

# **TAKE ACTION NOW: SUPPORT CANADA'S INNOVATION ECONOMY**

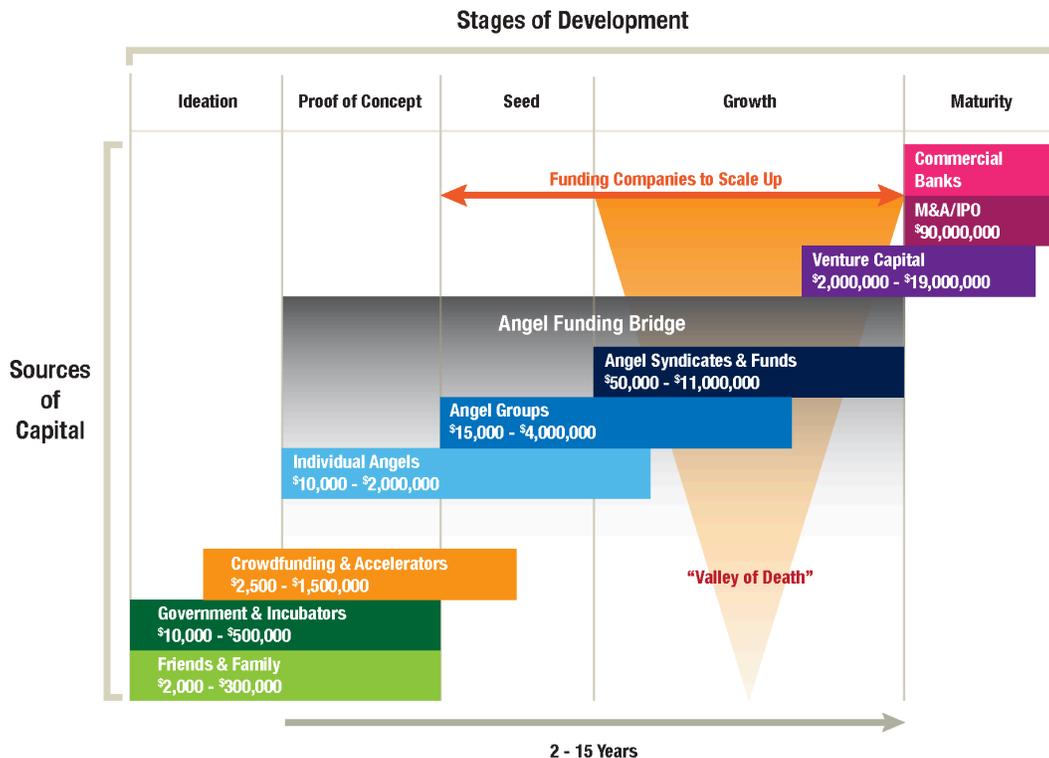
**Help ensure entrepreneurs increasingly get access to Angel investment, the critical private risk capital that enables them to grow from ideas and prototypes into commercial ventures and scalable businesses.**

**Here are things you can do today to support the financing of our new economy.**

## Why Support Angel Investors?

- ▶ Private early stage investors, often referred to as Angel investors, play a critical role in supporting entrepreneurs
- ▶ They invest as *many as 27 times more startups than venture capital investors*, according to Scott Shane, A. Malachi Mixon III Professor of Entrepreneurial Studies at Case Western Reserve and bestselling author.
- ▶ Angel investors are frequently former or current entrepreneurs
- ▶ They act as a primary source of financing, mentorship and access to networks for Canadian startups.
- ▶ They help build successful businesses to the point where they are attractive to venture capitalists and other funding sources.
- ▶ Angels also often act as the primary sources of capital for early-stage “Seed” Venture Capital firms who in turn often act as the first institutional money source for startups.

