

New Brunswick Securities Commission's Roundtable on Fostering the Capital Markets

Consolidated Summary of the Roundtable Process

Introduction

Beginning in St. Andrews on the 18th of January and concluding in Woodstock in early April, the New Brunswick Securities Commission (NBSC) held 9 roundtable forums throughout the province. The Commission heard from numerous individuals representing a diverse group of stakeholders. All shared the goal of discussing the challenges and proposing solutions to foster the province's capital markets.

The following pages are a consolidation of the challenges and solutions heard. Individual Roundtable summaries are available for viewing at www.nbsc-cvmnb.ca.

Stakeholder Groups That Were Represented

Academia, Accountants, Corporate Executives, Entrepreneurs, Financial Services, Lawyers, Regional/Provincial/Federal and Private Sector Economic Development Agencies, Management Consultants, University Students

The Days' Agenda

The day began with breakfast and registration. A spokesperson highlighted the Commission's dual mandate of protecting and informing investors and of fostering the development of the province's capital markets. A presentation on the current equity capital environment in New Brunswick, the "Valley of Death", and the approach the state of Wisconsin took to address similar equity capital challenges was then given.

Following the presentations, participants were asked to consider the six themes identified in the Roundtable working document and consider those challenges and solutions proposed in the document. Group input was identified on flip charts. To conclude the day, the Commission thanked participants and briefly discussed the next steps in the initiative.

Consolidated Summary of Key Identified Challenges and Solutions:

1. *Business Development Culture*

Challenges:

- A lack of awareness of entrepreneurs, being an entrepreneur and understanding the business culture
- There is a lack of focus on entrepreneurs who wish to actively pursue growth over the operation of a *lifestyle business*
- The province's entrepreneurs and government tend to operate with a mindset of being provided a *hand-out* rather than a *hand-up*
- Regional, Provincial, and Federal economic development agencies do not have a global view of where to seek investor money
- Entrepreneurs do not wish to give up controlling interest
- Entrepreneurs are pre-occupied with their idea and not on selling it (lack of marketing skills and desire to sell)
- The media and public focuses on failures, not lessons learned
- Businesses do not have succession plans because no family members or staff are qualified to take over
- There is no mechanism to support entrepreneurs who try and fail

Solutions:

- Develop a wide ranging multi-media awareness campaign focusing on hard and soft knowledge directed at entrepreneurs, their advisors (accountants, lawyers) and the people of New Brunswick with some focus on the contribution entrepreneurs make to the province
- Encourage a culture of *helping*, for example, the people, governments and businesses of New Brunswick through investing or purchases could be seen as helping NB firms, their employees and the local economy
- Facilitate greater collaboration between all stakeholders inside and outside the province e.g. foster the development of Angel networks which work together on developing and funding *deal flow* and providing due diligence expertise
- Focus on investing in and developing companies established in the province
- Introduce employee share plans for smaller companies
- Encourage successful Angels and recipients of angel investing to relay their story
- Encourage the development and use of mentorship programs
- Create links between academic resources, mentors and advisory groups
- Promote and support the emergence of non-traditional financing methods
- Encourage mature entrepreneurs to develop succession planning via an equity take-out

2. *Making Deals*

Challenges:

- There is no system to bring investment money, company management expertise and entrepreneur's ideas together
- No partnership between entrepreneurs and investors regarding the commercialization of technology and ideas from academia and industry
- NBers have limited exposure to entrepreneurial/investor role models, success stories and mentoring programs so to gain access to management expertise, connections for product development, and sales
- Student debt stops lenders from funding potential entrepreneurs
- There is a need to identify potential Angel investors and why they are important to entrepreneurs and economic growth
- There is little appetite in the large brokerage houses to deal in junior stocks once publicly traded (this will adversely effect new Capital Pool Companies)
- Most entrepreneurs start business with a business plan and no strategic (growth) plan or view to globalization
- Provincial immigration policies do not provide enough incentive for immigrants to come here with resources to invest or new ideas

Solutions:

- Create greater collaboration between universities and business
- Develop the brokerage/financial advisor capability to bring deals together
- Form Angel and Venture Capital networks
- Enable university faculty, staff and students to own their Intellectual property and encourage a strong entrepreneurial mindset in academia
- Encourage the collaboration of NBIMC/GrowthWorks to form a risk management group to invest in early stage companies, provide analysis, and monitoring of these investments
- Make NB the most cost effective place for start-ups by focusing on growth companies, establishing Capital Pool Companies, introducing more tax incentives, and streamlining regulation
- Develop a network of individuals aligned to the betterment of the province with a willingness to provide support, money, and advice to entrepreneurs
- Provide an on-line service providing entrepreneurs and investors with information and the ability to meet while retaining confidentiality
- Introduce and create a network of deal makers (i.e. develop an informal network of accountants, lawyers, consultants both internally and externally to NB who can structure and advise on business deals for entrepreneurs and investors)
- Encourage immigration/repatriation and retention of all stakeholders with the skill-sets and experience to start, work or support early stage companies
- Develop the "sidecar" financing, i.e. Govt. will invest in your company if other private investors also commit
- Encourage private companies in NB to fund a seed investment group

