



August 6, 2014

Standing Committee on Finance
Parliament of Canada
House of Commons
Sixth Floor, 131 Queen Street
Ottawa, Ontario K1A 0A6

Dear Standing Committee on Finance,

On behalf of the National Angel Capital Organization (NACO), we are writing in response to the House Standing Committee on Finance's request for pre-budget submissions. NACO seeks the committee's consideration of two proposals for the 2015 Budget:

- To extend the successful FedDev/NACO partnership in Southern Ontario to other regions across the country;
- To establish a new angel co-investment fund in partnership with the national Angel community.

Through these proposed initiatives, we intend to grow and professionalize the Angel investor asset-class across Canada and complement other investments already made by the Government to ensure our most promising Canadian companies have the support they need to overcome the gaps that currently exist in our funding ecosystem.

Representing more than 2000 Angel investors across Canada who since 2010 have provided Canadian companies with over \$180M across 475 investments, NACO has worked to ensure Canadian entrepreneurs can access the resources they need to grow their companies locally. We support Angels as they help entrepreneurs turn good ideas into great businesses. Our members assist Canadian entrepreneurs in every region and industry to execute their vision by providing them with patient risk capital, expert advice and professional networks when traditional financial and other institutions cannot.

In recent years, Angels have been invited to consult with the government in the design of new programs that further support the growth of Canada's entrepreneurial ecosystem. We commend your government on the \$100M investment made to support business incubators and accelerators and the \$400M investment announced by the government under its Venture Capital Action Plan to bolster large Canadian Venture Capital funds, we believe it is important to also support the development of Canada's Angel investor community and would like to present you with an action plan for doing so.

Angel investors are critical to the success of promising Canadian companies as they help to bridge the financing and commercialization gap between ideation and expansion, between incubators and accelerators and venture capital funds. Entrepreneurs working with incubators and accelerators to develop their ideas into commercial enterprises rely on Angel investors to provide them with the capital and networks needed to commercialize their ventures and grow revenues before they are able to access institutional venture capital. With the support of a growing community of Angel investors, we are helping to close Canada's innovation and productivity gap by ensuring that our best companies and brightest ideas can continue to thrive in Canada and are guided through the often cited "valley of death", without having to sell early or relocate to other markets with more established investor networks.



Having participated in the development of smaller regional initiatives supporting local Angel investment, we have experienced the positive impact that a small amount of funding support can have on mobilizing capital into high growth Canadian companies. The Investing in Business Innovation (IBI) program, which is administered by the Federal Economic Development Agency for Southern Ontario (FedDev Ontario), has helped us establish Ontario as the largest and most developed Angel investor community in Canada and serves as a model for how we can continue to grow the Angel community nationally. By supporting Angel organizations that recruit, educate and connect Angel investors and leveraging the investments made with additional capital for recipient companies, this program has mobilized 37 times more capital from private sources than that invested by government. The support provided by FedDev Ontario through this program has allowed our organization to establish a new asset-class of capital formation in Southern Ontario by building critical mass, establishing best practices and incenting Angel investors to become more engaged with entrepreneurs.

The proposed initiatives will generate wonderful “win/win” opportunities for everyone involved, particularly given our demonstrably well-aligned interests and objectives. We are confident that our experience and networks will allow us to replicate the success of past programs nationally and look forward to continuing our strong partnership with the government to further support high-growth Canadian companies.

Attached to this letter is a brief summary of the initiatives we are proposing. We welcome the opportunity to present our detailed proposal in person and answer any questions the committee has.

Thank you for considering our proposal.

Yours truly,

Michelle Scarborough
Co-Chair,
National Angel Capital Organization

Ross Finlay
Co-Chair
National Angel Capital Organization

CC: Honourable Joe Oliver, Minister of Finance
Honourable James Moore, Minister of Industry Canada
Honourable Kevin Sorenson, Minister of State for Finance
Honourable Gary Goodyear, Minister of State
Federal Economic Development Agency for Southern Ontario
Honourable Michelle Rempel, Minister of State
Western Economic Diversification



Proposal Overview

NACO is requesting \$5M of direct funding over three years (2015 – 2018) from the Government of Canada to support the delivery of two proposed initiatives that will allow us to mobilize incremental capital into promising high-growth companies across Canada by strengthening the existing national community of Angel investors.

Growing and Professionalizing the National Angel Investor Community

Building upon the success of past programs delivered in partnership with FedDev Ontario, we are proposing that the government partner with NACO to expand and professionalize Canada's visible Angel investor community.

The \$5M in funding requested will be used to execute on a plan to establish new or support existing professional investor networks in all major regions of Canada by providing them with funding to identify, recruit, engage and educate local investors and disseminate educational resources to them that support the establishment of national best practices and investment standards. These efforts will improve investor and entrepreneur financial literacy, strengthen the connections that exist within our national community, foster leadership and facilitate cross border investment, including from foreign sources.

Leveraging the Federal government's investment with our own existing resources and supplementary investment from other government and private sector partners, we will accelerate the growth of the visible Angel community in Canada and better connect it to established incubators, accelerators and venture capital communities in Canada and internationally. Moreover, by increasing the accessibility, reputation and connectivity of our Angel investor community, we will support its long-term sustainability, and provide the best opportunity for success to Canadian growth companies.

