

COMPASS

Moneyball for the business world

Canadian Startup Ecosystems

March 9, 2016

Compass *(formerly Startup Genome)*

Moneyball for business.

Mission: Radically improve the success and growth of startups and ecosystems

- Compass...
 - World's largest database of performance data on tech companies: >50,000 startups worldwide
 - Tailored benchmarking and recommendation solution for e-commerce and tech businesses based on the world's largest data asset of connected businesses

COMPASS

Startup Ecosystem Reports (SER)

- Pioneered ecosystem research with Steve Blank, Stanford
- The first global, data-driven analysis of startup ecosystems
- Built largest dataset
 - Proprietary survey and data on >10,000 startups
 - Interviews of >200 experts in 40 cities
 - Compass + CrunchBase + GEW/GEN + Dealroom + Preqin + Techlist + Zero2IPO + >60 local partners: accelerators, investors
- Strengths: more data + modeling + benchmarking

Startup Ecosystems Compete Globally for Talent, Innovation Resources



Canada: 3 Ecosystems in Top 20 – Amazing

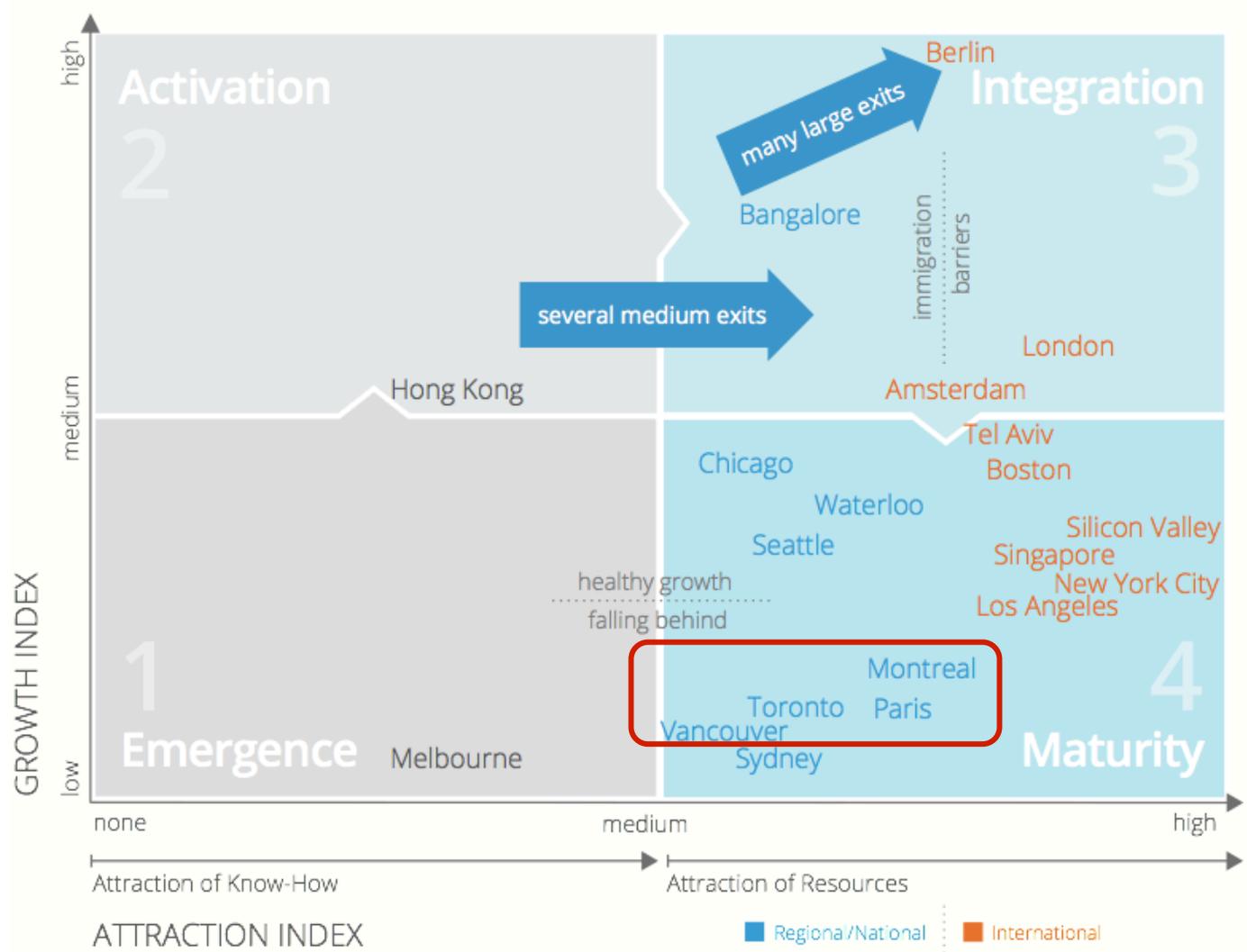
	Ranking		Performance	Funding	Market Reach	Talent	Startup Exp.	Growth Index
Silicon Valley	1	◀	1	1	4	1	1	2.1
New York City	2	▲ 3	2	2	1	9	4	1.8
Los Angeles	3	◀	4	4	2	10	5	1.8
Boston	4	▲ 2	3	3	7	12	7	2.7
Tel Aviv	5	▼ 3	6	5	13	3	6	2.9
London	6	▲ 1	5	10	3	7	13	3.3
Chicago	7	▲ 3	8	12	5	11	14	2.8
Seattle	8	▼ 4	12	11	12	4	3	2.1
Berlin	9	▲ 6	7	8	19	8	8	10
Singapore	10	▲ 7	11	9	9	20	9	1.9
Paris	11	◀	13	13	6	16	15	1.3
Sao Paulo	12	▲ 1	9	7	11	19	19	3.5
Moscow	13	▲ 1	17	15	8	2	20	1.0
Austin	14	NEW	16	14	18	5	2	1.9
Bangalore	15	▲ 4	10	6	20	17	12	4.9
Sydney	16	▼ 4	20	16	17	6	10	1.1
Toronto	17	▼ 9	14	18	14	15	18	1.3
Vancouver	18	▼ 9	18	19	15	14	11	1.2
Amsterdam	19	NEW	15	20	10	18	16	3.0
Montreal	20	NEW	19	17	16	13	17	1.5

