

Supporting High Growth Companies

June 2017

Agenda



- **Definition of a High Growth Firm (“HGF”) and why Important**
- **How does Canada compare to other Nations**
- **Research Conducted**
- **Insight and conclusions**
 - The 6 Roadblocks to growth in HGF
- **Examples of BDC’s role in supporting HGF**
 - Growth and Transition Capital
 - Creation of the Growth Driver Program
- **Case studies**



BDC at a Glance

- Flexible financing to support growth and protect cash flow
- Advisory services on an enterprise-wide range of subjects
- Biggest and most active venture capital investor in Canada

QUICK STATS

42,000+

CLIENTS

2,100

EMPLOYEES

110+

BUSINESS
CENTRES

94%

OF BDC CLIENTS
ARE SATISFIED
WITH OUR
SERVICES

\$26B

IN FINANCING
COMMITTED
TO CLIENTS

72

YEARS
OF EXISTENCE



What is a High Growth Firm?





HGFs are positive contributors to economic development in Canada

HGFs typically achieve $\geq 20\%$ growth...

- By definition, HGFs :
 - Achieve average annualized growth equal or greater than 20% per annum (in terms of sales or employees) over a 3 to 5-year period
 - Have 10 or more employees at the beginning of the observation period
- Gazelles are a subset of HGFs
 - Less than five years old at the end of the observation period

... and contribute to the economy by creating jobs and driving innovation

- High net job creation
 - Estimated that HGFs create approximately 45% of net new jobs in Canada¹
- Considered entrepreneurial and innovative
 - By the uniqueness of their products
 - Leveraging processes or markets that allow them to expand rapidly

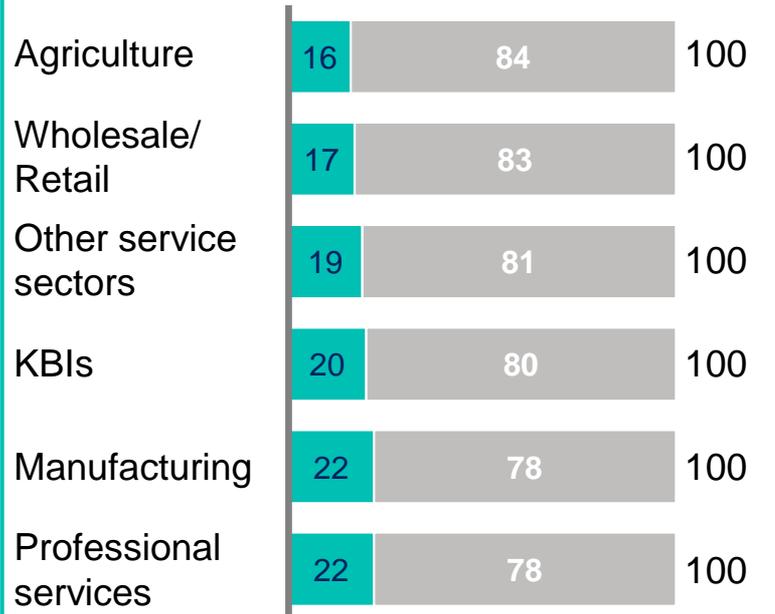
HGFs are found across all segments and geographies



Within different sectors, high growth SMEs are equally distributed...

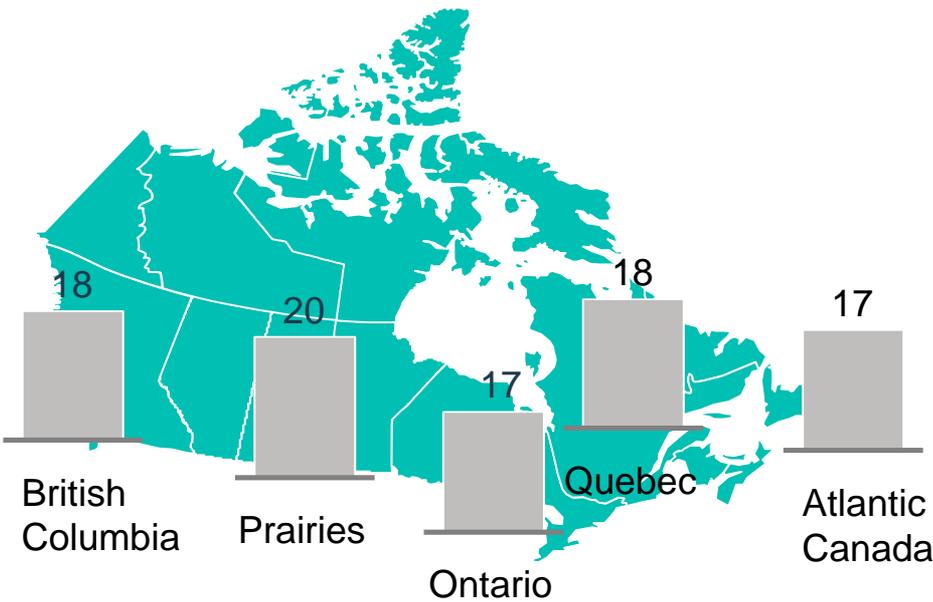
Proportion of high growth SMEs by industry sector, % of total

■ High growth SMEs ■ Other SMEs



Regional distribution is also unimportant

Contribution of hyper¹ and strong growth² firms by region, % of total





What does it take to become a HGF?

