

2013 Report on emerging Canadian technology companies



A CEO perspective

Contents

Foreword	3
Summary	4
Revenue	6
Financing challenges and opportunities	10
Talent	14
What's next?	19
Outlook and Conclusion	23

Foreword



Now in its 10th year, PwC's report on *Emerging Canadian technology companies: A CEO perspective*, dives deep to uncover the challenges and opportunities facing Canada's emerging technology sector, as identified by its top decision-makers—the CEOs.

Survey respondents include a national cross section of emerging technology companies from pre-revenue to \$25 million in revenue. The report provides perspectives on the key themes driving the sector—a space inhabited by some of Canada's most dynamic companies.

This year, growing revenue was seen as the top challenge for many of the sector's CEOs over the next 12 months, followed by finding funding to help build their businesses. Attracting and maintaining talent ranked third on the list of challenges, after being knocked from the top spot where it ranked last year for the first time in the survey's history.

Overall, companies continue to seek ways to scale their businesses, with a goal of taking them to the next level. CEOs are also coming up with visionary ways to spread their wings and grow. Close to half (44%) see growth coming from the help of angel investors, while others say they plan to take advantage of investment opportunities provided by initiatives such as the Canadian government's Scientific Research and Experimental Development (SR&ED) program.

The survey findings reflect an industry fuelled by passionate entrepreneurs with the unwavering ambition to build sustainable, profitable businesses. These are the technology and software innovations that help make our lives easier to manage, and in many cases, a lot more fun.

I hope you enjoy the 2013 edition of our report and see, as we do, the great potential within Canada's emerging technology sector. It's an exciting time to be in the technology industry.

Eugene Bomba
National Emerging Company Services Leader
PwC



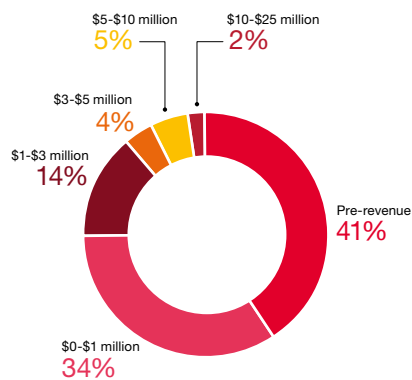
Summary

The 2013 Report on Emerging Canadian Technology Companies is based on survey responses of more than 200 CEOs of emerging Canadian technology companies.

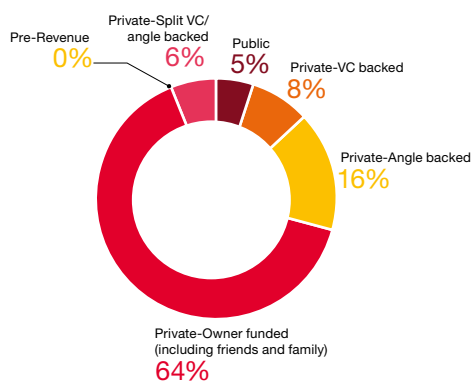
This year's results paint a picture of an emerging technology sector in Canada that has matured, and is well positioned for growth in the months and years ahead. CEOs are focused on growing revenue and finding funding, while at the same time attracting a diverse and creative pool of talent. These companies are relying on angel investors and venture-capital funds to help them build out their businesses, particularly here at home in Canada. Many startups are also taking advantage of government incentives including the Scientific Research and Experimental Development (SR&ED) program, the Industrial Research Assistance Program (IRAP) and the Federal Economic Development Agency for Southern Ontario (FedDev Ontario).

Profile of Canadian respondents:

