

April 8, 2022

VCCI Secretariat  
Innovation, Science and Economic Development Canada  
Government of Canada

[capital@ised-isde.gc.ca](mailto:capital@ised-isde.gc.ca)

Re. Designing the renewed Venture Capital Catalyst Initiative: What we heard

Dear VCCI Secretariat,

On behalf of the member companies of BIOTECanada, thank you for seeking the industry's input regarding the design of the renewed Venture Capital Catalyst Initiative (VCCI). BIOTECanada is providing feedback on behalf of the biotechnology industry in Canada, as the national trade association representing more than 230 member companies and organizations in Canada's health, life sciences, industrial, agricultural and environmental biotechnology sectors. BIOTECanada members are reflective of the broad and diverse Canadian biotech ecosystem which stretches across the country and includes: world-class universities and research institutes; SME's; entrepreneurs; investors; regional incubators and technology accelerators; and, large multinational players all of which are powered by a highly skilled and educated workforce. The BIOTECanada recommendations are intended to maximize the impact of the life sciences sector in Canada. Accordingly, our submission directly responds to the questions asked as well as providing macro-level comments regarding the VCCI.

The federal Health and Biosciences Economic Strategy Table report (HBEST-September 2018)<sup>1</sup> outlined the value of the Canadian biotech sector. The goals identified in the report, to be completed by 2025, include doubling the number of Canadian companies from 900 to 1800, while also doubling the number of high growth firms from 40 to 80. The HBEST report also set a goal of more than doubling the growth of industry exports from a rate of 4% to 9% to \$26 billion annually. Canada's priority for the life science sector in Canada to be world class, create jobs and economic growth requires scale in capital and talent.

With more than \$80 billion of global investment anticipated for the life sciences/health sector in 2022, Canada is positioned to expand on the historic levels of investment secured in 2021.<sup>2</sup> The convergence of life science innovation, financing, and operational growth with technologies including artificial intelligence, advanced cell and gene therapies, big data, and platform technologies such as 3D printing, will lead the Canadian economy. The life sciences sector in Canada reported increasing investment and set a record in 2021 with CAD \$1.8B invested.<sup>3</sup>

Recent examples bringing another level of opportunity for Canadian life science companies to build on successes include Canadian biotech companies such as Zymeworks, Abcellera, Precision Nanosystems, Fusion Pharmaceuticals, Repare Therapeutics, and many others.

To build on these recent successes and compete globally for the investment capital at play, the Canadian biotechnology venture capital industry needs to grow accordingly for it to support the creation and scaling up of companies. In this context, the size of the VCCI and corresponding dedicated Life Sciences fund can play an instrumental role in catalyzing the growth of Canada's venture capital pool.

With regards to the dedicated Life Sciences Fund, the size of the fund is important because the need for capital for a single individual high growth emerging life science company well exceeds \$50 million. To that end, while the recognition of the value of a dedicated fund is welcome, the \$50 million dedicated Life Sciences stream is not sufficient to meet the demand for capital from Canadian companies. In this context, the funds that receive investment from the dedicated direct Life Sciences stream allocation must remain eligible for investment from the fund-of-funds stream as well.

In late summer 2021, BIOTECanada provided written feedback, detailing ideas and potential models for consideration. The “Designing the renewed Venture Capital Catalyst Initiative: What We Heard” paper is intended to guide further stakeholder engagement by proposing detailed parameters and questions for each stream of the renewed VCCI.

#### **Fund-of-Funds Recommendations:**

The intent of the fund-of-funds stream is to allocate \$350 million to Canada's VC ecosystem through investments into national funds-of-funds. The proportion of investments in life sciences was relatively low in previous VCAP and VCCI programs<sup>4,5</sup> compared to the ICT and clean technology sectors. Given the Canadian priority of biomanufacturing and life sciences<sup>1,6</sup>, BIOTECanada recommends:

1. A leverage ratio of at least 3x is applied to the fund-of-funds allocation for a total of \$1.05 billion of new venture capital funding;
2. At least 50% of the portfolio (in dollars) of each fund-of-funds should be dedicated to life sciences.

Evaluation criteria for national funds-of-funds applicants should include their ability to maximize returns in life sciences through balanced investments; support skilled VC fund managers in life sciences; attract substantial private sector capital to life sciences; increase the availability of VC to support the growth and scale-up of leading Canadian companies in life sciences; and support the development of a strong pipeline of new and diverse life science leaders.

While each national fund-of-funds might choose to pursue different strategies in life sciences, we would recommend that the underlying portfolio funds within fund-of-funds be of a sufficient size to generate returns as adapted to their strategy and stage of investment. Our comments immediately below on the direct life sciences fund would apply *mutatis mutandis*.

## **Direct Life Sciences Fund Recommendations**

The dedicated \$50 million direct life science fund investment allocation must be strategically leveraged to drive positive returns and expedite deployment in a meaningful way. Ideally, this should have been done by creating a life sciences specific fund-of-funds. Since we understand that this might not be possible, BIOTECanada thus recommends deploying this \$50M envelope directly into VC funds in the life sciences sector that meet the following criteria:

1. Existing and emerging fund managers based in Canada;
2. Additional leverage at the Fund level of at least 2x (i.e., for each federal dollar, the VC fund should raise two dollars);
3. Investee VC fund size should be at least \$100 M.