## The Innovation Funding Continuum Angels Fund Companies to Scale Up

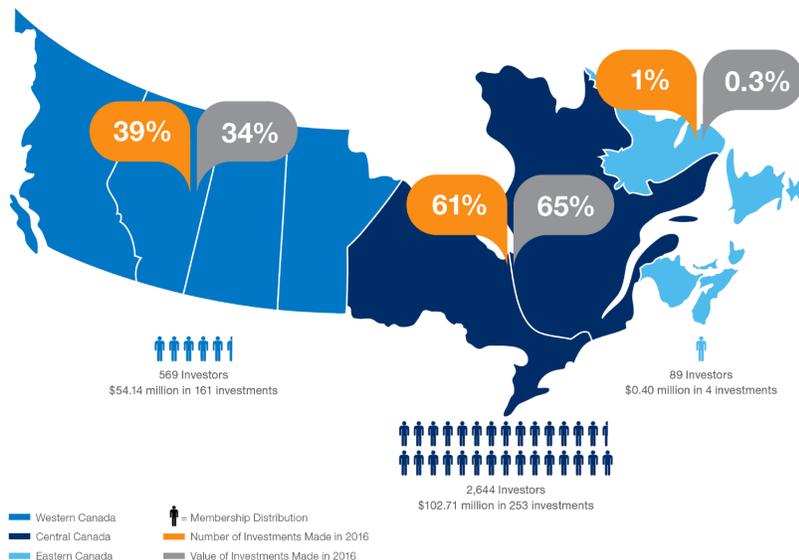


**Canadian Innovation is first funded by Angel investors** - who enable entrepreneurs to grow along the innovation continuum. As startups progress through the stages of the Innovation Continuum - from idea to prototype, to a commercial venture, a scalable business, and eventually, a globally competitive company - they create high-value jobs and spin-off economic activities. Supporting startups along the continuum, especially at critical early stages of growth is highly risky and takes patience. Angel investors help the brightest entrepreneurs discovered at the ideation or incubation stages avoid the “valley of death” and sustain and scale their businesses.

## Angel Investment in 2016

Angel investment in Canada is largely local. For 2016, 29% of investments were in the same city as the Angel group and a further 55% were in the same province. For this reason, Angel investment activity is distributed unevenly across Canada. Central Canada (Ontario and Quebec) attracted 61% of investments and 65% of the amount invested in 2016. Western Canada attracted about one-third of investments. Meanwhile Eastern Canada attracted just 1% of investments and 0.25% of the amount invested. The majority of the investee businesses (56%) across all regions are small, with 10 or fewer employees at the time of investment, and only a small proportion (13%) have more than 50 employees.

Investments and Membership by Region in 2016



Canadian Angel investors are providing critical support to local small businesses, so that they may grow and thrive and sustain Canada's new economy. The National Angel Capital Organization (NACO) is committed to championing the Angel-asset class to accelerate a thriving early-stage investing ecosystem that is critical to innovation, commercialization, and economic growth.

## **The Federal Government's Proposed Changes to CCPCs**

NACO worked diligently with its partners to analyze the proposed changes to Canadian Controlled Private Corporations (CCPC), in order to understand the impact they may have on Angel investors, and our domestic innovation ecosystem more broadly.

After surveying our membership about the proposed changes to the taxation of CCPCs and how they might affect the availability of capital and active Angel support for entrepreneurs, we found that possible outcomes include decreased incentive and capital for Angels to invest and decreased access to early-stage capital, which may adversely influence the flow of funds and resources to Canadian entrepreneurs.

Our survey data shows that 88% of investors use private corporations to deploy all or some of their investments into startups. It was therefore unsurprising that 76% of our respondents indicated that should the proposed changes to CCPCs go through, they would decrease investment.

We understand the proposed tax changes are an effort to ensure all Canadians are paying a suitably fair share of tax on income, and to eliminate circumstances where private corporations might be used to gain unfair tax advantages. However, NACO would like to ensure that the government is aware of the impact these policies may have on the early-stage ecosystem so that the government's tax and innovation policies are aligned to support the growth of Canadian startups and their continued access to risk capital.

