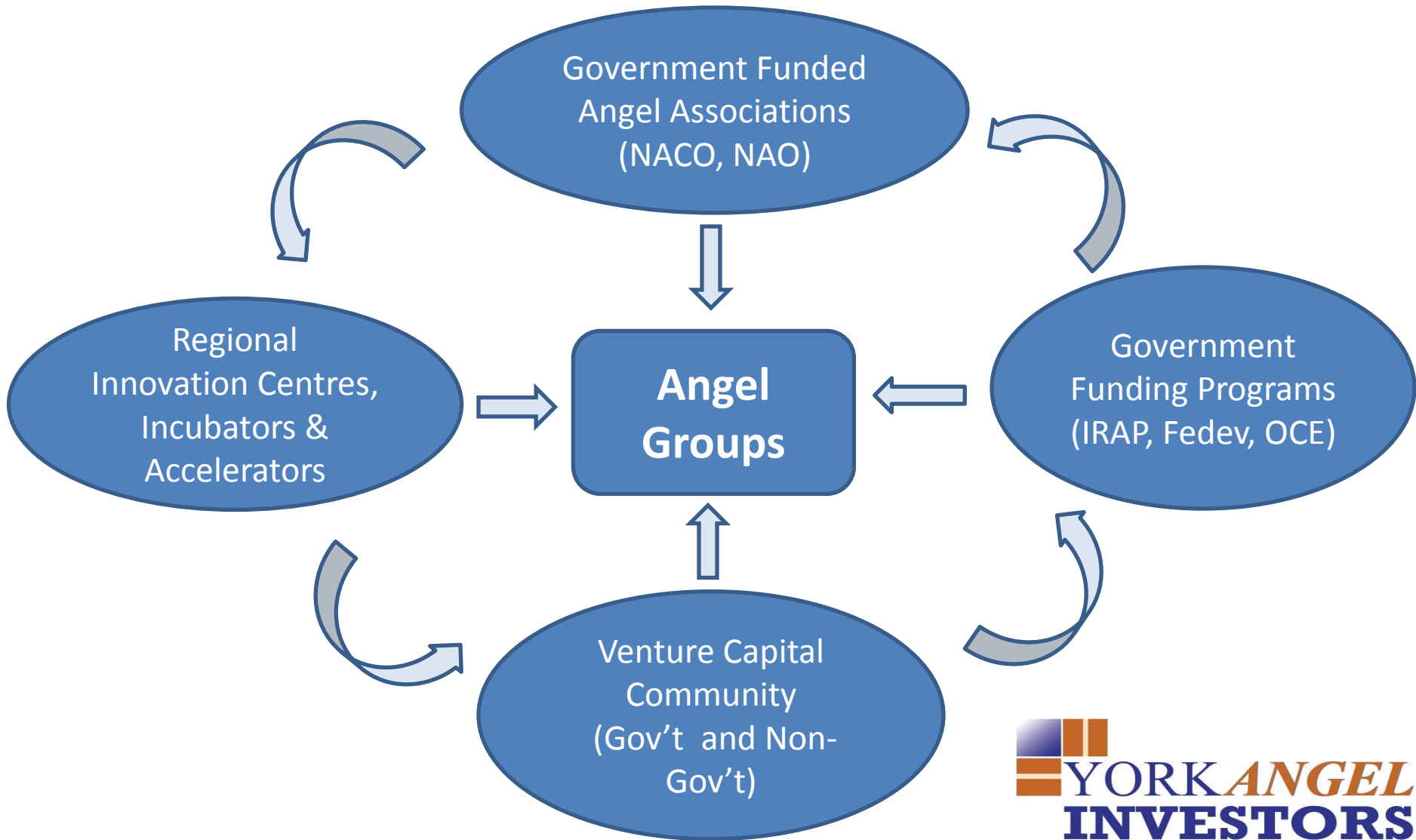


Angel Ecosystem

Who are the key stakeholders and what do they do?