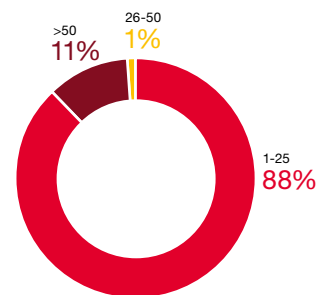
Annual revenues



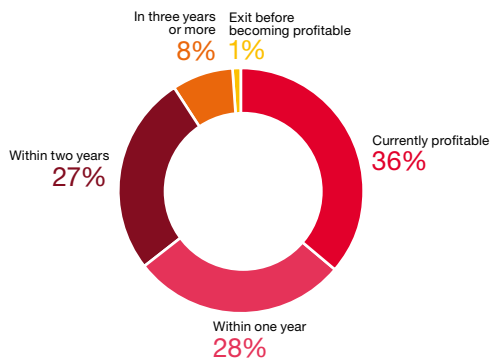
Financing



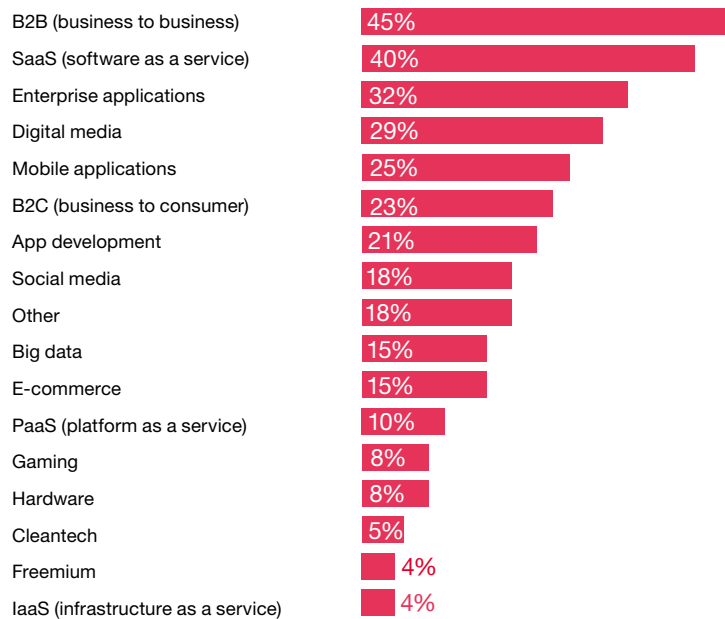
Number of employees



Profitability



Primary area of business





Revenue

Keeping the tank full and the engine running

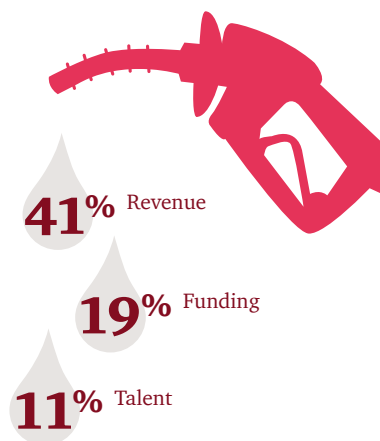
Revenue generation is the top challenge for Canada's emerging technology sector, with 41% of CEOs listing it as their biggest concern over the next 12 months. This isn't surprising given the slower economic growth in Canada compared with years past, as well as volatile global markets.

Still, Canada's economy is growing, which is why companies continue to look within their own country for revenue growth. For example, 68% of companies surveyed said they generated most of their revenue at home in Canada, before looking elsewhere to countries like the US (23%) and the rest of the world (9%). This is a significant uptick from last year, where emerging companies forecasted 46% of their revenue to come from Canada, 41% from the US and 14% from other countries.

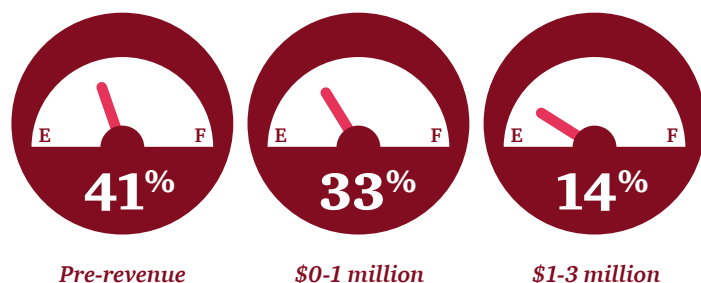
Revenue

Keeping the tank full and the engine running

Revenue generation is the top challenge facing CEOs of emerging technology companies, beating out concerns over funding and talent.



Annual revenues indicate why...



Revenue – continued

Making money?

CEOs of emerging Canadian technology companies are optimistic about being profitable soon.



Currently profitable

36%

Within one year

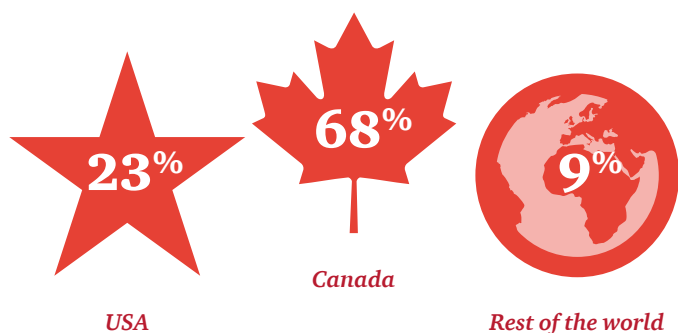
28%

Within two years

27%

Made in Canada

CEOs of emerging Canadian technology companies continue to focus their sales efforts in Canada.



