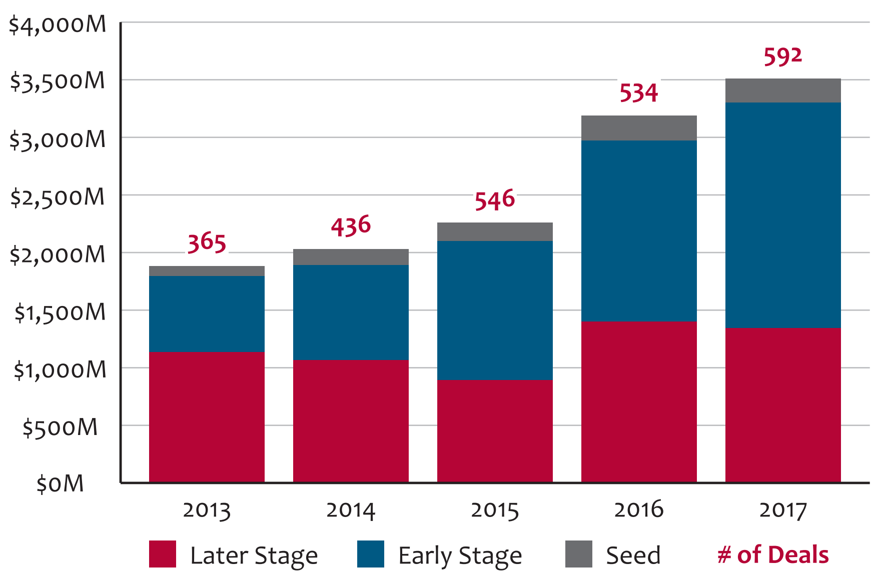
Canada's Startup Ecosystem

Written by: Ela Malkovsky, Editor-in-Chief (Cambridge)

At an age when the technology sector is growing twice as fast as the global economy[1], startup ecosystems provide a vital means for individuals and regions to not only take advantage of technological change, but to also steer technological change in a direction that will improve humanity.

2017 saw historic Venture Capital (VC) investments in early stage Canadian entrepreneurs and mature Canadian startups. VC funding grew by 11% in 2017 ($3.5B invested over 592 deals) compared to 2016 ($3.2B over 534 deals) with Information & Communications Technology (ICT) companies receiving the bulk of VC dollars (71% or $2.5B invested over 375 deals). Maturing Canadian startups closed a record number of 15 Megadeals ($50M+), while early stage entrepreneurs experienced a 33% increase in small deals (<$500K over 162 deals). More than 95% of total VC funding was raised by Ontario (40.01% or $1,416M), Quebec (37.36% or $1,322M) and British Columbia (18.25% or $646M). Ontario's Waterloo-Toronto high tech corridor exhibits the highest startup output in Canada, while Vancouver boasts the highest startup density, and Quebec-based companies closed a record number of $50M+ mega-deals in 2017, with three deals over $100M.

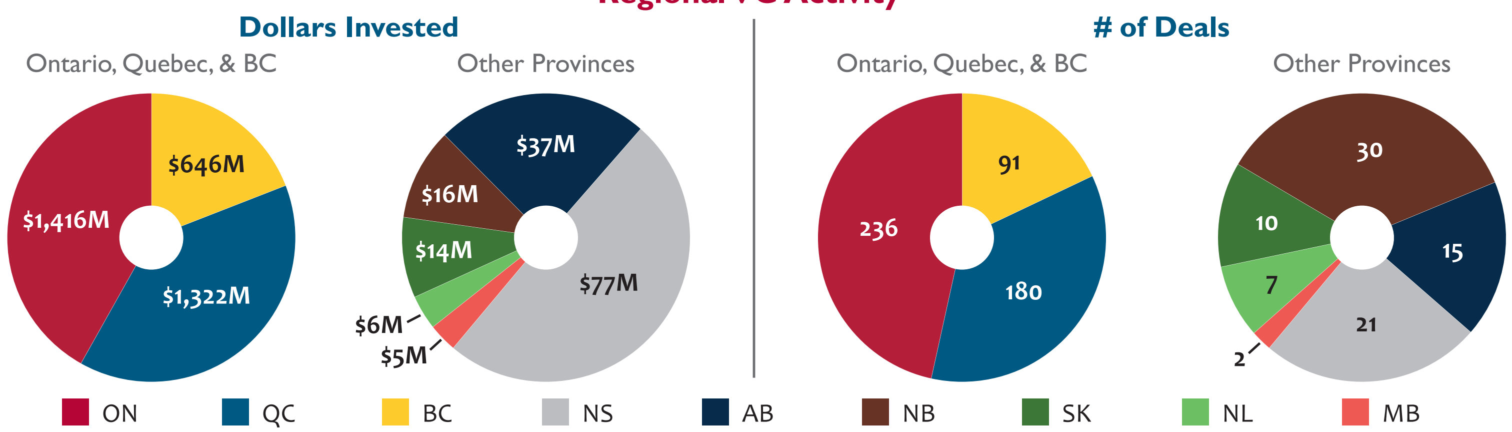
National VC Activity[2]



