CANADIAN VENTURE CAPITAL & PRIVATE EQUITY ASSOCIATION

SUBMISSION TO THE INDUSTRY STRATEGY COUNCIL

SUSTAINING CANADA'S INNOVATION ECOSYSTEM POST-COVID-19: A THIRD VENTURE CAPITAL PROGRAM

1. INTRODUCTION

The Canadian Venture Capital & Private Equity Association (CVCA) appreciates the opportunity to submit its perspective to the Industry Strategy Council (ISC) regarding the initiatives and investments Canada should implement to successfully position the country and the economy in the post-COVID-19 context. The government's response to the pandemic has been swift and comprehensive. Moving forward, the government must maintain this active and engaged posture, as Canada restarts the economy, recovers from the impacts of the shut down, and reimagines the composition of the economy to maximize its potential in the post-COVID-19 world.

The CVCA represents over 1,800 individual members and over 290 member organizations across the country. As Canada's ultimate resource for data on Canadian private capital investments, the CVCA proudly links venture capital and private equity firms, debt and equity providers, international investors, institutional funds, government entities, angel investors, family offices, and service providers. Our mission is to help our members fuel the economy of the future by growing the businesses of today. We do this by supporting and connecting a vibrant private capital industry with advocacy, research, and education.

2. EXECUTIVE SUMMARY

The COVID-19 pandemic has created a set of economic and business conditions that are expected to result in a severely constrained environment for venture capital investment in Canada. This situation will be further compounded by the retreat of foreign investors, especially investors from the United States. In turn, fewer dollars will flow to Canadian entrepreneurs and high-potential start-ups. This will have a sharply negative impact on Canada's innovation ecosystem unless swift and decisive action is taken.

Therefore, the CVCA recommends that the Government of Canada, through the Business Development Bank of Canada (BDC), rapidly develop and implement a third venture capital program to maintain the progress achieved through the Venture Capital Action Plan (VCAP) and Venture Capital Catalyst Initiative (VCCI). Without such a follow-on program, Canada's innovation ecosystem will be severely weakened, undermining its ability to support an economic recovery and an innovation-led reimagined economy.

The VCAP and VCCI initiatives are proving to be successful government programs for attracting private sector investment into Canada's innovation ecosystem and revitalizing the domestic venture capital industry. While sixty percent of VC dollars currently flow to the information technology sector, the growth and potential of the clean technology, life sciences, advanced agriculture, and deep technology sectors is material and increasing. Thus, strong progress has been achieved through VCAP and VCCI. However, the COVID-19 crisis severely threatens this progress, as well as the strategic policy objectives associated with the investments made through these programs, including but not limited to job creation, innovation, wealth generation, and the vitality of the domestic venture capital industry.

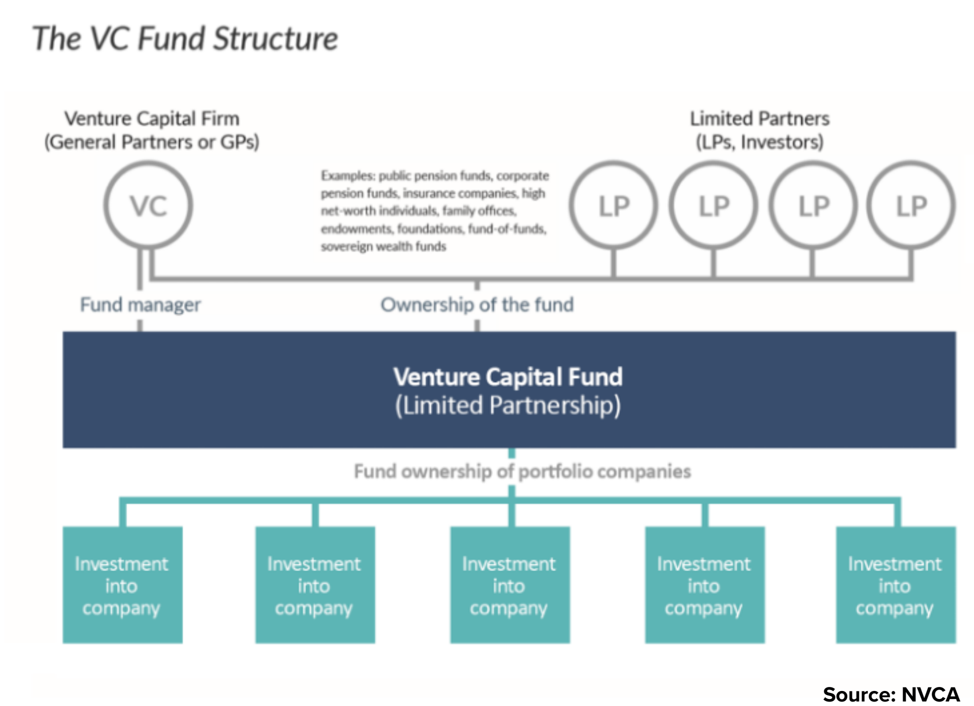
Further supporting the argument to immediately invest in a third venture capital program is the fact that some of the best vintage venture capital funds are those that invested during and through a recession and/or downcycle. Similarly, some of the most innovative and successful firms were started and/or scaled during a recession and/or downcycle. LinkedIn, Facebook, Tesla, as well as homegrown Shopify, are all examples of this phenomenon. This phenomenon may be more acute in regard to COVID-19, as it has brought about material changes in social and economic behaviour.