Home sweet home?

Some Canadian startup CEOs believe it's best to test the market at home first before branching out globally, depending on the product. "Canada is a great market in that, it often is small enough to allow you to get a footprint, to try something new," said Steven Woods, Co-founder of Eloqua, an Internet marketing solutions company. "As an entrepreneur that's critical. Then from there, take the success that you've developed in Canada and replicate that in worldwide markets and larger markets like the US."

Other CEOs also caution Canadian startups to not get stuck on just selling in Canada, and to think big. "We have to change the entrepreneurial mindset in this nation to think of Canada as a small, but nice to have market, as opposed to an end game in itself," said Mike McDerment, CEO and Co-founder of cloud accounting company, Freshbooks.

Measuring performance

When it comes to key performance metrics for Canada's technology companies, 86% ranked total revenue as the most important indicator, followed by recurring monthly revenue (59%) and number of customers (26%). As for profitability, about one-third (36%) of CEOs reported being profitable, while another 28% expect to reach profitability within one year, and another 27% within two years.

These results show that Canadian emerging companies are interested in earning revenue first, in hopes of proving they have traction in the business, before getting customers on the platform. But how does this approach help with funding?

Freshbooks: International success

Mike McDermott is the Co-founder and CEO of FreshBooks, leaders in cloud accounting for small businesses. It's designed to save businesses time billing clients by creating invoices, capturing expenses and time spent on projects.

With over 5 million people using FreshBooks, Mike and his team dedicate themselves to small business owners who want to focus on the work they love, instead of on their paperwork. Watch and listen to Mike's insights on Freshbooks growth.



Financing challenges and opportunities



Finding strategic partners and funding remains a top challenge for CEOs in Canada's emerging technology sector. One-fifth of respondents (19%) saw funding as their second-largest challenge in the year ahead. Companies are accepting of the market realities and reshaping their business plans accordingly.

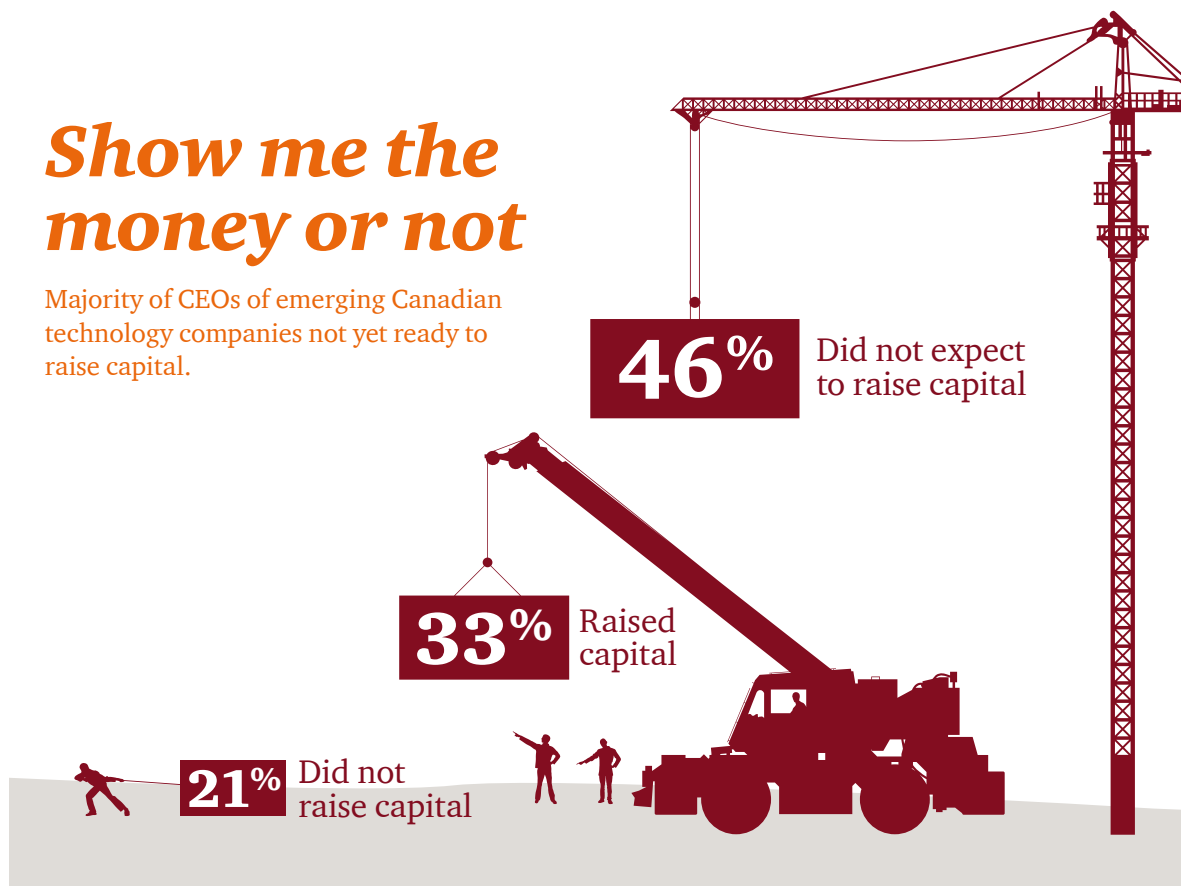
"There are a lot of successful companies that haven't raised money or that have raised money later," said Eugene Bomba, PwC's National Emerging Company Services Leader. "Canadians are starting to get back to saying 'I just want to build a good business, and then if there is an exit strategy I'll get there, if not today—three or four years from now.'"