April 24, 2014

The Angel Ecosystem



National Angel Capital Organization

- NACO is a federally funded industry association representing Angel capital in Canada
- Provides Angel investors with an environment to network, learn from their peers, as well as the opportunity to be heard collectively on national issues
- Conducts various Angel investment research initiatives
- Holds industry events to promote knowledge exchange, professional development and network building such as:
 - National Angel Summit
 - Professional Development Workshops
 - Follow on investment summits



Network of Angel Organizations

Ontario

- NAOO is a member of the Ontario Network of Excellence and is funded by the Federal Economic Development Agency Southern Ontario and the Province of Ontario
- Facilitates creation and growth of Angel groups in Ontario
- Angel groups must be recognized by NAOO in order for deals to qualify for Fedev funding program
- Share best practices amongst Angel groups and promote Angel investing awareness and educational workshops
- Provide funding to various Angel groups including York Angels
 - Annual funding
 - Will also fund specific events or projects



Regional Innovation Centres

- RICs are located throughout the province and include such organizations as Venturelab, maRS, and Communitech
- Each RIC develops its own programs but their general mandate is to assist young start-up companies with mentoring and educational services to grow their businesses
- Some such as maRS and Communitech also have incubators or accelerators where early stage tech companies can be housed and mentored
- Often serve as feeder system or “farm team” for Angel groups
- Most have close ties with academia to foster technology commercialization

