



August 5, 2016

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

Dear Members of the House of Commons 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 2017 Budget:

1. To invest \$5M to fund the expansion of NACO's successful regional programming across Canada, which will identify, recruit, collect data from and connect together Canada's Angel investor community;
2. To refinance existing federal programming that has successfully helped build the capacity of local and regional Angel networks;

Through these proposed initiatives, we intend to further 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 and entrepreneurs have the support they need to overcome the gaps that currently exist in our funding ecosystem.

Specifically, as our submission will show, these initiatives would address priorities outlined by the Committee in framing the 2017 Pre-Budget Consultations.

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.

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. 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 "valley of death", without having to fold or 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) and the Western Canadian Angel Network Program administered by NACO with the support of Western Economic Diversification have helped us establish Ontario and parts of Western Canada as strong Angel investor communities in Canada and serve as a model for how we can grow the Angel community nationally. Moreover, the leverage from such initiatives has been spectacular, with the FedDev IBI program generating 37 times more capital from private sources into startups than that invested by government in supporting the growth of the Angel networks. Programs like these have allowed our organization to establish a new asset-class of capital formation by building critical mass, establishing best practices and incenting Angel investors to become more engaged with entrepreneurs.

The proposed initiatives represent a critical piece of infrastructure that will support the government's upcoming Innovation Agenda and will generate tremendous "win/win" opportunities for everyone involved. 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 of Canada to further support high-growth Canadian companies.

Attached 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 that Committee Members have.

Thank you for considering our proposal.

Yours truly,

Ian Bandeen  
Co-Chair,  
National Angel Capital Organization

Bev Tudhope  
Co-Chair  
National Angel Capital Organization



## Opportunity Overview: A Nationally-Coordinated Network

Angel investment has in the past been a largely private activity, conducted by individual investors working in silos. This approach has created challenges for both investors and entrepreneurs, making it difficult to gain access to existing knowledge, networks or capital. NACO is a non-profit organization that has spent the last 15 years focused on alleviating these difficulties.

### Key Challenges in Funding Canadian Innovation and Company Growth

While NACO is proud of the work we've done thus far in professionalizing the angel investment class, it's estimated that up to 50,000 potential or active angel investors in Canada fall outside of our reach. This lack of access to investors makes it difficult for entrepreneurs to find the necessary capital to grow their companies and realize their innovative ideas. This gap can largely be attributed to the following key challenges that NACO would like to work with the federal government to address:

1. Regionally-based funding has limited the majority of NACO's work to Southern Ontario and Western Canada, with a very limited role outside of those regions.
2. A regionally-concentrated angel investor community makes it difficult for companies to find necessary capital locally, and for investors to support one another in growing companies; and,
3. Limited visibility into and information about the Canadian Angel ecosystem makes it difficult for NACO to support member education and research efforts, which in turn supports the priorities of the Government for science based policy planning.

Supporting and nurturing Canada's exceptional entrepreneurial talent requires a comprehensive plan to strengthen and coordinate the innovation continuum nationally, from an idea to scale and maturity. NACO is uniquely positioned and ready to help grow and develop a pan-Canadian Angel investment community while improving our insights into this important asset-class and increasing the critical pool of private risk capital available locally to Canadian entrepreneurs.

### 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 inflection point in its development cycle. Although our accomplishments to date have been notable, the opportunity that lies ahead is much greater. This initiative allows us to immediately target resources on accelerating the growth and development of Canadian Angel investing.

- Over 90% of the 40 identifiable Angel networks across Canada, are current NACO members.
- NACO estimates there are between 20,000 – 50,000 Angel investors across Canada but only 2800 are currently part of the visible and organized Angel investor community.
- The OSC estimates there are between 200,000 – 500,000 accredited investors in Canada<sup>1</sup>.
- The OECD estimates that Angels invest between \$500M and \$1B annually into Canadian companies, mostly ad hoc<sup>2</sup>.

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<sup>1</sup> Ontario Securities Commission: Accredited Investor Exemption.  
<http://www.osc.gov.on.ca/en/21943.htm>

<sup>2</sup> Organization for Economic Cooperation and Development, Financing High-Growth Firms: The Role of Angel Investors. [www.oecd.org/sti/angelinvestors](http://www.oecd.org/sti/angelinvestors)



As the national industry association for Angel investors, NACO is able to leverage the knowledge, experience and networks of its membership to support Canadian early-stage investors. While NACO is establishing long-term, sustainable funding through member fees, corporate partners and events, achieving our growth objectives will require near-term support from government.