Strong leader (entrepreneur) – driven, focused, visionary

Strategic vision & shared organizational drive and culture to grow

Engaged team ready to support the high growth

Being innovative & agile – constantly embracing change and re-inventing themselves

Differentiated, often disruptive product or service

Seizing market opportunity & right timing

Playing an active role in global markets

“You need an excellent manager who is supported by a successful team...rather have an A manager and a B business.”
Managing Partner, Private Equity Firm, ON

“A vision of sustained growth over a 5-year horizon”
“HGFs need to be innovative all the time. Innovation has to be in the culture of the business, not a flavor of the day.”
President, HGF, Lighting manufacturer, QC

“Given you have the patience, right product, services and people, it comes down to luck & timing.”
President & CEO, HGF, Manufacturer of optical networks, ON

“Success is to reach results that far exceeded your expectations.”
President, HGF, Media & Entertainment, QC

“Being a leader is not our value, it is the result of our actions, based on the way we work.”
President, HGF, Service, QC



How Does Canada Compare to Other Nations



Canada has the right ingredients for a healthy ecosystem



Robust banking system – ranked soundest system in the world for 6 consecutive years by Word Economic Forum

1. Canada	6.7
2. New Zealand	6.7
3. South Africa	6.6
4. Hong Kong SAR	6.6
5. Singapore	6.5
6. Finland	6.5
7. Panama	6.5
8. Norway	6.4
9. Australia	6.4
10. Chile	6.3

World class entrepreneurship culture – ranks 3rd in G20 entrepreneurship culture



Very high education levels – Canada is 2nd in OECD tertiary education attainment amongst 25-64 year olds

1. Russia	52
2. Canada	51
3. Israel	48
4. Japan	47
5. United States	41
6. Korea	40
7. United Kingdom	40
8. Finland	40
9. Ireland	39
10. Norway	39

Favorable regulatory environment – ranks 2nd in G20 regulation ranking

G20 country	Ranking
Saudi Arabia	1
Canada	2
South Korea	3
United Kingdom	4
South Africa	5
Japan	6

Full spectrum of support programs – developed private and public support ecosystem covering all aspect of SME lifecycle

SME business financing  

Regional business centers   

Small business associations 

Young entrepreneur support  

R&D tax credits  

– ranks 2nd in IFC ease of starting business ranking

IFC doing business ranking

Country	Ranking
New Zealand	1
Canada	2
Singapore	3
Australia	4
Hong Kong SAR, China	5
Armenia	6

Despite its healthy ecosystem, Canada's competitiveness is deteriorating



Canada's competitiveness gap is veiled under a healthy ecosystem and improving GDP/capita ranking

- Canada has climbed from 16th to 8th in GDP per capita ranking over the last 20 years
- However, the prosperity gap between Canada and the US has quadrupled since the 1970s

The underperformance is driven by deteriorating fundamentals, as Canadian SMEs have lost ground on productivity and innovation

- Productivity growth in Canada is ~20% below OECD average over the last decade
- R&D spend is ~40% below the US (as a % of GDP), though Canada is quite efficient at converting its R&D dollars into patents

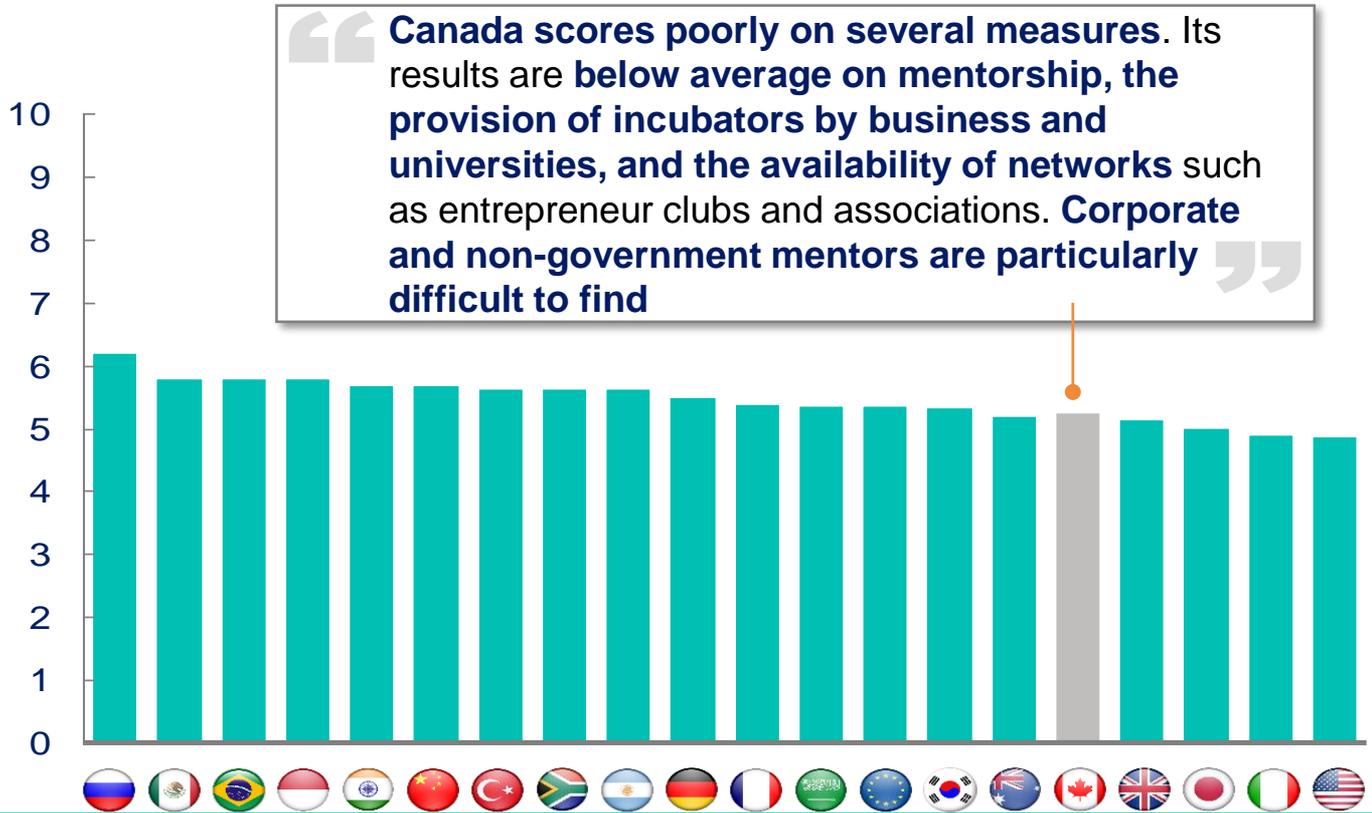
These deteriorating fundamentals have prevented Canadian companies from competing in new markets and ultimately developing into global leaders