In February 2018, $950M in non-repayable federal funding was awarded to five high tech superclusters including Ontario's Advanced Manufacturing Supercluster, BC's Digital Technology Supercluster, Quebec's AI powered Supply Chains Supercluster (Scale AI), Prairies' Protein Industries Supercluster, and Atlantic Canada's Ocean Supercluster.

Superclusters are innovation hotbeds. They accelerate technological advancement and boost the economy by stimulating business growth as well as attracting investment and talent through strong private, public, and academic research collaborations and globally competitive brand recognition. High tech superclusters enable individuals with diverse skills and resources to work together and reach global markets to achieve advancements in education, healthcare, agriculture, and manufacturing which have a potential to improve the global living standard.

Regional VC Activity[3]



Fund Raising

Written by: Philip Finkelstein, Technical Writer (Vancouver)

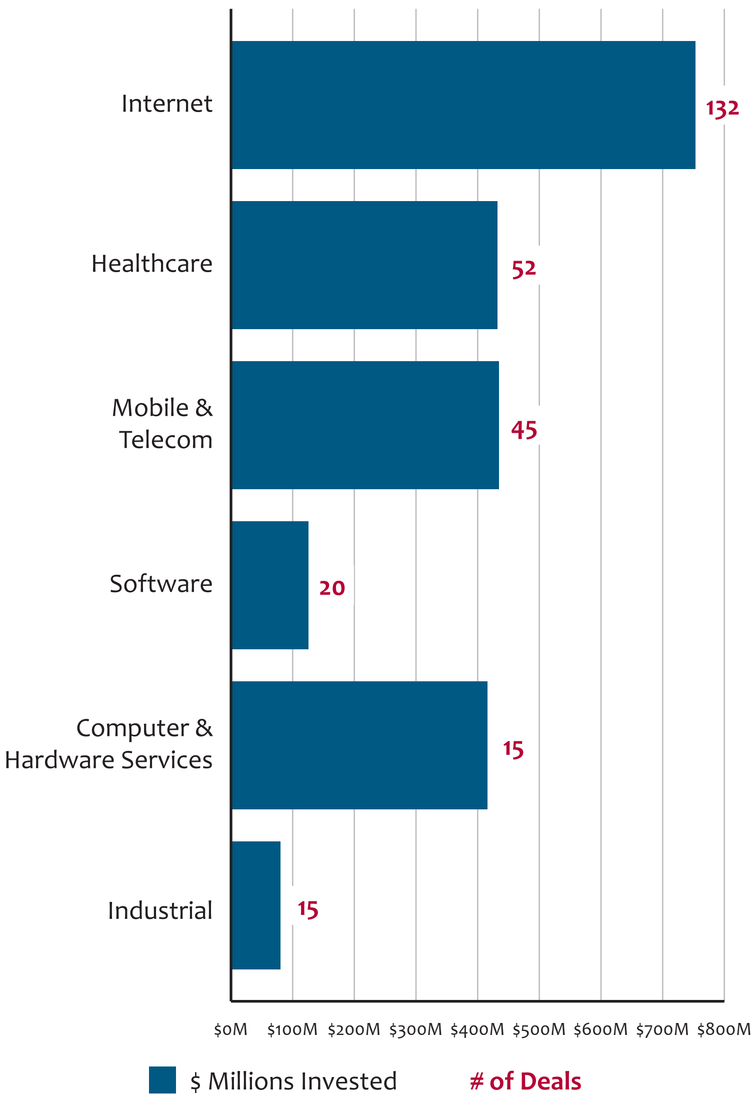
Financing your business may sometimes seem an insurmountable challenge, but it need not be. Understanding where to look for funding, depending on the stage of your business lifecycle, can alleviate economic pressures and pave the way in bridging the critical gap between R&D and commercialization.

