OCTOBER 2022

CVCA'S WRITTEN SUBMISSION IN ADVANCE OF FEDERAL BUDGET 2023

CVCA

RECOMMENDATION 1:

Capital follows talent. The success of Canadian businesses is directly correlated to the talent they can attract and retain. Immigration is key to economic growth. While CVCA recognizes the strain on the Canadian immigration process, we call on the government to allocate the appropriate resources to expedite the process for skilled workers and temporary seasonal workers, the Startup Visa program, and international students.

RECOMMENDATION 2:

In the wake of the 2008 recession, the Canadian venture capital industry severely curtailed. As we enter a time of turbulence and a realignment on value, we must focus on growth. The VCAP and VCCI programs initiated by the federal government have proven to be excellent partnerships with the private sector and have delivered on the policy imperative associated with the programs. While the Renewed VCCI is being implemented, we encourage the government to focus on emerging managers, who will be most challenged by the economic correction. The CVCA recommends that the government establish a $100M fund for emerging managers. The federal government has also identified life sciences as a focus in a post-pandemic rebuild. While the $50M allocated to life sciences in the renewed VCCI program may serve small/early-stage funds, it is not sufficient to capitalize on the opportunity that life science investing presents in Canada. As such, CVCA recommends that the Federal government build on the Canadian Fund of Fund programs by allocating a further $300M to a life sciences Fund of Funds.

RECOMMENDATION 3:

With proper access to capital, times of economic correction have proven to be fertile ground for entrepreneurship and emerging companies. We are looking to the government to continue to support and encourage the entrepreneurial spirit of Canadians by maintaining a competitive tax and investment landscape.

The CVCA appreciates the opportunity to submit its recommendations to the Finance Committee in advance of the next federal budget. As the voice of Canada's private capital industry, the Canadian Venture Capital and Private Equity Association (CVCA) works with the investors behind some of the biggest innovations fueling the Canadian economy.

RECOMMENDATIONS

RECOMMENDATION 1:

Capital follows talent. The success of Canadian businesses is directly correlated to the talent they can attract and retain. Immigration is key to our economic growth. While CVCA recognizes the strain on the Canadian immigration process, we call on the government to allocate the appropriate resources to expedite the process for skilled and temporary workers and improve the Startup Visa program.

Canada continues to be a very attractive home to highly skilled, economic immigrants who value our diversity, multi-cultural values, progressive civil society, and high quality of life. A commitment to these values along with enhanced support for initiatives such as the Start-up Visa make Canada a highly competitive destination for global talent.

EXPEDITED PATH FOR SKILLED WORKERS AND FOREIGN LABOUR:

A recent survey by the Business Council of Canada shows that 80% of Canadian businesses surveyed are experiencing labour shortages, and at least two-thirds use the immigration system to recruit new workers[1]. CVCA's venture capital and private equity members require highly skilled workers in technology, health care, life sciences, as well as the trades to help fill the labour gap. A streamlined and needs-based immigration system that prioritizes Canada's economic needs is required. Agility and speed are also key to securing the labour required to feed Canada's highest labour needs. CVCA recommends that the government invest into its immigration system on both the technology and human capital front. Canada's economic prosperity lies in large part with the ability to fulfill labour needs.

START-UP VISA PROGRAM:

In an increasingly competitive environment for talent, the Start-up Visa Program allows Canada to satisfy its need for highly skilled talent. It allows venture capital firms to leverage their sophisticated diligence processes to expedite the relocation of international high-impact ventures and entrepreneurs in Canada, many of whom bring highly specialized knowledge and unique experience in their field. Start-up Visa success stories such as ApplyBoard, which has since raised a $300 million Series D at a $3.2 billion post-money valuation, extoll the virtues of the program while demonstrating that Canada is a top destination for immigrants to build and scale exceptional companies.

While the program has had much success since its launch, improvements can be made to its Visa processing times. Technology and venture capital sectors move quickly, to keep up with innovation and opportunity.

RECOMMENDATION 2:

In the wake of the 2008 recession, the Canadian venture capital industry was seriously weakened. As we enter a time of turbulence and a realignment on value, we must focus on growth.

[1] https://thebusinesscouncil.ca/report/canadas-immigration-advantage/

The CVCA welcomed the government's third venture capital program, the renewed VCCI in Budget 2021. The $450 million allocation will continue to strengthen and mature this strategic asset class and increase diversity within the ecosystem. Under current market conditions and in anticipation of an imminent economic slowdown, there is a considerable risk of capital flowing out of Canada, thinning opportunity for Canadian entrepreneurs and home-grown innovators. According to a recent article by the BDC, the recession in the early 2000s and the 2007-2009 financial crisis saw a drastic reduction in venture capital investments, potentially exposing this sector and this asset class at risk for potential pullback of capital[2].

SUPPORT FOR EMERGING MANAGERS:

The previous VCCI continues to create jobs and fuel growth across Canada. VCCI has been successful in attracting private capital commitments — both domestic and foreign — into the VC asset class. As of December 2020, VCCI has helped create over 8,000 jobs across Canada and has catalyzed growth in information and communications technology, life sciences, and clean technology and its sub-sectors such as transportation, circular economy, food and agriculture, and energy efficiency[1]. Furthermore, over 60% of the VCCI co-investments were invested directly in Canadian seed stage and early ventures – truly supporting entrepreneurs and founders.[2] As of March 2021, the previous VCCI was tracking at approximately 1.4x in terms of total value to paid in — an indicator that the government will receive much more than its original investment back. The first VCCI, and the Venture Capital Action Plan (VCAP) before that, represent tremendous value to taxpayers in addition to helping create jobs and economic growth across Canada. The government needs to build on this successful partnership and protect the gains accrued during the last decade.

