

The water cooler

Smart and provocative stuff to rule the break room



Members of the St. John's tech sector gathered at CoLab's new offices in November to hear what the founders learned from Y Combinator. Here, CoLab co-founder Jeremy Andrews shares some key insights. (Photo Sam Russell)

IT'S A REALLY BIG DEAL

Welcome to the new Newfoundland economy?

After five successful years in the St. John's startup community, Venture NL is repositioning for bigger and better.

The private venture capital fund, managed by Pelorus Venture Capital, was established in 2015 by the Government of Newfoundland and Labrador, BDC Capital and angel investors. Similar to comparable funds in other Canadian provinces, it was created so innovation-led companies in Newfoundland and Labrador could have quick access to capital.

Venture NL's five-year investment window closes on May 4th, 2020. But when one window closes another opens—at least that's what Chris Moyer, Pelorus' director anticipates. Work is underway to raise the money for the next fund; he doesn't expect to have much difficulty.

A lot has happened in the past five years, from the 2017 founding of the now-globally-lauded Memorial University Centre for Entrepreneurship to the announcement of a half-billion-dollar investment in St. John's-based financial crime-fighting tech company, Verafin. It was the biggest deal in Canada by a few hundred million.

"It's a different ecosystem now. And we think that might make a lot more people interested in investing," Moyer says. "We do not see a slowdown... There will be lots of investments to happen in the next five, six years and we'd like to be there doing them."

Since 2014, the province's tech sector has grown by about eight per cent each year, outpacing the national average of five per cent according to the Atlantic Provinces Economic Council. At the end of 2017, the sector had generated about \$1.5 billion in revenue. In comparison, the Newfoundland and Labrador government is hoping to pull in \$1.6 billion in tourist dollars by 2020.

According to a recent report from Entrevestor, the startup ecosystem in St. John's is the fastest-growing in all the major Atlantic Canadian cities. That growth is propelled by technology businesses like CoLab, who completed the highly-competitive Y Combinator incubator program in Silicon Valley last summer. They left with \$2.7 million worth of investments from Newfoundland, Canadian and American backers for their software that helps engineering and design firms collaborate on big builds

JUST HOW BIG WAS THAT VERAFIN DEAL? HOOOO BOY.

When Darrell Pinto, research director at the Canadian Venture Capital and Private Equity Association, saw the announcement that St. John's-based financial crime-fighting company Verafin had landed **\$515 million** in financing, he thought it was a typo.

"To have a deal this large is an anomaly in the Canadian marketplace, absolutely," Pinot says.

According to Pinto's numbers Verafin's half-a-billion backing from Boston's Spectrum Equity and Toronto-based Information Venture Partners is the **largest in Canadian history.**

The next biggest in Canada was \$280 million for Enerkem based in Montreal. In Atlantic Canada, it was Halifax-based ABK Biomedical's \$40 million deal in April. In Newfoundland and Labrador, it was Sequence Bio's \$4 million deal, secured in 2016.

Pinto says the Canadian ecosystem is seeing more and more interest from U.S. private equity firms, as the Verafin deal shows. He also says the deal sends an important message to investors and for entrepreneurs: "Innovation can happen anywhere."

more efficiently. Their market? Fortune 500 companies across the world.

The promise of the tech sector, particularly ocean tech, dominates a 2019 report by McKinsey and Company. It was commissioned by the Newfoundland and Labrador government to identify ways the province could diversify its economy.

Some, like the province's go-to economist Wade Locke, say that's now happened. "I do believe that they are succeeding," Locke says. They're working under constraints, like talent shortages, that will limit growth, he says, but ultimately, it's like the province has another tourism industry.

"It was extremely hard for a company at the early stage (of startup) to cobble together \$100,000 or \$200,000," Moyer says of the pre-Venture NL period. "And that was putting them at a severe disadvantage. None of these companies were competing against companies in Newfoundland and Labrador; they're competing against companies in Canada and around the world."

As Moyer tells it, much of the credit for the fund's creation belongs to Daryl Genge, who was then assistant deputy minister of the Department of Business, Tourism, Culture and Rural Development. He's now the CEO of Springboard Atlantic, a group helping universities and colleges in Atlantic Canada turn research into commercial activity.

It's still too early to measure the fund's success in exit payouts (the payments made to the venture capital investors)—those won't happen for at least another five years, if they happen at all. Still, Genge says he's pleased with Venture NL's success so far.

Darrell Pinto, research director at the Canadian Venture Capital and Private Equity Association, says there's a general rule of thumb for funds like VNL: for every 10 companies in the portfolio, expect two to fail, two to succeed and the rest to neither win nor lose. Of the nine companies backed by VNL, only one, Sentinel Alert, has ceased operations. The remaining eight companies in the portfolio (which include CoLab; educational tech business Clockwork Fox; bioscience powerhouse SequenceBio; and smart thermostat manufacturer Mysa) are going strong and appear to be poised for growth.

Another positive indicator of the fund's effectiveness? Collectively, the nine VNL-backed companies raised \$21 million on top of VNL's \$7.5-million injection. Nearly half of that extra money came from outside Newfoundland and Labrador, and about \$5.3 million came from the United States, says Moyer.

Further, according to Moyer, after VNL backing, those companies hired 87 new employees, and have a collective payroll of just over \$10 million. Nearly 80 per cent of their employees went to school in the province, and the average salary is just over \$68,000.

"[These] are the type of jobs that the people graduating from university don't have to leave to get," Moyer says. "This is what people want to do in the future, and the ecosystem is creating a place for people to be creative and thrive and do well."

Both Moyer and Genge say VNL's success is a reflection of the strength of its surroundings. Those surroundings include the aforementioned Memorial University Centre for Entrepreneurship—named one of the top five emerging entrepreneurship centres in the world—and the strength of the internationally-lauded Genesis Centre, particularly since Michelle Simms became CEO in 2016.

But ultimately, it's about the local entrepreneurial community. "VNL existing doesn't matter if you don't have some great entrepreneurs popping up. And we've seen a great crop of entrepreneurs. And I do think that in this startup ecosystem, the founders truly believe that they can take on the world. And the aids that they need to do that are available now," says Moyer.

Even so, Genge advises to proceed with caution. "Many of the companies in the sector are still small, with less than 30 employees, and they need specialized talent to grow. If you want to make it sustainable, you need to keep supporting the companies and help them attract the talent they need," he says.



Chris Moyer is the manager of Pelorus Venture Capital Ltd. He says he loves the risk of venture capital and likes to tell people he's an accountant gone bad.



Daryl Genge helped get the Venture NL fund off the ground when he was working for the province of Newfoundland and Labrador.