Adds Bomba: "If you build a good business the valuation will come."

Funding

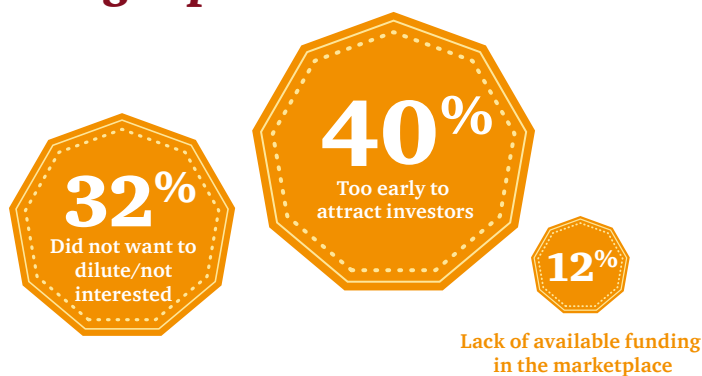
Show me the money or not

Majority of CEOs of emerging Canadian technology companies not yet ready to raise capital.



Funding

Reasons for not raising capital

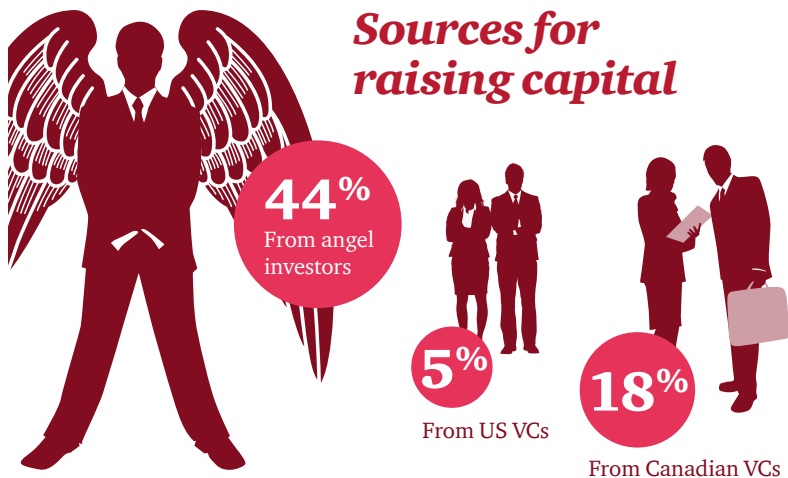


Where the money comes from

Friends and family continue to be the primary source of funding for survey respondents (64%), while 16% said they reached out to angel investors, and just 9% turned to venture capital. When it comes to raising capital, almost half of respondents (46%) reported not having a need to raise funds in 2012. Of those, 40% said their product or solution wasn't ready for investor attention, while another 12% reported a lack of available funding in the Canadian marketplace.

Among companies who did raise capital last year, 95% reported the total as being below \$2 million, with the bulk (73%) raising less than \$500 thousand. Angel investors and venture capitalists were by far the biggest source of capital investment, at 44% and 23% respectively.

Sources for raising capital



Government incentives

Government funding, in particular the SR&ED program, remains a key incentive for many Canadian startups. The survey shows 35% of CEOs reported using the SR&ED tax credit program, while another 20% dipped instead into the Industry Research Assistance Program (IRAP).