U.S. 7
Europe 6
Canada 3
Asia 4

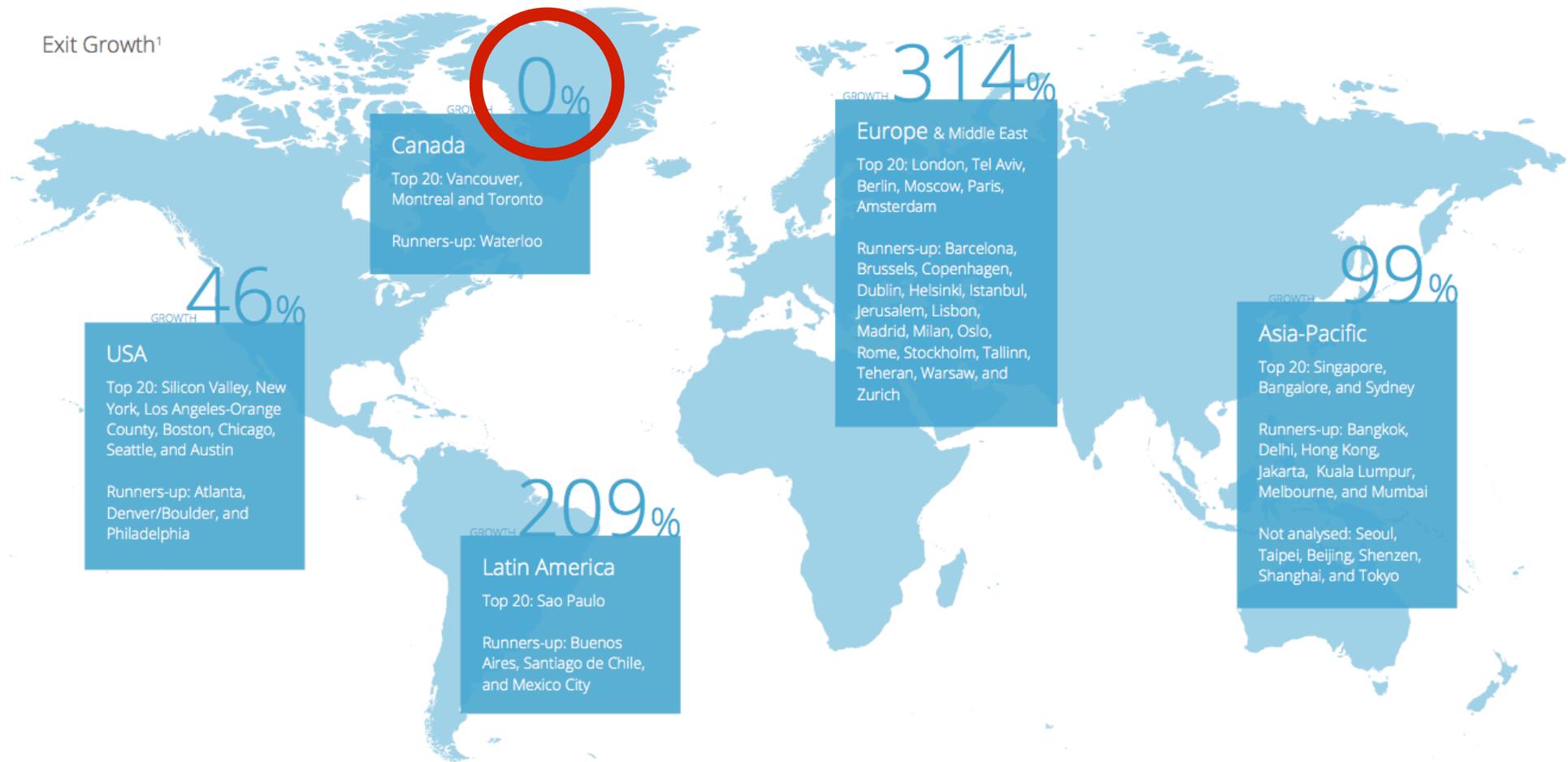
Good Mix of
 Resources, No
 Big Gap

Mature Ecosystems Performing Well

Figure 1. The Startup Ecosystem Lifecycle



But Canadian Ecosystems Face One Challenge: Producing Large Exits



¹ Based on a 2-year moving average, see Methodology, 7. Growth Index

Why Less Value Creation / Exits?

Slower Valuation Growth

Figure 8. Funding Valuations Over Time (Series A and later)