- Canada is losing share of global exports to all but 5 of its trading partners
- Canada's share of global top companies has dropped ~50% since 1990

Canada's support for SMEs is highly fragmented and in need of integration



G20 Coordinated support ranking





Insight and Conclusions



HGFs face roadblocks to keys to success



Access & Supply of
capital

Non-Financial
Support

War
For **Talent**

Markets,
Operations & Supply
Chains

Competitors &
Innovation

Strategic
Planning &
Management

1. Access and Supply of Capital



	Challenges	Needs
During High Growth Phase	<ul style="list-style-type: none"> • Fast and often unplanned and unstructured increase in financing necessary • Don't meet financing ratios for debt financing • Overleveraged balance sheet • Can't keep up with repayment schedules • Can't find right instruments (too complex to understand) • Unwillingness to dilute 	<ul style="list-style-type: none"> • Strategic / patient capital that could be equity but that hopefully is less expensive and less invasive than equity • W/C and inventory financing • Financing for innovation and R&D • Equipment and real estate financing • Financing for non-organic growth • Additional debt without history and new assets to pledge • Flexible repayment schedule and ratios • Innovative financing structure • Financing education and training
Post High Growth Phase	<ul style="list-style-type: none"> • Tight with liquidity • Dried up sales growth • Project based instead of strategic financing approach 	<ul style="list-style-type: none"> • Additional capital (WC, CAPEX) • Repayment of quasi equity (or refinancing) taken during High Growth Phase • Financing of new strategic plan to the next cycle of growth (possibly equity but more likely debt with equity features or term debt) • Financing innovation & product development • Global supply chain financing • Financing for non-organic growth



The supply of capital is not optimally geared to support HGFs

Lack of patient & strategic capital

“Capital supply is not strategic but tactical, have not seen any strategic money to help a business execute on vision and strategy”
President, HGF, Software, ON

Financial instruments focus primarily on debt
Debt blocks growth as loan horizon is not aligned with time to grow

“Easy to get financing when you are a winner”
President & CEO, HGF, Manufacturer of optical networks, ON

Equity & debt providers often aim at the same targets

“Banking system is old style... not adapted to realities of today. Financial system advances slower than it's clientele”
President, HGF, Media & Entertainment, QC

Firms with proven track record are easy to finance

“Problem is where to ~~get the equity~~ if there are no players in the \$1-\$5M range”

Regional particularities in supply of financing exist

President, HGF, Lighting manufacturer, QC

Lack of expertise in debt providers to finance HGFs

“The bigger deal size (\$10+M) is well covered and very efficient; less than \$10M is very opportunistic, less organized and there is limited expertise”
Managing Partner, Private Equity Firm, ON

Financing intangibles, future revenues, etc.

“There is a huge structural problem in financing HGFs, pension capital is concentrated in few hands, they are not interested in smaller deals”
President, Private Equity Firm, ON

Not well served by Private Equity

Shallow pool of investors, too many premature buyouts; PE interested in 10M+ deals, small segment less covered; low valuations by Canadian PE

2. Non-Financial Support



	Challenges	Needs
During High Growth Phase	<ul style="list-style-type: none"> • Lack of planning, short term outlook <ul style="list-style-type: none"> - Difficulties defining the vision - Difficulties planning for sustainable growth (vs. high growth) • Limited personal resources & time of founder • Limited support to help entrepreneurs become good managers, i.e. serial entrepreneurs, mentors • Identifying organizational and knowledge gaps • Unwillingness to dilute 	<ul style="list-style-type: none"> • Strategic focus and structured approach • Coaching for entrepreneurs • Financial education • Acquiring C-level professional managerial skills to transition from one person dependency • Networking
Post High Growth Phase	<ul style="list-style-type: none"> • Plateaued growth • Difficulties with management structure, transition • Unwillingness to lose control • Limited external expertise availability: <ul style="list-style-type: none"> - Shortage of strategic partners to provide advice and access to best practices - Lack of scaling up expertise - Professional services firms often out of reach for HGFs due to cost (specifically for small firms and gazelles) 	<ul style="list-style-type: none"> • Strategic focus and long-term planning • Repositioning for new high growth cycle • C-level management changes to support new high growth cycles and firm's expansion • Coaching for C-levels • Networking

3. Talent Acquisition



	Challenges	Needs
During High Growth Phase	<ul style="list-style-type: none">• Ability to quickly attract human resources<ul style="list-style-type: none">- Possessing necessary technical skills- Ensuring right fit & motivation- Compensation• Time constraints on employees due to scarcity• Capacity of HR function within the firm to face growth	<ul style="list-style-type: none">• Hiring talent to support growth (primarily operations, sales and technical employees)• Shared culture to sustain growth• Coaching and training for new employees
Post High Growth Phase	<ul style="list-style-type: none">• Retaining talent• Realizing and responding to skillset change needs• Recruiting professional top management talent<ul style="list-style-type: none">- Shallow pool of senior management, especially in sales & marketing	<ul style="list-style-type: none">• Additional talent to support new growth cycle• Training for deeper level, specific or new skills necessary to face further growth• Professional management



4. Markets and Supply Chain

	Challenges	Needs
During High Growth Phase	<ul style="list-style-type: none">• Client base not diversified enough<ul style="list-style-type: none">- Dependence on one or few main clients- Limited geographical/global reach- Limited understanding of foreign markets• Weak sales & marketing structure<ul style="list-style-type: none">- Defining market niche, positioning- Reactive behaviour to clients' demands/orders	<ul style="list-style-type: none">• Strategic marketing approach• Build up sales & marketing, incl. additional human resources• Gain recognition and establish trust in the market• Diversify customer base and access new markets
Post High Growth Phase	<ul style="list-style-type: none">• Global diversification of markets and clients• Keeping abreast of new trends and market opportunities<ul style="list-style-type: none">- Re-positioning as markets change- Responsiveness to evolving clients' needs• Continue to grow organically and learn to grow non-organically	<ul style="list-style-type: none">• Maintain competitive advantage• Internationalize• Access new, non traditional markets• M&A to sustain growth• Business matching and networking to expand markets and clients