Establishing a National Co-Investment Fund for Angel Investors

In addition to the direct funding requested, we are also proposing that the government partner with NACO to establish a national co-investment fund that will attract risk capital into select Angel investor backed ventures and encourage the mobilization of incremental capital into the most promising Canadian growth companies. Given the nature and composition of the Angel investor community, our members would be able to provide support to companies operating in every region and sector, making them ideal partners for such a national program.

Of the many models used to encourage the mobilization of incremental risk capital into promising early-stage growth companies, FedDev Ontario's IBI program has provided perhaps the most attractive framework due to its targeted nature and alignment with investors. This program, which provides a 50% matching loan of up to \$1M to companies that receive investment from a NACO recommended Angel investor group, is less cumbersome for companies to access as it only invests alongside suitable Angel investors who are responsible for vetting the investments and risking at least twice as much capital as the government. This fund has increased both the number and size of investments made by participating Angels and has provided unparalleled visibility into the investor community, allowing us to generate unique insights about best practices through research.

We are aware of discussions currently underway at Industry Canada and Citizen and Immigration Canada regarding a new fund structure, and believe it is important to ensure that Angel investors have direct access to any future co-investor fund. NACO is optimally positioned to support the government's



efforts to design and deliver a national co-investment fund for Angel investors that compliments the FedDev Ontario offering. Our efforts to professionalize the national Angel community would also strengthen our ability to identify experienced Angel investors to participate in such a program.

The Opportunity for Mobilizing the Angel Investor Community

Angel investment is often the first infusion of capital into a promising young company and represents a key validation and inflection point in its development cycle. Working with NACO members, the Government of Canada will be able to better support the growth and development of companies that:

- Have been de-risked by and received investment from experienced investors;
- Represent growth potential and compete in high-growth knowledge-based industries, and;
- Have special access to government programs through NACO member investors.

Although our accomplishments to date have been notable, the opportunity that lies ahead is much greater. The proposed initiative would allow us to immediately target resources on accelerating the growth and professionalization of Angel investing across Canada.

- There are currently over 30 identifiable Angel groups/networks across Canada, more than 80% of which are current NACO members.
- NACO estimates there are between 15,000 – 30,000 casual Angel investors across Canada but only 2100 are currently part of the visible Angel investor community.
- The OSC estimates there are between 200,000 – 500,000 accredited investors in Canada.
- The OECD estimates that Angels invest between \$500M and \$1B annually into Canadian companies, mostly ad hoc.

As the national industry association for Angel investors, NACO is able to leverage the knowledge, experience and networks of its membership to support the development of Canadian early-stage investors.

Expected Outcomes

With growing regional wealth and investment opportunities, the growth and professionalization of Canada's Angel investor asset class over the three years of this program will lead to:

- 300% growth in the number of visible investors connected into the startup community;
- 200% growth in the amount of funding provided by investors to early stage Canadian companies;
- Improved connectivity of Canadian investors to peers in important established and emerging markets;
- Improved investor ROI performance, which will in turn support the performance of Canadian entrepreneurs and the overall sustainability of the ecosystem;
- Nationally relevant standards and best practices for investment, creating clarity for investors looking to co-invest with foreign investors;
- Investor and group accreditation programs to identify leading investor organizations in our community that can act as syndication leads and participate in select government programs supporting Angel investors;



- Improved ecosystem partner and entrepreneur financial literacy about the investment process and the needs of Angel investors, resulting in increased deal flow quality;
- A reduction in transaction costs and existing barriers to Angel investment and follow-on investment, ensuring that latent capital is employed in support of Canadian start-ups;
- Increased attraction and retention of foreign entrepreneurs, investors and capital into Canada through improved participation in existing and future programs available through Citizenship and Immigration Canada (CIC);
- Enhanced visibility and insights into the activity of the Angel asset-class and the best practices and that exist across the country and internationally;
- Improved benchmarking of Canadian investor success against their foreign peers;
- More substantive conclusions and insights about the activity of Canadian Angel investment and the impact of existing policy frameworks;
- A framework for addressing potential regulatory concerns regarding investor protection and the treatment of Angel investor groups;

Leveraging Investment

The support provided by FedDev Ontario's IBI program has allowed our organization to build momentum, establish best practices and engage more investors to join us in this nation-building initiative. The \$3.4M invested by FedDev Ontario in supporting the development of Southern Ontario's Angel community has allowed us to support the creation of 26 Angel groups and networks representing 756 Angel investors, and has leveraged additional private investment of \$70M into 181 Canadian companies, creating and retaining more than 1,100 highly skilled jobs in the process. As a result of this program, Southern Ontario now stands as the largest and most developed Angel community in the country, representing 43% of our national community and 55% of overall Angel investment in 2013.

With your support, our goal is to generate a similar leverage on investment by significantly increasing the quantity, quality and activity of investors in Canada, while also increasing awareness about the investment opportunities that exist with outside investors.