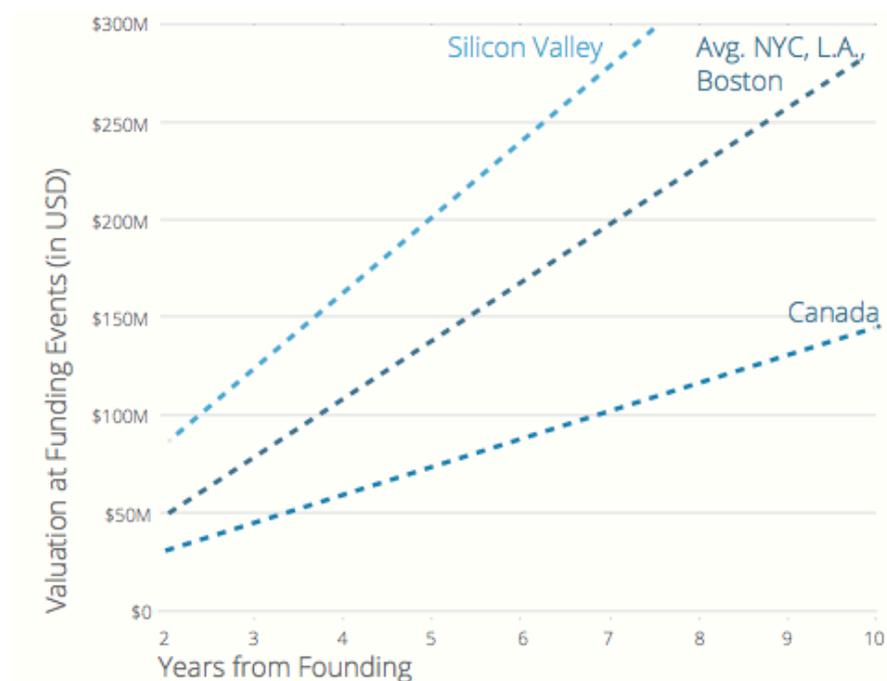
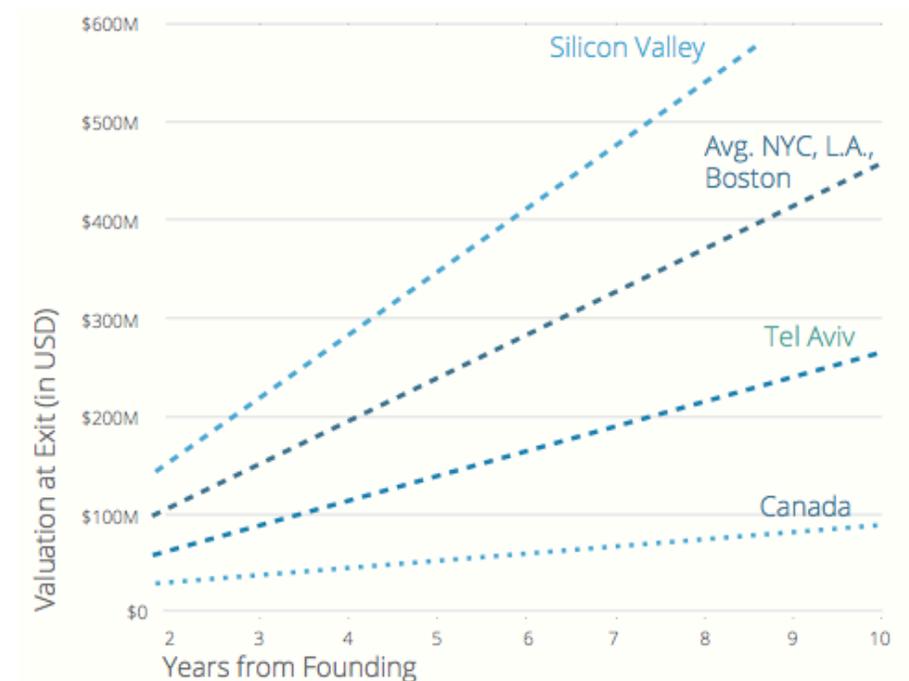


Figure 9. Exit Valuations Over Time



Why Less Value Creation / Exits?

Low value at year 7--when investors want exit

Figure 8. Funding Valuations Over Time (Series A and later)

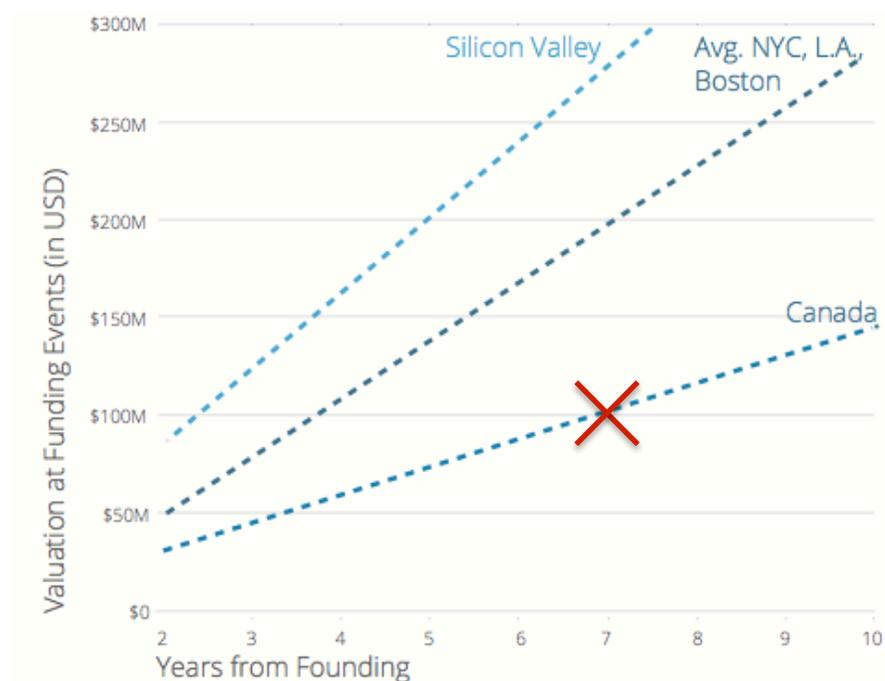


Figure 9. Exit Valuations Over Time



Ambition?