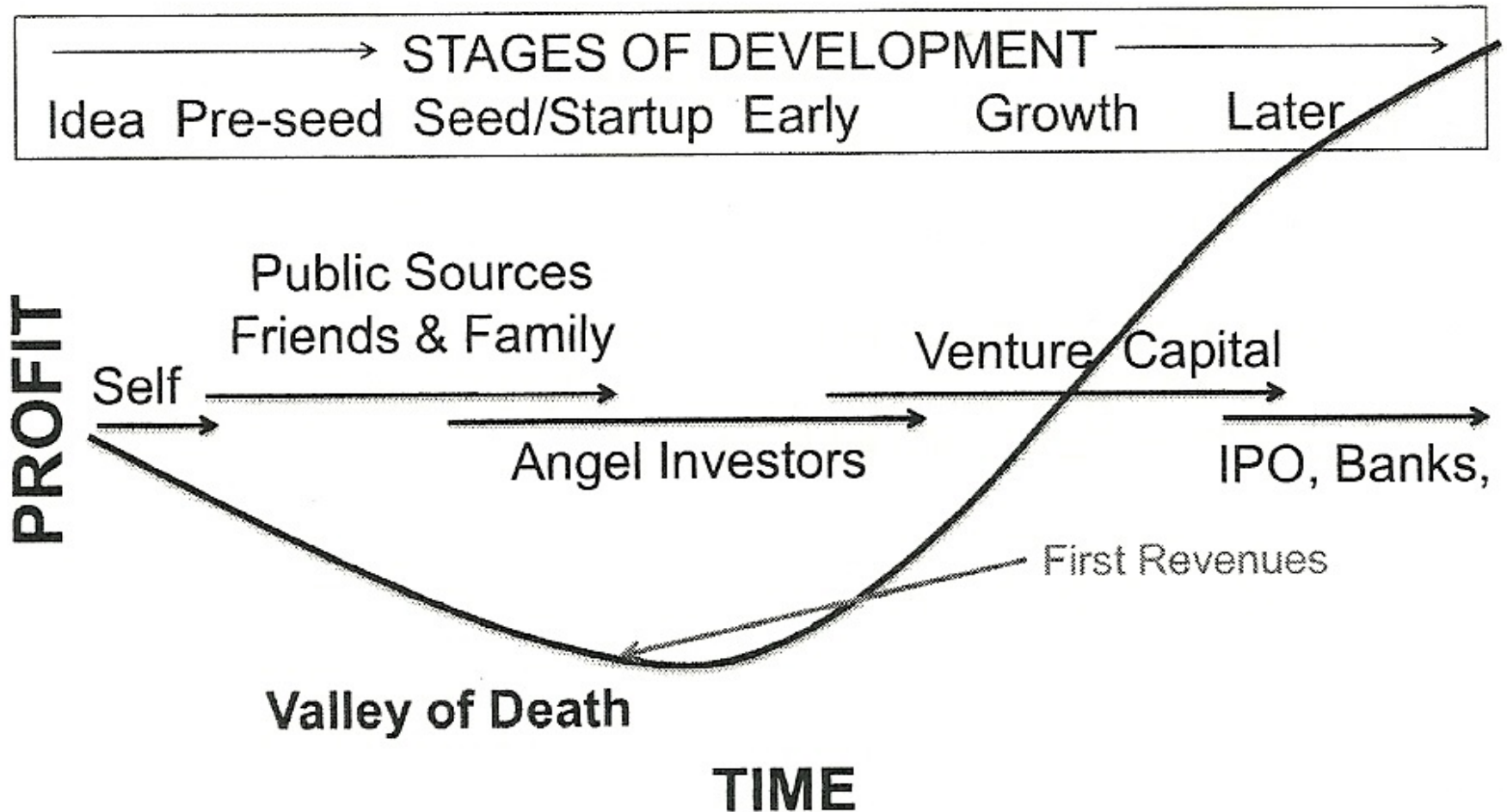
Venturelab

- Venturelab is the RIC located in Markham (within the Markham Convergence Centre)
- In addition to mentoring services, Venturlab has created the BUILD program specifically to support entrepreneurs of technology start-ups
 - **B**egin, ed**U**cate, **I**nvest, **L**aunch, expan**D**
 - 5 stage mentoring program
- Also undertake due diligence on Angel deals through the Venturelab Genesis program
- We often send companies back to Venturelab for further mentoring and grooming to get them investment ready

Incubators & Accelerators

- Some are associated with RICs (i.e.. Venturelab, Mars and Communitech)
- Some are associated with Universities and Research institutions (i.e. Digital Media Zone – Ryerson, Ryerson Futures)
- Others are focused on specific verticals or industries
- Some provide early funding while others only mentorship or space
- All play a critical role in incubating or accelerating growth of early stage companies

The Capital Lifecycle



Fedev Ontario

- The Investing in Business Innovation (IBI) program was launched in October 2010 for southern Ontario start-ups with < 50 employees
 - Designed to help accelerate the development of new products and companies through non-dilutive funding
 - Requires co-investment by accredited angel groups (accredited by NAOO) &/or VCs (CVCA members)
 - Program designed to leverage activities of “professional” investors and streamline funding process
- Will fund \$1 for every \$2 toward eligible costs (1/3 support)
- Maximum funding of \$1M, repayable, 0% interest, typical 1 year moratorium, 3-7 amortization

Fedev Ontario Cont'd

- The IBI program has participated in 5 York Angel projects (approximately \$1.7M in investment)
- Also provides financial and other support for Angel investor networks (including York Angels) and angel associations
- Fedev Ontario was renewed in Budget 2013 for 5 years starting April 1, 2014
- Soon will be launching new program that will also fund market and business development

Ontario Centres of Excellence (OCE)

- Will fund everything from Applied Research, Technology & Product Development through to Commercialization and Market Entry for young companies
 - Funds typically go in as grants but occasionally will take equity position
 - Generally get involved pre-revenue and pre-Angel stage
 - Goal is to de-risk innovation
- Industry sectors include:
 - Advanced Health Technologies
 - Energy and Environment
 - Information, Communications & Digital Media
 - Advanced Manufacturing