3. STRATEGIC CONTEXT

How Venture Capital Works

Venture capital is a unique institutional investor asset class. Venture capital firms are professional, institutional managers of risk capital that enable and support the growth of innovative and promising companies that would not typically qualify for traditional forms of financing, such as bank loans, due to the high level of risk involved in the investment. The risk is related to the stage of development of the companies seeking investment: generally, an early stage of development when their technology and/or business model has not yet proven commercially viable, or at the growth stage when the company is expanding its customer base, often internationally and/or by acquisitions.

Typically, a venture capital firm will create a fund through a Limited Partnership, with the investors in the fund as the Limited Partners (LPs) and the firm itself as the General Partner (GPs). Examples of LPs include public pension funds, corporate pension funds, insurance companies, corporations, family offices, high net-worth individuals, endowments, and foundations. Each venture capital fund is set up as a separate Limited Partnership and invests in a portfolio of what the GP deems to be high potential growth companies that have a novel technology or business concept. When the fund sells off its interest in its portfolio companies (i.e., "exits") it returns a set percentage of the profits back to its LPs, while the GP retains a portion of profits for the venture capital firm, but only after the fund has returned all capital contributed by the LPs back to them.



Source: NVCA

Venture capital (VC) firms bring more than investment dollars to their portfolio companies. To assist portfolio companies to grow and scale to their potential, VCs bring talent, management expertise, professional networks, and valuable experience that these companies require to succeed in their particular market segment and to compete in a global context.

A VC fund typically has a lifespan of ten to twelve years, while the investment horizon related to portfolio companies generally ranges from five to eight years (or longer). When a VC firm invests in a company, it also reserves a portion of the capital of the fund from which it invests for further "rounds" of investment, which typically occur every year or two, to support the continued growth of the company. During each investment round, the VC fund takes an equity position in the company based upon a valuation agreed to by the portfolio company's management team and new investors.[1]

The Importance of Venture Capital

The importance of venture capital (VC) is well documented and has been long appreciated. For example, in 1998, the Harvard Business Review (HBR) stated that "venture money plays an important role in the innovation life cycle—specifically, the period in a company's life when it begins to commercialize its innovation … more than 80% of the money invested by venture capitalists goes into building the infrastructure required to grow the business—in expense investments (manufacturing, marketing, and sales) and the balance sheet (providing fixed assets and working capital)."[2] Moreover, the HBR underscores that the business acumen and operating experience that VCs provide their portfolio companies is as valuable as their capital.

The role and importance of VC in driving innovation has only increased over the last quarter century. In 2017, a C.D. Howe Institute report succinctly concluded that "venture capital is a critical component of the risk capital ecosystem" and, further, that "getting venture capital policy right is a vital task for all governments that pursue a successful innovation agenda."[3]

Most recently, the BDC commissioned the report Market Analysis of Canadian VC Ecosystem and the Impact from COVID 19 (Draft). This report, published in Summer 2020, underscores the critical role VC plays in Canada's competitiveness and innovation ecosystem, concluding:

- Companies supported by venture capital represent a disproportionate share of market capitalization and R&D spend,
- VC-backed firms produce more fundamental and better-quality innovation than other firms, resulting in significantly more and higher quality patents, and
- Venture capital has a materially positive impact on employment and revenue growth of portfolio companies.[4]

In short, VC fills a strategic funding void in the innovation ecosystem: early stage investment to commercialize a product or service, growth-stage funding to scale, and critical management insight, expertise and support. VC also represents a critical route to the commercialization of academic research and government-funded R&D. This void exists as it is an inherently risky dimension of the innovation life cycle. It is commonly quoted that only one in ten VC investments materialize into substantial returns, with less than half of VC investments returning the original capital invested. This level of risk, combined with the fact that most start-up companies have few tangible assets (especially high-tech start-ups whose value is largely based on intangible assets), results in the lack of access to traditional financial vehicles for high potential start-ups.