Slower Revenue Growth

Figure 27. Revenue Growth of International B2B Startups (excluding U.S. and Canada)

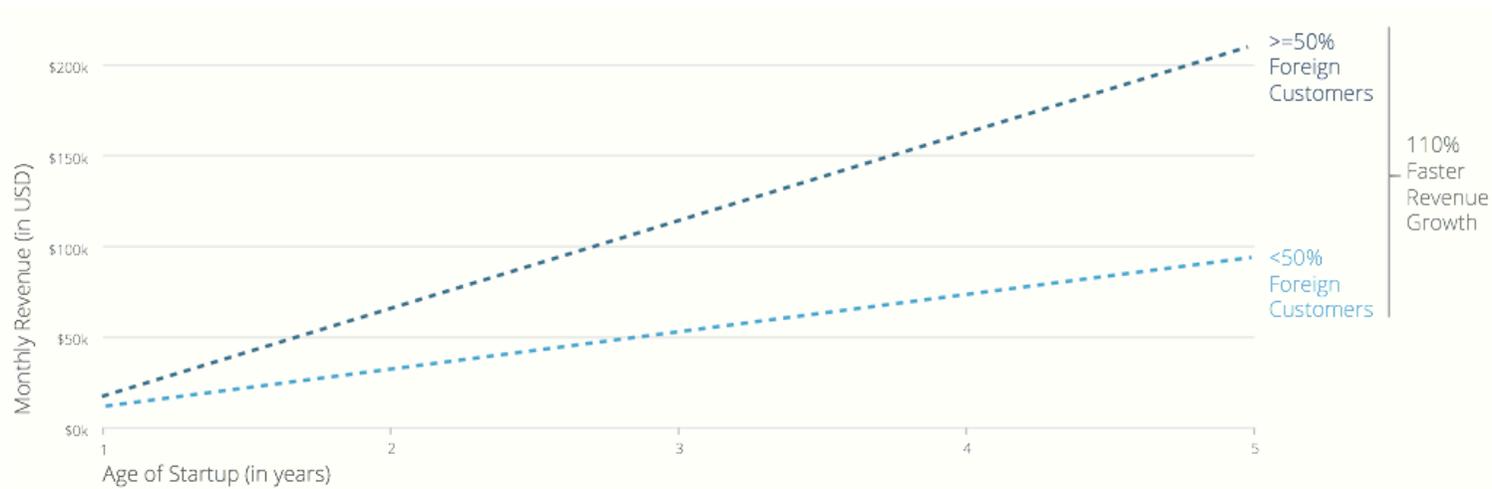
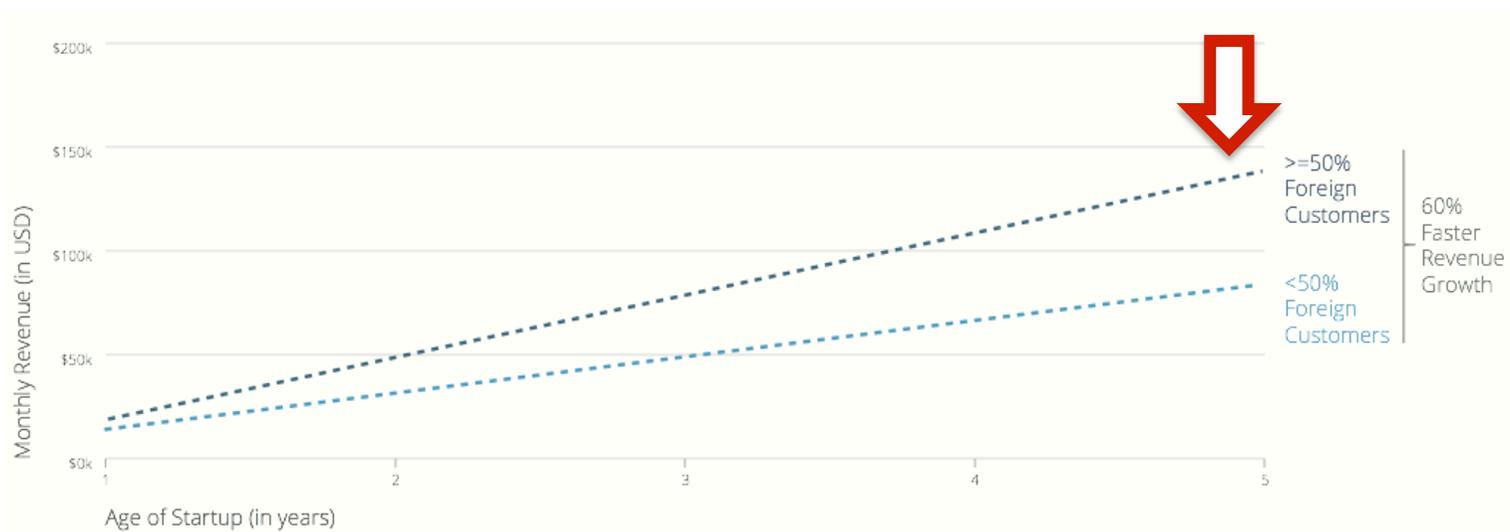


Figure 28. Revenue Growth of Canadian B2B Startups with Varying Degrees of Foreign Customer Focus



Focus on Global Customers from Day 1!

- Proposed by Startup Experts for a Long Time
- Proven & Quantified by Compass:
 - Startups that do grow **110% faster**
- Yet...
 - Canada
 - “Toronto is a top-15 North American city....”
 - “We can build some scale here in a similar, large and protected market, then enter the U.S.”
 - Tel Aviv
 - “Before they even raise money startup founders jump on a plane and couch-surf to meet customers and investors in the U.S.”

What Are Global Customers?