5. Competition and Innovation



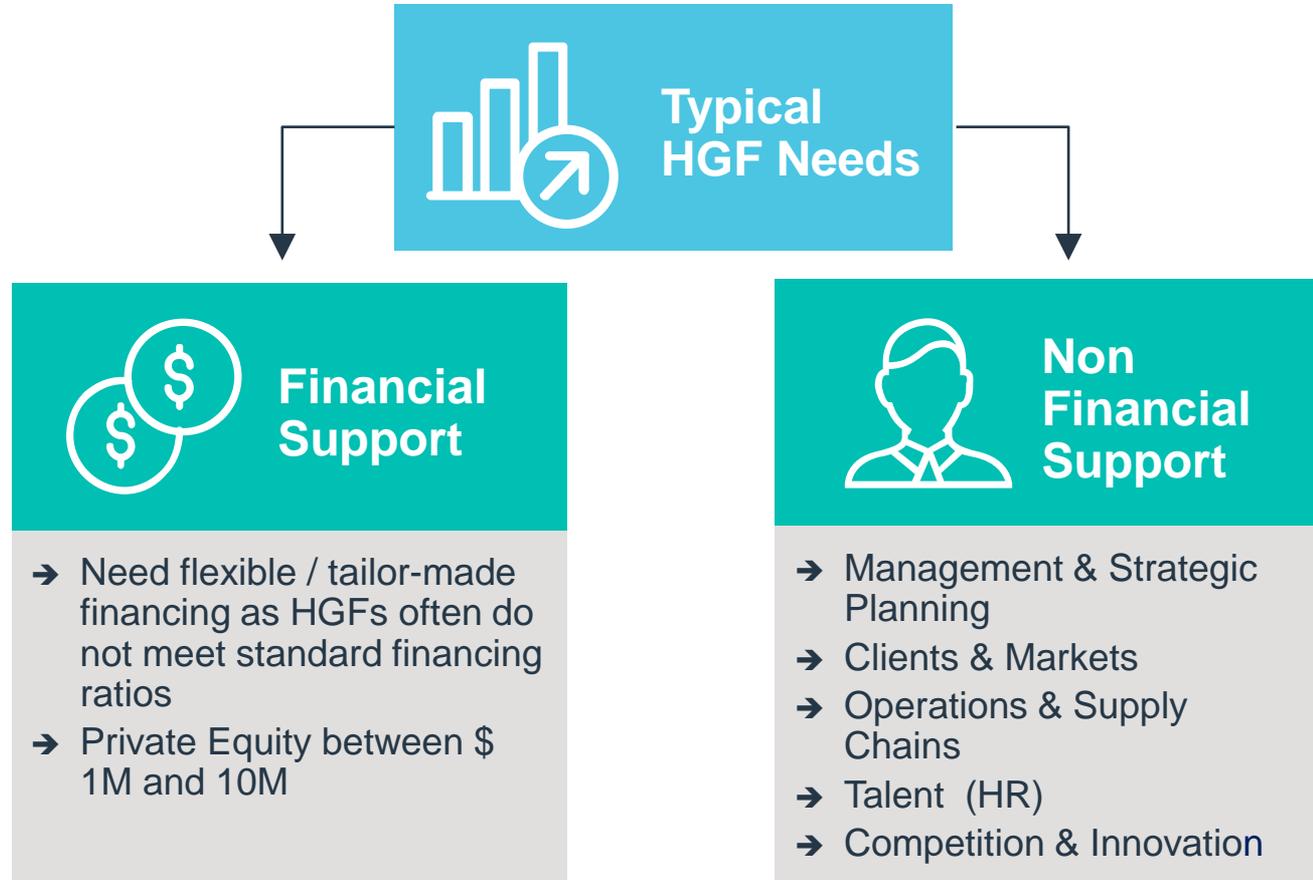
	Challenges	Needs
During High Growth Phase	<ul style="list-style-type: none">• Prioritize to focus on innovation<ul style="list-style-type: none">- Separate innovation from daily management functions- Often more pre-occupied with meeting clients' demand• Continuous product development• Not enough recognition or/and support for innovation from financing partners	<ul style="list-style-type: none">• Agility and continuous innovation in:<ul style="list-style-type: none">- Products- Markets- Business model- Structure, etc.• Change management to create shared innovation mindset throughout firm
Post High Growth Phase	<ul style="list-style-type: none">• More competitors• Lack of awareness of global competitors due to product focus• Ability and cost to innovate and re-invent themselves• Staying agile and tuned to new trends and market changes	<ul style="list-style-type: none">• Understand global competitors and trends• Maintain competitive advantage

6. Supply Chain management & Operational Efficiencies



	Challenges	Needs
During High Growth Phase	<ul style="list-style-type: none"> • Finding subcontractors & suppliers • Execution/operations often cannot meet high demand • Controlling expenses 	<ul style="list-style-type: none"> • Execution capacity • Supply-chain integration <ul style="list-style-type: none"> - Sourcing - Networking - Business-matching
Post High Growth Phase	<ul style="list-style-type: none"> • Expanding supply chains <ul style="list-style-type: none"> - Difficulties accessing global supply chains • Lack of diversified networks • Improving operational efficiencies to sustain growth: <ul style="list-style-type: none"> - To increase productivity - To increase profitability 	<ul style="list-style-type: none"> • Streamline processes & procedures (incl. certification, standardization) • Develop/ acquire ICT capabilities for supply-chain integration • Business matching and networking for supply-chain expansion