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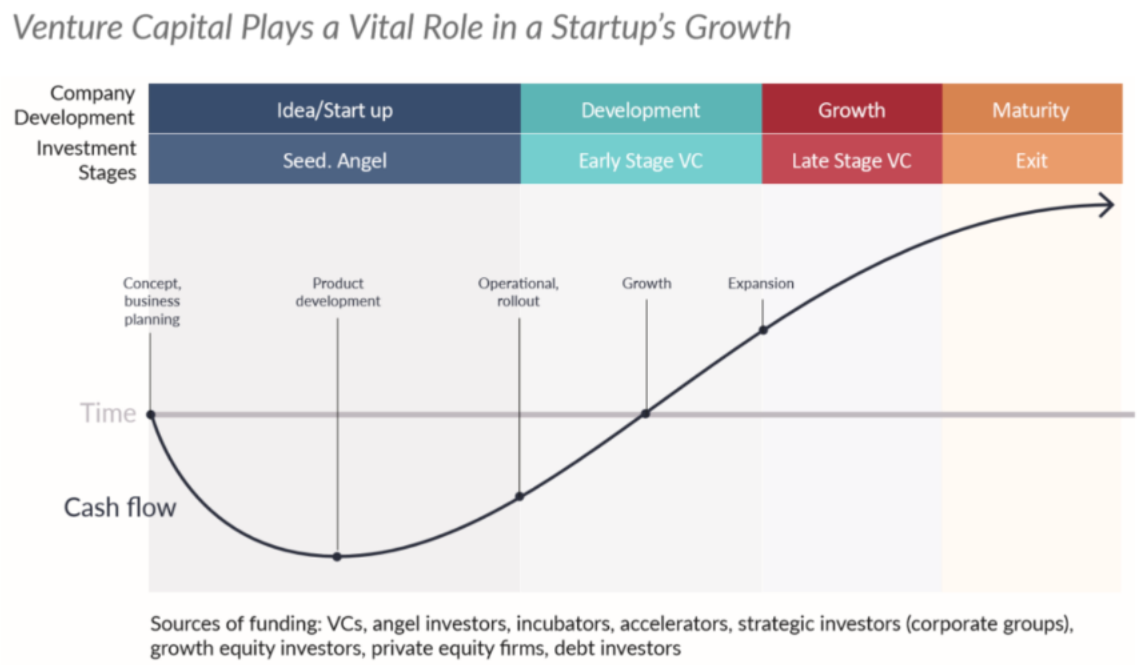
[1] https://nvca.org/about-us/what-is-vc/#toggle-id-2
[2] https://hbr.org/1998/11/how-venture-capital-works
[3] https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_466.pdf
[4] BDC, Market Analysis of Canadian VC Ecosystem and the Impact from COVID 19 (Draft), Summer 2020



Source: NVCA

However, it is important to note that a robust, self-sufficient domestic VC industry is more than an efficient channel through which to deploy capital to high growth start-ups, as it also supports a number of associated strategic policy priorities, including:

- Accelerating innovation and the growth of the innovation ecosystem, including technology transfer from Canadian universities,
- Job creation through the scaling of high potential SMEs,
- Attracting world class talent,
- Attracting global investment dollars,
- Enabling Canadian companies, if they so choose, to start, scale and export globally from the Canadian market,
- Strengthening the tax base, and
- Generating wealth that is retained in Canada and reinvested into the innovation ecosystem, creating a virtuous cycle of innovation, economic growth, and job creation.

Therefore, without a robust, self-sufficient domestic VC industry, the innovation, job creation, talent attraction, and export performance of the Canadian economy will by sub-optimal. This is because high potential start-ups would not have access to the early stage investment required to get their idea or technology ‘off-the-ground,’ and often have to move to another jurisdiction (i.e., the US) to raise the capital required to grow their business. Similarly, without a strong late stage VC industry, much of the wealth generated through the exiting of a scaling company (i.e., via IPO, merger, acquisition) gets repatriated to the home country of the investor (i.e., largely the US), even if the high growth start-up stays in Canada.

Policy Rationale for the Venture Capital Action Plan (VCAP)

The ability of a GP of a VC fund to fundraise directly correlates with the GP’s track record, as well as the availability of active LPs in the ecosystem who have a mandate to invest in the asset class. If a GP has a demonstrated track record of positive returns (usually obtained after many years in the industry and after managing multiple funds), then they are typically able to successfully market themselves to LPs to raise funds. A GP with a poor track record, or a GP without a sufficient track record (i.e., Canadian GPs, many of which are considered “emerging”), will have a much more difficult time fundraising. Similarly, without a robust, diverse set of active LPs with a mandate to invest in VC, it is almost impossible to fundraise, invest, and cultivate a vibrant innovation ecosystem.