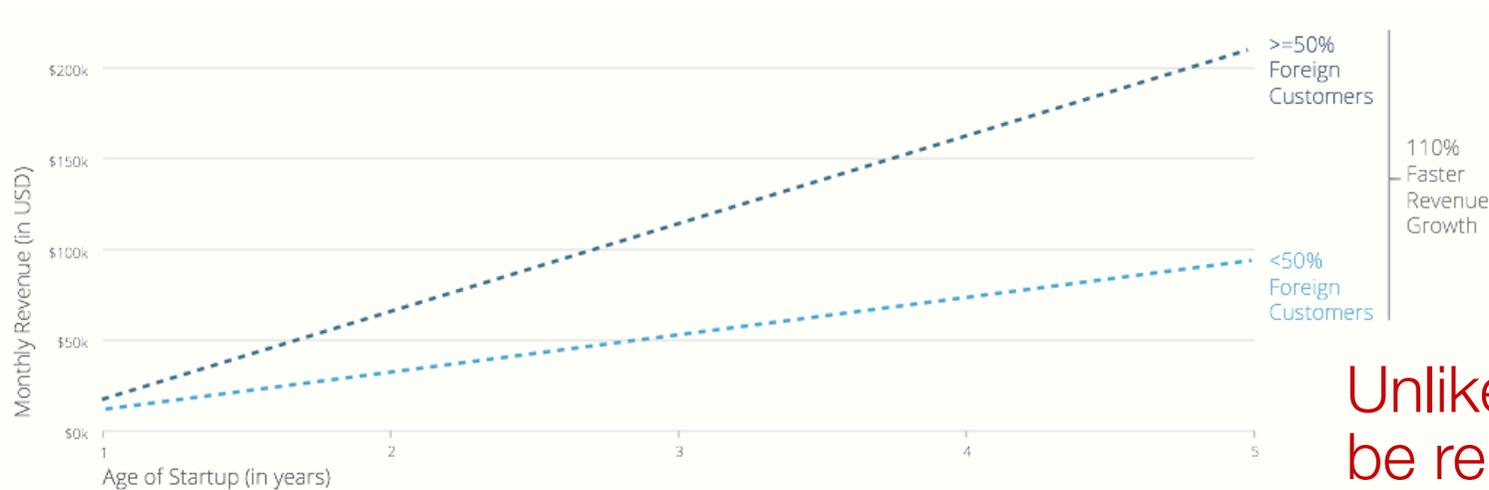
- Large corporations in NYC, the Bay Area, LA, London *(and for some specific industries a few other cities)* are representative of global market needs
- Where
 - The most aggressive international competition happens
 - Global decision makers are
 - More consumers live

What Are Global Customers? Most Importantly...

- Startups and mature companies from all of the world compete for customers in those locations
 - Tel Aviv, Berlin, London startups all hit on NYC and SF corporations and consumers
 - ...and 2-3 years later on Toronto multinationals
- In return those customers understand the whole ecosystem around the startup and act as great lead customers, point to partners, complementary solutions...
- Canadian startups hitting first on Toronto customers find themselves blindsided when later entering the U.S.

Canadian Startups Focused on Foreign Customers Grow 60% Faster (not 110%)

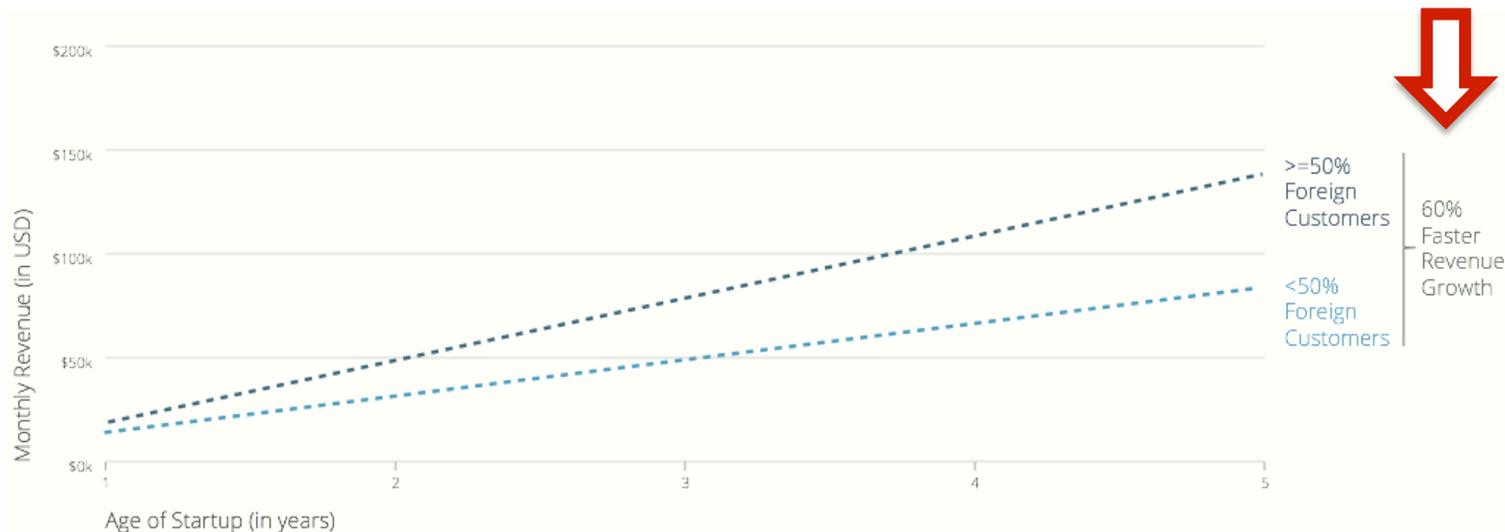
Figure 27. Revenue Growth of International B2B Startups (excluding U.S. and Canada)



Unlikely to be related to ambition



Figure 28. Revenue Growth of Canadian B2B Startups with Varying Degrees of Foreign Customer Focus



Why?

- Canada
 - “We can develop the U.S. Market from here.”
 - “I want my VP sales and sales people in Waterloo because I need to train them and....”
- Tel Aviv
 - “We’re too far to manage from here. Besides, best to hire only Americans without an accent.”
- Canadian VP Sales is as experienced and talented as U.S. VP Sales...but is NOT American
 - Sales culture, affinity, things in common (same school...)
 - Rolodex of top salespeople, customers, partners, contacts...