## **Recommendation 1:**

### **Funding a Nationally-Coordinated Network Supporting Angel Investment**

We are proposing that the Government, through the Department of Innovation, Science and Economic Development Canada, provide incremental national funding of \$5 million over three years. This will allow NACO to leverage our existing resources, experience and successes to create a truly national Angel investor community by creating access for entrepreneurs in every province to some of the more than \$75 billion of private capital currently sitting dormant in our economy<sup>3</sup>. Making the investment will:

- Increase the size of our national investor network to more than 5,000 Angels;
- Increase the number of investments made by participating Angels to at least 500 per year;
- Increase the dollars invested by participating Angels to more than \$250M per year;
- Double the number of larger “follow-on” investment rounds that fund companies to scale up;
- Establish strong, larger, connected, local Angel networks in every province and territory;
- Support economic development by supporting entrepreneurship in indigenous communities;
- Increase the capture and analysis of investment data to report outcomes and inform policy;
- Create more resources, best practices and educational content for Angels to access through NACO Academy™, including advanced learning modules and national best practices;
- Attract more foreign investment into Canadian-based startups through locally-led syndicates;
- Quadruple the number of investors accessing NACO Academy™ resources across Canada;
- Improve the sustainability of Angel investing as an asset class supporting innovation; and,
- Create the critical mass required for NACO’s efforts to become sustainable over the long term.

To achieve this, we will execute projects that take into account the strengths and needs of each identified community and lead them through a process to achieve growth and sustainability:

1. Identify, recruit, track and grow Angel investor networks and communities
2. Improve investment insights, best practices, and investor collaboration and syndication
3. Develop and recognize leaders, celebrate investor and entrepreneur successes
4. Develop the community of underrepresented minorities (indigenous, women, ethnic minorities) to engage in Angel investment

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<sup>3</sup> Globe and Mail Article by Michael Babad, “Cashing in on Fear”:  
<http://www.theglobeandmail.com/report-on-business/top-business-stories/too-scared-to-invest-canadians-sitting-on-estimated-75-billion-in-cash/article28391921/>



Project funding, which is independent of and incremental to any existing incentives and support, will be allocated in the following ways over the three-year period.

1. **Direct funding for local network development initiatives:** \$ 2,500,000 (50%)
2. **Project administration and execution:** \$1,250,000 (25%)
3. **Investor education and activation initiatives and events:** \$600,000 (12%)
4. **Marketing and outreach:** \$450,000 (9%)
5. **Travel and related expenses:** \$200,000 (4%)

## Recommendation 2:

### Refinancing Existing Programing Supporting Angel Investor Networks

Our request for funding is incremental to various other initiatives already underway at the local and regional level in select communities. Ensuring the continuity of these initiatives will ensure that there isn't a drop in activity in those already supported areas.

However, without affecting the funding support provided through these programs, coordinating the collection of data and reporting of outcomes through NACO would ensure that the information collected is comparable at a National level and useful to inform both NACO's professionalization efforts and the government's own policy planning efforts.

### Supporting the Priorities of the Committee

These initiatives would address the three focal points provided by the Committee in framing the 2017 Pre-Budget Consultations:

1. Ensuring that ample Angel capital is available to fuel the innovative vision of Canadian entrepreneurs will help Canadians generally by allowing for underemployed communities, including youth, indigenous peoples and those with disabilities, among others, to create their own opportunities for income generation and self-sustainability,
2. The capital, mentorship, and networks accessed through this funding will ensure that Canadian businesses in all regions and sectors have access to the capital to meet their expansion, innovation and prosperity goals, while also further increasing employment opportunities within their communities and maximizing their contribution to Canadian economic Growth; and,
3. Due to the nature of Angel investing as a primarily local and sector agnostic activity, these initiatives will help empower the grass-roots development of locally led Angel organizations that contribute to the economic prosperity of their urban, rural and remote communities.

As shown in studies conducted by NACO with the partnership of Industry Canada and BDC in 2015, Angel backed companies create high paying, innovative, middle class, jobs<sup>4</sup>.

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<sup>4</sup> 2015 Report on Angel Investing Activity in Canada: <http://www.nacocanada.com/naco-academy/research/angel-activity-reports/>



## **About the National Angel Capital Organization**

Since 2002, NACO has been a not-for-profit champion for Canada's angel investor community. Today, NACO helps support more than 2,800 angel investor members as they help Canadian entrepreneurs scale up good, nascent ideas into thriving businesses. Since 2010, NACO has tracked 995 member investments, into 635 companies. This represents more than \$400 million of risk capital injected into the Canadian entrepreneurial ecosystem, with over \$220 million invested over the last two years alone.

NACO is experienced in working as a trusted partner in Canadian economic development. Over the years, we have been invited to both advise federal and provincial governments and help deliver several programs in collaboration with government in support of Canada's early-stage funding ecosystem.

Angel investors provide personal financial, intellectual, and relationship capital to nascent innovators, acting as a bridge during critical periods in a company's growth.