Especially for small and medium-sized enterprises (SMEs) in Canada's thriving ICT sector, optimizing your funding strategy can fuel innovation and bolster profitability, supplying the competitive advantage you seek in the ever-advancing world of technology.

Dilutive Funding

From early-stage startup to industry leader, there are three central ways to finance your business, each with its own set of benefits and pitfalls deserving careful consideration. Companies can take the dilutive approach of private investment for a quick injection of revenue; however, this comes at a cost. Relinquishing equity undermines long-term profits and strains executive control, making it an impetuous decision for budding businesses as investors expect to capitalize on high returns. This is why companies in the pre-revenue stage are particularly vulnerable to funding woes as they resort to private investment, having exhausted their access to funds from friends and family, while remaining insufficiently large to obtain bank loans or apply for the bulk of government grants. Instead, turning to venture capital and angel investors should be reserved for later stages in the business lifecycle once production/service development has been established and the risk of commercialization has been mitigated, reducing any leverage previously held by acquisitive financiers.

Investment Markets in 2017[4]



Non-Dilutive Funding

Early-stage startups can alternatively turn to a non-dilutive action plan through direct and indirect funding from the Canadian government. Committed to strengthening innovation and industrial clusters, Canada realizes that tech hubs of promising growth like Vancouver, Waterloo, Toronto, Ottawa, and Montreal energize the economy by generating revolutionary technologies and outstanding job creation.

Indirect (tax credits): For this reason, any Canadian-controlled private corporation, regardless of revenues, can support their R&D efforts through Canada's lucrative Scientific Research and Experimental Development (SR&ED) tax incentive program. For most SMEs, this entitlement program provides refundable tax credits on all eligible R&D efforts that result in technological advancements. These refundable tax credits can then be reinvested to subsidize the cost of, or to perform additional, R&D. This indirect funding method curtails historical costs at the end of every fiscal year, providing extra monies well into later stages of the business lifecycle.

Direct (grants): Future costs can also be offset through funding in the form of grants. In this way, companies can access public funding to facilitate numerous business objectives from facility upgrades and major purchases to hiring/ training initiatives and expanding global export opportunities. What is more, grants can be coupled with SR&ED tax credits to increase cash flow as your business matures.

Sourcing funding from various non-dilutive government programs at the early stages of your company's growth can give your startup the edge it needs to scale up and smoothly transition your business to a cash-flow positive state in this vying technology-driven age where every cent counts.

Writing a Convincing Business Plan

Written by: Gerry Fung, VP of Business Services (Cambridge)

I've come across many entrepreneurs with "good ideas." However, investors know from experience that coordinating resources to execute on a good idea is not an easy or trivial task. The entire point of a business plan is to convince investors that you not only have a good idea, but that you also have a viable business to invest in.

Business Plan

Before you try to sell your idea to potential investors, it is extremely important that you first devise a business plan and a pitch deck. A **business plan** is a detailed description of your company which defines your business' niche/position, external business environment, unique positioning, product or service, revenue model, execution plan, current financial situation, and your future projections. A **pitch deck**, on the other hand, is an "elevator pitch" or brief summary of the business plan that you send to potential investors to generate interest in your investment opportunity. Only potential investors who are interested in your company after your "pitch" will ask to see your business plan. Generally speaking, you will be asked for your pitch deck far more frequently than you will your business plan, but it is recommended that you have both handy, since a strong pitch deck usually stems from a well-thought-out business plan.

Identifying a Market Niche

A business plan should clearly define a market niche with a product or service that solves the underlying business problem. Market research will be required in order to quantify the size of this opportunity, and the nearest competitors that are already in this space. The more sizeable the opportunity is, and the deeper you can entrench yourself within this space (e.g. with patents and other barriers of entry), the more interested potential investors will be in your business. Results from market research, market studies, and prototype launches are useful because they can help convince the potential investor that the market opportunity exists.

Next, you must clearly explain or show (in cases where a minimal viable product is available) the potential investor your proposed product or service, and what the revenue model will be for your business. Often investors like to see, touch, and feel demos or prototypes at this stage, especially for those that are visual learners.