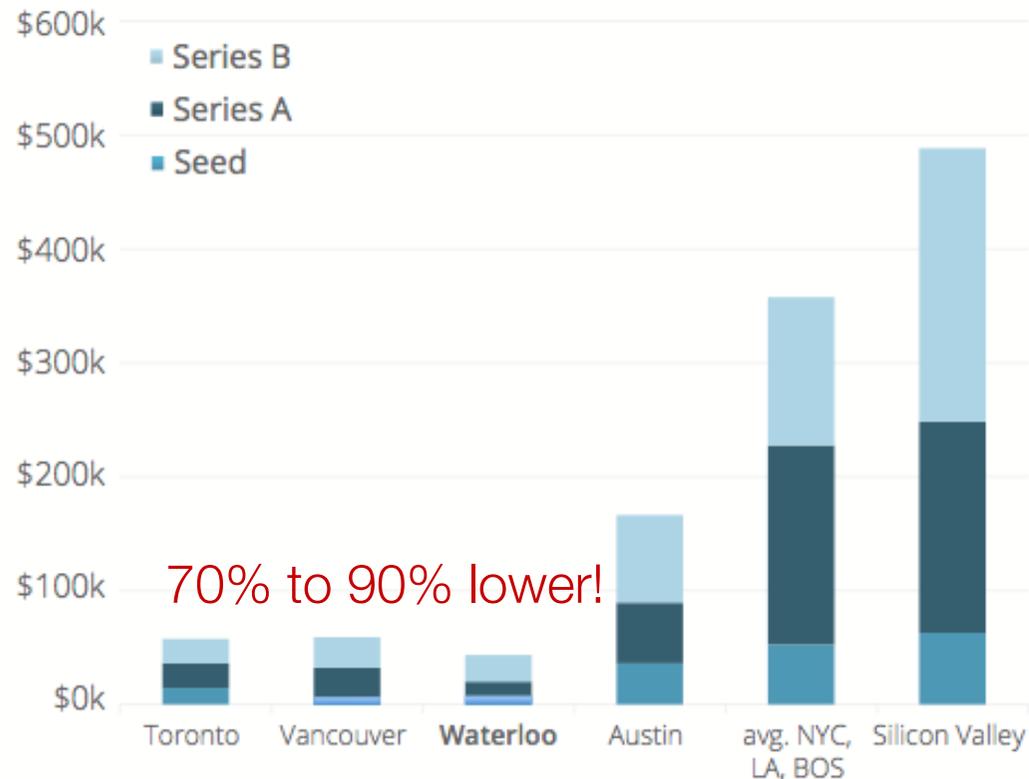
Challenge of Canadian Corporations

- To most effectively participate in startup ecosystems, need to develop its own visibility on global startups
 - Global accelerators
 - Trips to NYC, Silicon Valley, etc. to meet startups, accelerators, investors

Issue #2: Funding Gap

Lower Early-Stage Funding per Startup

Figure 14. Early-Stage Funding (Seed to Series B) per Startup



- Focus on early-stage funding because startup is dependent on local ecosystem resources
- Later-stage: startup can access international capital markets

Lower Average Funding Amounts

Figure 19. Average Seed Funding Amounts (in USD)

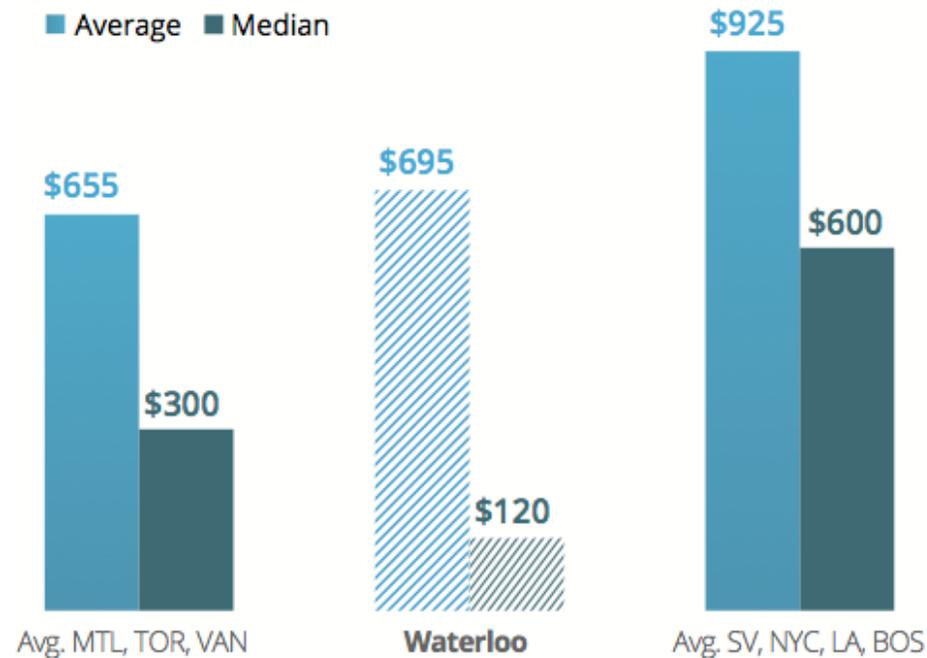
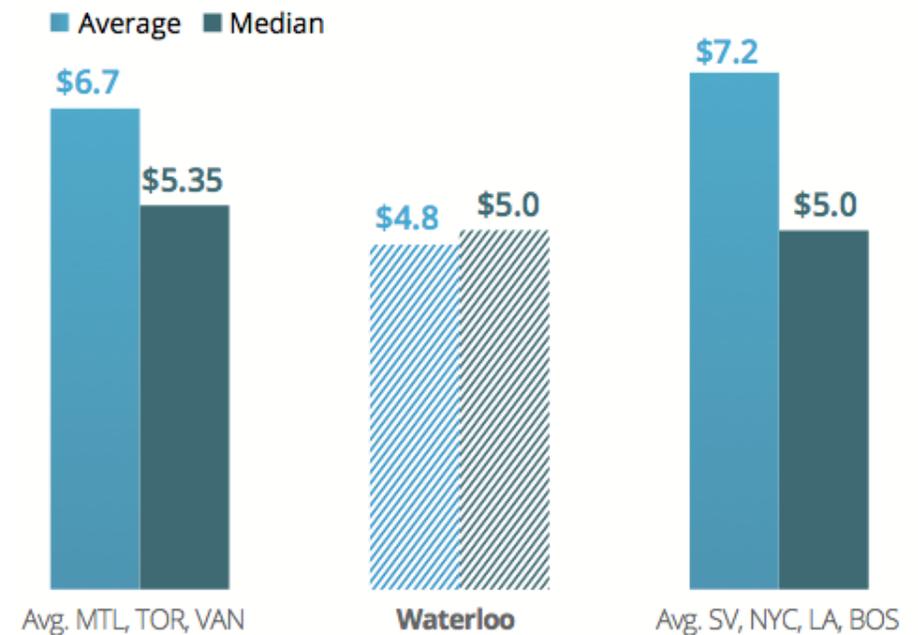


