have been great events for the province. But lately there have been companies like Fredericton-based Mycodev to talk about.

"One of the things that Mycodev is offering, for lack of a better word, is an opportunity for bricks and mortar, right here in New Brunswick, to diversify what's happening here," said Sisk in an interview.

He's proud that his company, which is producing medical grade chitosan from fermented fungus, will manufacture locally. The company is working with three medical partners on developing medical products, including bandages that use the properties within chitosan to stanch bleeding.

Of course this is not the only recent win in life sciences in the past few months. NB Biomatrix is a Saint John company using nano-technology to develop a biodegradable, anti-bacterial liquid that can remove heavy metals and other pollutants from waste water. It first got noticed when it won the $15,000 BioInnovation Challenge, a pan-Maritime bio-sciences competition, last autumn. Then the company bagged $222,250 by placing third in the NBIF Breakthru competition in March.

"The reason we're seeing more startups on the bio side is we're seeing more startups in general," said Meaghan Seagrave, the Executive Director of BioNB, the umbrella organization that supports biosciences in the province. "When you have that push within a culture, innovation is going to happen across the board. The biotech sector is starting to creep up a little bit more now because it takes it longer to get to market."

Seagrave's analysis of the segment is broad in both time and space. She notes that 70 percent of New Brunswick land-base is covered with biomass in the form of forest or farmland. And the province has two distinct coastlines offering a range of sea-life.

As a result, the province's traditional industries have been fishing, farming and forestry. But what Seagraves highlights is that New Brunswick's research facilities have grown up around these industries. The province boasts 13 research facilities – and that tally doesn't even include its academic institutions. Most of them support research in these traditional sectors, including how to extract materials from organic material. The result is often a commercial product.

Meaghan Seagrave

For example, she said, Biomolecules for Life is a Moncton company that grew out of someone wondering whether there were any marketable chemicals in sea urchin guts. (They were thought to be a waste product left over when sea urchins were processed for export markets.) It turns out sea urchin innards are rich in Fucoxanthin, a chemical that helps with appetite suppression and weight reduction. The company is now marketing Ocean Slim, a natural health product containing Fucoxanthin. As it earns revenue from Ocean Slim, it is working on a higher-value drug that will require the full regulatory process.

Seagrave also cited the example of Sackville-based Soricimed Biopharma, which is commercializing a synthesized compound originally found in shrew venom that can stop growth in cervical, bone and lung cancer cells. It is now moving into Phase II clinical trials, which aim to prove the drug is medically effective.

"I think we are a kind of a hidden gem because we have all the required assets we need in this province," said Seagrave. "We have an abundance of biomass and we have significant research and development capacity. We also have the human capital. It's like the biotech sector has kind of like been bubbling below the surface."

It's the sort of activity that convinces Sisk the biotech segment in New Brunswick deserves more notice.

"The Bioscience community in New Brunswick is pretty busy, though it doesn't get a lot of attention," he said. "What we're trying to do is bring attention to it. We're just one of the companies here trying to put bricks and mortar here and create some good high-paying jobs." *

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CVCA Cited NBIF, Innovacorp as Active Investors in 2014

Continued from page 3

Bolstered by the Verafin deal, Atlantic Canadian startups raised at least $124.5 million in equity financing last year. (We say at least because there are always startup financing deals that are kept quiet.) That top-line figure is important because it's roughly twice the investment in startups from 2013 and 2012, years in which the total equity investment just topped $60 million.

But the question has to be asked: should we include a massive one-time financing like the private equity investment in Verafin? (Private equity deals are generally investments in mature companies with strong cash flow whereas VC deals tend to be smaller investments in high-growth companies.) The St. John's company whose technology exposes fraud and money laundering raised $60 million from California private equity fund Spectrum Equity – the largest single institutional financing we've reported on at Entrevestor. It accounted for almost half the money that East Coast startups raised last year.

But the deal should definitely be included in the funding stats, and the reason highlights the first trend in funding we want to highlight in this report: these megadeals are no longer isolated incidents.

