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BDC Provides Debt and Convertible Debt Relief Programs for SMEs and VC-Backed Companies Impacted by COVID-19

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By Aarondeep (Aaron) S. Bains and Lynn Tay

Emerging growth companies and small and medium enterprises ("**SMEs**") have been especially vulnerable to the economic impacts of COVID-19. In some instances, liquidity issues are threatening the short-term and long-term viability of these companies. The Government of Canada has responded to these economic issues by launching the following two debt financing programs:

1. the Business Credit Availability Program ("**BCAP**") for SMEs, which is being launched with the support of the Business Development Bank of Canada ("**BDC**") and Export Development Canada ("**EDC**"); and
2. the BDC Capital Bridge Financing Program to support Canadian venture capital-backed companies.

Business Credit Availability Program for Canadian SMEs

BCAP is comprised of three programs: the Canada Emergency Business Account, the EDC Loan Guarantee Program and the BDC Co-Lending Program. The programs are available to all legal businesses, including businesses in the cannabis sector and those in the hospitality sector operating bars and lounges. The BDC and EDC programs aim to assist SMEs that were financially viable and revenue-generating prior to the COVID-19 pandemic. Companies are asked to contact their primary financial institution to apply for any of the three BCAP programs.

<u>Canada Emergency Business Account</u>

This program is funded entirely by the Government of Canada, and offers up to $40,000 in interest-free credit facilities to small businesses to pay for immediate operating costs such as payroll, rent, utilities, insurance, property tax or debt service. Credit is available to Canadian employers (including not-for-profits) with $20,000 to $1.5 million in total payroll in 2019, and who are operating as of March 1, 2020. Twenty-five percent (25%) of loans (up to a total of $10,000) that are repaid by December 31, 2022 will be forgiven. Loans that are not repaid by December 31, 2022 will be converted into a 3-year term loan, with an interest rate of 5%.

<u>EDC Loan Guarantee Program</u>

This program aims to facilitate operating credit and cash flow term loans for SMEs. Under this program, EDC will guarantee 80% of operating credit or cash flow term loans of up to $6.25 million offered by financial institutions to existing clients. SMEs receiving these loans must use the loan proceeds for operating expenses. The funds cannot be used for dividend payouts, shareholder loans, bonuses, stock buyback, option issuance, increases to executive compensation or repayment/refinancing of other debt.

<u>BDC Co-Lending Program</u>

This program offers term loans for the operational and liquidity needs of SMEs. Loans issued under this program will be for a term of ten years and interest-only for the first 12 months. Eighty percent (80%) of these loans will be funded by BDC, with the remaining twenty percent (20%) funded by an SME's financial institution. The loan amount availability is broken into the following categories:

1. loans of up to $312,500 are available to businesses with revenues of less than $1 million;
2. loans of up to $3.125 million are available to businesses with revenues between $1 million and $50 million; and
3. loans of up to $6.25 million are available to businesses with revenues in excess of $50 million.

BDC Capital Bridge Financing Program for Canadian Venture Capital-Backed Companies

In addition to the debt relief programs for SMEs, the venture finance arm of BDC, BDC Capital, is launching the BDC Capital Bridge Financing Program (the "**VC Program**")to address the short-term liquidity needs of Canadian venture capital-backed companies.

Through the VC Program, BDC will match, with a convertible note, a current financing round being raised through qualified existing and/or new investors. BDC will match new investments by qualified syndicates on a one-to-one basis, for up to $3 million. The company's financing round can be either an equity financing or bridge financing (i.e. convertible debt or SAFE).

BDC aims to invest in high-potential companies alongside existing investor syndicates with knowledge and expertise that they can trust, with the ultimate goal of moving money into the start-up and emerging growth company ecosystem as quickly as possible.