Some CEOs say SR&ED and other government incentive programs are needed to get startups off the ground. “Whenever we think of adding development or research and development we think about SR&ED,” said Daniel Klass, Managing Partner of Klass Capital, a Toronto-based venture capital firm targeting post revenue enterprise software companies. “That has been a hugely successful program for us and one of the key reasons why it’s great to build technology companies in Toronto.”

Klass Capital: VC Insights

Daniel Klass is the Managing Partner of Klass Capital, a venture capital firm which he established to provide expansion stage capital to high growth enterprise software companies. With a focus on North American market, Klass’s portfolio ranges from companies with \$1million to \$5 million plus in revenue. Their primary aim is to help their partners become world leading organizations.

Watch and listen to Daniel’s perspectives on the Canadian market and his insights on how to create success.





Talent

Finding employees and keeping them

While talent lost its position as the top challenge for CEOs in this year's survey—edged out by funding and revenue generation—11% of CEOs still see finding the right people to work for them as a top priority in the months ahead. That compares to 26% in last year's survey, when talent was seen as the top concern for CEOs.

It's not just about finding eager employees. Startups must attract and retain skilled and creative team members that also fit the company's culture. At the same time, people looking for their next job are seeking out dynamic companies that not only offer a challenging new experience, but fit their values and individual lifestyle choices.

Talent

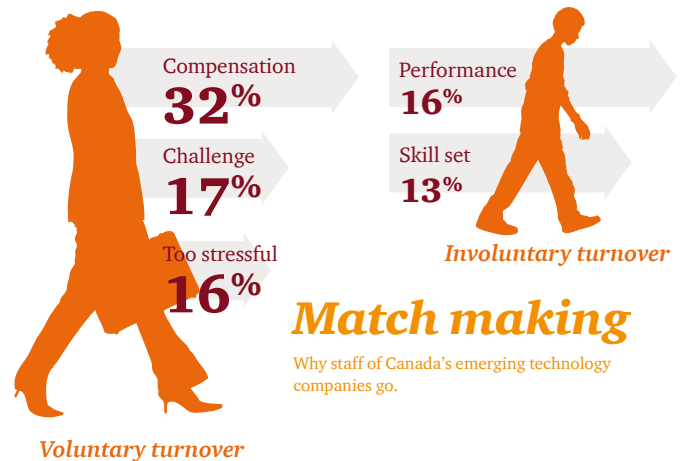


Talent turnover

Emerging Canadian technology companies are finding it less difficult to hold on to their best people.

72%
reported voluntary
turnover of less than 5%

3%
reported voluntary
turnover of over 20%



Why staff stay (or go)

The survey shows companies continue to hold on to most of their full-time staff, with 72% of companies reporting losing less than 5% of their employees to voluntary turnover. That compares to 66% last year. Of those that did leave, the decision was mostly for better compensation elsewhere (32%) followed by a new challenge (17%). Another 16% of CEOs say staff left because they had trouble keeping up with the fast-paced, stressful workplace that characterizes most startup firms, in search of a better work-life balance.

Of course, not everyone leaves voluntarily. Although 51% of CEOs reported having no involuntary turnovers – those who did let go of workers cited poor performance (16%) and skill fit issues (13%) as reasons. This helps to demonstrate the importance for companies to recruit people who are the right fit for the organization and who bring the skills necessary to help the business thrive.

Cost containment was the reason for 8% of job losses among companies surveyed. This ties in with the top concerns among companies to find funding and grow revenues to allow the business to earn a profit.

Talent management challenges

When asked what the biggest talent management challenge was for their organization, 42% of CEOs cited the ability to recruit new talent. Another 23% said it was the ability to provide competitive compensation and 14% cited difficulty recruiting experienced management needed to drive strategy and grow the business.

To keep talent, 36% of companies reported using stock compensation as a way to build closer ties between performance and results, and to increase employee engagement. Offering development opportunities (18%), a strong workplace culture (13%) and competitive salary (9%) were also tools used by companies to retain talent, according to the survey results.

Talent

Finding and keeping

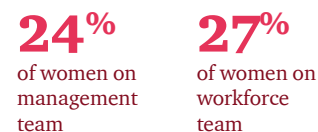
Recruiting new talent is the top talent concern for nearly half (42%) of all CEOs of emerging Canadian technology companies.

It's become harder for CEOs to provide the competitive compensations/benefits.



Where are the women?

Women continue to be underrepresented in emerging Canadian technology companies.



The gender gap

More women are slowly entering the male-dominated emerging technology sector. Yet the survey shows there is room for a greater balance between women and men both in the workforce and in management positions. Among participant companies in this year's survey, women make up 27% of the workforce and 24% of their management teams.