They're rare for sure. But in three of the last four years, the East Coast startup community has witnessed deals of $17 million or more. As well as Verafin, there were the $17 million funding of Halifax-based STI Technologies in 2013, and the $30 million investment in Dartmouth-based Unique Solutions in 2011. These demonstrate that these big deals are going to pop up and distort the annual stats in many if not most years. They're now part of the architecture.

The other trends that we're noticing lie at the other end of the financing spectrum. If we rewind to this time last year, Entrevestor reported that the big development in 2013 in #startupeast financing was the dominance of national and international institutions. They were coming into Atlantic Canada and replacing the agencies owned by provincial governments as the movers in this space. Including the Spectrum-Verafin deal, those external institutions were formidable investors in 2014, accounting for $69.2 million in deals.

But what was interesting is that the provincial-government-owned agencies were more active than ever – even though provincially owned Nova Scotia Business Inc. exited the VC game midway through the year. And though the government of Newfoundland and Labrador has approved the launch of the public-private Venture Newfoundland and Labrador fund, it made no investments in 2014.

Innovacorp in Nova Scotia and the New Brunswick Innovation Foundation became more active last year. There were 34 investments from agencies owned by provincial governments, up from 27 in 2013. They invested $10.1 million – a jump of 46 percent from the previous year.

This level of activity was highlighted by the fact that the Canadian Venture Capital & Private Capital Association ranked NBIF the third and Innovacorp the fourth most active "government or other" VC funds in the country last year.

"One of the major challenges of venture capital investing is having enough viable startups to invest in, or what we call 'deal flow'," said past-chair of NBIF Robert Hatheway. "With 18 investments last year, placing third most active in the country is great for NBIF, and the province, because it sends a message to the rest of the country that New Brunswick is a hotbed for innovation and entrepreneurship."

One caveat about CVCA data is that it highlights how small the funding deals in Atlantic Canada are in comparison to the rest of the country. The association said that Atlantic Canada accounted for 10 percent of the number of VC deals last year, but only 1 percent of the total dollars invested.

The category of funding most often associated with small deals is angel investing, and again this segment of the capital market was extremely active in Atlantic Canada in 2014. The bottom line is that total investment by angels into Atlantic Canadian startups increased 64 percent to $17.9 million in 2014.

Yes, there were a lot of deals, given that angels are generally known to invest $10,000 to $25,000 at a time.

"Outside of the dollar amounts raised, the other big win is the quality of angel investors we're seeing backing these startups," said Hankinson. "Most of these angel investors have been in the trenches and have war stories. They're helping founders in the region avoid mistakes and maximize the true value of their companies."

Not all of these investments were nickel-and-dime antes. There were six companies in Atlantic Canada that raised more than $1 million from angels last year. There was only one such angel funding in the previous year, and three in 2012.

Which brings us back to Blair Ryan and The Rounds.

The company has spent three years developing a closed social network for medical professionals, so they can interact with complete privacy and consult one another for medical opinions. Doctors can join free, and The Rounds sells corporations, such as drug companies, limited access to the site so they can reach their target market.

Ryan spent much of the past few months in San Francisco, where he has continued to raise money with a target of $3 million. Given that he had already raised not one but two seed rounds, he initially told people he was raising a $3 million Series A round. It was met with quizzical expressions.

"I was barely able to get meetings when I called it a Series A -- the next logical step after seed raises," he joked. "But as soon as I called it a $3 million seed round, everyone was interested."

Correction: Like all organizations that produce statistics, Entrevestor has found it's necessary to restate one of its findings. We've previously reported that the VC funding (which includes private equity) in 2013 was $30.8 million. We're restating that figure to $42.8 million to represent the full value of a major funding. The new figure brings the total funding for 2013 to $63.3 million. *

The Data Show 2014 was a Banner Year for Funding Atlantic Canadian Startups

TOTAL FUNDING:
(Millions)

	Including PE	Excluding PE
2011	$80.8	$50.8
2012	$60.5	$60.5
2013	$63.3	$46.3
2014	$124.5	$64.5

MAJOR FUNDING DEALS IN 2014
(Millions)