Emerging managers, venture funds that have raised dollars mostly from high-net-worth individuals and family offices are the most at risk segment of the ecosystem. Ensuring the availability of capital for emerging managers is key to early stage investing and ensures that a strong pipeline of companies is funded - you cannot grow what you did not seed. Much of Canada's venture ecosystem is still considered emerging with only a few funds considered to be mature and able to easily attract institutional and foreign capital. The CVCA recommends that the government allocate $100M to an emerging manager fund to ensure that general partners that have raised three or fewer funds continue to grow. This $100M fund should mirror the 2012/2013 BDC emerging manager fund where BDC played an anchor role on a GP's capitalization table.

Building a strong and resilient venture capital sector in Canada requires staying the course. Sufficient and timely access to capital through programs such as the renewed VCCI Fund ensures that we continue to invest and grow, we continue to encourage entrepreneurship, and we continue to strengthen Canada's innovation economy.

INCREASED CAPITAL TO LIFE SCIENCES:

A spotlight was placed on the state of Canada's life science sector during the COVID 19 pandemic, which led to a renewed commitment from the federal government to strengthen our manufacturing capabilities and investment in the sector. In Budget 2021, the federal government allocated $50 million to life sciences

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[2] What past recessions can teach us about the effect of COVID on Canada's VC sector: https://www.bdc.ca/en/articles-tools/blog/effect-of-recessions-vc-canada

via the renewed VCCI program. This portion of the program has yet to be allocated and is too small to have a significant impact on growth. The $50M will likely be allocated to the earlier stage, given the amount. In 2021, life science venture investing reached a record high at $1.8B. Yet, that amount should be put in perspective. The total VC investment in Canada for 2021 stood at $14.7B and $9.7B in the information communication technologies (ICT) vertical. Given the $15.3B[3] invested by the Federal Government in Science & Technology Research and Development, the sciences emerging from Canadian universities and the quality of life sciences start-ups emerging in Canada, the CVCA recommends that the Federal Government allocate $300M to a life Science Fund of Fund program which would create an envelop of almost $700M for the sector.

RECOMMENDATION 3: The government should continue to support and encourage the entrepreneurial spirit of Canadians by maintaining a competitive tax and investment landscape

Capital is highly mobile and will flow to jurisdictions where the conditions offer an attractive balance of risk and reward. In Canada, this balance is predicated on the tax environment remaining fair and competitive, especially during times of economic uncertainty.

NATIONAL ANGEL INVESTOR TAX CREDIT:

Canada's post-COVID resiliency is being once again challenged by a slow down in economic activity. It is imperative that capital continues to flow to Canada's most innovative entrepreneurs so that the momentum of Canada's growth can be sustained and encouraged, especially at the seed and early stage. In addition to US state sponsored incentives, the US federal government provides federal angel investment tax credits which qualify for a 100% tax exclusion of any capital gains up to $10 million if the investment has been held for at least five years[4]. Canada lacks a federal tax credit for angel investors, and our most generous tax credit is offered in New Brunswick. However, New Brunswick's angel investor tax credit only applies to angel investors who reside in New Brunswick and invest in the same province. While most provinces offer tax credits for angel investors, these credits only apply to local and in-province investments. With no comparable program present in Alberta, Saskatchewan, Ontario and Quebec, angel investors have zero incentive to invest in some of Canada's largest innovation hubs. We recommend the federal government work with provinces to introduce a pan-Canadian federal tax incentive for angel investors so that capital can flow freely and continue to reward risk takers and innovators.

INFLATION REDUCTION ACT (IRA):

The American government's announcement of a $364B envelope for cleantech will have opportunities but also create a serious imbalance in the market opportunities in our respective markets. The IRA's credits for electric vehicles (EVs) made in North America, and its requirement that EV batteries contain mineral content sourced domestically or from a U.S. trading partner, present significant opportunities for the Canadian economy. However, the IRA's generous incentives also make it harder for Canadian companies to compete

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[3] Statistics Canada. Table 27-10-0005-01 Federal expenditures on science and technology in current and constant dollars (x 1,000,000)

[4] 26 U.S. Code § 1202 - Partial exclusion for gain from certain small business stock
U.S. Code Notes: https://www.law.cornell.edu/uscode/text/26/1202

in other sectors, such as carbon capture, utilization, and storage. In terms of capital allocation, the U.S. will become a preferred market and many Canadian cleantech start-ups may choose to be headquartered in Canada but position the bulk of their operations in the US should similar incentives not be present in Canada. The federal government must adopt a growth mindset and a competitive set of incentives for this sector.

1. CONCLUSION

The CVCA appreciates the opportunity to present our views to the Finance Committee in advance of the next federal budget. We strongly believe investment and growth through private capital will continue to create value for Canadians and provide a net benefit to Canada. We also believe that collaborative alignment with government is required to provide an investment landscape that is steadfastly committed in its support to innovation and growth.