Colleen Hardwick, Founder of PlaceSpeak, an online public consultation platform, said the lack of women in the industry is the result of an education system where young men are traditionally encouraged to pursue math and science, while young women are pushed towards more marketing and communication roles. "This may be something that's conditioned into us at a very young age," said Hardwick, adding there are also very few female CEOs in Canada's emerging technology sector. She continues, "I've usually been a solo act out there. There are very few women who have taken on that role."

Nicole Verkindt, Founder of OMX, a high-tech start-up in the aerospace and defence industry, agrees the change needs to start early by teaching girls in school that they have a wider-range of career options. "I don't think it's because we don't have enough affirmative action," said Verkindt. "I think it's very rooted in society and it starts at a very young age."

Theresa Laurico, Founder and Chief Visionary Officer of SocialLIGHT, cites a need for more female role models in the emerging technology sector, to inspire the next generation. "There aren't a lot of women for young girls to look to and say 'Wow, that's possible for me.'"

Still, she believes the landscape is changing, with more women involved in coding and other technology skills that will give them the confidence to work in the male-dominated technology industry, and potentially start businesses of their own.

Where are all the women?

Co-founders and CEOs share their thoughts on why women are under represented in the startup community in Canada. Watch and listen.



Method: It's about the people

Paul Jackson is the Founder of Method Integration, a SaaS platform that allows non-developers to create and customize apps using drag and drop building blocks rather than code. Method integrates with SMB accounting software ensuring agility, efficiency, and better customer relationships, because the system adapts to their unique business.

Watch and listen to Paul's insights on the importance of talent to any startup.





What's next?

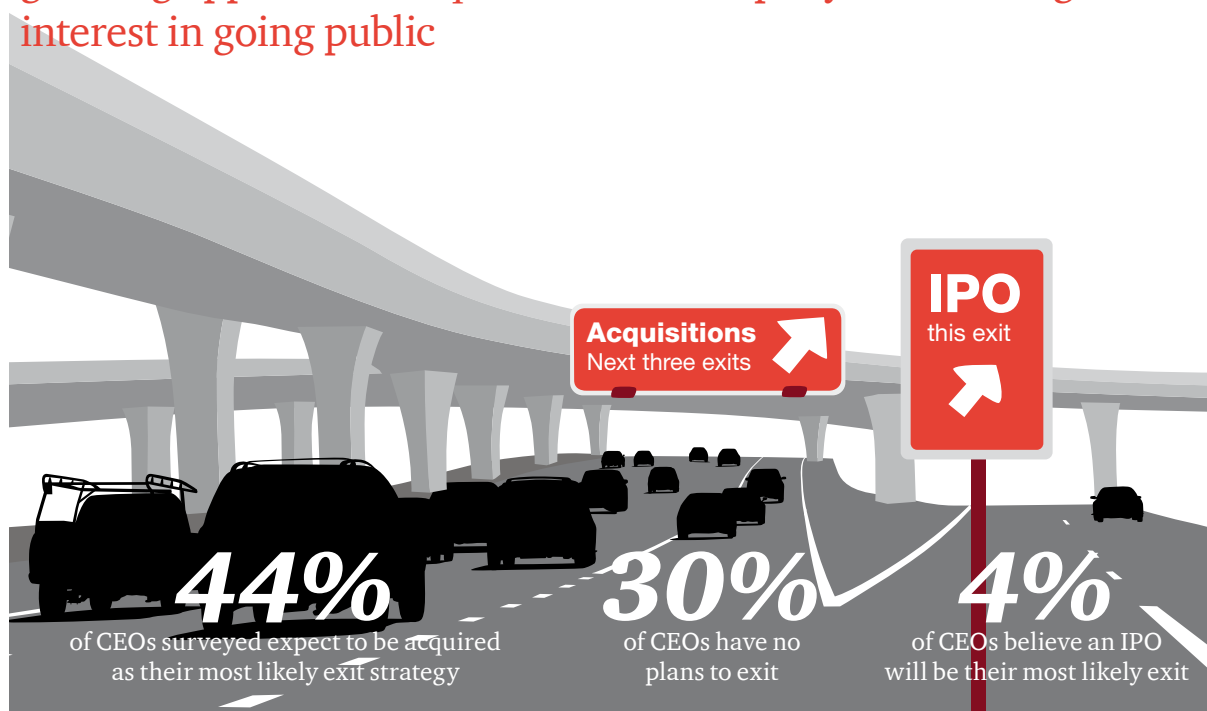


Merger and acquisition (M&A) activity is no longer top-of-mind for the majority of CEOs in the emerging technology space, the survey shows. Among participants, only 44% of CEOs saw M&A as a viable exit strategy in 2012, compared to 76% in 2011. Among survey respondents, 21% anticipate a partial sale of the company, whereas 30% have no plans to exit the business.