CELTX
$3.3 Million
Lead Investors:
Build Ventures

VERAFIN
$60 Million
Lead Investors:
Spectrum Equity

RENO SUB-SYSTEMS
$8.5* Million
Lead Investors:
Intel Capital

LED ROADWAY
$9.5 Million
Lead Investors:
Chuck Cartmill

RESSON
$3 Million
Lead Investors:
Rho Canada, Build

** Price reported by media*

SOURCES OF FUNDING:
(Thousands)

	2013	2014
Founders	$ 4,468	$ 12,902
Friends & Family	$ 2,294	$ 2,768
Angels	$ 10,897	$ 17,929
VC	$ 42,807	$ 84,885
Strategic	$ 2,852	$ 6,055

SOURCES OF INSTITUTIONAL FUNDING
(Millions)

	2012	2013	2014
Local Private VC	$ 5.3	$ 8.9	$ 5.6
Local Public VC	$ 17.2	$ 6.9	$ 10.1
External VC	$ 0.6	$ 10.4	$ 9.2
External PE	$ 0	$ 17.0	$ 60.0

Number of companies that raised $1Million or more from angels

2014	6
2013	1
2012	3
2011	4

NUMBER OF LOCAL PUBLIC VC DEALS

2013	27
2014	34

Source of data: Entrevestor Databank (www.entrevestor.com) *Infographic by Roxanna Boers*

Need funding? Go public!

A capital markets veteran makes the case for Atlantic Canadian startups seeking financing in Canada's stock market.

By Scott Urquhart

Silicon Valley-based startup Frankly Inc. raised $26 million and started trading on the TSX Venture Exchange in January. Say what? Yes, a San Francisco technology company found value in the Canadian public markets, and it isn't alone. In 2014, there was a phenomenal increase in capital flowing into publicly traded technology companies. In the TSX technology sector, $3.3 billion was raised in 2014. That's double the $1.6 billion raised in 2013, and five times the amount raised in 2011.

Scott Urquhart

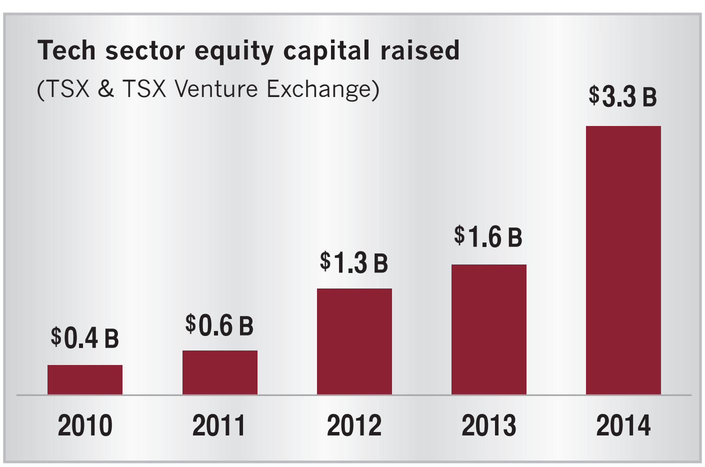
So how much of that money was coaxed into Atlantic Canada's burgeoning tech sector?

Zero. Nadda. Zilch.

Oh sure, there are plenty of companies from the region seeking capital. According to the Canadian Venture Capital & Private Equity Association, more than $30 million worth of venture capital deals got done in Atlantic Canada last year – but these are private deals. Clearly, it's time we took a fresh look at the Canadian public markets for funding solutions because competitors certainly have been.

Frankly Inc. was founded in San Francisco in 2013 and owns the messaging app Frankly Chat. It went public on the TSX Venture Exchange through a reverse takeover of a Capital Pool Company. Its managers felt their decision to go public in Canada offered a number of advantages over the traditional private venture capital route: more capital than was offered in the U.S.; quicker path to raising funds; easier to raise future rounds; greater control over their own vision; and the ability to provide stock options to employees. When a San Francisco tech company embraces the Canadian public markets, isn't it time to rethink our 20-year-old funding model of only funding tech startups privately?