3. *Capital Market Education*

Challenges:

- Business management skills are lacking and entrepreneurs are unwilling to acquire the necessary skills needed
- Advertising by the financial services industry is focused on mutual funds and investment outside the province
- A cultural deficiency in most stakeholder groups surrounding the awareness, use and benefits of equity capital
- Cost/benefits of obtaining equity, copyrights and patents are little understood
- A disconnect exists between entrepreneurs and investors regarding business valuations and the appropriate methods used to determine them
- A perception that the NBCC network is not collaborating with employers in providing graduates with the skills and mindset to work with early stage companies
- Lawyers and accountants lack expertise on how to make/structure/ask for a deal and consequently tend to dissuade entrepreneurs from seeking equity capital or entrepreneurs are forced to rely on out-of-province professionals
- University and community college offer finance and businesses courses are geared to managing large mature corporations
- Students have limited access to the practical side of owning a business
- Venture Capital firms outside of the province are unaware of NB opportunities
- Lenders' (banks, CBDCs) and others (Entreprise Network, Chambers of Commerce) have insufficient knowledge of requirements of entrepreneurs

Solutions:

- Introduce a program that matches businesses with university and community college students for work terms or part of core course work
- Introduce college and university courses slanted towards being an entrepreneur and obtaining an understanding of early stage business development
- Educate entrepreneurs, Angels, and students on private and public equity investments, the roles and types of angels, and the team approach to success
- Develop a web platform for entrepreneurs to gain business plan templates, news of networking events, education sessions, market readiness programs, available financings, briefs/templates on tax benefits etc.
- Identify all the opportunities (outlets) of acquiring capital and all the organizations where ideas/entrepreneurs go and bring them together. Develop a "road map" on company growth and needs for all stakeholders
- Educate entrepreneurs and encourage them to broaden their business and financial horizons beyond debt and beyond NB
- Encourage the professional bodies representing lawyers and accountants to raise the awareness and skill-sets required to enable entrepreneurs to secure equity financing
- Focus efforts of help on entrepreneurs who seek out knowledge and acquiring of new skill-sets and publicize this
- Stress the importance to Chambers of Commerce and those involved in the Entreprise network to be proactive in reaching out to entrepreneurs through anticipating their demands and needs for skill-sets, mentoring and finance

- Encourage the coordination and cooperation of various groups' efforts, e.g. Chamber of Commerce, CBDC, Entreprise organizations that already offer business awareness and entrepreneur education
- Bring champions together to form groups (i.e. groups of entrepreneurial women) focused on entrepreneurial growth and learning
- Facilitate quicker access to venture capital through local organizations that provide a team dedicated to minimizing bureaucracy and working on the entrepreneur's behalf

4. *Leadership*

Challenges:

- Government culture is problematic and includes insufficient local procurement, scarcity mentality, no long-term strategic plan for entrepreneurship, growing the capital markets, furthering innovation, and no follow through on recommendations from studies
- NBers rely on government to take the lead in developing the entrepreneurial culture rather than the private sector
- There is a feeling that regionalism is at play in government decision-making
- Economic agencies are able to provide financing but not support business in less tangent ways such as by providing management help
- No trusted individual or organization is taking the leadership to build capital markets either by enticing Angels and entrepreneurs to step forward and/or in the building and maintaining of a web platform for their use
- Difficulty in engaging senior trusted leaders to see value of being mentors and reaching out to budding entrepreneurs
- Experienced people with skill-sets have left and there are few mechanisms available to get these people back and mentor others
- Little incentive for young/recent graduates to stay because of student debt
- Government and university institutions do little to understand the reasons for the *brain drain* and have policies that promote it

Solutions:

- Encourage BNB to become a greater source of funding for the provincial Entreprise network
- Have corporate NB speak out and support equity financing
- Encourage high profile individuals to spread the word on the benefits of developing the capital markets to entrepreneurs and the economy
- Encourage greater involvement/participation from the Investment Dealers Association
- Develop a formal partnership and collaboration with the state of Wisconsin
- Encourage greater collaboration between all stakeholders - private, government, academic, internal, and external to province
- Provide an environment that would stimulate an active Angel network
- Bring one organization into the spot light to facilitate the effort to advance the province's capital markets and develop metrics to measure progress

- Bring together Angels and Venture Capitalist to educate entrepreneurs on what they seek in a business investment
- Encourage the NBSC to play a leadership role with respect to being innovative in the design and enforcement of regulations, providing education of financial markets, and developing an equity financing information kit
- Encourage leadership to spring from within the Enterprise Network or Business New Brunswick (BNB)
- Create incentives from BNB or the Enterprise Network that would address the limited amount of financing in some regions
- Encourage the Government to take a leadership role by creating incentives to invest provincially and stay in the regions (i.e. through property tax assessments)
- Encourage external partnering and strategic alliances with local companies
- Encourage company sponsored mentor programs
- Create public awareness through a mass media strategy which is long-term, relays a consistent message, and covers NB's public companies as well as private start-ups and early stage growth companies
- Utilize external sources (federal government, NBers outside the province) and internal resources (BNB) to encourage investment in the province
- Encourage the regions to develop their own economic solutions and help local entrepreneurs
- Encourage mentorship and networking through the involvement of retired business leaders under the guidance of the BDC or the Enterprise Network