**And we need your help.**

## What You Can Do Today

This is your chance to take action and have your say - provide feedback to decision-makers and make a meaningful impact on major initiatives which will affect your community and our country's economy of tomorrow. Here is what you can do to support Canadian innovation today:

- ▶ [Donate](#) to NACO's advocacy efforts
- ▶ Fill out the Federal Government's [#YourBudget2018](#) Surveys, with a special mention of support for Canadian entrepreneurs and Angel investors
- ▶ Email a letter of support for Canadian Angel investors to the [#YourBudget2018](#) email address: [fin.pre-budgetconsultations2018-consultationspre-budgetaires2018.fin@canada.ca](mailto:fin.pre-budgetconsultations2018-consultationspre-budgetaires2018.fin@canada.ca)
- ▶ Attend your local [#YourBudget2018](#) Consultation town hall.
- ▶ [Mail a letter of support](#) for Canadian Angel investors to your local MP

\*Please find an example of such letter below. Please encourage family and friends to do the same. These letters can be delivered via post or email, or both. We recommend mailing and emailing the letters to ensure delivery and increase the likelihood of a response.

- ▶ [Set up and attend an in-person meeting with your local MP](#), to tell your story and discuss the impact of early stage support had on your ventures; please find a list of expanded talking points below
- ▶ Connect with NACO staff to tell your story through our outreach campaign. Email [campaign@nacocanada.com](mailto:campaign@nacocanada.com)
- ▶ Engage with NACO's [social media](#) accounts and help spread the word:

[Twitter](#)  
[Facebook](#)  
[LinkedIn](#)

Please include some the following hastags in every post:

[#YourBudget2018](#)  
[#FirstFunders](#)  
[#NACOAngel](#)  
[#NACOMember](#)  
[#AngelBacked](#)  
[#AngelInvestors](#)  
[#CdnInnovation](#)  
[#InvestCan](#)

Please tag some of the following accounts in every post:

[@AngelCapCanada](#)  
[@Bill\\_Morneau](#)  
[@BardishKW](#)  
[@NavdeepSBains](#)

Examples of social media posts include:

[#Angelinvestors](#) are a critical and patient source of early-stage funding for [#Canadian](#)  
[#entrepreneurs](#) and [#startups](#) [#InnovationIsFirstFundedByAngels](#) [@AngelCapCanada](#)

[#Women](#) are changing the face of [#AngelInvesting](#) through awareness, education and  
mentorship [#CdnInnovation](#) [#FemaleFunders](#) [@AngelCapCanada](#) [@FemaleFunders](#)

Looking to become an [#Angelinvestor](#)? First timer tip: [#Invest](#) in what you know.  
[#InvestCan](#) [#InnovationIsFirstFundedByAngels](#) [@AngelCapCanada](#)

Looking forward to more details on [#AngelInvestment](#) in the Proposed [#cdntax](#) changes  
to CCPCs [#InnovationIsFirstFundedByAngels](#) [#InvestCan](#) [#NACOAngel](#)  
[@AngelCapCanada](#)

[#AngelInvestors](#) [#entrepreneurs](#) and [#government](#) can work together to create a fair  
and inclusive economy [#NACOAngel](#) [#InnovationIsFirstFundedByAngels](#)  
[#strongertogether](#) [#InvestCan](#)

[#Canadian](#) cities are largely made up of [#smallbusinesses](#) today. We need to activate  
and incentivize more [#Angelinvestors](#) to support their growth and future success  
[@AngelCapCanada](#)

Healthy [#economies](#) enable [#startup](#) growth. [#InnovationIsFirstFundedByAngels](#)  
[@AngelCapCanada](#)

## Sample Letter to Your Local MP

Date

Name

Address Line

City, Province, Postal Code

Mr./Mrs./Ms./Miss Firstname A. Lastname, M.P.