The financial crisis in 2008-09, and the great recession that followed, decimated the Canadian VC industry. The crisis led to greater risk aversion and a heavy focus on regularly recurring returns. There was an atrophy of investment in the Canadian VC industry, resulting in a severe industry shakeout. Numerous articles and reports documented the massive collapse of VC investment in Canada and the detrimental impact this would have on Canada’s emerging technology companies and innovation ecosystem. Stephen Hurwitz, citing CVCA data, concluded that “in 2010 and 2011, the Canadian venture capital industry experienced its worst fundraising in more than 16 years,” and that this “(L)ack of funding is a major challenge to innovation in Canada’s emerging technology industry.”[5] The dire situation for VC investment was echoed by the then President and Chief Executive Officer of the BDC, Jean-René Halde, who relayed that “(W)hen the financial crisis and recession hit, many foreign lenders (and investors) withdrew from the Canadian market.”[6]

In 2013, in response to this situation, the Government of Canada announced the Venture Capital Action Plan (VCAP). The program employed a market-oriented approach aimed at attracting LPs (both foreign and domestic) back into the VC asset class, revitalizing Canada’s VC industry, and increasing the availability of financing for innovative Canadian firms.

Under VCAP, the Government of Canada, through the BDC, committed $390 million of capital to be deployed over a period of four years (2013-2016):

- $340 million to establish and recapitalize four large scale private sector-led funds-of-funds; and
- $50 million in four existing high-performing VC funds in Canada.

The four funds-of-funds selected to participate in VACP leveraged this public investment, as mandated through the program, to attract significant further investments from a diverse set of investors (LPs) that included pension funds, high net-worth individuals (including founders that successfully exited their start-up company and reinvested some of the proceeds back into the Canadian ecosystem), corporations, banks, and the governments of Ontario and Quebec. Including the federal government investment, the four funds-of-funds raised $1.356 billion. Of that, $904 million came from private sector investors.[7]

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[5] https://timreview.ca/article/725
[6] https://www.bdc.ca/en/about/mediaroom/news_releases/pages/bdc_increased_financing_for_entrepreneurs_during_financial_crisis.aspx
[7] https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03033.html

Policy Rationale for the Venture Capital Catalyst Initiative (VCCI)

Building on the successful foundation established by VCAP, in Budget 2017 the Government of Canada, through the BDC, committed $450 million to increase the availability of late stage venture capital in Canada through the Venture Capital Catalyst Initiative (VCCI), once again to be deployed over several years (2017-2020).

The focus on late stage VC was the result of the strengthening of the Canadian VC industry achieved under VCAP, as it successfully reinvigorated early stage VC activity. The focus on late stage VC investment under VCCI is important, as robust late stage VC is key to supporting high potential companies to scale. Moreover, late stage VCs are generally the recipient of a significant portion of the wealth generated through exits. Thus, having a strong domestic late stage VC capability enables companies to scale from Canada, while retaining a higher percentage of the wealth generated from these companies within the domestic innovation ecosystem.

Including the funds leveraged from the private sector, VCCI was projected to inject more than $1.5 billion into Canada's innovation capital market via three streams of investment activity:

- **Stream 1:** commit $350 million in large private sector-led funds-of-funds with the objective to maximize returns through diversified investments, support skilled VC fund managers and attract substantial private sector capital.

- **Stream 2:** commit $50 million in VC fund managers that can provide a financial return for investors in areas that would otherwise not be addressed by Stream 1. Eligible applicants include VC funds-of-funds, VC funds, and other intermediaries that invest in companies.

- **Stream 3:** commit $50 million in VC funds with a primary focus on clean technology firms and on helping Canada's innovative clean technology producers to bring their technologies to market.[8]

One of the five selected fund-of-funds participants (Hamilton Lane, a new participant) entered the program late, had difficulty fundraising, and thus decided to return their approximately $75 million VCCI allotment.[9] However, the other four fund-of-funds insist that they left investment dollars on the table (i.e., if they were provided more VCCI dollars they could have fundraised against them, thereby attracting more investment into Canada's innovation ecosystem).

The fund-of-funds will have fully committed and/or deployed their VCCI dollars by early 2021.