OCE Programs

- Research & Development
 - Leverage Ontario's research institutions by funding collaborative research between academia and private sector
- Market Readiness
 - Fund market assessment and business case research by investing matching cash with industry
- Market Entry
 - Provide commercialization and business advisory services together with funding of key personnel or embedded executive

NRC – Industrial Research Assistance Program

- IRAP provides advisory services to help clients through every aspect of the innovation process, from concept to commercialization, providing technical and business advice, referrals and other innovation services
 - Delivered by Industrial Technology Advisors
- Financial assistance in the form of grants to qualified small and medium sized businesses to support innovation
 - Technology based project funding

IRAP Cont'd

- In addition to these traditional services, IRAP also provides funding for other innovation driven programs such as:
 - Venturelab Genesis Program
 - Funding for Angel groups (such as York Angels)

Venture Capital Firms

- Angels work with various types of venture capital firms either in collaboration on a syndicated investment or as potential follow on funders (or even acquirers of the Angel position)
 - Two recent deals (Qnext and Eidosearch) are being monitored by large VCs such as OMERS for possible follow on investment
- Angels serve as excellent feeder system to VCs so are generally not viewed as competitive
- VCs typically do not invest as early stage as Angels and want to deploy much larger amounts of capital to fund commercialization and growth stages of a business

Venture Capital Firms Cont'd

- VCs come in various sizes, profiles and industry focus
 - Most are private equity funded
 - Some are quasi-government such as Mars and Communtech which are privately funded but closely aligned with the Regional Innovation and Accelerator Centres
 - Investment Accelerator Fund (IAF) is funded completely by the Province of Ontario

IAF

- IAF is a seed fund that assists emerging Ontario technology companies to bring their products and services to market
 - IAF program is managed by MaRS and delivered through the Ontario Network of Excellence
- Invests in early stage, privately-held companies with no significant revenue or institutional investment
- Work closely with Angels and will often do convertible debt deals
 - Structure is typically \$250K up front and 2nd \$250K based on milestones

Working With Other Angel Groups

- There are numerous other Angel groups in Southern Ontario that are focused regionally
- Although we sometimes compete for deals there is rarely “too much” money chasing too few deals so collaboration and syndicated deals often happen
- General rule of thumb is that if we initiate a deal, we will only involve other Angel groups if we cannot completely fund the deal ourselves
 - Shopping deals to other Angel groups too early is frowned upon if we have done the heavy lifting early

Other Angel Groups in S. Ontario

- Golden Triangle Angel Network (Waterloo)
 - Closely aligned with Communitech
- Angel One (Oakville)
- Maple Leaf Angels (Toronto)
- Ryerson Angel Network
- Southwestern Ontario Angel Group
- Parteq (associated with Queen's University)
- Niagara Angel Network

Lone Wolves and Informal Groups

- There are many lone wolves out there who prefer to invest on their own
 - Often invest prior to formal Angel group involvement
 - Rarely co-invest with Angels and tend to invest only in areas where they have expertise
- Challenge is that investment process is time-consuming as all functions including deal sourcing, reading plans, due diligence, term sheet negotiation, etc. must be done by one person
- Due diligence is very difficult and may require finding outside assistance with domain expertise
- May have to invest larger \$ in less deals resulting in higher risk and less diversification

Angel Investor Code of Conduct

- Members should respect the source of a deal whether it is introduced by York Angels or another Angel group
 - “Scooping” a deal to make a pre-emptive investment is generally frowned upon and hurts the Angel ecosystem and spirit of collaboration
- Members are expected to be active both as an investor (including due diligence and deal lead) and in the operation of the group such as involvement on committees
- Members are expected to assist in recruiting new members and growing the membership base
- Participation in social events is a key part of the Angel experience and an important value added feature of belonging to an Angel group



Canada's Startup Financing Landscape



Incubators: no cash
Accelerators: <\$100K
Angels: \$100K to \$1M
Seed: \$500K to \$2M
Series A: \$2M to \$5M
Series B: \$5M+

Incubators

Accelerators