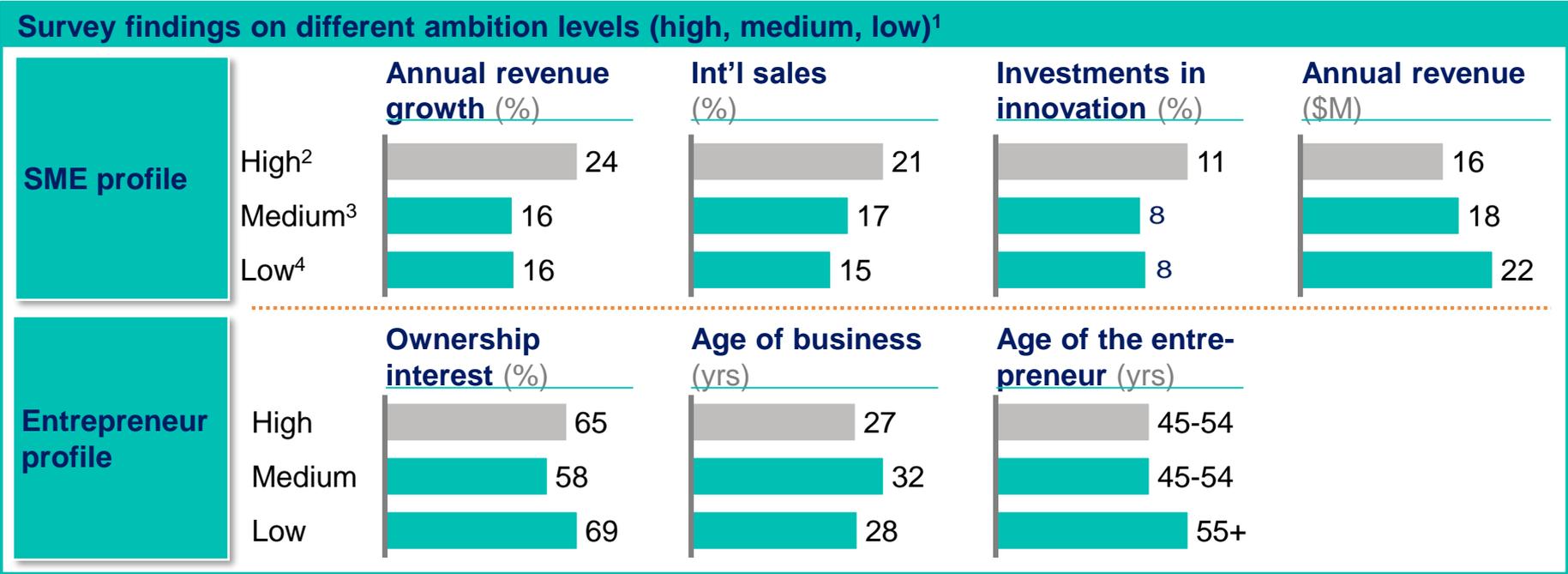
Keys to sustainable multilevel growth





BDC's Evolved Role

Ambitious entrepreneurs grow faster and are slightly more global and innovative



1 Based on survey population of only owners, CEOs and Presidents (n=335)

2 High ambition includes individuals who responded “strongly” agree to the statements: ‘I am constantly investing in new opportunities for my business, even at the risk of failure’ and ‘I am willing to make personal sacrifices (e.g., more travel, longer hours) in order to maximize the revenues of my business’

3 Medium ambition includes individuals who responded “strongly” or “somewhat” agree to the statements: ‘I am constantly investing in new opportunities for my business, even at the risk of failure’ and ‘I am willing to make personal sacrifices (e.g., more travel, longer hours) in order to maximize the revenues of my business’

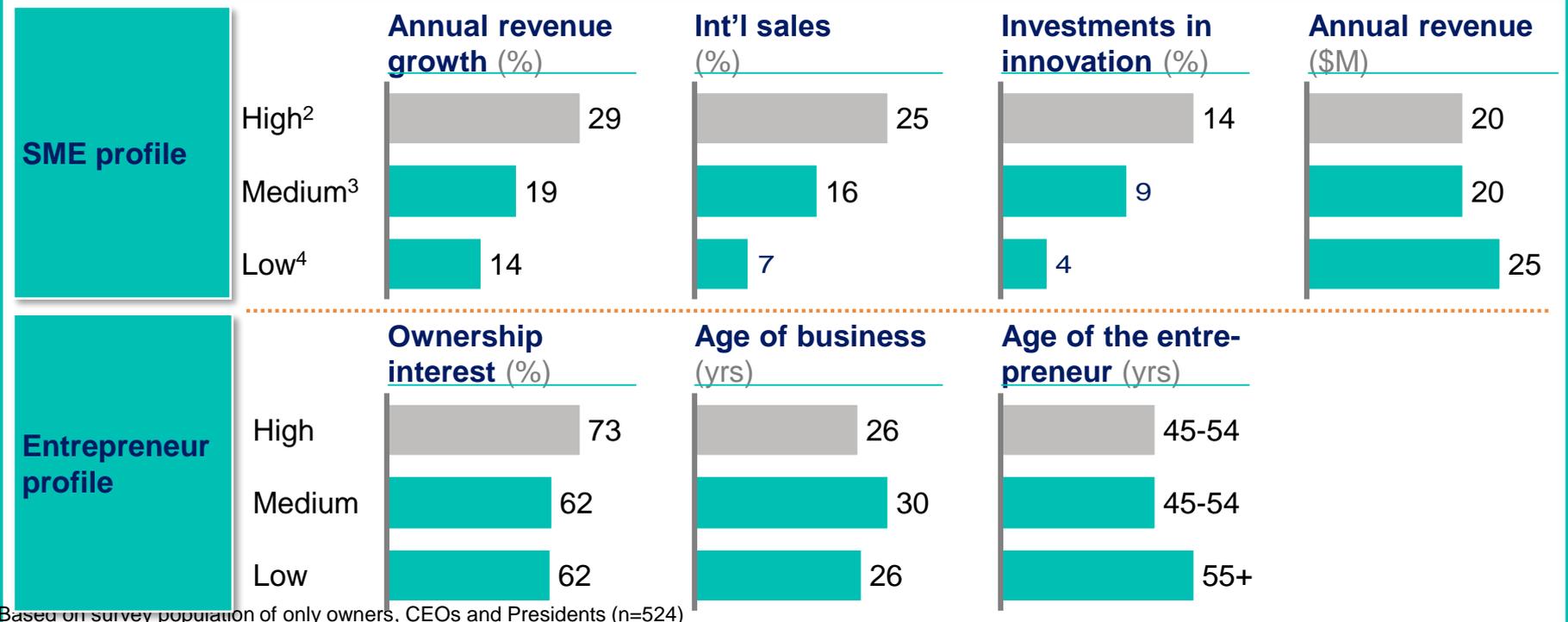
4 Entrepreneurs that were not identified as high or medium ambition