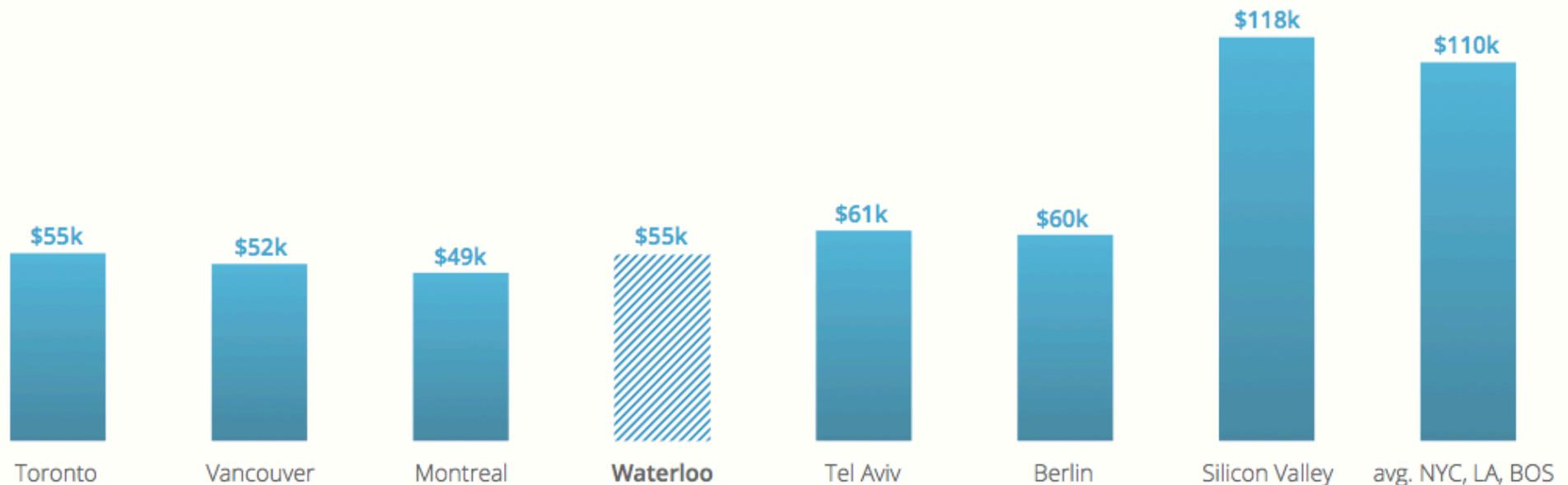
Figure 20. Average Series A Funding Amounts (in million USD)



- Significantly lower on average
- Even lower if exclude rounds led by foreign investors
 - Less local competition between VCs + and smaller funds = lower amounts