Impact of VCAP & VCCI: Status of Venture Capital in Canada

As previously noted, the lifecycle of an VC fund is typically ten to twelve years. This time frame poses a specific policy challenge for governments, as they tend to plan around election cycles. The above-referenced 2017 C.D. Howe Institute report underscores this point, stating that venture capital is "an asset class that typically has a lifespan of ten years or longer … (so) success tends to be back-end loaded and well past the attention span of even a majority government."[10]

A ten to twelve-year lifespan, therefore, projects a time horizon of 2023-25 to fully realize the impact of VCAP and to begin to document the initial impacts of VCCI. In turn, as of today, only initial program results are available for VCAP. The results to-date, however, point to VCAP (and VCCI) being highly successful programs. This is most

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[8] https://www.ic.gc.ca/eic/site/061.nsf/eng/03096.html

[9] Hamilton Lane was late in establishing itself as a fund-of-funds player, was unable to differentiate itself from the other funds-of-funds and targeted the same LP base as the other fund-of-funds. The combination of this context and approach resulted in Hamilton Lane to be unsuccessful in achieving its fundraising targets and, in turn, pulling out of the VCCI program in March 2019, resulting in its allocation of $75 million to remain unutilized.

[10] https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_466.pdf

demonstrated by the impressive growth in the overall level of VC investment in Canada, which has increased from $1.9 billion in 2013, to $6.2 billion in 2019, more than tripling in the seven-year span that VCAP and VCCI have been operational.

The most recent data pertaining to the performance of VCAP, which relates to the year-ending 2019, concludes that the 33 Canadian VC funds that received VCAP dollars invested in at least 310 Canadian companies, which have in the aggregate received $1.65B in capital from all sources. These investments are performing well. As of December 31st, 2019, approximately $190M in net proceeds have already been returned to investors. The VCAP program as a whole is tracking at approximately 1.44x in terms of value to cost. Moreover, over 80% of the co-Investments made to-date under VCAP have been invested directly into Canadian high-potential growth stage companies, substantially above the required minimum threshold of 50%.

While it is still too early in the program to draw definitive conclusions on future performance, what is clear is that VCAP (and VCCI) has positively impacted venture capital fundraising in Canada resulting in hundreds of millions of dollars flowing back into Canadian companies, supporting thousands of Canadian jobs.[11]

The BDC report Market Analysis of Canadian VC Ecosystem and the Impact from COVID 19 (Draft), mentioned above, updates the impressive performance and maturation of the Canadian VC industry through VCAP and VCCI, concluding:

- The pool of GPs has matured considerably since 2014: the total number of funds in Canada has doubled, while 18% of GPs have progressed to managing their 4th fund (up from only 4% in 2014),

- With the share of late stage investments rivalling that of the US (in numbers), and the emergence of top tier GPs connected to global ecosystems, Canadian companies can benefit from enhanced support for growth and internationalization,

- While significant gaps remain against the US, Canada's exit performance has improved, with median exit size increasing 3.8 times from 2016 to 2019 and the time to exit from first funding reaching parity with the US at 6.1 years over the 2014-2019 time period, and

- The Canadian VC ecosystem has closed the gap against the US with 5-year IRR performance of 12% in 2019.[12]

In sum, VCAP and VCCI are proving to be very successful programs, delivering on the original policy intent of attracting LPs back to the asset class and rebuilding the domestic VC industry. In addition to this, it is important to note that VCAP and VCCI are doing this while leveraging private sector dollars to drive innovation, economic growth and job creation, and are projected to deliver a net-positive return to the taxpayer and to the Canadian Government, through the BDC, which is a unique and positive feature of a government program.

Comparative Perspective: United States VC Industry

When comparing progress in the VC industry, the United States (US) is the benchmark against which one measures themselves. The US VC industry is the most mature in the world. Silicon Valley is celebrated as the epicenter of innovation and the paradigm that many countries have attempted to emulate and replicate.

In 2019, US VC investments totalled US $136.5 billion, down slightly from the record level of investment achieved in 2018 (US $140 billion).[13] With this as the global benchmark, and applying the rule of thumb that Canada's economy is one-tenth the size of the US economy, Canada's impressive growth to $6.2 billion in 2019 represents less than half

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[11] BDC, 2019 Venture Capital Action Plan Progress Report (Summary Version). September 10, 2019.

[12] BDC, Market Analysis of Canadian VC Ecosystem and the Impact from COVID 19 (Draft), Summer 2020