<u>Eligibility Requirements</u>

The following are the eligibility requirements that must be met in order for a company to qualify for the VC Program:

1. ***Company Requirements:*** The company must be Canadian, backed by a qualified venture capital firm, and must have raised at least $500,000 in external capital before applying for the VC Program. BDC has clarified that the VC Program is not limited to BDC Capital's current portfolio companies. Importantly, there are no restrictions imposed on companies from applying for the VC Program and receiving other government benefits (e.g. under COVID-19 Economic Response Plan benefits or Business Credit Availability Program).
2. ***Qualified Investor***: BDC requires that at least one investor of the syndicate financing a potential company be approved by BDC's fund team as a qualified investor. The requirements for a qualified investor include: (i) at least $10 million in assets under management; (ii) third party limited partners; and (iii) at least three portfolio companies. Accordingly, this relief financing is not intended for angel-backed or pre-seed financing round companies. BDC has stated that if a Canadian company has existing Canadian investors, but only has American investors who are willing to finance the company in the current economic climate, it will consider the company's eligibility for the program on a case-by-case basis.
3. ***Timing Requirements:*** Deals that are currently closing, or have closed from as early as February 2020, are eligible for the VC Program. There is currently no set end date for the VC Program, however BDC expects the program to run for the next six months.
4. ***Other Requirements:*** The company will need to pass BDC's due diligence review, agree on the terms of the investment with BDC, and obtain the approval of a BDC investment committee.

<u>Terms of the Convertible Note</u>

BDC Capital will invest in companies through the VC Program using convertible notes. BDC has chosen convertible notes as they are simple to implement and are valuation agnostic. This is beneficial as many companies may have seen large decreases in sales as a result of COVID-19, which would negatively impact current valuations. The following are the proposed key terms of the convertible notes:

1. ***Interest:*** Interest will be the BDC base rate plus 4%. The BDC base rate is currently set at 4.5%, and

is a floating rate that changes with the Bank of Canada prime rate. Interest will be calculated annually and will compound annually..

2. ***Maturity and Conversion:*** The convertible notes will have a term of three years. If the convertible notes are offered in connection with an equity financing, BDC will have the option to convert the notes within 180 days of the issuance of the notes and at a 20% discount to the share price of such equity financing. On maturity, BDC can elect to receive repayment or to convert the note at the previous equity round share price and without discount.

3. ***Bullet Repayment:*** Companies are not required to pay interest or principal during the term of the convertible note. Instead, all accrued interest and principal is due and payable in one "bullet payment" at the end of the three-year note term. Additionally, we understand that companies can chose to prepay the notes at any time without penalty.

4. ***Payment-in-kind ("PIK"):*** The convertible notes will include PIK provisions, meaning that companies can choose to have interest payments added to the principal balance of notes in kind.

5. ***Qualified Financing/Liquidity Event:*** The notes will also be convertible on a qualified financing or liquidity event. In these circumstances, the notes will convert at a 20% discount to the company's share price for the qualified financing or liquidity event.

6. ***Ranking:*** The convertible notes will rank junior to any existing debt.

7. ***Other:*** BDC has indicated that the above terms are baseline terms. If a syndicate is able to negotiate more investor-favourable terms, BDC will match those terms.

BDC's Priorities in Assessing Demand for Funding

If demand for the VC Program outpaces the amount of capital available, BDC has indicated that it will prioritize companies based on the following factors:

1. ***Runway:*** BDC will prioritize companies that have a shorter runway with existing funds. For example, companies with only two months of working capital will be given priority over companies with 18 months of working capital.

2. ***Performance:*** BDC will prioritize companies that were performing well, but are currently experiencing financial setbacks as a result of the COVID-19 pandemic.

3. ***Size:*** BDC will consider the size of the company at risk, and priority will be given to companies who have higher numbers of employees.

Application Process

Companies interested in applying for the VC Program have been asked to work with their existing investors to apply for these funds. Venture capital firms interested in exploring the VC Program, and to determine whether their firm is eligible, should reach out to their contacts at BDC or contact VCReliefProgram@bdc.ca.

The members of the Aird & Berlis Venture Finance Group advise investors and lenders who are pursuing investment opportunities in high-growth companies, as well as investees seeking capital to structure and negotiate domestic and cross-border financing deals. For any questions on whether your company or your portfolio companies may be eligible for this program, feel free to reach out to a member of our Venture Finance Group.

Authors

Aarondeep (Aaron) S. Bains
Associate
T 416.865.3084
abains@airdberlis.com

Lynn Tay
Associate
T 416.865.7758
ltay@airdberlis.com

Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Canada M5J 2T9
T: 416.863.1500 | Fax: 416.863.1515