The fund size is important because in the past two decades in Canada and abroad have demonstrated that small, isolated, subscale funds, especially in biotechnology are challenged with attracting sufficient talent, generating sustainable financial returns and are not able to globally compete in life sciences financing.

In terms of stage, we support the notion that there is a need for more capital at the seed and early stage, however Canada also needs to fund the later stage companies to help create national anchor companies, and thus later stage Canadian funds that contribute to Canada's ecosystem should also be admissible.

BIOTECanada Members participated in a series of virtual engagement sessions in the past weeks to contribute to the discussions about the VCCI. The refinancing of the Venture Capital Catalyst Initiative, including the fund-of-fund stream, and life science stream fund, is necessary for sustaining the life sciences sector. The volume of funds seeking investments has never been as pronounced as it is today. As indicated earlier, some \$80B in life sciences investment capital is at play globally. If Canada wants to capitalize on the global opportunity and maximize the value of those investments, it is imperative those investments are leveraged and deployed into the marketplace as soon as possible.

Given the above goals and priorities for life sciences in Canada, BIOTECanada is providing written comments to the general questions provided in the latest consultation in the addendum attached. BIOTECanada offers its input with the objective of optimizing the investment impact returns

The Canadian biotech ecosystem is an economic strength that positions Canada well to compete successfully in the global economic recovery. Canada's biotechnology industry has a demonstrated history of scientific discovery and development which has led to the creation of a robust, diverse biotechnology ecosystem extending to every region of the country. As a result, the sector is poised to deliver solutions for future challenges. The need for post-pandemic economic stimulus and targeted economic growth places this industry at the forefront for immediate and long-term impact. Canada cannot afford to do anything less than rise to the challenges of today.

Canada has secured its place at the forefront of research and discovery for some of the best of what biotechnology innovation offers. This is a timely opportunity for the government to continue delivering on the commitments already in place, while setting up a competitive environment for the best of the next generation of biotechnology and life science to thrive within Canada. The proceeds from strategic investments in the sector will set the foundation for maintaining a sustainable life sciences sector fund.

Sincerely,



Andrew Casey  
President & CEO

References:

<sup>1</sup> [ISED HealthBioscience.pdf \(ic.gc.ca\)](#);

<sup>2</sup> Healthcare Investments & Exits Annual 2022, Silicon Valley Bank (<https://www.svb.com/trends-insights/reports/healthcare-investments-and-exits>)

<sup>3</sup> [Year-End 2021 - Canadian VC & PE Market Overview | CVCA](#)

<sup>4;5</sup> 2021 Venture Capital Action Plan ; Venture Capital Catalyst Initiative: Progress Report (Summary Versions) November 15,2021, BDC

<sup>6</sup> [1098\\_01\\_21\\_Biomanufacturing\\_Strategy\\_EN\\_WEB.pdf \(ic.gc.ca\)](#)

Attachment

## Attachment

### Designing the renewed Venture Capital Catalyst Initiative: What we heard - SME research and statistics

#### **Fund of funds questions:**

**Question:** Is the proposed leverage and incentive structure a fair risk balance given the current investment environment, and that early, mainly unrealized performance of past programs has been strong?

**BIOTECanada answer:** A 3x leverage ratio and proposed incentive structure is a fair risk balance.

**Question:** Given the changing VC ecosystem, what are your thoughts on the proposed definition of VC funds as funds that primarily invest in minority equity stakes of technology-focused companies? Are there new or emerging investment strategies that should be considered under this definition?

**BIOTECanada answer:** The definition of VC funds as funds is fine

**Question:** Do Canadian investment targets appropriately balance a Canadian program focus with sufficient flexibility to build and maintain key international networks?

**BIOTECanada answer:** A Canadian target of at least 50% Canadian Program focus, or greater is recommended.

#### **Direct VC Life Science investment questions:**

**Question:** Are there additional parameters that should be considered in defining new and emerging managers in the context of the life sciences sector (see Annex B - Definitions)?

**BIOTECanada answer:** Ensure both emerging and existing fund managers are included in the context of life sciences sector.

**Question:** Is there a maximum fund size that should be considered for emerging managers in the context of life sciences?

**BIOTECanada answer:** There should be no maximum fund size.

**Question:** What would you consider to be a minimum viable fund size in life sciences that could be supported by VCCI?

**BIOTECanada answer:** The minimum viable fund size in the life sciences sector should be \$70M. Within each fund, each dollar of federal funding should be matched by at least two (2) dollars of additional funds.

**Question:** If incentives are offered, how could they be structured to ensure fairness across applicants and funds?

**BIOTECanada answer:** Replicating the “asymmetric waterfall” approach as incentives used for VCCI and VCAP is recommended.

**Inclusive Growth proposed model questions:**

BIOTECanada acknowledges the importance of inclusive growth initiatives and expects that diversity, equity, and inclusion efforts will be evaluated in the context of the fund-of-funds and direct life sciences allocations.