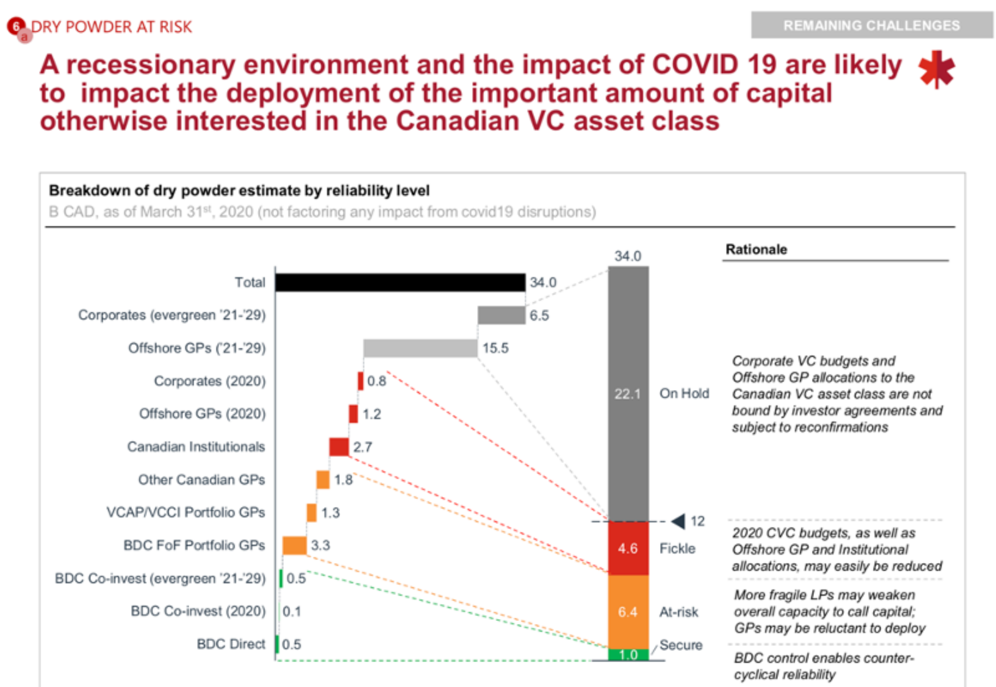
of the $13.5 billion to $14 billion one would expect in relation to the US market. Moreover, this is before applying the exchange rate in order to do a true ‘apples-to-apples’ comparison.

As such, while great progress has been made in attracting LPs back to the asset class and reinvigorating the Canadian VC industry, there is still significant work to undertake to reach a comparable level of investment and maturity to that of the US VC industry.

The COVID-19 Crisis: Impact on the Canadian Venture Capital Industry
The COVID-19 pandemic poses a serious challenge to sustaining the momentum and maintaining the gains that Canada has achieved under VCAP and VCCI. While no two crises are alike, the two most recent financial crises provide useful benchmarks. The dot-com bubble of 2000 led to a 64% decrease in VC investment from peak-to-trough. The financial crisis of 2008-09 resulted in a 30% drop in VC investment.

The BDC, in its recently commissioned report Market Analysis of Canadian VC Ecosystem and the Impact from COVID 19 (Draft), concludes that the impact of COVID-19, and the subsequent recessionary environment, may result in a material pull-back in capital availability in Canada. Excluding direct VC investments made by the BDC, virtually all other LP sources of investment are either at-risk or expected to be “on hold” until the crisis passes.

As the chart below demonstrates, a significant portion of these at-risk dollars are associated with offshore and corporate investors. Experience and evidence dictate that in times of crisis foreign investors retreat to their home markets. This trend is expected to be exacerbated by the travel restrictions associated with COVID-19. Similarly, for corporate investors, the uncertain business environment caused by COVID-19 is resulting in the implementation of cash preservation strategies that are expected to constrain their VC investment activity until the global economic situation settles.



Source: BDC

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[13] https://home.kpmg/us/en/home/media/press-releases/2020/01/venture-capital-investment-in-us-in-2019-hits-136-5-billion-second-highest-on-record-kpmg-report.html#:~:text=Venture%20Capital%20Investment%20in%20U.S.,Highest%20on%20Record%3A%20KPMG%20Report

Cash preservation strategies are also being employed at the VC fund/GP level. Faced with significant uncertainty, GPs are preserving cash for portfolio companies that possess the highest growth potential to ensure that they can survive if the crisis lasts 24 months or longer. This leaves less capital for other portfolio companies and, importantly, new investments. Unless new dollars flow into the ecosystem, many high potential start-ups face the real risk of running out of cash, while new start-ups face incredibly fierce competition for finite investment dollars.

The impact of cash preservation strategies is compounded by the difficult fundraising environment. As mentioned above, a significant amount of potential LP investment dollars is at-risk. This corresponds with a relatively active fundraising cycle amongst Canadian VC firms. The Canadian Venture Capital and Private Equity Association (CVCA) recently surveyed its GP membership on their fundraising intentions and found that 35 Canadian GPs are planning to fundraise some $3.5B dollars over the next eighteen months. This level of fundraising ambition is going to be difficult to attain in the COVID-19 context.