SOURCE: BDC Competitiveness Survey (2014)

Entrepreneurs with higher risk tolerance grow faster, are more global, and invest more in innovation



Survey findings on different risk appetite levels (high, medium, low)¹



¹ Based on survey population of only owners, CEOs and Presidents (n=524)

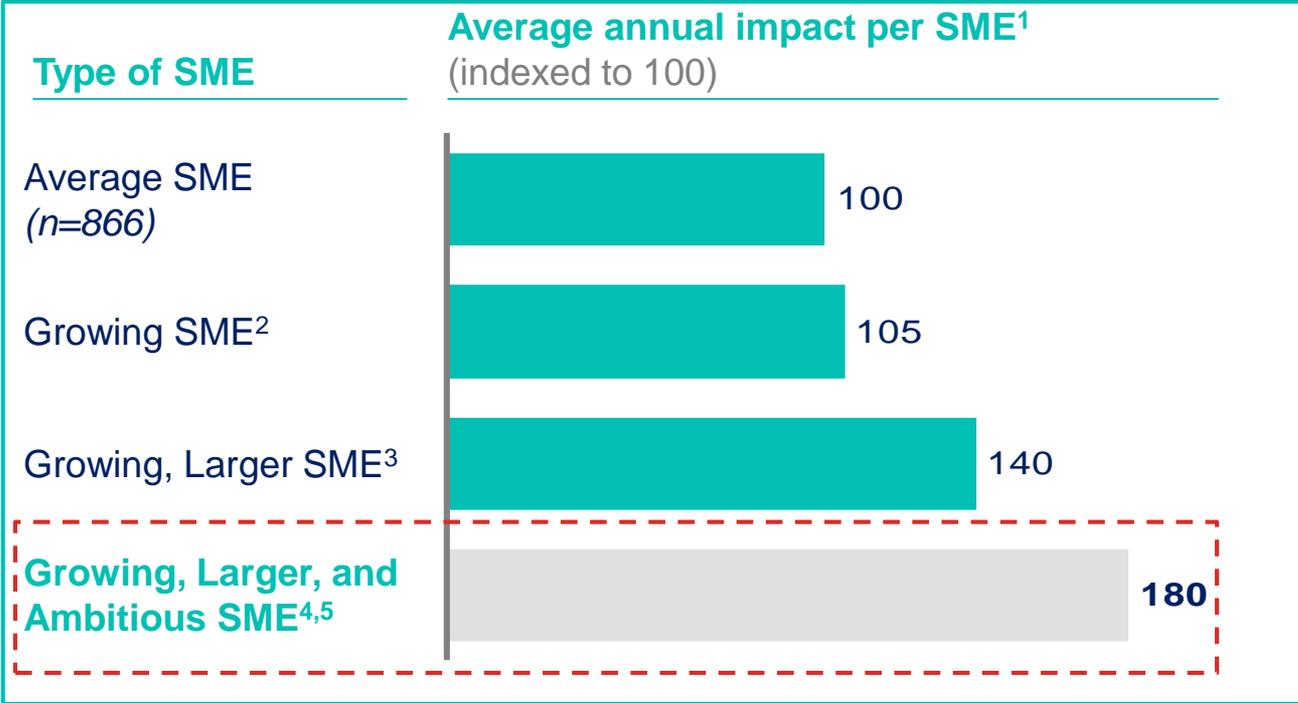
² High risk appetite entrepreneurs includes individuals who responded “strongly” or “somewhat” agree to the statement ‘I am constantly investing in new opportunities for my business, even at the risk of failure’ and invests >40% profit into the business each year as well as has >40% of their household assets invested in the business

³ Entrepreneurs that were not identified as high or low risk appetite

⁴ Low risk appetite entrepreneurs includes individuals who responded “strongly” or “somewhat” disagree to the statement ‘I am constantly investing in new opportunities for my business, even at the risk of failure’ and invests <20% profit into the business each year as well as has <20% of their household assets invested in the business

SOURCE: BDC Competitiveness Survey (2014)

Focusing on SMEs that are growing, larger, and ambitious will enable BDC to maximize impact



- Impact per SME is significantly higher (~80%) when looking at faster growing, larger, ambitious SMEs relative to overall sample⁶
- Impact would likely be even more significant if SMEs with negative growth were included
- Target SMEs are similarly distributed across industries and regions relative to the entire survey population

¹ Average annual impact is calculated by looking at entrepreneurs who responded that addressing their need would result in a “large” or “medium” impact on revenue, and then multiplying (i) the revenue percentage increase they assigned to that impact by (ii) their revenue

² SMEs growing at 5% on average over last 3 years with 0-500 employees and low, medium or high ambition

³ SMEs growing at 5% on average over last 3 years with 100-500 employees and low, medium or high ambition

⁴ SMEs growing at 5% on average over last 3 years with 100-500 employees and high ambition

⁵ High ambition includes individuals who responded “strongly” agree to the statements: ‘I am constantly investing in new opportunities for my business, even at the risk of failure’ and ‘I am willing to make personal sacrifices (e.g., more travel, longer hours) in order to maximize the revenues of my business’