M&A/Exit

Exit on the horizon:

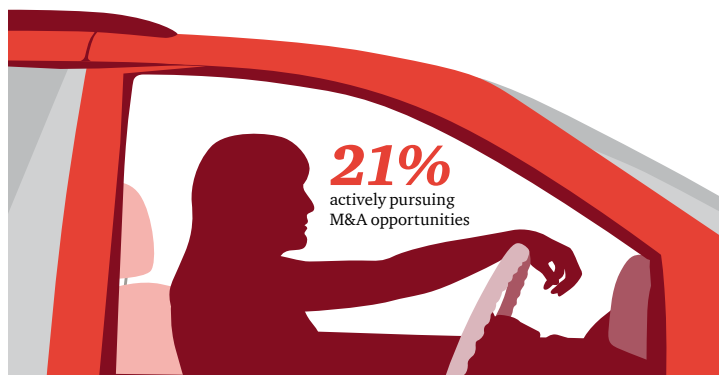
CEOs of emerging Canadian technology companies show a growing appetite for acquisition and a rapidly diminishing interest in going public



M&A/Exit

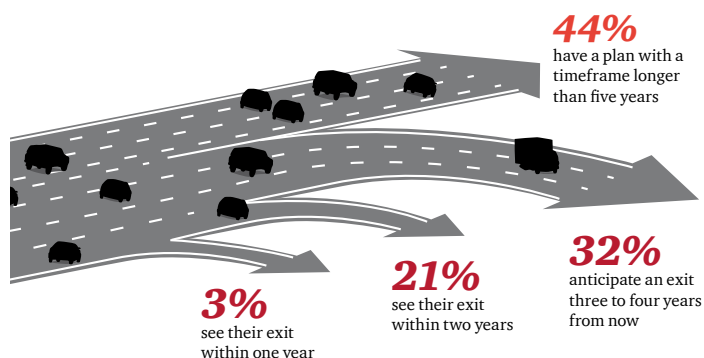
Sellers in the driver seat:

Almost a quarter of CEOs of emerging Canadian technology companies are open to M&A opportunities



Making the right turn:

Almost two-thirds of CEOs of Canadian emerging technology companies see their exit strategy playing out in the long term



Room for growth

It appears companies today are more interested in building their existing business over the next five-plus years, and taking it to the next stage. Many CEOs argue that having M&A plans is an unproductive way to run a business. Instead, CEOs should focus on scaling their businesses to see how far they can go. “Building a business around an exit event isn’t a great way to think about building for the long-term,” said Woods. “If you build an excellent business, an exit strategy will be there for you.”

Going public isn’t something companies are thinking about either. The survey shows only 4% of CEOs see an Initial Public Offerings (IPO) as a viable strategy, which is the same as last year. Brice Scheschuk, Co-founder of Globalive Communications/WIND Mobile, believes technology startups are reluctant to go public given the poor results experienced by some of their predecessors. “The public markets have not been very kind to tech in Canada,” said Scheschuk.

Instead, Scheschuk states most Canadian startup companies prefer to stay private and rely on angel and venture capital investment to execute their growth plans.

Eloqua: M&A success

Steven Woods Co-founded Eloqua in 1999 and has held the position of Chief Technology Officer since that time. Eloqua is a marketing automation SaaS company which develops automated marketing and demand generation software and services for business-to-business marketers. It provides improved lead generation and demand management services by combining web analytics, direct mail, e-mail and instant messaging services to marketing firms.

On December 20, 2012, Eloqua announced that it signed a definitive agreement to be acquired by Oracle Corporation for \$871million. Watch and listen to Steven's advice on M&A success.



WIND Mobile: Going up against the big guys

Brice Scheschuk is the Co-founder, Director, Chief Financial Officer and Head of Human Resources of Globalive Communications and WIND Mobile, a leading Canadian telecommunications service provider with a national fixed and wireless footprint.

Find out how WIND turned the Canadian wireless market on its head by establishing strategic partnerships and M&A.



An aerial photograph of a modern urban plaza. The plaza features a grid-like pattern of light-colored paving stones interspersed with darker grey sections. Several young, leafy green trees are planted in small grassy areas. A few people are visible: two men in business attire walking on the right, a woman in a purple top and white pants walking on the left, and another person sitting on a wooden bench. The overall atmosphere is bright and sunny, with shadows cast by the trees and people.