House of Commons

Address Line

City, Province, Postal Code

Dear Mr./Mrs./Ms. Lastname,

This letter is in response to the Legislative Proposals Relating to the Income Tax Act. I am encouraged by the government's focus on the Innovation Agenda that prioritizes entrepreneurs as I too believe that a healthy economy is one that enables startups and small businesses to grow from ideas and prototypes to scalable and globally competitive companies.

In this spirit, I would like to add my voice of *support for Angel investors, who play a less visible yet critical role in supplying Canadian entrepreneurs with the financial capital, mentorship, and access to local and international networks our startups need to grow their ventures*. Growing a business often takes many years and many rounds of financing. Angels lead the way by acting as the early capital that results in future financing opportunities, which is why I believe we should be doing all we can to encourage and grow this patient asset-class.

The recent announcements on the proposed tax changes demonstrate the government's effort to ensure all Canadians pay their fair share of tax on income, but I would like to draw attention to the unintended impacts these policies may have on the decision to fund innovation, and on the early-stage ecosystem itself. If this proposal, which includes new and higher tax rates, is followed through on, it may lead to decreased incentives and capital for Angels to invest. Angels are the first funders of Canadian innovation and they take extraordinary risk to support the development and growth of our nation's companies.

Innovation and fairness can grow together, which is why I ask that you *join us in protecting and incentivizing this asset-class* by ensuring the announced counterbalancing provisions appropriately offset the impact of the changes on Canadian first funders. I would be happy to meet in person to further discuss more details and ways forward.

Sincerely,

Signature

## Sample Talking Points to Meet with Your Local MP

### What do Angel Investors do?

1. Angel investors are a critical to the success of Canada's Innovation Agenda. Without Angel investment, entrepreneurs will be less likely to achieve a second and larger raise.
2. Angel investors provide entrepreneurs, not just with patient financial capital, but also with mentorship and access to local and international networks to scale their businesses.
  - a. Angel investors provide critical mentorship to first time entrepreneurs. Entrepreneurs often excel in one area but need support and direction to develop a fulsome and scalable business. Angel investors apply their lived experience to fuel growth.
  - b. Angel investors bring a substantial and well-established network to an entrepreneur's business.
3. Without Angel investment, there are very few other financing options for startups. Angel investors often fund in the critical early stages, whereas venture capital comes into play in the later stages of development of a company.
4. As startups progress through the stages of the innovation continuum - from idea to prototype, to a commercial venture, a scalable business, and eventually, a globally competitive company - they create high-value jobs and spin-off economic activities. Angel investors help the brightest entrepreneurs, discovered at the ideation or incubation stages, to avoid the "valley of death" and sustain and scale their businesses.
5. Angel investors are prepared to take extraordinary risks to support the development and growth of Canadian companies.
6. Angels vary greatly in their funding capacity, expertise and preferences, leading to a diverse portfolio of companies receiving investment.

7. The demographics of the Canadian Angel investment community are rapidly changing. More women are becoming first funders. We are seeing increased involvement from First Nations communities, young and successful entrepreneurs, and diaspora communities across all of Canada.
8. Angel investors exist in every Canadian community, and fund both locally and nationally.

### **The Future of Angel Investing**

1. Not enough people who could be Angels are. Canadians need to be made aware that investing early-stage companies is an option and financially accessible for middle and middle-upper class Canadians as well.
2. Research shows that between 20,000 and 50,000 investors in Canada are deploying between \$500 million and \$1 billion into startups each year. This is continually growing.
3. There is concern that if Angel investing is effected by the changes to the taxation of CCPC's, it will disincentivize the asset-class.
4. Disincentivizing this already risky asset-class will most likely decrease the amount of money available to start-ups.
5. Successful entrepreneurs are increasingly becoming Angel investors and are ready to help the next generation of Canadian startups, thereby creating a sustainable cycle of Canadian innovation.
6. Together, working with government and the broader early-stage community, we can create the vibrant and dynamic innovation ecosystem that Canada needs to be a world leader in the 21<sup>st</sup> century.

**For more information, please visit: [www.nacocanada.com/firstfunders](http://www.nacocanada.com/firstfunders).**