⁶ The BDC defined target SME is broader as it includes SMEs below 100 employees

4 core beliefs about identifying high impact SMEs



Core beliefs	Proof points
<ul style="list-style-type: none">▪ Faster growing firms have greater potential for impact – SMEs that are already fighting to grow and gaining traction are in a better position to have impact on competitiveness	<ul style="list-style-type: none">▪ Faster growing firms account for majority of private sector revenue growth, with top 7% of growth firms generating 41% of net growth in private sector revenues¹
<ul style="list-style-type: none">▪ Bigger firms present more opportunity for impact than smaller ones – the impact of BDC's efforts / allocation of resources will be higher if BDC is successful in getting larger firms get to the next level	<ul style="list-style-type: none">▪ On a per SME basis, medium-large SMEs generate ~14x more economic impact than small SMEs¹▪ Whereas there is no decline in number of small SMEs, medium-large SMEs are declining, and lag the US on a per capita basis²
<ul style="list-style-type: none">▪ Ambition and risk tolerance are key elements of future success – BDC should support entrepreneurs who have a growth mindset and are driven to succeed	<ul style="list-style-type: none">▪ Among growing firms, SMEs run by high-ambition entrepreneurs grow ~40-50% faster than those run by low ambition entrepreneurs³
<ul style="list-style-type: none">▪ Faster growing firms can be found across all geographies and sectors – BDC should avoid 'picking' geographies or sectors for the purposes of identifying target firms, as such firms appear across the country and sectors	<ul style="list-style-type: none">▪ Faster growing SMEs are distributed across sectors (~20% SMEs within each sector)⁴▪ There are no geographic biases among faster growing firms (~17-20% faster growing SMEs in each region of Canada)⁴

1 Source: Statistics Canada, Small and Medium-sized Enterprises Data Warehouse, February 2009

2 Source: Statistics Canada, Business Register; U.S. Small Business Administration, Office of Advocacy, based on data provided by the U.S. Census

3 Source: BDC Competitiveness Survey (2014)

4 Source: Deloitte; Statistics Canada, Survey on Financing of Small and Medium Enterprises; Industry Canada 2008 (based on 1993-2002 data)

Perspective on how to make a step change improvement in SME competitiveness



Develop a **holistic approach to serving SMEs with advisors who understand their clients' business and can coordinate across internal and external solutions**

- **Continue offering BDC's current products** to keep building essential capabilities to improve SME competitiveness
- Develop an **evolving toolkit that offers a portfolio of solutions** (including both **financing solutions and non-financing solutions**)
- **Leverage partners in delivering solutions** where applicable and develop relationships with key stakeholders to enhance offering and overall ecosystem

Examples: Growth and Transition Capital (Financial) and Growth Driver Program (Non-Financial)



Growth and Transition Capital (GTC)



Growth and Transition Capital team

QUICK STATS

98

GTC employees
across Canada

93%

of GTC clients satisfied
with BDC services

11.2

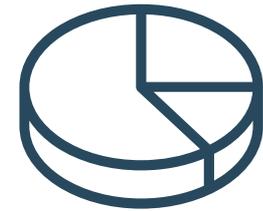
average number
of accounts per Director

88%

of GTC clients saw impact
on their company from
services received

Financing between \$250,000 and \$35 million

offer solutions right for businesses that:



Have a well-established or high-growth company

Have a strong management team

Demonstrate quality of financial reporting



Benefits for the business

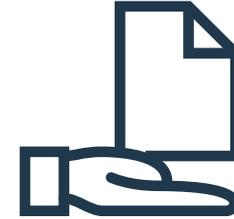
solutions aim to give companies room to breathe financially:



Flexible repayment terms to protect your working capital



Security subordinated to secured lenders, increasing your borrowing power



Personal assets not taken as collateral

Financing example – raising capital to sustain growth



Client profile

Business
software solution
provider

Project

Working capital to support growth

- Our client, a successful software developer for the service industry, was looking to sustain rapid growth with working capital. With new contracts that promised to generate profits soon, it needed to secure cash to hire new staff to handle the growing business

Benefits for the business

- Financing obtained without any tangible assets
- Repayment terms structured to allow client to have sufficient cash for daily operations during the growth period



Example of financing deal structure

Project	Amount
Working capital to hire new employees	\$750,000
TOTAL	\$750,000

Financing	Amount
Growth & Transition Capital <ul style="list-style-type: none">▪ Quasi-equity financing	\$750,000
TOTAL	\$750,000

Some specifics

→ Amortization period of four years with 0% coupon interest

→ Balloon principal payment payable at maturity

→ Return calculated at maturity based on a bonus calculated on the value of the company (% of EBITDA multiple)



Growth Driver Program (GDP)



How we proceed with the selected firms

Phased
delivery
process

Outcomes

Ongoing leadership development

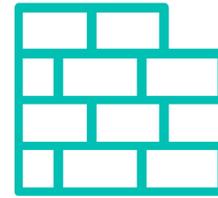


Formulate

your growth strategy



Define 3-year growth strategy based on assessment of business and market potential

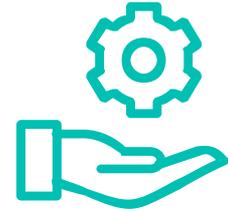


Build

your action plan



Develop 12-month action plan, including governance and KPIs



Implement

the action plan



Implement action plan with ongoing support, including recalibration of priorities

Client Story #1: Food Production/Packaging



Role: Co-Packer

Reason for Joining: The CEO (owner) and his senior management team were seeking guidance and structure for strategic growth.

Key Actions/Issues Addressed:

- Investigated and modeled service line extension – new reach for existing processes;
- Considered US entry;
- Considered regional expansion;
- Established growth projects with structured project management;
- Improve financial performance through project documentation, monitoring, and analyses.

Client Story #2: Manufacturing



Role: Design, Manufacture, Wholesale Distribution of High-end Cabinetry

Reason for Joining: The leadership team recognized the need for traction on strategic initiatives. This company is a strong “back-end producer” that required “front-end marketing and sales” ability to pivot in market. They joined GDP to provide process, best practices, fresh eyes and thinking to this critical point of their development.

Key Actions/Issues Addressed:

- GDP supported Marketing/Sales plan and execution;
- The process enabled management skill set and governance to grow the team with the business needs;
- The high pace of working “in the business” challenged the need for “working on the business” attention. The BDC GDP team enabled that important shift in focus;
- US market entry struggles needed critical review and reset;
- Business model evolution – the business needed guidance and process in how to become a brand versus a manufacturer.