Outlook and conclusion

The future for Canada's emerging technology sector appears very promising. Despite concerns around revenue generation, securing funding and finding top talent, the industry is continuously innovating, developing and growing, while at the same time adopting sound strategies to face its business challenges head on.

"Canadian companies are ready to take the next step," says Bomba.

The startup ecosystem is expanding, with more investors and investment opportunities presenting themselves. Companies must decide how to best use funding and resources to push forward their product ideas and services to create a lasting, viable business model. CEOs are most concerned about successful execution.

"The scene has changed a little bit," said Paul Jackson, Founder of the QuickBooks-integrated, web-based platform, Method Integration. "Now I think we're becoming bigger-picture thinkers and we're looking for growth more rather than just purely profit."

Government incentives such as SR&ED, IRAP and FedDev Ontario programs will continue to support startups in the years ahead. In the meantime, the

Canadian government's new Startup Visa Program should help attract new talent and businesses to Canada in the months and years ahead.

Canadian technology companies continue to find new and innovative ways to build their businesses. In doing so, attracting and retaining talent to help drive the strategy will remain a focus. Employee engagement, through a variety of recognition programs and other incentives, will be key to ensure employees become a valued part of the business as they grow and develop.

There's a lot to watch and look forward to in Canada's emerging technology sector. This dynamic and growing cluster of entrepreneurs is sure to surprise and delight industry players, consumers and Canada as a whole. The best is yet to come.

Survey methodology

2013 Report on emerging Canadian technology companies: A CEO perspective is PwC's 10th report on emerging Canadian technology companies. Each year, we provide insights to the industry on issues being faced by emerging Canadian technology companies and their CEOs.

Our goal was to continue this research and provide critical information to CEOs with respect to performance and strategy currently in operation—and also to explore the challenges of doing business in the current economic environment.

A team of PwC's Technology professionals have developed the survey over several years and have also benefited from personal discussions with CEOs to incorporate the most relevant questions of today's marketplace.

Questions were organized into 5 sections:

- Emerging companies' profiles
- Mergers & acquisitions and exits
- Funding
- Sales and metrics
- Talent management

The results of the survey were based on the responses, either online or in person, from over 200 CEOs. PwC identified a national cross-section of emerging Canadian technology companies from publicly available lists, including the Branham 300, the Canadian Business Tech 100, the ROB 1000, Profit 100, Profit Hot 500 and others.

We contacted the CEOs by regular mail, email and telephone and directed them to the online questionnaire. We also conducted face-to-face, in-depth interviews with a number of CEOs. In those cases, PwC Technology partners administered the questionnaire at the CEOs' places of business.

The intention of this research is not to make conclusions about the opinions of all CEOs across the Canadian technology industry, but to provide insight into the companies in the emerging sector and the CEOs who lead them. The survey results have been analyzed and the findings have been used as a basis for this report. We have responded to the findings and our views are noted within the pages of the report.



Emerging Company Services

PwC's Emerging Company Services (ECS) helps growth companies unlock extraordinary potential by turning your vision into reality.

Our team is ready to help guide and nurture your emerging company from start-up through maturity. We provide you with the advice and services needed for your industry any development phase you're in.

Being an entrepreneur is an exciting, challenging, and often all consuming. Each day brings a new challenge—a challenge you may not have faced before or an obstacle that larger, established companies don't encounter. Whether it's developing business plans, securing financing, executing your strategy, building value or creating wealth through initial public offerings, merger transactions and other liquidity events, we offer a full range of support services.

To help companies respond to the most challenging industry issues, we offer our insights and specific solutions, including:

- Assisting you in identifying financing sources
- Serving as your advisor as you prepare to be acquired
- Providing due diligence and valuation services for acquisitions
- Supporting your international growth through our global network
- Tailoring PwC's leading edge audit approach to meet your needs
- Identifying eligible SR&ED activities and claiming the appropriate tax credits

If your company has a vision, contact PwC today to turn it into a reality. Please visit us at

www.pwc.com/ca/ecs

to find a PwC professional ready to serve you in all major technology markets. To access information about our Vision to Reality program which includes our annual conference and awards program, visit

www.pwc.com/ca/v2r

Acknowledgements

The survey respondents

We wish to thank the respondents who participated in the interviews and online survey. Their experiences and vision were invaluable to our education and critical to our research, and their candid responses and support of this project are very much appreciated. To protect their privacy and competitive advantage, the names of the participating emerging companies and CEOs are kept confidential.

PwC partners and staff

For this study, we drew on support and experience and knowledge from around our firm. A core team worked diligently to help produce this publication. The tremendous efforts of each team member helped make this project a success. This group includes:

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