5. *Money for Investment*

Challenges:

- It is difficult to know about alternative sources of financing for entrepreneurs and investors
- The New Brunswick Investment Management Corporation (NBIMC) has a pension fund mindset even within their mandated 2% in eligible alternative investments
- There are too few instruments available in NB that allow both unsophisticated and sophisticated investors to participate in early stage investments
- Local traditional banking system is unable to exercise discretion over head office on financial decision making process
- There is insufficient planning and understanding by entrepreneurs and investors on an exit strategy

Solutions:

- Encourage more investor immigration from ex-NBers and other jurisdictions
- Encourage UNB and other education bodies to form Angel networks/funds
- Develop an "investment readiness" program for entrepreneurs
- Encourage economic development organizations such as ACOA, BNB and the CBDC network to take an equity stake in a business rather than the traditional debt position
- Have matching equity funds from an economic agency as a condition for agency lending

- Develop a databank of accredited investors who are able to initially “meet” entrepreneurs on a website
- Develop an incubator program
- Encourage the province to develop an equity guarantee mechanism to reduce the risk to investors
- Encourage all divisions of the provincial government and the office of the Premier to support the development of entrepreneurs
- Create a win/win situation for all stakeholders, e.g. NB Law Society to provide a voluntary list of lawyers specializing in securities law thus allowing entrepreneur’s easier access to expertise
- Bring the investment community onboard (Investment Dealers Association) by providing an equity investment tool brokers can earn a fee from. This provides an incentive for the financial services network to find funds for entrepreneurs
- Send angels to regional and national angel conferences or provide them with information on how an angels’ network operates
- Encourage funding agencies and banks to better distribute their resources and have those institutions require entrepreneurs to have a board of directors to increase the likelihood of success
- Encourage small investors to invest in NB by providing an investment tax incentive tool that allows local investing and relying on provincial pride
- Look to Boston and Silicon Valley for money to invest and ideas on capital market development

6. *Taxes*

Challenges:

- There are too few tax based incentives to manage/reduce risk for investors in early stage companies
- The dividend tax credit is too small
- The \$50,000 maximum allowable investment under the Small Business Investor Tax Credit (SBITC) is too restrictive as are most of the rules surrounding the SBITC
- There is limited take-up on the SBITC
- The SBITC penalizes those who are successful and those who take risk in early stage companies
- Tax credit processes are too long and complicated i.e. the federal government’s R&D tax credit program
- New Brunswick does not have a securities instrument similar to Nova Scotia’s Community Economic Development Investment Fund (CEDIF)
- No tax strategy to encourage Angels and more sophisticated investors (venture capitalist)
- There is no incentive to generate investment from flow through shares

Solutions:

- Create a tax incentive that de-risks early stage investments, which is flexible, easy to understand and apply
- Clarify the rules and regulations surrounding business tax in the province
- Create a New Brunswick version of the Nova Scotia (CEDIF) program

- Conduct a review and re-branding of the province's SBITC to create greater awareness to entrepreneurs, accountants and other professional advisors
- Eliminate the tax credit limit on early stage investing
- Change the tax legislation to allow for the pooling of foreign investment dollars
- Develop a tax credit for entrepreneurs to help facilitate company marketing
- Allow investors to use the income losses from an early stage company that they have invested in against their own person income tax position
- Enhance the tax credits for graduates to encourage them to stay in NB
- Market the student tuition tax cash back credit outside NB
- Create tax breaks for some investment firms (i.e. Venture Capitalist) or related operations (firms, advisers or equity specialist) to come to NB
- Create incentives for large companies to seek equity positions in junior growth companies as a way of stimulating economic diversity and innovation
- Provide tax credits for educating or employing NB entrepreneur students
- Pay investor's capital gains in early stage companies
- Increase the dividend tax credit for companies that are eligible for early stage investment tax credits
- Expand flow through shares to IT and other sectors
- Develop a tax credit that requires a business to have a board of directors
- Allow early stage tax credit status firms the ability to offer common and preferred shares or debentures to investors

Next Steps

With the views of our stakeholders known, the New Brunswick Securities Commission now is in the process of developing a list of recommendations to help foster the capital markets. This list will be presented and discussed at a conference in November of this year. It is the Commission's intention to then develop an action plan that with your help will take your recommendations from paper to reality.

The New Brunswick Securities Commission thanks all of you for your input and guidance. We hope that you join us as a member of change and help us create a fresh New Brunswick investment landscape that we can all share and benefit from.