BDC



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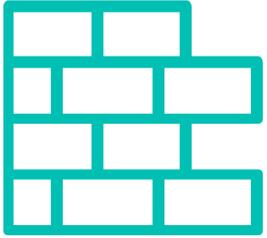
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Appendix



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Road to support HGF

Three Phases

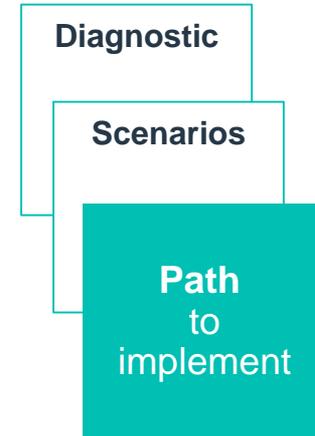
1 Market Needs Gap Analysis



2 BDC's Position Analysis of the current offer



3 Diagnostic Choice of Strategic Options



Overview of work done



Entrepreneur interviews and focus groups



- ~80 one-on-one interviews with entrepreneurs (both clients and non-clients) from across Canada
- 4 focus groups with relevant entrepreneurs

Competitiveness survey



- Detailed phone survey of ~870 high impact entrepreneurs across Canada that covered ~20 key challenges and ~20 potential solutions
- Conducted US survey

Global benchmarking and case studies



- Developed case studies on other development banks (e.g., Dubai, France, Germany, Japan, Korea, Singapore, US)
- Conducted interviews with personnel from these institutions, including an in-person meeting with SPRING in Singapore

Key reports and databases



- Synthesized key insights from 70+ external publications to inform views on ecosystem, challenges, and sectors
- Analyzed market and sector specific metrics to develop a perspective on Canadian competitiveness

BDC insights and client data



- Used BDC client data to help prioritize challenges from entrepreneurs' perspective, developing hypotheses of where to focus
- Reviewed credit analysis and performance trends

Expert and field interviews



- Conducted interviews on key SME issues and possible solutions
 - 30+ BDC executives from all business units
 - 9 BDC field managers from across Canada
 - 15+ McKinsey experts with a mix of global and Canadian expertise across various sectors



- BDC's aspiration is **“to make Canadian entrepreneurs the most competitive in the world”**, which is manifested in BDC's dual role to be both **“responsive”** and **“purposeful”**
- This project **targets BDC's purposeful role** by seeking to have a **disproportionate impact on competitiveness** by
 - Focusing on **SMEs with highest potential for impact**
 - Developing **solutions that address their key challenges**
 - Designing a **delivery model to maximize impact**



Phase 1:

formulate

your growth strategy (2 to 3 months)



1 Analyze your 'current state'

External analysis

Market potential

- Market size and shape
- Competitive dynamics
- Supply chain dynamics

Internal analysis

Company readiness for growth

- Financial
- Operations
- Sales & marketing
- Human resources

2 Explore growth avenues

Identify

Prioritize

Quantify
Business cases

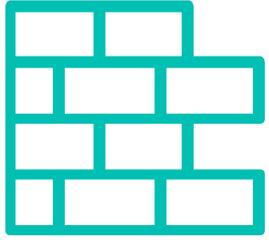
3 Articulate your 3-year growth strategy

Select
Growth
options

Summary
3-year
growth
strategy

→ Outcome →

- Business cases for growth options
- 3-year growth strategy document



Phase 2: **build**

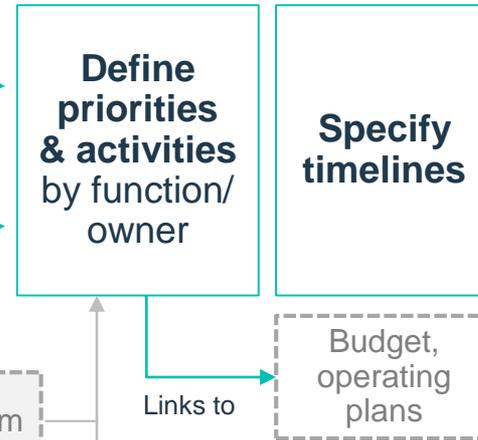


your action plan (2 to 3 months)

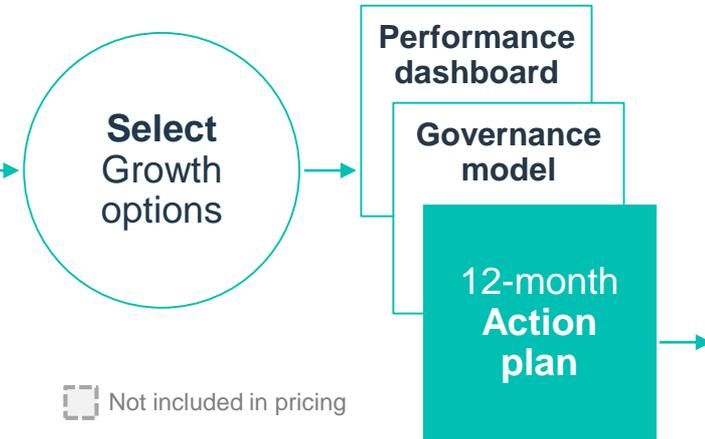
1 Address identified financial and operational requirements



2 Allocate resources over time

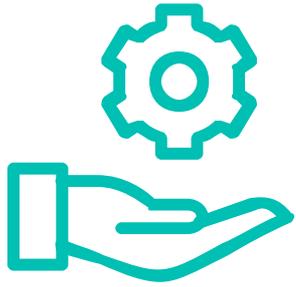


3 Define the governance and measures for tracking



→ **Outcome** →

- 12-month action plan
- Governance model
- Performance dashboard



Phase 3:

implement

your action plan (18-30 months)



Services not included in program

→ Outcome →

→ Ongoing implementation support

→ Diploma from Growth Management Educational Retreat

→ Membership in a peer-to-peer network