In sum, the combination of factors outlined above point to a constrained Canadian VC investment environment for the near to medium-term, resulting in fewer dollars flowing to Canadian entrepreneurs and founders. This will have a sharply negative impact on Canada's innovation ecosystem. As investment into new, high potential start-ups is reduced, there will be much smaller cohorts of high potential companies maturing through the ecosystem over the next five to eight years. Also, if there is a constrained VC investment environment, founders and entrepreneurs may elect not to take the material risk of starting a company at all. Moreover, in a constrained VC environment, Canada will be a less desirable destination for coveted highly skilled global talent, further exacerbating the access to talent challenge that was prevalent prior to the crisis.

4. CURRENT CONTEXT: RECOMMENDATIONS FOR THE CANADIAN VC INDUSTRY

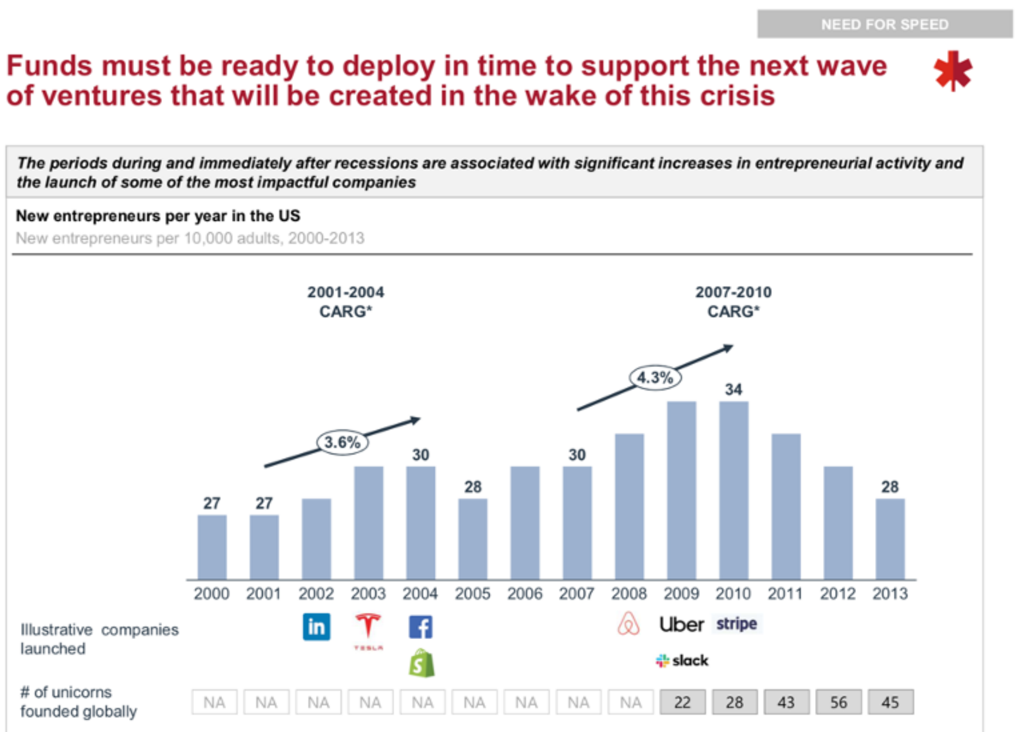
VCAP and VCCI are proving to be highly successful programs. They are attracting LPs to the asset class, which is contributing to the rebuilding of a strong Canadian VC industry. However, while the industry is on the path to self-sufficiency, Canadian GPs have not yet developed the track record of positive returns required to successfully fundraise independently (i.e., without government support in the form of VCAP and VCCI). This track record is expected to be established at the conclusion of the VCAP investment cycle, which is in the 2023-25 timeframe.

From a programmatic perspective, VCAP and VCCI are accounted for as investment dollars in the federal budget, as opposed to deficit spending. Moreover, these dollars are allocated over a seven-year time horizon and, therefore, represent modest sums on an annual basis. It is also important to note that the programs leverage more than $2 of private sector investment for every taxpayer dollar invested. And, as outlined above, VCAP's performance to-date supports the original policy thesis that both programs will deliver a net-positive return to the taxpayer.

From June 2020 through the end of 2021, 35 Canadian GPs are planning to fundraise some $3.5B. However, they will be challenged to do so, as this time frame coincides with a number of significant headwinds for the industry, including:

- The COVID-19 crisis and its broad economic implications,
- Much of the non-BDC LP investment dollars are at-risk or expected to be constrained during this time frame, and
- VCCI dollars will be fully deployed or allocated by early 2021.