But Lower Early-Stage Costs Compensate for Lower Amounts

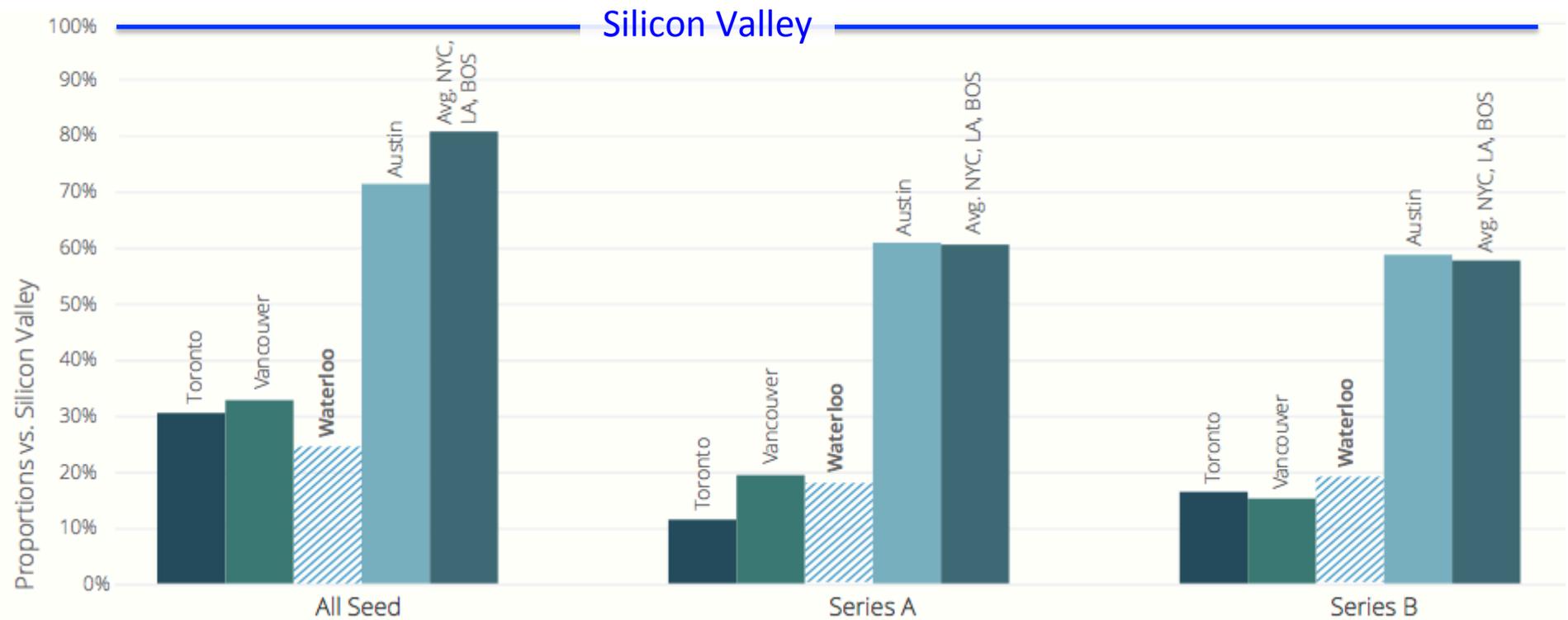
Figure 32. Software Engineer Salaries



- More than 50% lower than U.S. ecosystems
- ~70% lower after tax due to R&D credits

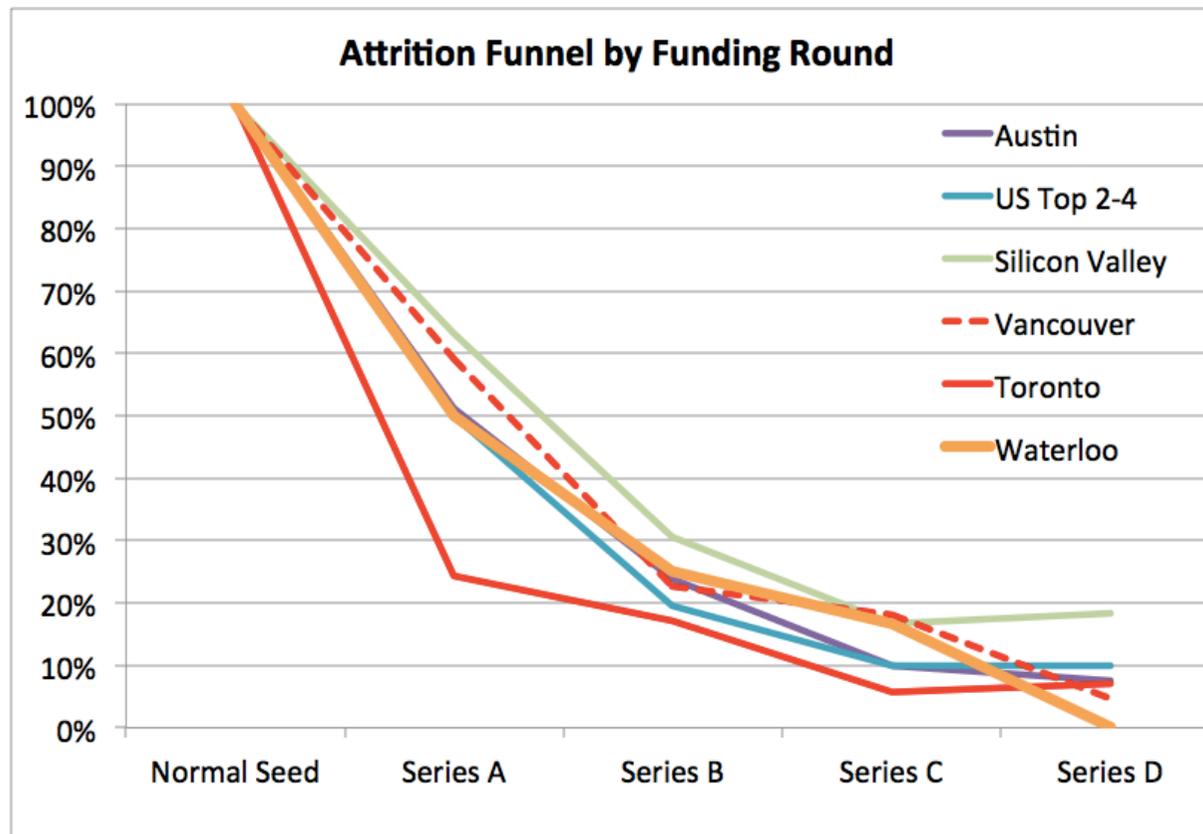
Loss of More Than Half the Crop of Startups Each Year

Figure 21. Startups Receiving Funding in Proportion to Silicon Valley



- Issue #1 = Seed. is 55% to 75% lower than top ecosystems
- Attrition rate seems ok vs. top U.S. ecosystems

Loss of More Than Half the Crop of Startups Each Year



- Attrition rate is in fact ok (except Toronto Ser. A)
- ...so if we double seed funding, we need to double Series A & B

Impact of Higher Attrition Rate

- Smaller, Less Experienced Ecosystems
 - Much smaller number of experienced entrepreneurs
- Lower entrepreneurial activity rates?
- Fewer Serial Entrepreneurship
 - Less learning from failures
 - Failing before raising any money = very limited experience