Plan Execution

At this point, you have clearly communicated a distinct problem and proposed an exciting idea to solve this problem. But for an investor to spend his hard-earned money on your company, you will have to convince them that you are able to execute on your plan. A fully-developed plan will include implementation details such as the experience of your team members, your implementation schedule, and your marketing/growth strategy. Having a comprehensive execution plan is essential to increasing investor confidence in your company.

Conclude with Financials

The conclusion of any business plan should include detailed financials addressing the current financial position of the company, and the rosy projections going forward. At this point, you have piqued the interest of the potential investor, and to end on a high note, you should explain the investment that is required, and how the investment will be used.

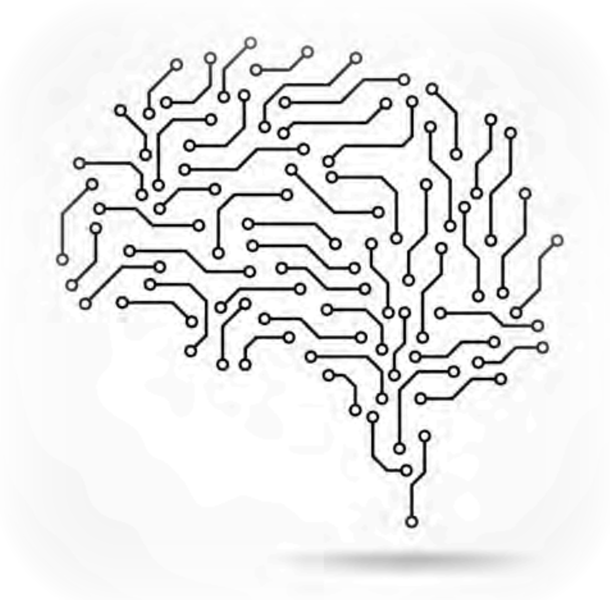
It is easy for entrepreneurs to come up with ideas. However, converting an idea into a business concept involves significant thought and planning. Getting your plan down in writing will help you to clearly communicate the precise nature of your business to not only potential investors, but also to suppliers, customers, and to potential employees.

Canada's Brain Gain

Written by: Kyle Alkema, Technical Writer (Ottawa)

As is the case for all businesses, the foundation of your startup or developing company is the people that you employ. Growing both the quality and quantity of employees can be challenging for businesses that struggle with generating the revenue or profits needed to invest in recruitment.

For SMEs in Canada's burgeoning ICT sector, such as those in the emerging superclusters at various locations across Canada, it is crucial to hire and train employees in order to develop the skills and build the workforce that will allow them to cultivate innovation and boost profitability. The difficulties surrounding effective recruitment strategies contribute to the gap that exists between Canada's high scores on R&D and the commercialization rate of new-to-market products, which is among the lowest of OECD countries.



Significant investment is required to promote the hiring of new employees and the training to develop the necessary skills that your company requires to compete on a national and global level. By meeting the increasing demand for an adaptable and highly-skilled workforce, businesses can accelerate their level of innovation and consequently increase their rate of commercialization. Though more trained employees with the right skills are needed in many sectors as the recruitment gap in the skilled trades continues to grow, there is reason for optimism[5]. According to recent surveys, applications from the U.S. have increased, not only to companies in Canada's technology industry but also to postsecondary institutions[6]. Meanwhile, the combination of growing government support and private investments makes the development of a skilled workforce possible.

Direct Funding in the form of grants through programs such as the Canada Jobs Grant, the IRAP Youth Employment Strategy, and the ICTC Work-Integrated Learning (WIL) Digital Program can help companies promote innovation and commercialization through the hiring of Canadians graduating from postsecondary institutions and through the training of highly-skilled workers. **Indirect Funding** such as the SR&ED tax credit program can then be combined with grants to capture the eligible labour hours that result in technological advancements. The **Start-up Visa Program** is another federal platform that assists startup business such as those in the technology sector with talent acquisition. Launched in 2013, the Startup Visa Program aims to attract entrepreneurs to live in Canada who possess the skills and potential to develop innovative Canadian businesses that can grow globally and create Canadian jobs.

Building a strong foundation for your company through investment in recruitment can be accomplished with the help of government funding, which can lead to increased profitability and enhanced innovation.

[1] Startup Genome: Global Startup Ecosystem Report, 2017 [2,3] CVCA Venture Capital & Private Equity Canadian Market Overview, 2017
[4] PwC CB Insights MoneyTree Canada Report, 2017 [5] Canadian Manufacturers and Exporters, March 2017 [6] The Globe and Mail, October 2017

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