Submission to the

Ontario Government Pre-Budget Consultations

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by

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1. Background

In fiscal year 2018-19, the 1,171 members of the 12 Formal Angel Groups in Ontario invested more than $65 million in 194 early-stage companies through 267 investment rounds. This investment led to the direct creation of more than 1,400 jobs.[1]

Since the network of Formal Angel Groups began in 2007, a cumulative total of more than $431 million has been invested by their members in more than 850 companies – creating or retaining almost 13,200 Ontario jobs.[1]

The leverage on public funding to Angel Networks is 90:1.[1]

From these statistics, we can conclude that:

- Angel investing is critical to Ontario's job creation initiatives in the new innovation economy.
- Angel investing serves as multiplicative support for government stimulus for job creation in the innovation economy.

2. Vital Role played by Formal Angel Groups

Ontario is home to a vibrant innovation and start-up ecosystem, supported by recent Government initiatives to lower the cost of doing business here. However, the ongoing success of this ecosystem also requires capital investment. Despite this vibrancy, capital investment across the funding cycle in Canada is less readily available to establish and grow new companies compared with the US, where the population is 10x larger.

According to Canada's National Angel Capital Organization (NACO), Canadian angels invested C$142.8 million in start-ups in 2018[2]. Knowledgeable sources estimate that this number under-reports the true activity level of about C$500 million. In the U.S., the Center for Venture Research at the University of New Hampshire pegs the American 2018 angel investment figure at U$23.1 billion[3]. Adjusting for currency, to achieve parity Canadian angels need to invest C$3 billion per year – or 73 per cent more.

The start-up capital investment cycle is simple. Companies get going with support from Family and Friends, grants and/or pitch competitions prize money. These sources get start-ups established, but not to the critical size where Venture Capital (VCs) firms are interested.

Angel Investors bridge the critical gap between Family & Friends and VCs. Without Angels, high-potential Ontario entrepreneurs – and their companies – move to more capital-friendly locations or simply give up. Ontario risks creating some of the world's most innovative companies and entrepreneurs, only to lose them – and the jobs they create – to Silicon Valley, Boston, or other renowned start-up centres.

From this we can conclude that:

- Stronger support for angel investing is required to provide needed start-up capital to keep companies and jobs in Ontario. In the U.S., start-up funding from private investors is 73 per cent greater than it is in Canada.

- Angel investing has been successful in Ontario. However, there is fierce competition for talent, and talent flows to the U.S., or other locations, where investment capital is more readily available.

3. Ontario Government Support for Formal Angel Groups

As part of its Angel Network Program (ANP), until fiscal 2019-2020, the Ontario Government provided annual grants to Formal Angel Groups.

The purpose of the grants was to assist qualified Angel Groups with educating and serving their growing membership more effectively, until they can reach self-sustainability. The assistance (per year) was $25,000 to $50,000.

Any Angel Group that had been operational for at least one year, was incorporated as a non-profit, and comprised a critical mass of Angel investors was eligible. Preference was given to community-based organizations that did not have other sources of provincial or federal funding (excluding FedDev or IRAP funding).

Criteria for Grant Awards:

- Investor-led decision-making and due diligence.
- At least one year in operation.
- Size of overall and active membership.
- Investment record.
- Movement toward sustainability.
- Association with a Regional Innovation Centre (RIC).
- Affiliation of one or more Angel champions.

These grants have been instrumental in developing and sustaining the existing network of 12 Formal Angel Groups in Ontario.

4. Effect of the Funding Cut on the Formal Angel Groups

Prior to the deferral of the ANP grants, some of the more established and stronger Formal Angel Groups had already recognized the need for a more streamlined and financially-sustainable operating model.

The Angel One Investor Network (Angel One), the Golden Triangle Angel Network (GTAN) and the Southwestern Ontario Angel Group (SWO) are based in Burlington, Kitchener-Waterloo-Cambridge and London, respectively.

Each of these groups was receiving $50,000 in ANP funding per year, or a total of $150,000.

These three groups have a long tradition of co-operation. In 2018, they began to explore ways to enhance and formalize their collaboration. In 2019, this led to the creation of a joint venture named Equation Angels. The three partners continue to exist as separate angel groups, but have hired a common CEO, while reducing their own staffing levels.

Equation Angels now acts as a “Super Group” of 200 investors who serve as a single pool of capital to support new ventures. Equation Angels also benefits potential investee companies by providing a single, and therefore less onerous, due diligence process. Along with a larger pool of investors, and less onerous due diligence, the three partners also expect to realize administrative efficiencies.

As a step to financial sustainability, Equation Angels has raised membership fees for angel investors to $1,500 per year. For one of the member groups (SWO), the fees have increased from $400 per year to the $1,500. With higher membership fees comes higher membership churn and the need for a more active and promoted membership development and retention programs.

However, this collaboration comes with significant costs to establish Equation Angels and develop new materials and programs, while retaining and expanding the membership, and streamlining operations. Due to a lack of resources, the collaboration is proceeding much more slowly than anticipated.

Due to a lack of resources, some of the newer and smaller Formal Angel Groups are struggling to exist. Equation Angels has already been approached by one group to provide investee company selection, due diligence and other services for a fee. Equation Angels is considering the opportunity, but has concerns that in supporting this group, it might cannibalize and weaken its own operations.

The member groups in Equation Angels have been providing guidance to newer and smaller Formal Angel Groups throughout the province, and particularly in Northern Ontario. This mentorship is also under review.

From the above we can conclude that:

- Deferral of the grants for Formal Angel Groups is having a detrimental effect on the majority of, if not all, the Groups in the province, irrespective of size, maturity or sophistication.
- Newer and/or smaller Groups may not survive.
- Larger and more established Groups are trying to find ways to offset the lack of grants, and move toward financial sustainability, but these efforts are hampered by the lack of resources needed to establish new ways of operating and streamlining, while attracting new members and retaining the existing membership base.

- Increasing membership fees is resulting in more membership churn and may not result in increased revenues.

5. Request

Equation Angels asks the Government of Ontario to re-commit to supporting the creation of new companies and jobs that stay in Ontario by helping to build the pool of private capital available as investment in young companies in their critical start-up phase.

Equation Angels proposes that $1 million per year in annual funding be made available to the 12 Formal Angel Groups in Ontario for a period of three years. Equation Angels further proposes that the funding support the costs incurred to substantially grow and educate the base of angel investors in Ontario supplying start-up and growth capital to Ontario companies.

During that three-year period, Equation Angels further proposes that the Ontario government engage in formal consultation with representatives of the Formal Angel Groups, and other partners in the start-up ecosystem, to review the program and look at alternatives that would lead to enhanced support for companies throughout the ecosystem and Angel Group sustainability.

Respectfully submitted,

Equation Angels

Jess Joss, CEO

Benton Leong, Executive Committee Member

Audrey Robinson, Chair

Diane Wolfenden, Treasurer

Sources:

1. Angel Investors Ontario, “2018-2019 Annual Report”.

2. National Angel Capital Organization, “2018 Report on Angel Investing in Canada”.

3. Jeffrey Sohl, “The Angel Market in 2018: More Angels Investing in More Deals at Lower Valuations”, Center for Venture Research, May 9, 2019.