It is understandable that Atlantic Canada's early-stage tech companies have shunned the public markets as a source of capital. Over half of the 3,486 companies listed on the TSX and TSX Venture Exchange are mining- and oil-and-gas-related, so the 11% in tech and life sciences are often overshadowed. The TSX Venture Exchange has also created considerable pain for investors in the last few years. The best-of-breed companies in the index – those representing an optimal investment opportunity in a chosen sector -- have lost 72% of their value since the March 2011 peak. Investors in public companies are also prone to a short-term focus, sometimes punishing the share price because of one bad quarter. There are additional costs to being public; the disclosure requirements are greater; and companies have to serve multiple smaller shareholders as opposed to a handful of dominant shareholders.



So why then, should an early stage company even bother to consider the costs and effort of a public listing?

Access to speculators – Money that goes into an early-stage company is a speculation, not an investment, so why not engage more speculators? The Canadian public markets draw in speculators. Now that commodity prices are in decline, speculators have been pulling money out of exploration companies. But the thirst for speculative gains still exists, and

The money flow in the Canadian public markets is significant and worth paying attention to:

Sector	Region	TSX listings	TSX Venture listings	Raised 2014 ($ millions)	Raised in startups ($millions; <$50m mkt cap)
Technology	Canada	60	116	$3,255	$167
	Atlantic	0	1	$ 0	$ 0
Clean Tech	Canada	44	76	$1,790	$109
	Atlantic	1	3	$39	$5
Life Sciences	Canada	44	79	$1,070	$145
	Atlantic	1	2	$20	$9
Canada Total		419	$6,115		$421
Atlantic Total		8	$59		$14

'A shift has occurred in the flow of capital within the Canadian public markets – to the benefit of technology and life sciences companies,' says capital markets veteran Scott Urquhart. 'Six billion dollars is a source of capital which should no longer be shunned by Atlantic Canadian tech companies.'

– Scott Urquhart

that money is now moving into the technology and life science sectors, and some of those bets are already paying off big time.

Local investor engagement – A number of very successful Atlantic Canadian companies have been built and sold privately. It might even be argued that they achieved success because they avoided the public markets. However, with private companies, the door is closed to smaller local investors who want a piece of the action. Public companies allow local investors to get "invested" and that builds support. It also increases local investment appetite.

Registered accounts – People with investable cash usually maximize their registered account holdings. Even the TFSA limits were recently hiked to $10,000 annually ($41,000 cumulative - per spouse), so the cash that's stashed in registered accounts continues to climb. The 2011 Federal Budget tightened the rules on registered accounts so that it is no longer practical to hold private company shares. While it is easy to begrudge this significant chunk of capital seeking investment in publicly traded companies outside of Atlantic Canada, the simple solution is to build more publicly traded companies in the region.

Things change – People buy houses, they win lotteries, they retire, they go on trips. Companies also change – things don't work out as expected, or markets change. An investment in an early-stage company usually doesn't last a lifetime. Publicly traded companies allow people to buy or sell when things change. If an investment doesn't pan out, then they don't have to wait until the company bankrupts before they can sell to trigger a capital loss that can be applied against gains elsewhere.

Stock options – One of the most powerful employee engagement tools is the use of stock options. Being public allows this tool to be utilized without employees waiting until the company is sold.

In addition, the Canadian Securities Exchange is also making strong gains and it has positioned itself as "The Exchange for Entrepreneurs" with reduced listing costs for early-stage companies seeking a public listing. In 2014, its listing count increased by 35% to 244 and its companies raised $155 million – half of which was in technology startups.

Of the $6 billion raised publicly in ITC, Life Sciences and CleanTech, less than 1% was raised by Atlantic Canadian companies, dominated by Clearwater ($34 million), Immunovaccine ($11 million), and Organigram ($9 million).

For comparison purposes, there was $1.9 billion raised privately in 379 deals in the Canadian venture capital market in 2014, according to the CVCA. Atlantic Canada had notable deal activity in the private market with 42 companies collectively raising $30 million.

A shift has occurred in the flow of capital within the Canadian public markets – to the benefit of technology and life sciences companies. No one really knows how long it will last or even if the trend will continue, but $6 billion is a source of capital which should no longer be shunned by Atlantic Canadian tech companies.

Scott Urquhart MBA is a public markets investor and experienced in raising capital for public companies. *