Therefore, announcing a follow-on program to VCCI in the fall of 2020, as Canada restarts its economy, that would be ready to implement in mid-2021, during recovery, would address many of the funding challenges facing the VC industry and Canadian innovation ecosystem due to COVID-19, while also sustaining the tremendous progress achieved through VCAP and VCCI. Further, as noted in the BDC report and outlined in the graphic below, announcing and implementing a follow-on program to VCCI would take advantage of the innovation cycle that is born out of crises. It is commonly documented that some of the best vintage VC funds are those that invested during and through a recession and/or downcycle. Similarly, some of the most innovative and successful firms are started and/or scale during a recession and/or downcycle. LinkedIn, Facebook, Tesla, as well as homegrown Shopify, are all examples of this phenomenon. Therefore, in addition to shoring up the progress made through VCAP and VCCI, a third VC program offers the potential to reimagine the Canadian economy by reaping the significant innovation, company formation and job creation rewards such an investment would produce over the coming decades. This opportunity may be more acute with the COVID-19 crisis, as the pandemic appears to be driving permanent changes to social and economic behaviour, which offers more potential for disruption and innovation. Support of the VC industry now will be a signal to Canadian entrepreneurs that capital will be available in Canada to invest in start-ups to lead the country's recovery.



Source: BDC

Moreover, by building upon a known approach that has proven to be successful, the Government of Canada would provide the innovation ecosystem with a framework they fully understand, are familiar with, can be deployed quickly, and the funds-of-funds can effectively market to LPs to fundraise against, both domestically and internationally.

A follow-on program should retain many of the successful elements of VCAP and VCCI, while evolving to account for the COVID-19 context and the maturation of the VC industry. Therefore, for example, a follow-on program should largely mirror VCCI Stream 1. However, due to the challenging fundraising environment, a reversion back to a VCAP fundraising multiple of $2 of private investment for every $1 of taxpayer investment should be considered (vs. a

VCCI multiple of $2.5 to $1). Whereas, the level of Canadian content in co-investments should be raised from 70% to 80%, as the Canadian VC industry and innovation ecosystem have proven their capacity to achieve this.

In addition to a 'pure' investment stream in which market forces dictate investment decisions to ensure the efficient flow of dollars into the Canadian innovation ecosystem, there are other streams of investment that Canada should consider. Mirroring the $50 million allocated to clean technology in VCCI Stream 3, the government should contemplate other strategic industries, including life sciences, advanced agricultural technology, and deep technology (e.g., quantum computing) where Canada has significant strength. For example, Canadian venture capital investment in the life sciences space has increased an impressive 300% between 2013-2019 ($271 million to $1.085 billion). Looking ahead, there remains significant headroom for Canada to become more competitive in creating, attracting, and retaining life sciences companies and talent by continuing to grow the pool of available investment capital. Similarly, agriculture, which is an increasingly strategic sector, is facing significant disruption through new, innovative applications of technology. Canada should be at the forefront of advanced agricultural technology development to benefit both from the industrial efficiencies in domestic production, as well as the export potential. Finally, to truly reimagine the Canadian economy we must invest in the core technologies and platforms that will underpin future economic activity and growth. Deep technologies, such as artificial intelligence and quantum computing, offer the potential for major disruption resulting in entirely new realms of economic activity. Canada has led in the science and research related to many of these new, deep technologies. However, to truly capitalize on this leadership we must seize the moment and lead in the commercialization of these discoveries. Ensuring there is an adequate flow of capital to these strategic, high potential sectors is imperative if Canada wishes to reimagine its economy through innovation-led recovery and growth.

Finally, a recertification process should be established for the existing funds-of-funds. The recertification process, if satisfied, will allow the Government of Canada to quickly move forward with the existing four funds-of-funds to implement the third VC program. Timing is critical, as funds must be ready to deploy to support the next wave of innovative ventures that will be created in the wake of this crisis. Moreover, and as stated above, the timing of the COVID-19 crisis and expected recovery period aligns with the time frame when VCCI dollars will be already fully deployed and allocated. There is a real need to expedite the development and deployment of a follow-on program to ensure there is no gap in investment dollars flowing into the Canadian innovation ecosystem.

5. CONCLUSION

The work of the ISC and the recommendations it provides to the Government of Canada will influence the trajectory of the Canadian economy through the 2020s and beyond. The availability of capital in Canada's innovation ecosystem via a domestic VC industry is paramount if Canada aims to drive an innovation-led recovery and materially reimagine its economy in a post-COVID-19 world. Therefore, the CVCA strongly recommends the immediate announcement of a follow-on program to VCCI, to be implemented by mid-2021. Failing to leverage the tremendous strides Canada has taken toward a sustainable VC industry through VCAP and VCCI would result in a far less innovative and competitive Canada in the post-COVID-19 context. We trust that the ISC and the Government of Canada will work with the CVCA to take advantage of the opportunity presented to us in the midst of this crisis.

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